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What now?

Decisive actions to emerge stronger in the next normal.

September 2020

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What now? Decisive actions to emerge stronger in the next normal

Six months into the COVID-19 pandemic, it is time for companies to act, not react.

September 2020

Introduction

As many business leaders return from a summer that was far from normal, they may be asking themselves: What now? Over the past six months, they have reorganized supply chains, set up remote operations, and made tough financial decisions. But without a COVID-19 vaccine yet available, not much feels different, and the summer pause hasn't done much to relieve fatigue.

One priority, then, is to reenergize the organization—to act rather than react. Even as the COVID-19 crisis continues to create a world of uncertainty, the goal must be to rebuild for the longer term. Companies that are strong and resilient will be better placed to survive and prosper. Those are qualities that can't be taken for granted; they need to be cultivated.

There are many different ways to lead, but regardless of the type of business or geography, we believe that the ten actions detailed here are those from which a path to emerge stronger can be found. Not only do leaders need to act now, they need to act boldly. Previous McKinsey research has found that companies that made substantive changes fared better coming out of downturns than those that didn't.

In this compendium, our latest curated collection from among the more than 530 articles McKinsey has published on the COVID-19 crisis since March 2020, we present a selection of articles related to *Reform*, the last of the five stages on the path leading from the current crisis to the next normal. The previous four are Resolve, Resilience, Return, and Reimagination.

All ten of the actions we describe in this compendium what companies can—and perhaps, should—be doing. But there is a particular sense of urgency now; moreover, there is also a new sense of possibility. What we labeled as "Reform" back in March may now be considered more accurately as the start of a significant Reset.

Companies have had to make so many changes so quickly—often with startling success—that leaders have every reason to believe they can do even more. Of course, not every company needs to take all ten actions; conditions differ. But we believe that they cover the range of possible activities that fit with the situations in which today's leaders find themselves.

We start with an idea—that returning is a muscle that needs to be exercised, not a plan to be executed once or a date to be achieved. We go on to more specific considerations, such as the need to make big moves fast and to be willing to rethink entire portfolios, including where work gets done. People management will be critical both in ensuring that workplace learning gets its due and in taking care of people. The next normal may also mean resetting how companies relate to their governments and how they should address environmental issues. Finally, having a sense of purpose knits everything together. Knowing what your company stands for—and living those values—provides a framework for sound and ethical decision making.

You can download the other compendiums we curated on the first four stages on the path to the next normal from McKinsey.com/pathbeyondcovid-19. Our entire collection of individual insights related to the next normal is at McKinsey.com/thenextnormal.

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Return: A new muscle, not just a plan

Return is not a phase; it's a way of operating. A nerve center can help build the capabilities that businesses need in the "next normal."

by Mihir Mysore, Bob Sternfels, and Matt Wilson

In less than four months, COVID-19 has upended almost all expectations for 2020. Beyond the loss of life and the fear caused by the pandemic, businesses around the world have faced disruptions at a speed and scale unprecedented in the modern era.

Companies everywhere are now wrestling with the question of how to reach the next normal safely. Many talk about a return to the workplace as a plan that needs to be implemented: a series of systematic steps to reach some kind of stable operating model, in a world where vaccines are adequately available or herd immunity has been reached. In many cases, these plans suggest a return to some relatable version of the past.

Yet the intrinsic uncertainties that might scupper such plans continue to mount. Executives readily admit, for instance, that it is tough to write a deterministic return plan because of the likelihood of a resurgence, discoveries about how the virus is transmitted and whom it affects, the nature and duration of immunity, and continued changes in the quality and availability of testing and contact tracing. The best possible plan today is merely a strawman that will need near-continuous recalibration and change.

Another critical uncertainty is the future of remote work. Some feel that recent events have driven a real productivity gain they do not want to lose. However, they recognize that a wholesale shift to remote work has had many false dawns. Silicon Valley has experimented with it most extensively, but after many attempts to implement telecommuting, our research found that at 15 top firms, only 8 percent of the employees work remotely. These companies do not want to try this again only to roll it back in a few years.

Customer behavior is a third unknown. Companies see the clear shift to digital among consumers and its inevitable impact: online shopping has expanded by up to 60 percent in some categories, and up to 20 percent of online consumers in the United States have switched at least some brands recently. But it's unclear whether once the pandemic recedes, these customers will return to their old ways or if the pandemic will create new types of consumers.

Given these and other uncertainties and the need for experimentation and fast learning to navigate through them effectively, we believe that the next step in the response of businesses cannot be thought of as a phase at all. It will be open ended rather than fixed in time. A better mental model is to think about developing a new "muscle": an enterprise-wide ability to absorb uncertainty and incorporate lessons into the operating model quickly. The muscle has to be a "fast-twitch" one, characterized by a willingness to change plans and base decisions on hypotheses about the future—supported by continually refreshed microdata about what's happening, for example, in each retail location. And the muscle also needs some "slow-twitch" fibers to set long-term plans and manage through structural shifts.

Many companies are trying to hang on until a full reopening, perhaps made possible by a vaccine or herd immunity. Meanwhile, they are configuring their resources to be ready by then. That's risky; despite promising news from early clinical trials, a full reopening could be many months away—months when companies must adapt to reality if they are to survive. Already, signs of viral resurgence in Asia are causing companies fixated on plans to rewrite them hurriedly.

In this article, we will outline four forces whose uncertain outcomes will shape the years to come, as well as the steps needed to build the return muscle to grapple with these forces—especially the nerve center that powers the muscle. Once the center has been built and incorporated into a new operating model across the organization, muscular companies will be ready for a new era of competition. We won't say that this work will make companies future proof; the pandemic has exposed the folly of that idea. But we argue that building a return muscle is the right discipline for these times.

With tens of millions of jobs lost, and more to come, the workforce is absorbing the brunt of the economic blow.

Four forces that will mold the next normal

Out of the chaos of the first few months of COVID-19, four forces that could shape the next era in business are emerging.

The metamorphosis of demand

No one has failed to notice how the pandemic has shifted demand online. Twice as many consumers now shop online for groceries. Across categories, the number of consumers who now use digital channels has increased by an average of about 20 to 25 percent. And first-time digital consumers account for almost 40 percent of the growth in digital goods and services. As consumers shift to digital, loyalties are also in play: some 15 to 20 percent of US shoppers have switched websites since COVID-19 started.

Yet the shift to digital is by no means universal. In banking, recent McKinsey surveys find that 13 percent of retail customers expect to use mobile banking services more, 7 percent to use them less.[1]

Planning for demand is extraordinarily challenging. Many macroeconomic recovery scenarios are on the table, from late 2020 to beyond 2023. Each sector has its own particular effects from the pandemic and the government response. That translates into wide variations in the timing and strength of a recovery in demand. Overall consumption has fallen not only as a result of this greater economic uncertainty but also continuing concerns about personal health and an increased preference for simpler connections with family rather than expensive items or experiences. The economic recovery in China has been one of the world's fastest—yet its consumption is still more than 20 percent lower than before the outbreak.

Rapid changes in the workforce

With tens of millions of jobs lost, and more to come, the workforce is absorbing the brunt of the economic blow. A new McKinsey Global Institute study finds that up to one-third of US jobs may be vulnerable to furloughs, pay cuts, and layoffs. Low-income workers hold 80 percent of those jobs.[2] The single biggest challenge facing employers may be deciding how and when to add workers to the payroll.

Strangely, with so many sidelined, some industries are experiencing shortages. Many people cannot return to their jobs because of health-related issues, including workers who are ill, quarantined, caregivers, or vulnerable to infection. But employers are also finding that newly needed skill sets are in short supply, such as digital sales skills in B2B field sales forces, productivity-based management techniques at a time when productivity is tougher to measure, and many others.

[1] Kevin Buehler, Miklós Dietz, Marie-Claude Nadeau, Fritz Nauck, Lorenzo Serino, and Olivia White, "Stability in the storm: US Banks in the pandemic and the next normal," May 2020, McKinsey.com.
[2] Susan Lund, Kweilin Ellingrud, Bryan Hancock, James Manyika, and André Dua, "Lives and livelihoods: Assessing the near-term impact of COVID-19 on US workers," April 2020, McKinsey.com.

Other changes are roiling the workforce. Among white-collar workers, remote work has become the new norm. Some are thrilled about their greater productivity and flexibility, as well as the time and sanity reclaimed from long, stressful commutes. Others cannot wait to get back to the office: for them, the lack of a home-office setup and the inability to separate work from life are major sources of stress. Dual-career couples have additional stresses, which may increase if schools cannot open in a few months. Finally, as companies try new models of remote and on-site work, novel challenges may arise, such as widely different subcultures for these two groups of workers—with very different norms, expectations from employers, and team health.

Shifts in regulation

Regulators and governments around the world are using varied philosophies of public health; Sweden, for example, is focusing on achieving herd immunity. Many countries do not have consistent national health standards; for instance, 13 US states today ban all gatherings, 24 ban gatherings of over ten people, ten or so let about 20 to 50 people gather. The rest have completely lifted their bans or have taken no action. Variation among cities and counties is even starker. A wide range of societal beliefs, economic realities, and political challenges underlie these choices.

For leaders whose businesses span multiple geographies, ensuring consistency is highly challenging. Business leaders are understandably anxious to protect their employees while ensuring compliance. They know that they need to establish some level of productivity to preserve the future of their companies.

Increasing information about protocols for safety

The gargantuan medical and scientific effort focused on COVID-19 has already produced important insights that directly affect how companies respond. For instance, newer studies have suggested that the point of highest transmissibility is the day before symptoms begin to show; at that point, some form of aerosolization expands the reach of the virus.[3] Other studies point to the prevalence of asymptomatic patients. And the sharing of major transmission events affords another window of learning from the virus. A recent case involved an unwitting COVID-19 carrier in a restaurant who sneezed into an air-conditioning duct and spread the infection to everyone there.

Other critical recent findings focus on seasonality. Hopes for a rapid fall in COVID-19 cases as summer approaches in the Northern Hemisphere have subsided: in Asia the resurgent virus is once again taking hold, despite the onset of summer, and its transmission is increasing in warmer climates around the world. More economic activity and reduced physical distancing have also driven a resurgence of the virus. These developments have important lessons for companies: any regime of interventions that they set up cannot ignore presymptomatic and asymptomatic patients. There should be a real focus on facilities and how they are configured.

Early concerns about significant bottlenecks in testing are, slowly but surely, starting to ease. This welcome news is coinciding with the arrival of a broader range of testing options. Testing will be a critical question in coming weeks and months as increasing numbers of employers try to ensure a safe return to the workplace—the core task—by looking to new polymerase chain-reaction (PCR) tests, more informative serological tests (current versions have known issues), and other new developments. All the new information should help companies set distancing guidelines, stagger shifts, develop new hybrid on-site/remote models, and so on. Every move will have to be evaluated immediately and refined as necessary—a tough task, but one that the nerve center can accept in stride.

Building the muscle for response — and resilience

Most companies have already established “war rooms” to coordinate the recovery and the return

[3] Xi He et al, “Temporal dynamics in viral shedding and transmissibility of COVID-19,” Nature Medicine, April 15, 2020, nature.com.

from the pandemic. But these are not sufficient, because they focus, for example, on tactical plans to get people back into offices, to reopen their retail stores once the lockdown is lifted, or to get their sales reps back on the road. Instead, companies should expand their war rooms into fully fledged return nerve centers.

Such a nerve center is a flexible structure that concentrates crucial leadership skills and organizational capabilities and gives leaders the best chance of getting ahead of events rather than reacting to them. It has enterprise-wide authority and enables leaders and experts to test approaches quickly, to preserve and deepen the most effective solutions, and to move on ahead of the changing environment.[4] In the following, we sketch out what the nerve center does, how it works, the technology it requires, and some of the benefits.

Anticipation: How the nerve center sees around corners

Nerve centers will probably be in place for the next 12 to 18 months. Their core mission is to listen closely for the signals emitted by the four forces. Consider the shifting sands of consumer demand. As contradictory signals emerge, companies need to know, for example, if they face sandbars up ahead, where the channels are, and where the open ocean is. To plot a course, executives have to monitor the signals of a digital shift and decide how deeply their categories are affected.

Other signals might emerge from brand loyalty: the propensity of consumers for some brands versus others can provide clues about which digital and physical journeys people are starting to choose. As stores reopen, microdata can provide granular information on footfall at specific sites and on spending there. These data can inform decisions about reopening retail locations and ideas for improving the digital experience.

Companies also need some way of understanding the capability gaps of their sales forces (such as digital sales, for reps who work primarily in the field). They should then address these gaps quickly through virtual training, mentoring, and other levers. There is no established playbook on effective sales in a pandemic. Companies will need to experiment, see what works, and then disseminate the findings on their learning platforms. To deliver what customers want, companies will need to build smooth digital and contactless customer experiences, which might require updates to the underlying IT architecture.

Two teams

Nerve centers can realize these needs through two core teams. First, a delivery team works toward a clearly defined objective and then learns from it. That's different from the typical approach: crafting a supposedly perfect plan and then trying to execute it. Second, a plan-ahead team learns from the experience of the delivery team (especially the failures) and complements this with fast lessons from other sources. A critical role for the plan-ahead team involves basing medium-term strategic moves on clear trigger points and pushing the organization to implement these ideas more quickly than might

Companies will need to experiment, see what works, and then disseminate the findings on their learning platforms.

[4] Mihir Mysore and Ophelia Usher, "Responding to coronavirus: The minimum viable nerve center," March 2020, McKinsey.com.

normally feel comfortable. Examples could include standing up new sales channels, accelerating new-product launches, creating new business models, or M&A.

The plan-ahead team can also stress-test core parts of the enterprise operating model by focusing on the supply chain's resiliency, liquidity, assumptions about customer demand, and the robustness of the operating model.

Processing the signals: The data platform

To function well, nerve centers will need to collect data from a wide range of sources (not only their own operations but also public-health agencies, policy announcements, and economic indicators), synthesize this information in real time, and translate it into action. A nerve center with a nimble information system can help a company to keep up with rapid change in the virus's spread; to answer questions about, for example, what holiday shopping will look like without a vaccine; or to cope with a resurgence in the fall. Companies need an information platform that captures such data, flags them if certain thresholds are breached, and helps generate responses to problems. Many companies have most of what's needed; they can organize these resources to form an agile technology capability in a few weeks—not months or years.

The reward is resilience

Getting the return muscle right will be the key to building resilience throughout the organization. Today, for instance, investors and companies are asking increasingly probing questions about whether their business partners can truly deliver in the more extreme circumstances that seem possible over the next few years. Genuine investments in resiliency may be an essential part of survival for many businesses, providing the cushion required by further setbacks that might be in store over the next year or two.

Many companies are sweating the details of their return plans rather than building the capabilities needed for a return. They are running spreadsheets to see how many people spaced six feet apart will fit in an office, planning one-way paths through the workplace, and figuring out adaptations to rest rooms, lunch rooms, and entrances. All of those are critical tasks, but they are not enough. The ability of top leaders to refocus on the task of building sustainable capabilities will define the companies that emerge intact from the pandemic over the next two years.

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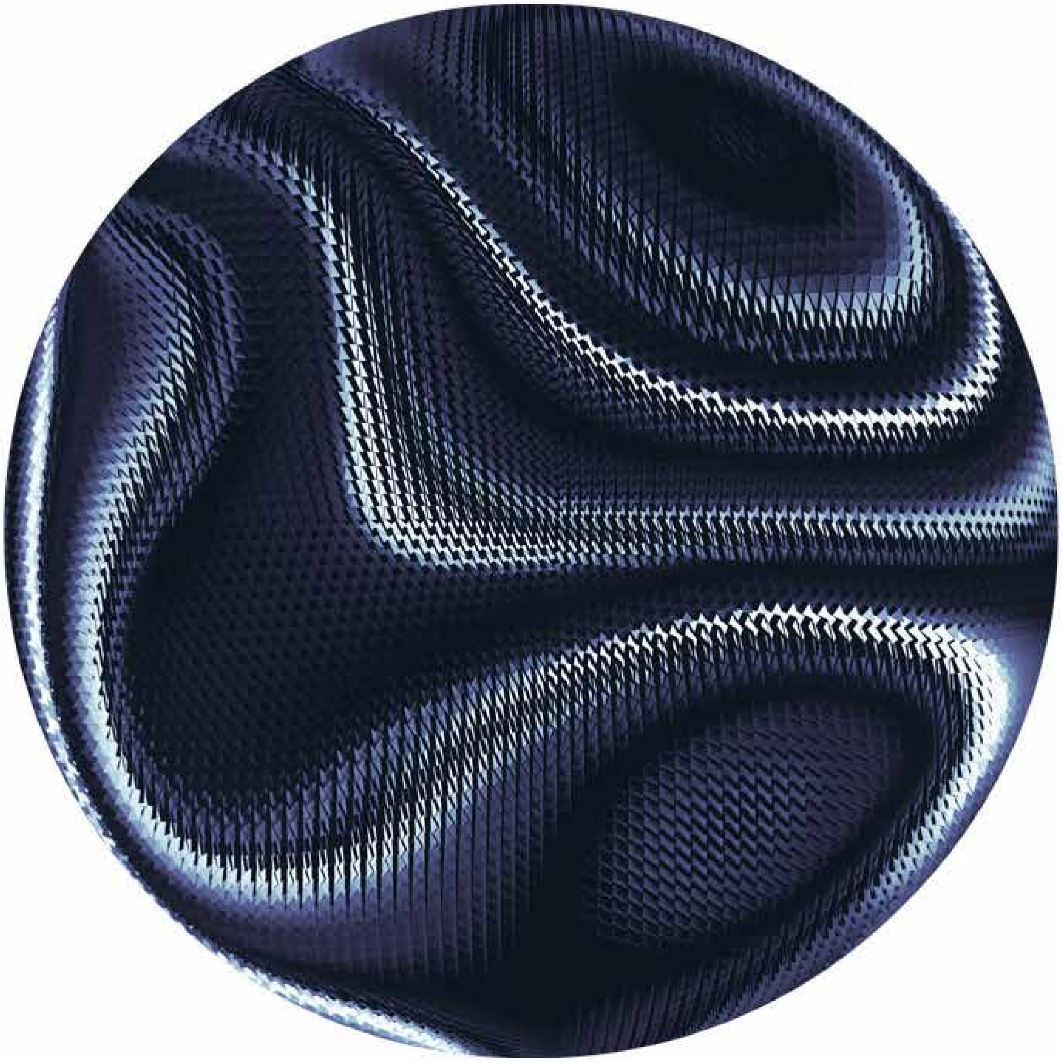
Focus on high-impact actions



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The COVID-19 recovery will be digital: A plan for the first 90 days

The rapid migration to digital technologies driven by the pandemic will continue into the recovery. Here's how to accelerate your organization's digital capabilities to keep pace.

by Aamer Baig, Bryce Hall, Paul Jenkins, Eric Lamarre, and Brian McCarthy

By now, most C-suite executives have led their companies to digitize at least some part of their business to protect employees and serve customers facing mobility restrictions as a result of the COVID-19 crisis. As one CEO of a large tech company recently stated, “We are witnessing what will surely be remembered as a historic deployment of remote work and digital access to services across every domain.”

Indeed, recent data show that we have vaulted five years forward in consumer and business digital adoption in a matter of around eight weeks. Banks have transitioned to remote sales and service teams and launched digital outreach to customers to make flexible payment arrangements for loans and mortgages. Grocery stores have shifted to online ordering and delivery as their primary business. Schools in many locales have pivoted to 100 percent online learning and digital classrooms. Doctors have begun delivering telemedicine, aided by more flexible regulation. Manufacturers are actively developing plans for “lights out” factories and supply chains. The list goes on.

As some regions begin reopening, businesses are considering how to return to some semblance of full speed in an unstable environment in which lockdowns will ease (and potentially be reinstated) in waves. In doing so, they will need to confront three structural changes that are playing out.

First, customer behaviors and preferred interactions have changed significantly, and while they will continue to shift, the uptick in the use of digital services is here to stay, at least to some degree (Exhibit 1). Fully 75 percent of people using digital channels for the first time indicate that they will continue to use them when things return to “normal.”[1] Companies will need to ensure that their digital channels are on par with or better than those of their competition to succeed in this new environment. If China offers us any lessons, digital laggards will be substantially disadvantaged during the recovery.

Second, as the economy lurches back, demand recovery will be unpredictable; uneven across geographies, sectors, product categories, and customer segments; and often slow to return to precrisis levels. While a few sectors will face unusually strong demand, leaders in many industries must deal with periods of structural overcapacity. Those companies face the painful need to rightsize the cost base and capital of their operations, supply chains, and organizations overall and to transition their fixed costs to variable costs aggressively wherever possible. Complicating matters for leaders as they grapple with ways to deal with an uneven recovery is that historical data and forecasting models will be of little use to predict where pockets of demand will emerge and where supply will be necessary. New data and completely rebuilt analytical models will be essential to steer operational decisions.

Finally, many organizations have shifted to remote-working models almost overnight. A remote-first setup allows companies to mobilize global expertise instantly, organize a project review with 20—or 200—people immediately, and respond to customer inquiries more rapidly by providing everything from product information to sales and after-sales support digitally. In effect, remote ways of working have, at least in part, driven the faster execution drumbeat that we’re all experiencing in our organizations. And this step change in remote adoption is now arguably substantial enough to reconsider current business models.

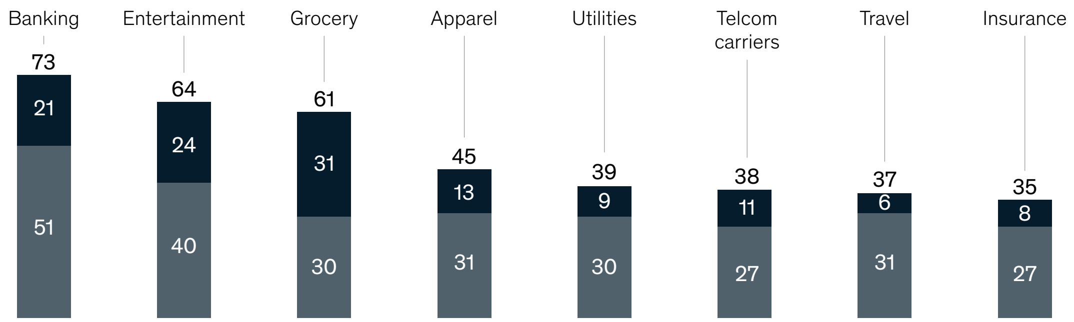
Quickly pivoting the business agenda to address these changes will be critical for a successful recovery. Digital will undoubtably play a center-stage role. We offer suggestions for a 90-day plan to realign the digital agenda and implement the enablers for acceleration during the recovery and beyond.

[1] McKinsey COVID-19 US Digital Sentiment Survey, April 2020.

Exhibit 1

US consumers are accelerating adoption of digital channels, a trend seen across global regions.

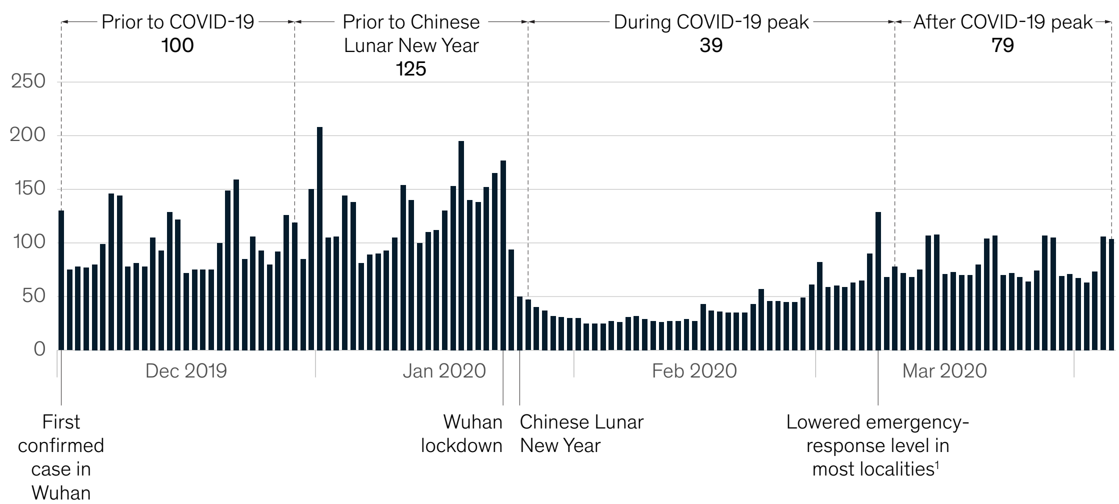
Digital adoption, by industry, % of digital access



Note: Figures may not sum to listed totals, because of rounding.
Source: McKinsey COVID-19 US Digital Sentiment Survey, Apr 25–28, 2020

Based on data from countries already in the recovery phase, consumption patterns will be uneven and unlikely to return to pre-COVID-19 levels quickly.

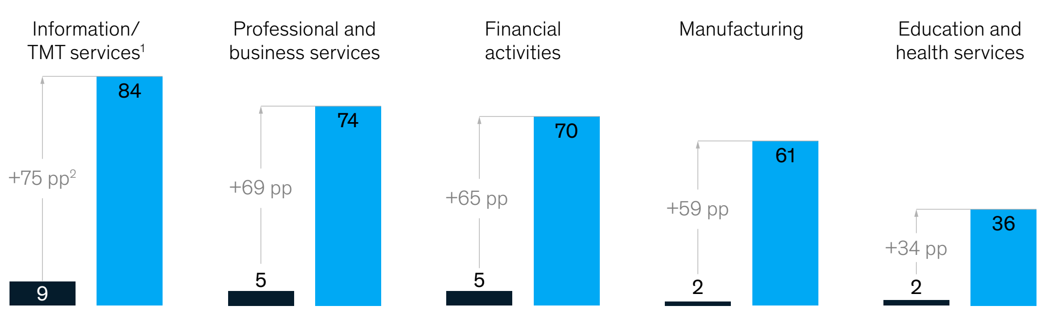
Average daily China offline consumption, % (100% = daily average consumption in Dec 2019)



[1] On Mar 8, 2020, 21 Chinese provinces (involving >70% of country's population) announced lowering of epidemic-response level.
Source: MIYA; McKinsey analysis

The levels of remote working have skyrocketed during lockdowns and are likely to remain higher than precrisis levels for some time.

Share of employees working remotely full time, %



[1] TMT = technology, media, and telecom. Pre-COVID-19 figures for remote-work frequency in sector sourced from internal survey (unavailable in American Time Use Survey).
[2] Percentage points.
Source: American Time Use Survey, US Bureau of Labor Statistics, n =134; expert interviews; press search; McKinsey analysis

The digital agenda for recovery

For many companies, customers have already migrated to digital. Employees are already working fully remotely and are agile to some degree. Companies have already launched analytics and artificial-intelligence (AI) initiatives in their operations. IT teams have already delivered at a pace they never have before. But for most companies, the changes to date represent only the first phase of the changes that will be necessary.

We have laid out an agenda that focuses on four efforts: refocusing and accelerating digital investments in response to evolving customer needs, using new data and AI to improve business operations, selectively modernizing technology capabilities to boost development velocity, and increasing organizational agility to deliver more quickly. For each one, we outline a practical 90-day plan to make it happen (Exhibit 2).

Refocus digital efforts toward changing customer expectations

Many companies are accelerating their shifts toward digital-first models—at warp speed. One European variety-store chain, for example, established a fully functioning e-commerce business in just three months. The online business was interconnected across all functions (warehousing, merchandising, marketing, customer support, et cetera) and improved basket size over physical stores by three times as well as delivering nearly 3 percent like-for-like revenue growth in its main market.

But it's not just about digitizing. Companies must also reimagine customer journeys to reduce friction, accelerate the shift to digital channels, and provide for new safety requirements. For example, an automobile manufacturer now handles functions traditionally performed by dealers, such as trade-ins, financing, servicing, and home delivery of

Exhibit 2

A plan for the first 90 days has four efforts to launch immediately.

	Refocus digital efforts toward changing customer expectations	**Use new data and AI[1] to improve business operations**	**Selectively modernize technology capabilities**	**Increase organizational drumbeat**
Sprint 1: days 1–29	Align organization to new digital priorities	Assess performance of critical decision-support models	Create rightsizing plan for shifting to variable cost structure and begin assessing cyberrisks	Assess where organizational velocity is needed and where remote-work models could drive productivity
Sprint 2: days 30–59	Bring digital channels to parity or better vs competition	Recalibrate and/or rebuild models	Set up cloud-based data platform and automate software-delivery pipeline	Deploy new models leveraging agile and remote
Sprint 3: days 60–90	Launch new digital offerings or channels	Develop next-generation data sets and models for optimal performance	Begin strengthening technology talent bench	Upskill organization for accelerated digital world

[1] Artificial intelligence.

cars. Airlines are rapidly reinventing the passenger experience with contactless journeys focused on traveler health and safety to make customers feel comfortable flying again (Exhibit 3).

In the next 90 days. CEOs should ask their business leaders to assess how the needs and behaviors of their most important customers have changed and benchmark their digital channels against those of their competition. This information should form the basis of a renewed digital agenda that should take no longer than 30 days to establish.

Chief digital officers and chief information officers (CIOs) can then quickly stand up (or refocus) agile teams to execute the most urgent priorities. A consumer-electronics company, for example, recently launched an agile war room to improve conversion rates on its website traffic. That type of project can deliver meaningful results in weeks. Changes that require more fundamental work, like setting up a new e-commerce channel, will typically take longer. Continually measuring digital-channel performance during the 90 days will be critical so that companies can quickly adapt as they learn more. Consider setting up a weekly forum for senior business and technology leaders to process the learnings coming in and drive the full agenda at pace and in a coordinated fashion.

Use new data and artificial intelligence to improve business operations

Hundreds of operational decisions get made on daily, weekly, and monthly bases. Take an airline, for example, that must make many decisions: Which routes should we operate? What crew size is optimal for each flight? How many meals should we order? What staffing level is necessary in the contact center?

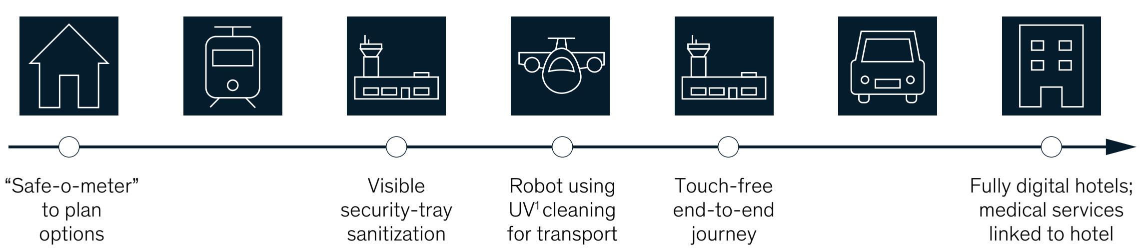
Modern businesses have several forecasting and planning models to guide such operational decisions. Organizations will need to validate these models. In the same way that many companies had to rebuild risk and financial models that failed during the 2008 financial collapse, models will similarly need to be replaced because of the massive economic and structural shifts caused by the pandemic. For example, models that use time-series, oil-price, or unemployment data will need to be rebuilt entirely. The data must be reevaluated as well.

As companies construct these models, analytics teams will likely need to bring together new data sets and use enhanced modeling techniques to forecast demand and manage assets successfully. One automotive-parts supplier, for example, developed a forecasting model that incorporated

Exhibit 3

The travel industry is mapping out the customer journey to identify points of health risk and design a contactless experience.

Illustrative customer journey with ideas for mitigating risks



[1] Ultraviolet.

previously unused third-party data. The model will help the supplier spot potential issues with its own suppliers' ability to deliver needed items, offering a chance to reach out to its suppliers to work out logistics or find another source.

Other business areas can benefit from more sophisticated modeling as well. A leading financial-services provider, for example, stood up an AI-powered solution to generate leads for its sales agents, with models calibrated to handle the current environment.

In the next 90 days. As a first step, the chief analytics officer (or equivalent) should mobilize an effort to inventory core models that support business operations and work with business leaders to prioritize them based on their impact on key operations and their efficacy drift. This assessment is urgent and should be completed as quickly as possible. It will essentially define a program of quick fixes that the data and analytics team can undertake, working hand in hand with business and functional leaders. Once the situation stabilizes, CEOs and business leaders should push their data and analytics teams to develop next-generation models that leverage new data sets and modeling techniques better suited for fast-changing environments. The more advanced companies are already creating synthetic data sets using advanced machine-learning techniques, such as generative adversarial networks (GANs) to train new analytical models when historical data are of little use.

Selectively modernize technology capabilities

Successfully executing the described agenda requires investment capacity and development velocity. CIOs can contribute to both by rightsizing the IT cost structure to new demand levels and reinvesting the freed-up resources into customer-facing digital solutions and critical decision-support systems, first and foremost. Companies can also dedicate some of the savings to modernizing selectively the technology stack and software-development tooling.

Many companies have found they have the potential to free up as much as 45 percent of their IT costs over the course of a year. Our experience suggests that roughly two-thirds of this potential can be achieved through measures such as extending hardware- and software-refresh cycles, rapidly renegotiating vendor contracts, and restricting cloud workloads by turning off noncritical jobs. Additional cuts get deeper into the cost structure and risk hamstringing future growth. The right balance will vary by industry, but under any scenario, rightsizing should expose much needed investment capacity as quickly as possible to fund the 90-day plan.

As CIOs consider upgrading their tech stacks, two features of a modern technology environment are particularly important and can be rapidly implemented: a cloud-based data platform and an automated software-delivery pipeline (commonly called "continuous integration and continuous delivery"). Without these, development velocity stalls and becomes mired in complexity. The good news is that cloud technologies make it possible to deploy these quickly and at relatively low cost.

In the next 90 days. First, develop the plan to rightsize and create a more variable cost structure—the faster the better to free up resources for the digital agenda.

In the second 30-day sprint, choose your cloud partners. While speed is of the essence, CIOs should thoughtfully consider the contractual structures offered by technology providers. Carefully review those that appear too good to pass up to ensure that the providers aren't capturing all the value. And remember to launch appropriate internal efforts to train and prepare teams to operate in the new environment. During this sprint, it's also time to modernize the tech stack selectively—"selectively" being the operative word. Most companies won't have the management bandwidth and resources to take on a full-scale modernization in the next 12 to 18 months. By focusing on setting up or enhancing a cloud-based data platform and equipping agile teams with automated software delivery, CIOs can double, or even triple, development velocity in the short term.

Remote working can help organizations move at a faster clip as companies tap into new labor pools and specialized remote expertise. (And, yes, agile can be executed remotely.)

In the final sprint, it's a no-brainer to launch the recruiting of additional digital talent and accelerate digital upskilling of the entire organization. These steps will prepare organizations well for a more substantive modernization of their application landscapes after recovery. Finally, continue to pay attention to cybersecurity. Much of the rapid IT work carried out during the COVID-19 crisis might have created new cyberrisk exposures.

Increase the organizational drumbeat

The current crisis has forced organizations to adapt rapidly to new realities, opening everyone's eyes to new, faster ways of working with customers, suppliers, and colleagues. Many CEOs wonder what it will take to maintain the quickened organizational drumbeat.

Companies that have led the way in adopting flatter, fully agile organizational models have shown substantial improvements in both execution pace and productivity. This has held true during the crisis, as we see a direct correlation between precrisis agile maturity and the time it has taken companies to launch a first crisis-related product or service. While many companies have at least a few agile teams in place, few have successfully scaled to hundreds of teams staffed with many more "doers" than "checkers," which is what's needed to drive the accelerated organizational pace the crisis—and even the next normal—demands.

What can realistically be done in 90 days to increase the organizational drumbeat? Standing up a digital factory is largely the best approach right now because it can be constructed and scaled in three months or less. Many organizations, from banks to mining companies, have accelerated and scaled their digital delivery by establishing these internal factories, with interdisciplinary teams aligned to businesses' digital priorities. One large global bank, for example, built five such factories to support several locations across the Americas.

As previously mentioned, remote working can also help organizations move at a faster clip as companies tap into new labor pools and specialized remote expertise. (And, yes, agile can be executed remotely.) Remote working can also enable new productivity opportunities, especially for companies with large field forces. One leading provider of residential solar services recently documented record sales using a more remote sales model.

In the next 90 days. During the first sprint, identify the business areas where digital-execution velocity is needed and map out plans for digital factories to support them. In parallel, assess where remote work models could unleash productivity benefits. These two lenses should set the table for targeted changes to the operating model. In the second 30-day sprint, design the new models with consideration for staffing level, expertise mix, governance, and operating procedures. Finally, in the third month, implement and operationalize the new designs. We know from experience that three months is sufficient to implement and scale a digital factory. We have also seen banks, pharmaceutical companies, and insurance companies pivot entire field forces to a remote model in a few weeks.

Leaders who want to succeed in the digital-led recovery must quickly reset their digital agendas to meet new customer needs, shore up their decision-support systems, and tune their organizational models and tech stacks to operate at the highest effective speed. In other words, C-level executives must point their digital firepower at the right targets and quickly execute against them. It's essential to set these targets at the outset and regularly measure progress against them. Achieving parity or better across digital channels to win the revenue race, rebuilding the most critical decision-support models, and doubling development velocity are goals that are all within reach. The 90-day plan will help organizations get there.

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3 Rebuild for speed

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Ready, set, go: Reinventing the organization for speed in the post-COVID-19 era

The need for speed has never been greater. Here are nine ways companies can get faster.

by Aaron De Smet, Daniel Pacthod, Charlotte Relyea, and Bob Sternfels

When the coronavirus pandemic erupted, companies had to change. Many business-as-usual approaches to serving customers, working with suppliers, and collaborating with colleagues—or just getting anything done—would have failed. They had to increase the speed of decision making, while improving productivity, using technology and data in new ways, and accelerating the scope and scale of innovation. And it worked. Organizations in a wide range of sectors and geographies have accomplished difficult tasks and achieved positive results in record time:

Redeploying talent. A global telco redeployed 1,000 store employees to inside sales and retrained them in three weeks.

Launching new business models. A US-based retailer launched curbside delivery in two days versus the previously-planned 18 months.

Improving productivity. An industrial factory ran at 90-percent-plus capacity with 40 percent of the workforce.

Developing new products. An engineering company designed and manufactured ventilators within a week.

Shifting operations. Coordinating with local officials, a major shipbuilder switched from three shifts to two, with thousands of employees.

The need for speed: No turning back

At the heart of each of these examples is speed—getting things done fast, and well. Organizations have removed boundaries and have broken down silos in ways no one thought was possible. They have streamlined decisions and processes, empowered frontline leaders, and suspended slow-moving hierarchies and bureaucracies. The results, CEOs from a wide range of industries have told us, have often been stunning:

> "Decision making accelerated when we cut the nonsense. We make decisions in one meeting, limit groups to no more than nine people, and have banned PowerPoint."

> "I asked on Monday, and by Friday we had a working prototype."

> "We have increased time in direct connection with teams—resetting the role and energizing our managers."

> "We adopted new technology overnight—not the usual years—as we have a higher tolerance for mistakes that don't threaten the business."

> "We're putting teams of our best people on the hardest problems. If they can't solve it, no one can."

Because of the pandemic, leadership teams have embraced technology and data, reinventing core processes and adopting new collaboration tools. Technology and people interacting in new ways is at the heart of the new operating model for business—and of creating an effective postpandemic organization.

So is speed. An organization designed for speed will see powerful outcomes, including greater customer responsiveness, enhanced capabilities, and better performance, in terms of cost efficiency, revenues, and return on capital. The speedy company might also find it has a higher sense of purpose and improved organizational health. These outcomes are possible, but not inevitable. Organizational successes forged during the crisis need to be hardwired into the new operating model; and leaders must ensure their organizations do not revert to old behaviors and processes. That requires making permanent structural changes that can sustain speed in ways that will inspire and engage employees.

Reinventing the organization for speed

As companies adopt new ways of working at speed, executives are also interested in moving to flatter, nonhierarchical structures, taking more radical approaches to decision making and ways of working. Gone are the days of waiting around for best practices to emerge. CEOs recognize the need to shift from adrenaline-based speed during COVID-19 to speed by design for the long run. The winners are experimenting now, and boldly. Here are nine actions to unleash sustainable speed (exhibit).

The first three actions aim to *rethink ways of working*. Many leaders have had to do this during the pandemic and are keen to keep those that have worked well:

1. Speed up and delegate decision making. The pandemic has shown that it is possible to make decisions faster without breaking the business. What this means in practice is fewer meetings and fewer decision makers in each meeting. Some organizations are taking to heart the "nine on a videoconference" principle. Others are keeping larger 30- to 40-person meetings (so the people that need to implement the decisions are present) but cutting the number of people with a vote. There is also less detailed preparation for each meeting, with one- to two-page documents or spreadsheets replacing lengthy PowerPoint decks.

Organizations are also increasing the cadence of decisions, taking on the mantra that "quarterly is the new annual." Holding just-in-time, fit-for-purpose planning and resource allocation on a quarterly instead of annual basis is not only faster but also makes the organization more flexible.

Finally, non-mission-critical decisions can be delegated, so that top leaders focus on fewer, more important decisions: think "assign to the line" rather than "go to the top." That means tolerating mistakes that don't put the business at risk; a slow decision can often be worse than an imperfect one. The principle is simple: organizations that want to move faster must motivate their employees to be willing to act.

2. Step up execution excellence. Just because the times are fraught does not mean that leaders need to tighten control and micromanage execution. Rather the opposite. *Because* conditions are so difficult, frontline employees need to take on more responsibility for execution, action, and collaboration.

But this isn't always easy and requires that organizations focus on building execution muscle throughout the workforce. Leaders must assign responsibility to the line, and drive "closed-loop

Exhibit

Unleashing sustainable speed is a process.

Rethink ways of working

1. Speed up and delegate decision making
2. Step up execution excellence
3. Cultivate extraordinary partnerships

Reimagine structure

4. Flatten the structure
5. Unleash nimble, empowered teams
6. Make hybrid work, work

Reshape talent

7. Field tomorrow's leaders today
8. Learn how to learn
9. Rethink the role of CEOs and leaders

accountability." That is, everyone working on a team must be clear about what needs to get done by whom, when, and why. Employees must also be equipped with the right skills and mindsets to solve problems, instead of waiting to be told what to do. And there must be disciplined follow-up to make sure actions were taken and the desired results achieved.

CEOs who are serious about execution excellence are investing in helping their workforces up their execution game—through targeted programs, realigning incentives, and directing rewards and recognition to teams that execute with speed and excellence. Building execution excellence does not have to come at the expense of innovation. Quite the contrary: it can help discover powerful ideas and innovation from the frontline teams that are closest to the customer. And it can drive excitement and loyalty among the employee base.

Consider the example of a chemical company that is undergoing an enterprise-wide transformation of its business. Every meeting begins with a statement of objectives and ends with a list of actions to take, including those who are responsible for each. Outcomes and milestones are tracked, and employees are rewarded for achieving their goals. Leaders communicate the purpose of these actions (the why behind the what and the how) and build conviction in their employees to do the right thing. Employees, in turn, are motivated by a sense of personal ownership and pride. By knowing who exactly is doing what when, at all times, the pace of execution can be accelerated. Such an approach both speeds up and improves execution.

3. Cultivate extraordinary partnerships. Working with partners is routine. But the speed of action only goes so far if other players in the ecosystem fail to move just as fast. During the pandemic, we have seen companies work with partners in new ways to achieve extraordinary impact. For example, Prisma Health, a South Carolina–based not for profit, had a design for an emergency ventilator-expansion device but lacked the capacity to build and distribute as many as were needed. Johnson & Johnson's Ethicon division, on the other hand, had the capacity and distribution infrastructure. The two were able to rapidly form a partnership to manufacture the devices at scale, and the Food and Drug Administration gave it an emergency-use authorization.

As this example illustrates, partners are increasingly important in dealing with the pace of change, complexity, and disruptions that are becoming the norm. The rate of technological and business-model innovation alone makes it nearly impossible for any single organization to do everything itself. Furthermore, the connected world is breaking down the traditional boundaries between buyers and suppliers, manufacturers and distributors, and employers and employees.

For partnerships to be successful, the relationship must be built on deep trust, for example by adopting a more open-source approach to innovation and embedding the partner into everything from strategy-setting to routine operations. Trust allows the parties to integrate their systems and processes, enabling them to find solutions, make decisions quickly, and execute efficiently. In the case of J&J and Prisma Health, they had a shared mission to help patients and medical professionals.

The next three actions aim to ***reimagine structure*** to go beyond the traditional "boxes and lines" and toward the development of the kinds of teams that work together to deliver value:

4. Flatten the structure. A speedy organization has more people taking action and fewer people feeding the beast of bureaucracy—briefing each other, reporting, seeking approvals, sitting in unproductive meetings (and then huddling up in the meeting after the meeting to have the real conversation). Rigid hierarchies must give way to leaner, flatter structures that allow the system to respond quickly to emerging challenges and opportunities. There are fewer middle managers and span-breakers and more doers and deciders. Creating this new organism requires reimagining structure not as a hierarchy of bosses, per the traditional organization chart, but rather as a dynamic network of teams. As one CEO told us, "We can finally turn the page on the traditional matrix and reinvent how we organize and how work gets done."

Having one fast, agile team is helpful, but having many of them across an enterprise, and enabling them with the right structures, processes, and culture, makes it possible for the entire system to move faster.

Real-time collaboration and co-location become more important, and have even extended to the virtual world. For example, putting engineering and product-development specialists on the same team can speed up innovation and boost output. The role of the corporate center must also be rethought. In many cases, central functions could become capability platforms deploying skills, tools, and talent where they are needed most, while also acting as a catalyst for learning and best-practice sharing. Centers of excellence could be established, with the goal of bringing leading-edge capabilities—such as analytics and artificial intelligence, digitization and process automation, and Industry 4.0—to a broad range of performance units and thus delivering measurable value.

5. Unleash nimble, empowered teams. The pandemic has seen the large-scale deployment of fast, agile teams—small, focused cross-functional teams working together toward a common set of objectives that are tracked and measured. Leaders have made this work by charging each team with a specific mission: an outcome that matters for customers or employees, empowering each team to find its own approach, and then getting out of the way. Having one fast, agile team is helpful, but having many of them across an enterprise, and enabling them with the right structures, processes, and culture, makes it possible for the entire system to move faster.

Research by McKinsey and the Harvard Business School found that companies that had launched agile transformations pre-COVID-19 performed better and moved faster post-COVID-19 than those that had not. Agile organizations had an edge because they already had processes and structures available to them, such as cross-functional teams, quarterly business reviews, empowered frontline teams, and clear data on outputs and outcomes, that proved critical to adapting to the COVID-19 crisis. They adjusted faster, and with less employee turmoil. The same was true *within* companies: those business units that had gone agile before the pandemic performed better than those that had not on customer satisfaction, employee engagement, and operational performance. "If we had not done this [agile] transformation," one European banking executive told us, "our development would have completely stalled during COVID-19."

For example, telecom companies and banks that were agile before the crisis were twice as fast in releasing new services in response to it. One European bank tasked cross-functional teams to deploy new online services; they did so in a matter of days. Just setting up the teams could have taken weeks, but in this case the bank was ready to act—and to let the team make the decisions it needed to. The study also found that the crisis forced nonagile organizations to experiment with the concept. The speed that resulted, including faster decisions, reduced bureaucracy, and better communication, are attributes that many organizations are now working to maintain.

6. Make hybrid work, work. The next normal will see significantly more people working in a hybrid way—sometimes in person with colleagues on-site, sometimes working remotely. This model can unlock significant value, including more satisfied employees and lower real-estate costs. There are other benefits to a hybrid working model, including access to a broader range of talent, greater flexibility, and improved productivity.

To achieve these gains, employers need to ensure that the basics are in place to digitally enable remote working and collaboration, while taking care to create working norms that foster social cohesion. They should precisely define the optimal approach for each role and employee segment. That requires understanding when on-site work is better compared with remote interaction or independent work. Perhaps more important, hybrid organizations must adopt new ways of working that help build a strong culture, cohesion, and trust even when many employees are working remotely. Companies that were "born virtual," many out of Silicon Valley such as GitLab and Mozilla, and have sustained it successfully have very intentional policies, technology, and working norms. These include open-source collaboration models, for instance, for software development; remote-first practices, such as videoconference by default; and rigorous documentation of everything, from decisions to meeting output to work in progress. Moreover, they make an effort to bring colleagues together in person at least a couple of times per year to facilitate more connectivity and deepen relationships. Top talent will leave companies with bad cultures and slow responses.

The next three actions aim to *reshape talent* in order to get tomorrow's leadership team operational today and to build the workforce capabilities of the future.

7. Field tomorrow's leaders today. One of the unexpected consequences of the pandemic is that CEOs have seen into a window that shows who their future leaders are. They have seen who can make decisions and execute rapidly; who is able to take on new challenges and lead in the face of uncertainty; and who has the grit to persevere. In many cases leaders have found emerging talent two-to-three layers down, people who rose to the occasion and helped lead crisis-response and plan-ahead strategies. In other cases, they have found that some leaders have become too comfortable with the slower-moving bureaucracy of the past. As one CEO told us, "We have learned more about our people in the last 12 weeks than through our traditional HR processes from the last 12 months." Not only have CEOs gained insight into who the future leaders are, but they have also seen the value of rapidly deploying top talent to the most important work. Organizations that do both things—find future leaders and redeploy talent skillfully—will be able to move faster.

One recent example comes from the Ford Motor Company. In March, the automaker announced that it would produce face shields for healthcare workers—something it had never done before. To do so, a team of "unlikely characters" organized itself and got to work, tapping into their own networks to solve problems on the fly. One lesson: those who step up in a challenge, wrote one team member, "might not be who you expect." Stepping up to this kind of challenge requires courage and a mindset that encourages innovation and learning to come together—fast. "We came as beginners, and got smart on the job," the team member wrote. "Being a band of beginners means if you think of it, you do it. There is no time for rank."

8. Learn how to learn. Consider the US Navy's newest "littoral combat ship." These vessels can complete myriad tasks, such as hunting submarines or sweeping mines while operating in the shallows. One might think they therefore have a large crew of highly trained specialists. Not so. In fact, these ships are run by just 40 "hybrid sailors," who have proved capable of mastering a wide variety of skills, from handling ropes to firefighting to monitoring remote sensors. They need to be skilled, of course—mishandling a rope can cause serious injury—but their chief skill is the ability to adapt and learn quickly. They learn continuously, and are open to new experiences and flexible in their thinking. And that, COVID-19 has demonstrated, is what business needs, too.

Learning and adaptability has been on the CEO agenda for some time, but even more so during the pandemic. In the last few months, some of the best leadership teams have been on a steep learning curve: learning how to lead in a time of crisis, learning to manage rapidly forming agile teams, making decisions at a much faster pace, and learning to adapt. Forward-thinking companies are now accelerating their capability-building efforts by developing leadership and critical thinking skills at different levels of the organization, increasing their employees' capacity to engage with technology and use advanced analytics, and building functional skills for the future, such as next-generation procurement, Industry 4.0 manufacturing, and digital marketing and sales.

These companies recognize that the pace and scale of learning must keep up with that of innovation and changes in technology. Skills can and do expire. Organizations need people who can continually learn and adapt. In many cases, companies will need to reskill large portions of the workforce. That will require expanding the learning content available to employees and using technology to deliver what is needed to each person. It also will mean building the organizational and institutional muscle to strengthen the skills related to learning how to learn—just as the US Navy has done with its hybrid sailors.

9. Rethink the role of CEOs and leaders. COVID-19 has brought a fundamental change in leadership in many organizations. The leaders that stand out have shifted from directing a command-and-control crisis response to building and unleashing winning teams. Several CEOs described their role in the last few months as energizing, empowering, and "unblocking" their leadership teams. They also overinvest in communicating clearly and regularly to build trust, and constantly link their actions to the purpose of the institution.

To maintain the speed the COVID-19 crisis has unleashed, organizations need more of this kind of leadership. The future requires leaders to act as visionaries instead of commanders—focused on inspiring their organizations with a clear vision of the future, and then empowering others to realize the vision. It will require leaders who build winning teams; they coach their players but let them make the decisions and execute. These leaders will need to bring energy and passion to catalyze innovation, change, and growth. One CEO told us, "I measure how I feel every day, because ultimately my job is to give energy and empowerment to the organization."

Skills can and do expire. Organizations need people who can continually learn and adapt.

Now is the time

The coronavirus pandemic is the challenge of our times. The time for organizations to build for speed is now. This will be a long process and leaders must leap into the arena and recognize that many of their familiar organization constructs will need to be reimagined.

Many companies, at least initially, thought of the postpandemic return as an event; they would turn the lights on and go back to work just as they has done before. It is becoming increasingly clear, however, that for many, returning to work will be a process that could take a year or more, and that they cannot go back to the way they were.

Instead, companies will want to seize the moment to reimagine and reinvent the future, building new muscle and capabilities to come back strong. Even well-run companies may find that they need to reinvent themselves more than once.

Fortune will favor the bold—and the speedy.

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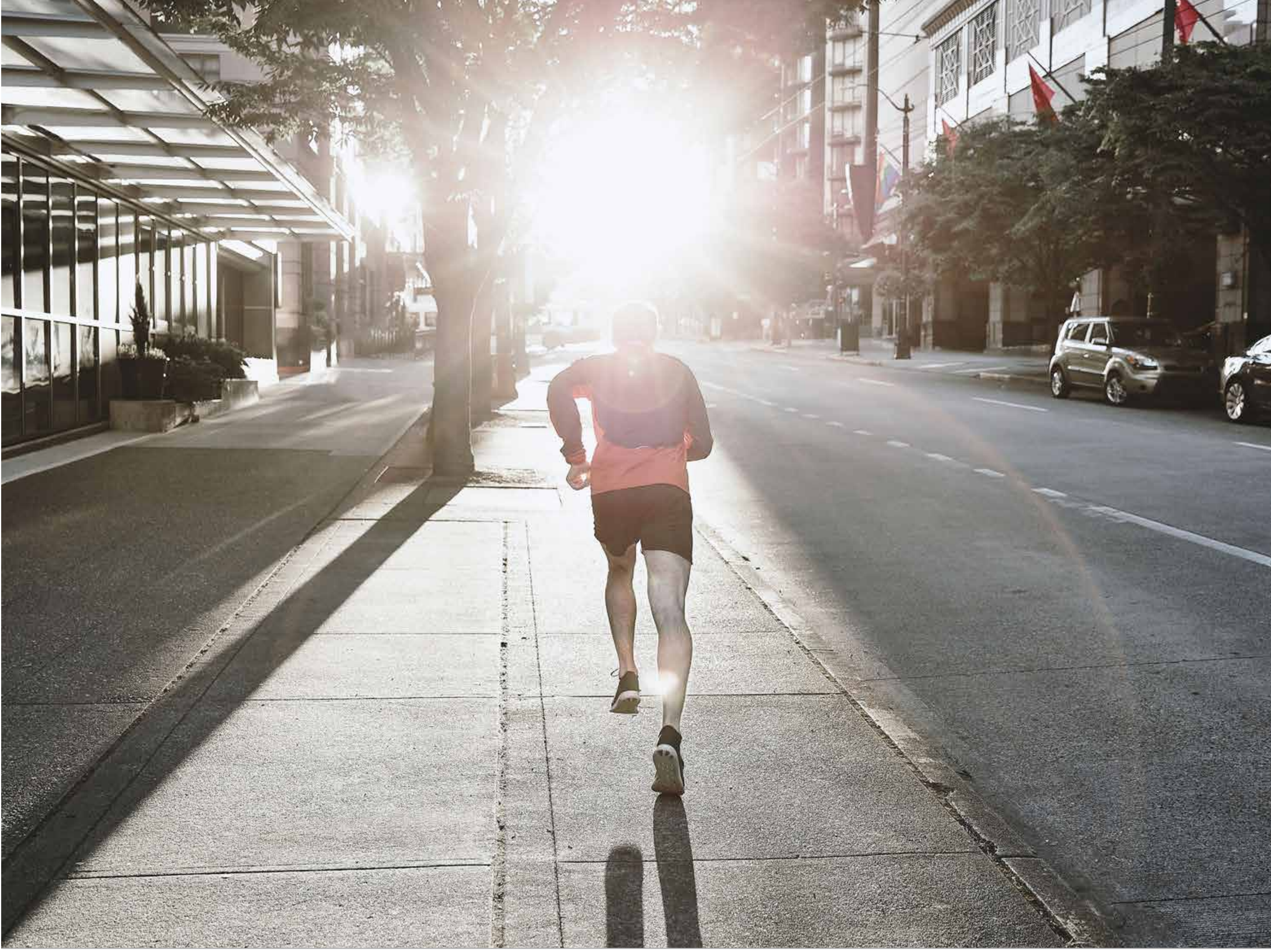

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Rapid Revenue Recovery: A road map for post-COVID-19 growth

Speed, agility, and a new understanding of customer values are the keys to navigating the next normal.

by Brian Gregg, Eric Hazan, Aimee Kim, Rock Khanna, Jesko Perrey, and Dennis Spillecke

COVID-19 continues to have a far-reaching effect on people's lives, families, and communities as well as on the global economy. Amid the bleak economic reality, companies in response are focused on driving a dual agenda: protecting lives and livelihoods. As the crisis continues to upend lives, companies are struggling to understand its full impact on their businesses and how best to respond. According to our recent B2B Decision Maker Pulse survey, about a quarter of companies surveyed say they are redirecting and increasing spend toward emerging opportunities.

As we outlined in our article *Leading with purpose*, marketing and sales leaders need to operate simultaneously across three horizons: navigating the crisis now, planning for the recovery, and leading the next normal. This article will focus on the second horizon and how companies can accelerate what they do and how they work to capture revenue quickly for the recovery (Exhibit 1).

That element of speed and agility in particular is crucial because this once-in-a-generation challenge is likely to have a profound impact on who is left standing when the crisis finally abates. During the downturn, for example, consumers and customers are likely to "trade down," that is, buy less expensive products, resulting in big changes at both the high and low ends of the market. Brands will be repositioning themselves and shifting to digital channels, products, and services, opening up another front in the battle for new and existing customers.

In this context, it's not enough to capture revenue; it has to happen quickly. We're already seeing first movers reap significant rewards.

A mental model to enable Rapid Revenue Recovery

What really stands out is how leaders approach the activities needed to drive revenue at a scale that makes a difference. The most effective leaders have a mental model built around SHAPE, an approach with five core elements:

— *Start-up mindset.* The start-up mindset biases action over research and testing over analysis.

Exhibit 1

Three horizons for effective marketing-and-sales responses to the COVID-19 crisis.

1. Navigate the now	2. Plan for the recovery	3. Lead in the next normal
Lead with purpose	Accelerate digital ambition and analytics engines	Rethink ecosystems
Take care of employees and customers	Be ready to capture early demand	Virtualization
Build up cash reserves	↓ Rapid Revenue Recovery	

We've seen companies, for example, make sizable allocations of marketing budget in days and even hours, and launch new ecommerce businesses in a matter of weeks. Start-up leaders establish an agile cadence through daily team check-ins, weekly 30-minute CEO reviews, and biweekly hourlong sprint reviews.

— *Human at the core.* To drive rapid action, companies will need to rethink their operating model, building it around how their people work best. Our B2B Decision Maker Pulse survey research has shown that more than 50 percent of businesses find a new remote sales model to be of equal or greater effectiveness than the old one. Enabling people will clearly require a new set of skills and capabilities, from facility with tech to working remotely. Successful pivots to a remote sales model, for example, will require an entirely new level of collaboration and coaching between front-line sales reps and leadership in order to meet consumer expectations.

— *Accelerate digital, tech, and analytics.* It's almost become a cliché to say that the crisis has become an inflection point in the shift to digital, but the best companies are moving quickly to enhance and expand their digital channels. They're successfully using advanced analytics to combine new and innovative sources of data, such as satellite imaging, with their own insights to derive "recovery signals."

— *Purpose-driven customer playbook.* Putting customers at the center of the business is a long-established principle, but post-coronavirus businesses will need a deep recalibration of how customers make decisions. Companies will need to rethink decision journeys to understand what customers now value and design new use cases and customer experiences based on those insights. That means a more nuanced approach to segmenting customers.

— *Ecosystems to drive adaptability.* The disruptions in supply chains and offline buying channels have made adaptability crucial not just to survival but to accessing opportunities quickly. In the short term, adaptability may mean how companies work with agencies and partners, but in the long-term, it will require new partnerships and non-traditional collaborations, including strategic M&A.

Three steps to get started on Rapid Revenue Recovery

Capturing revenue rapidly requires taking a combination of actions. What those are will depend on each company's situation. Top performers, however, take three steps with rigor and discipline:

1. Identify and prioritize

Commercial leaders will need to plan for recovery based on a clear understanding of their starting point and insights into demand patterns ahead of and during the recovery. This is crucial for knowing what to do and when. We have identified more than a dozen marketing and sales activities that can capture revenue quickly (Exhibit 2). Some are more relevant to B2C companies, while others make more sense for B2Bs.

Once identified, these measures need to be rigorously assessed by their impact on EBIT and the company's ability to execute quickly. That starts with a clear view of the market and thoughtful forecasting of demand across channels, based on granular views of the customer and of the possible economic scenarios. These will require a more sophisticated approach than those used traditionally to develop deeply granular insights. Leading organizations are using advanced analytic models with multiple sources of insights (for example, point-of-sale data, primary consumer research, social listening,

Exhibit 2

Rapid Revenue Recovery is based on taking a core set of commercial actions.

Strategy

- Brand repositioning
- M&A moves
- Networked ecosystems
- Clean-sheet demand planning

Digital channels

- Scaled digital sales & services
- E-commerce
- Digital marketing effectiveness

Productivity

- Marketing efficiency
- Sales productivity
- Inside sales
- Data-driven performance management

Customer experience & Insights

- Customer experience/customer journeys
- Personalization, loyalty, & CRM
- Product value propositions
- Analytics-driven sales
- Dynamic pricing and promotion optimization

Driven by data and analytics

and online search trends) to forecast growth scenarios at a granular level. This dashboard of opportunities needs to be continuously updated (Exhibit 3).

Against this view, analysis is needed of how well developed the available commercial capabilities are. A company in the advanced-industries sector, with low maturity in price and margin management, for example, may want to reinforce measures to avoid margin leakage, such as a shift to manual price approval to avoid low-margin sales. Commercial leaders should then overlay growth forecasts on their marketing and distribution capabilities, product and service portfolio, and competitive activity.

Within these calculations, commercial leaders should consider “now or never” moves—actions that may have been too difficult to undertake during normal times but are now essential for moving forward. These could include making significant reallocations of resources or ratcheting back popular but underperforming programs.

In our experience, companies can develop clear targets for growth and profitability in just a week.

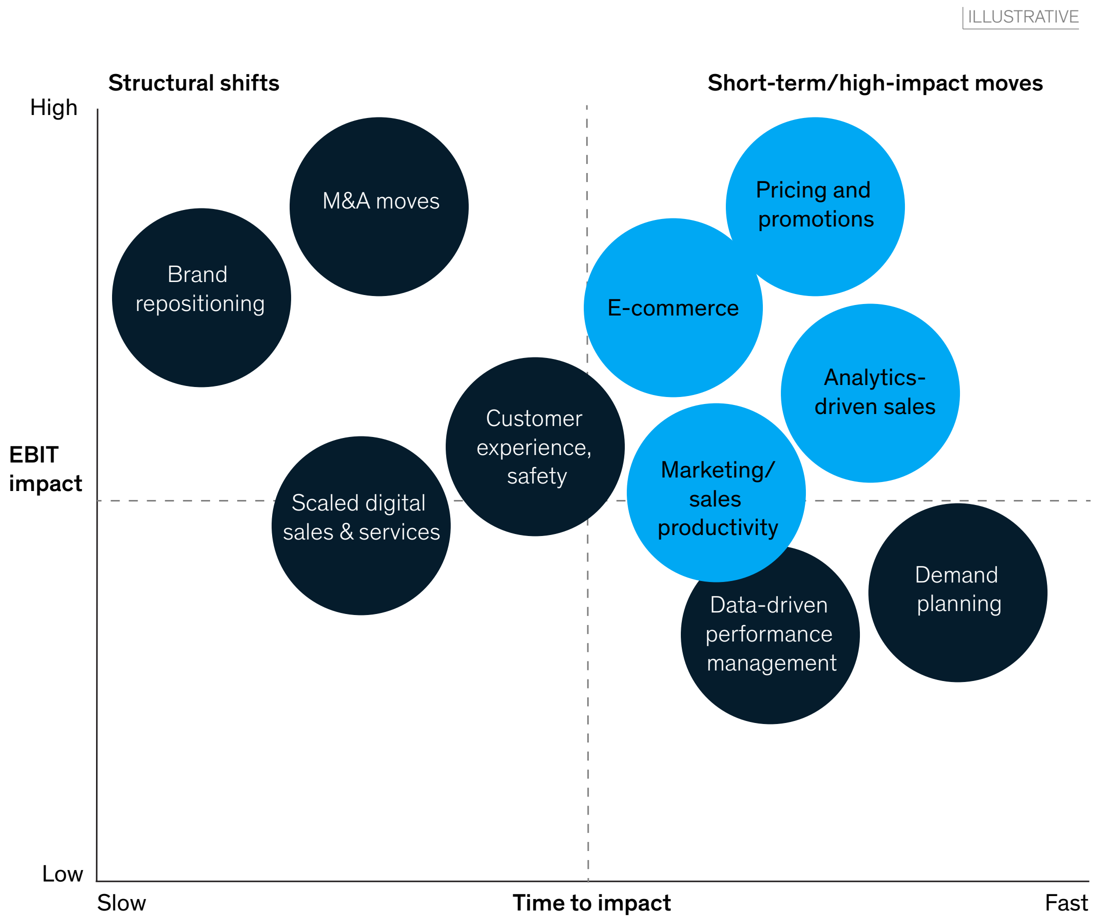
2. Act with urgency

Once there is a granular map of prioritized activities, companies need to quickly and decisively reallocate resources accordingly to capture growth. The focus should be on launching the biggest and readiest initiatives, whether by adjusting sales-coverage models, tailoring product features to specific customer use cases, or shifting marketing spend to high-performing channels. The necessity of acting with urgency has allowed businesses to accomplish incredible things in short periods of time that would have seemed impossible just six months earlier. They have demonstrated the agility of start-ups, an ability to look at their customers in new ways, a commitment to data-driven decisions, and a relentless focus on iterative execution to continually improve.

Take one leading car-rental company with more than 5,000 locations in China. Like its competitors, the business saw its momentum come to a

Exhibit 3

Prioritized measures for Rapid Revenue Recovery.



screeching halt and order volume collapse by 95 percent in February, as the coronavirus surged. In response, the company invested in microlevel customer segmentation to guide personalization and in social listening to track the latest shifts in consumer sentiment. This led them to develop new use cases. They discovered, for example, that many tech companies in southern China, in response to the virus, were telling employees not to use public transportation. The company used this insight to send targeted campaigns to promote car rentals. They tested two campaigns—rent for two days and get one free versus rent for five days and get two free—and learned that the second offer was more attractive because customers could rent five days for work purposes and get reimbursed, but could then use the car for two more days on the weekend.

The company also called first-time customers who had cancelled orders because of health concerns to reassure them of the various safety steps it was taking, such as "no-touch" contactless car pickup. They also used geolocation analytics to identify customers most likely to need a car and their destination. To help manage the program, they pulled together three agile teams with cross-functional skills and designed a recovery dashboard so the senior executive team could track progress in real time. This approach helped them streamline their working process so they could launch a new campaign in two to three days as opposed to the normal two to three weeks it took before the crisis. Within only seven weeks, the company had recovered about 90 percent of their business compared with 2019 level—almost twice the rate of recovery of the number-one company in the market. Campaign conversion rates were five times the normal amount.

That focus on the customer also provided clear insights for a number of technology companies with overseas manufacturing. After fielding surveys of customers, they learned that "supply-chain assurance" had become a top buying factor. Their sales teams used this insight to communicate the latest supply-chain status, thus alleviating customer concerns, and provided some customers with supply guarantees after consulting with their newly established pricing war room. There are enterprise-software companies that have created three-month promotional offers of virtually unlimited product use for a minimal start-up fee. This has helped the companies gain market share, preserve the long-term price points of its value proposition, and assist customers in a critical time of need. This approach helped solve a business problem and address customer cash-flow concerns.

The start-up mindset provides the impetus for significant growth, often through the thoughtful use of digital channels. One company, for example, was able to launch an entirely new e-commerce business in just 13 weeks by focusing closely on what customers cared about most, standardizing features, and building on what they already had. This resulted in twice as many orders as anticipated, a tripling of basket size compared with in-store purchases, and 2 to 3 percent revenue growth.

In another example, one furniture retailer was able to drive a 60 percent improvement in sales in digital channels over just four weeks. It took a portfolio approach to campaigns, launching multiple versions to test and learn along the way. Through their analysis, they discovered demand for baby beds and tailored campaigns to that customer segment, even offering free child beds for those who had babies born during the COVID-19 pandemic.

Marketing return-on-investment (ROI) approaches that use data to make rapid spend reallocations can often yield great returns in the shortest amount of time. One large retailer freed up millions by eliminating distribution of circulars after granular response data showed that 40 percent of customers didn't change their behaviors because of the circulars. The company reinvested the funds into more successful digital targeting practices. There are also pockets of opportunity in shifting the product mix to more productive stock-keeping units (SKUs), pausing or eliminating promotions known to be inefficient, and reinforcing performance-based trade relationships. As consumers increasingly try new brands, companies should consider shifting promotional spend to defend share in categories with surging demand and where there is a risk of switching.

3. Develop a rapid-fire agile operating model
One important way to speed up decision making is to give agile teams highly focused tasks and clear key performance indicators (KPIs), such as click-throughs or open rates. Instead of waiting for approvals and input, these agile squads, which should include agency partners, have the ability to make their own decisions. In our current remote world, we've found people more able and willing to embrace agile methods, sometimes by necessity but also because they are becoming acclimated to jumping on videoconferences to solve problems or make decisions quickly.

The various squads are then assigned to specific areas of focus, from consumer/customer insights to digital marketing. The sales squad could steward large and strategic deals and oversee execution, speeding deal review for impacted segments and maintaining discipline. Another squad could focus on developing a long-term view to avoid panic reactions and develop clear guidelines and objectives for the commercial team (Exhibit 4). These cross-functional teams or squads bring together people with key skills such as data analytics, sales operations, and design, tailored to the specific area and supplemented with additional experts in legal, finance, risk, HR, as needed. A scrum master oversees the squads, allocating and coordinating resources to initiatives

Exhibit 4

An agile-squad model can raise a company's metabolic rate.

Consumer- and market-insights squad

Central hub for monitoring changes in consumer sentiment/behavior, market and regulations
Feeds information to other squads and enables quick response to market changes

Marketing cash-liberation squad

Prioritizes immediate review of cost base and budget
Contributes to company stability & other marketing efforts (eg, communications)

Growth squad

Shares in-market learnings hub
Identifies and prioritizes sales green shoots
Optimizes channel management (eg, actions to be taken with offline retailers, inventory / stock management)

Digital marketing and sales squad

Adapts current digital M&S activities to new reality (eg, digital marketing)
Builds / evolves digital selling platforms (D2C or through partners)

Post-COVID-19 growth squad

Develops clear plan for next normal
Balances resourcing with short-term squad

with the highest value through weekly sprint-progress reviews.

"Agile" does not just mean putting in place iterative, test-and-learn working practices. It means putting in place a new operating model, built around the customer and supported by the right processes and governance. Agile sales organizations, for example, continuously prioritize accounts and deals and decide quickly where to invest. But this is effective only if there is a clear, granular growth plan developed by a cross-functional team that collectively understands how to win each type of customer. Similarly, fast decision making between local sales and global business units and the rapid reallocation of resources among them require a stable sales-pipeline management process that they both use.

Rapid Revenue Response isn't just a way to survive the crisis. What companies do today to capture revenue quickly lays the foundation for future growth.

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Reimagine the workforce from the top down

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Adapting workplace learning in the time of coronavirus

Managers can’t push the pause button on capability building, so the moment belongs to virtual learning. Some tactics and strategies can help.

by Alok Kshirsagar, Tarek Mansour, Elizabeth McNally, and Marc Metakis

As businesses around the world postpone and cancel in-person meetings in response to the novel coronavirus (or SARS-CoV-2), which causes the COVID-19 disease, workplace learning is emerging as one of the earliest and hardest-hit business activities. Based on our observations as of early March, roughly one-half of in-person programs through June 30, 2020, have been postponed or canceled in North America; in parts of Asia and Europe, the figure is closer to 100 percent.

However, businesses can't afford to put capability building on hold. Whether the effort is reskilling at the business-unit level or a company-wide aspirational transformation, companies can't simply push the pause button on critical workplace learning, even as they move rapidly to put employee safety first.

To continue enabling and delivering value-creating efforts, learning leaders have a number of tactical steps they can consider to protect employees, adapt programs and delivery, and establish and expand virtual live learning. Digital and virtual learning programs were already on the rise before COVID-19 struck, and we already see a marked increase in such learning programs, which many younger employees embrace.

Beyond tactical steps, there are strategic measures, such as exploring alternative digital learning strategies, that managers can develop during this time of physical distancing. The stronger learning capabilities that emerge could stand as a positive long-term outcome from this sobering period.[1]

Six best-practice actions, ranging from the immediate and tactical to the strategic, can help maintain the momentum and benefits of workplace-learning programs and help build a new foundation for effective virtual learning. These actions are establishing a learning-response team, protecting employees in in-person programs, adapting delivery, promoting digital learning, exploring alternative digital strategies, and practicing and preparing for multiple outcomes.

Set up a COVID-19 learning-response team

To create a comprehensive picture of learning offerings and how to adapt them to this new environment, build a cross-functional response team composed of members from all relevant stakeholder groups. These include HR business partners, learning-delivery personnel, IT and platform technologists, and vendors. Establish a regular operating cadence, and coordinate work with the company's broader COVID-19-response effort. Define clear decision points and be transparent about the criteria for canceling or deferring a program, including who will make the calls. Line up the entire team on how communication of these decisions will happen—for example, centrally or locally.

Conduct a rapid triage of the entire portfolio of learning offerings, and set priorities for what will be necessary to adapt to a virtual or digital-only format. Once you have a clear view of the entire portfolio, prioritize what to build. This is important because you can't create digital versions of everything, and you need to be strategic about the allocation of scarce design resources. Set triage criteria around a combination of impact metrics (How critical is the topic? How soon will effects be felt? How many will be affected?) and feasibility (How suitable is the topic for digital delivery?). Right out of the gate, give priority to must-have programs (such as employee onboarding), and then roll out topical programs (such as teaching remote-working skills, remote-management skills, and leadership skills in time of crisis).

Good decision making in this initial period requires appropriate information and data. We recommend developing several minimum viable products: a rolling six-week calendar of upcoming programs and milestones, an exposure heat map (for example, the number of affected participants by region or program type), a prioritized list of programs for redesigning, and a dashboard showing progress, key indicators, and decision triggers.

[1] This article reflects a contemporaneous perspective on how COVID-19 could and should impact workplace learning. It is based on McKinsey's experience in delivering learning programs to our global workforce, as in well as our work supporting clients through McKinsey Academy, which is our entity for client-facing leadership development and functional capability building.

Protect employees in in-person programs

Start by designing and executing a plan to support employees that is consistent with the most conservative guidelines available from leading local and global health authorities, such as the US Centers for Disease Control and Prevention and WHO. Communicate clearly and often with employees on upcoming learning programs and include specific criteria for when programs will be deferred, modified, and canceled.

If you are moving ahead with in-person learning programs, communicate in advance the precautions you will take, such as physical distancing, alternatives to shaking hands, and enhanced cleaning and sanitization procedures. For those participating remotely, ensure that they have—and are familiar with—the available virtual collaboration tools, including videoconferencing and cloud-based document sharing.

Adapt in-person learning delivery

For those ongoing learning programs with an in-person delivery component, adapt the delivery to reduce participant risk. For example, consider decentralizing in-person events. This might mean replacing global kickoff events with multiple regional kickoff events or replacing a large in-person event with multiple small-group videoconferencing sessions.

If travel restrictions mean corporate in-person facilitation teams are unavailable, consider using local employees, such as managers or alumni of previous programs. Prepare them by using a train-the-trainer approach. This entails would-be trainers first going through the program as participants, being trained on how best to facilitate the sessions, and finally receiving feedback from an experienced trainer after their first facilitating experience.

Recognize that there are limits to what can be addressed when using virtual live sessions such as webcasts, virtual classrooms, and video- and audioconferencing. For example, such platforms may not work well for deep socioemotional- and interpersonal-skill building. To address this shortfall, consider what you can do before, during, and after the session to maximize its impact (exhibit).

Exhibit

Creating engagement and community feel in virtual live sessions requires planning and follow-up.

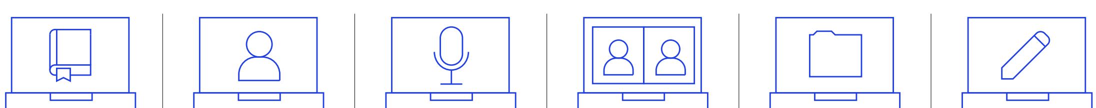
Tips for delivering an "in person" feel

Before the session
- Ensure you are comfortable with, and have tested, the technology
- Make participation easy by providing local-access dial-ins, as needed, in addition to any weblink
- Dedicate a moderator to manage speakers and discussion
- Send materials in advance via file sharing, and remind participants prior to starting

During the session
- Leverage technology features to keep participants engaged
- Keep video on, look at the webcam, and use gestures as in person
- Use online tools such as polling and chat to gather input
- Consider features such as virtual breakout rooms to encourage participation

After the session
- Distribute any work products or follow-up information as needed
- Solicit participant feedback on content, delivery, and technical experience
- Escalate any technical issues and identify workarounds or solutions

Learning and collaboration technologies for virtual delivery



Virtual classrooms | Webcasts | Video- and audio-conferencing | Virtual coaching | File sharing | Content co-creation (eg, whiteboards)

What is clearly different today is that keeping people safe and reducing risk has, for now, displaced cost as the key driver behind digital learning.

Good learning sessions of all types begin with a good participant experience. Ensure that the technology has been tested, local dial-in numbers are provided as needed, roles are clear (consider assigning a moderator to manage speakers and participants), and prereading materials are distributed well in advance. During the session, use technology to keep participants engaged and energized. For instance, keep the video option on participants' computers active to create a community feel, set ground rules up front, and use online input tools to facilitate engagement, such as chat and polling. Also consider features such as virtual breakout rooms and postsession feedback to simulate the in-person experience as much as possible.

Promote and enhance digital learning

A substantial increase in the use of digital delivery globally is under way across all segments of the workforce, from frontline managers to senior leaders. In regions such as Asia, where travel restrictions and work-from-home policies have been in place for weeks, digitally enabled experiences have also created new benefits. These include an increased sense of community, purpose, and focus for people who are no longer connecting with their colleagues in a co-located workplace. Around the world, organizations are using digital learning to increase collaboration among teams that are working either remotely or across different time zones, as they take courses together and collaborate in virtual formats (such as videoconferencing and instant messaging). These are good arguments for placing additional emphasis on digital learning as the number of people working remotely because of COVID-19 increases.

It is too early to say how COVID-19 will ultimately affect the accelerated adoption of digital learning. What is clearly different today is that keeping people safe and reducing risk has, for now, displaced cost as the key driver behind digital learning. For learning leaders, that opens an opportunity to promote existing digitally enabled portfolios of learning offerings as a way to help colleagues during challenging times. Targeted communication that reminds employees that learning doesn't stop when travel is curtailed, for example, may boost attention to available digital offerings.

The uptake in virtual delivery also provides learning leaders with an opportunity to enhance the digital experience of employee learners. One way is for leaders to tie communication to the learners' individual motivations, such as a sense of personal, community, or company purpose. Another is to have senior leaders model desired behaviors through active participation in digital courses. When possible, include social-learning components. These can include discussion boards, along with participant journeys that focus on cohorts of people undertaking programs together on a set schedule rather than on individuals working at their own pace. Also consider small (potentially virtual) group projects to drive engagement, connectivity, and application.

Finally, it is important in these rapidly evolving times to reinforce the link between business outcomes and longer-term capability building. Learning doesn't occur only in one-off, discrete events; it should be thought of as part of broader learning journeys that last 12 to 18 months and tie clearly to business outcomes. Travel restrictions may affect in-person learning programs in today's environment, but capability building needs to continue in order to advance long-term goals.

Explore alternative digital-learning strategies

As organizations increasingly promote their existing portfolios of digital-learning options, a handful indicate that they are also considering migrating some existing in-person training programs to an all-digital format. Such efforts go beyond merely applying existing technology solutions to offer virtual classrooms. Rather, they represent a more fundamental rethinking of the learning experience to enable collaborative, interactive social-learning experiences for groups of learners. Digital-learning providers recognize that COVID-19 is a catalyst for this transition and are looking to help their corporate customers accelerate their transformation. Some are even offering reduced or complimentary services to help encourage new customers to accelerate such a transition.

Adhering to several principles can help migrate an in-person course to a fully digital experience. Start by reframing the "learning problem" as a design opportunity and rethink the learner's end-to-end experience as a designer would. Set priorities for the essential learning objectives and focus intently on selecting the content that will meet them. Design for shorter interactions and provide more time between sessions to strengthen learning. Focus on human connections whenever possible, creating intentional, meaningful interactions. Finally, support a seamless learning experience from first contact to last and ensure the same learning experience for all participants.

As organizations explore the longer-term implications of an increasingly digital environment for workplace learning, it may be worth considering (or reconsidering) nonmainstream technology solutions that could reduce the need for face-to-face interaction. Some examples include virtual-reality training simulations and higher-end moderated virtual classrooms. All of these can enable new and different ways to engage learners. Implementing such solutions may take longer than other action items we previously listed, and companies will have to weigh possible outcomes against the evolving long-term implications of events such as COVID-19 on their workplace learning.

Practice and prepare for multiple outcomes

In any extraordinarily uncertain environment, scenario-planning techniques should be part of any approach. A cross-functional COVID-19 learning-response team should focus on practicing decision making and communication under a variety of potential scenarios. Is the virus seasonal? Is it possible that travel restrictions may be lifted by May or so? If so, the team might consider prebooking post-May capacity to deliver programs then—perhaps with generous cancellation policies attached. Similarly, if demand for digitally delivered learning shows a sustained increase, the team should make sure it understands the underlying capacity needs to deliver it and to address any technology limitations in advance.

To get a sense of how such planning can play out, consider evaluating the scenarios described in "COVID-19: Implications for business," available on McKinsey.com, and establish a plan for what workplace learning looks like under each. Practicing responses under different assumptions will enable teams to pressure test response plans for COVID-19 and may boost confidence when the time comes to execute them.

Learning leaders who implement a thoughtful response plan for COVID-19 can minimize the disease's impact on capability building and ensure the safety of learners. Expanding learning opportunities—and improving learning overall—can also ultimately serve as a bright spot for organizations through this difficult period.

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Reimagining the postpandemic workforce

Pandemic-style working from home may not translate easily to a "next normal" mix of on-site and remote working.

by Andrea Alexander, Aaron De Smet, and Mihir Mysore

As the pandemic begins to ease, many companies are planning a new combination of remote and on-site working, *a hybrid virtual model* in which some employees are on premises, while others work from home. The new model promises greater access to talent, increased productivity for individuals and small teams, lower costs, more individual flexibility, and improved employee experiences.

While these potential benefits are substantial, history shows that mixing virtual and on-site working might be a lot harder than it looks—despite its success during the pandemic. Consider how Yahoo! CEO Marissa Mayer ended that company's remote-working experiment in 2013, observing that the company needed to become "one Yahoo!" again, or how HP Inc. did the same that year. Specific reasons may have varied. But in each case, the downsides of remote working at scale came to outweigh the positives.

These downsides arise from the organizational norms that underpin culture and performance—ways of working, as well as standards of behavior and interaction—that help create a common culture, generate social cohesion, and build shared trust. To lose sight of them during a significant shift to virtual-working arrangements is to risk an erosion over the long term of the very trust, cohesion, and shared culture that often helps remote working and virtual collaboration to be effective in the short term.

It also risks letting two organizational cultures emerge, dominated by the in-person workers and managers who continue to benefit from the positive elements of co-location and in-person collaboration, while culture and social cohesion for the virtual workforce languish. When this occurs, remote workers can soon feel isolated, disenfranchised, and unhappy, the victims of unintentional behavior in an organization that failed to build a coherent model of, and capabilities for, virtual and in-person work. The sense of belonging, common purpose, and shared identity that inspires all of us to do our best work gets lost. Organizational performance deteriorates accordingly.

Now is the time, as you reimagine the postpandemic organization, to pay careful attention to the effect of your choices on organizational norms and culture. Focus on the ties that bind your people together. Pay heed to core aspects of your own leadership and that of your broader group of leaders and managers. Your opportunity is to fashion the hybrid virtual model that best fits your company, and let it give birth to a new shared culture for all your employees that provides stability, social cohesion, identity, and belonging, whether your employees are working remotely, on premises, or in some combination of both.

Cutting the ties that bind

If you happen to believe that remote work is no threat to social ties, consider the experience of Skygear.io, a company that provides an open-source platform for app development. Several years ago, Skygear was looking to accommodate several new hires by shifting to a hybrid remote-work model for their 40-plus-person team. The company soon abandoned the idea. Team members who didn't come to the office missed out on chances to strengthen their social ties through ad hoc team meals and discussions around interesting new tech launches. The wine and coffee tastings that built cohesion and trust had been lost. Similarly, GoNoodle employees found themselves at virtual happy hour longing for the freshly remodeled offices they had left behind at lockdown. "We had this killer sound system," one employee, an extrovert who yearns for time with her colleagues, told the *New York Times*. "You know—we're drinking coffee, or maybe, 'Hey, want to take a walk?' I miss that."[1] Successful workplace cultures rely on these kinds of social interactions. That's something Yahoo!'s Mayer recognized in 2013 when she said, "We need to be one Yahoo!, and that starts with physically being together," having the "interactions and experiences that are only possible" face-to-face, such as "hallway and cafeteria discussions, meeting new people, and impromptu team meetings."[2]

[1] Clive Thompson, "What if working from home goes on … forever?," *New York Times*, June 9, 2020, nytimes.com.
[2] Kara Swisher, "'Physically together': Here's the internal Yahoo no-work-from-home memo for remote workers and maybe more," All Things Digital, February 22, 2013, allthingsd.com.

Or consider how quickly two cultures emerged recently in one of the business units of a company we know. Within this business unit, one smaller group was widely distributed in Cape Town, Los Angeles, Mumbai, Paris, and other big cities. The larger group was concentrated in Chicago, with a shared office in the downtown area. When a new global leader arrived just prior to the pandemic, the leader based herself in Chicago and quickly bonded with the in-person group that worked alongside her in the office. As the pandemic began, but before everyone was sent home to work remotely, the new leader abruptly centralized operations into a crisis nerve center made up of everyone in the on-site group. The new arrangement persisted as remote working began. Meanwhile, the smaller group, which had already been remote working in other cities, quickly lost visibility into, and participation in, the new workflows and resources that had been centralized among the on-site group, even though that on-site group was now working virtually too. Newly created and highly sought-after assignments (which were part of the business unit's crisis response) went to members of the formerly on-site group, while those in the distributed group found many of their areas of responsibility reduced or taken away entirely. Within a matter of months, key employees in the smaller, distributed group were unhappy and underperforming.

The new global leader, in her understandable rush to address the crisis, had failed to create a level playing field and instead (perhaps unintentionally) favored one set of employees over the other. For us, it was stunning to observe how quickly, in the right circumstances, everything could go wrong. Avoiding these pitfalls requires thinking carefully about leadership and management in a hybrid virtual world, and about how smaller teams respond to new arrangements for work. Interactions between leaders and teams provide an essential locus for creating the social cohesion and the unified hybrid virtual culture that organizations need in the next normal.

Choose your model

Addressing working norms, and their effect on culture and performance, requires making a basic decision: Which part of the hybrid virtual continuum (exhibit) is right for your organization? The decision rests on the factors for which you're optimizing. Is it real-estate cost? Employee productivity? Access to talent? The employee experience? All of these are worthy goals, but in practice it can be difficult to optimize one without considering its effect on the others. Ultimately, you're left with a difficult problem to solve—one with a number of simultaneous factors and that defies simple formulas.

That said, we can make general points that apply across the board. These observations, which keep a careful eye on the organizational norms and ways of working that inform culture and performance, address two primary factors: the type of work your employees tend to do and the physical spaces you need to support that work.

First let's eliminate the extremes. We'd recommend a fully virtual model to very few companies, and those that choose this model would likely operate in specific industries such as outsourced call centers, customer service, contact telesales, publishing, PR, marketing, research and information services, IT, and software development, and under specific circumstances. Be cautious if you think better access to talent or lower real-estate cost—which the all-virtual model would seem to optimize—outweigh all other considerations. On the other hand, few companies would be better off choosing an entirely on-premises model, given that at least some of their workers need flexibility because of work–life or health constraints. That leaves most companies somewhere in the middle, with a hybrid mix of remote and on-site working.

The physical spaces needed for work—or not

Being in the middle means sorting out the percentage of your employees who are working remotely and how often they are doing so. Let's say 80 percent of your employees work remotely but do so only one day per week. In the four days they are on premises, they are likely getting all the social interaction and connection needed for collaboration, serendipitous idea generation, innovation, and social cohesiveness. In this case, you might be fine with the partially remote, large headquarters (HQ) model in the exhibit.

Exhibit

Optimizing the hybrid virtual continuum

Six models reflecting a mix of on-site and remote working

	Model	Description	Ability to access talent	Productivity (individual and team)	Cost of real estate
Almost entirely on premises	Limited remote work, large HQ	Company leaders and employees are centralized in 1–2 big principal offices			
Hybrid models	Partially remote work, large HQ	Company leaders and most employees spend majority, but not all, of their time in 1–2 principal offices			
	Partially remote work, multiple hubs	Multiple proportionate-size offices with leadership and employees dispersed among all offices			
	Multiple microhubs	Leadership and employees dispersed across small-footprint "microhubs" located in various geographies			
	Partially remote work, with flex space[1]	No permanent offices; rented flex space[2] used for periodic in-person collaboration (but not connectivity)			
Almost entirely off premises	Mostly remote work, no office sites				

[1]Flex space includes temporarily (eg, monthly) rented space used in select cities for periodic gathering and collaboration.

If, instead, a third of your employees are working remotely but doing so 90 percent of the time, the challenges to social cohesion are more pronounced. The one-third of your workforce will miss out on social interaction with the two-thirds working on-premises—and the cohesion, coherence, and cultural belonging that comes with it. One solution would be to bring those remote workers into the office more frequently, in which case multiple hubs, or multiple microhubs (as seen in the exhibit), might be the better choice. Not only is it easier to travel to regional hubs than to a central HQ, at least for employees who don't happen to live near that HQ, but more dispersed hubs make the in-person culture less monolithic. Moreover, microhubs can often be energizing, fun, and innovative places in which to collaborate and connect with colleagues, which further benefits organizational culture.

Productivity and speed

Now let's begin to factor in other priorities, such as employee productivity. Here the question becomes less straightforward, and the answer will be unique to your circumstances. When tackling the question, be sure to go beyond the impulse to monitor inputs and activity as a proxy for productivity. Metrics focused on inputs or volume of activity have always been a poor substitute for the true productivity that boosts outcomes and results, no matter how soothing it might be to look at the company parking lot to see all the that employees who have arrived early in the day, and all those who are leaving late. Applied to a hybrid model, counting inputs might leave you grasping at the number of hours that employees are spending in front of their computers and logged into your servers. Yet the small teams that are the lifeblood of today's organizational success thrive with empowering, less-controlling management styles. Better to define the outcomes you expect from your small teams rather than the specific activities or the time spent on them.

In addition to giving teams clear objectives, and both the accountability and autonomy for delivering them, leaders need to guide, inspire, and enable small teams, helping them overcome bureaucratic challenges that bog them down, such as organizational silos and resource inertia—all while helping to direct teams to the best opportunities, arming them with the right expertise, and giving them the tools they need to move fast. Once teams and individuals understand what they are responsible for delivering, in terms of results, leaders should focus on monitoring the outcome-based measurements. When leaders focus on outcomes and outputs, virtual workers deliver higher-quality work.

In this regard, you can take comfort in Netflix (which at the time of this writing is the 32nd largest company in the world by market capitalization), which thrives without limiting paid time off or specifying how much "face time" workers must spend in the office. Netflix measures productivity by outcomes, not inputs—and you should do the same.

No matter which model you choose for hybrid virtual work, your essential task will be to carefully manage the organizational norms that matter most when adopting any of these models. Let's dive more deeply into those now.

Managing the transition

Organizations thrive through a sense of belonging and shared purpose that can easily get lost when two cultures emerge. When this happens, our experience—and the experience at HP, IBM, and Yahoo!—is that the in-person culture comes to dominate, disenfranchising those who are working remotely. The difficulty arises through a thousand small occurrences: when teams mishandle conference calls such that remote workers feel overlooked, and when collaborators use on-site white boards rather than online collaboration tools such as Miro. But culture can split apart in bigger ways too, as when the pattern of promotions favors on-site employees or when on-premises workers get the more highly sought-after assignments.

Some things simply become more difficult when you are working remotely. Among them are acculturating new joiners; learning via hands-on coaching and apprenticeship; undertaking ambiguous, complex, and collaborative innovations; and fostering the creative collisions through which new ideas can emerge. Addressing these boils down to leadership and management styles, and how those styles and approaches support small teams. Team experience is a critical driver of hybrid virtual culture—and managers and team leaders have an outsize impact on their teams' experiences.

Managers and leaders

As a rule, the more geographically dispersed the team, the less effective the leadership becomes. Moreover, leaders who were effective in primarily on-site working arrangements may not necessarily prove so in a hybrid virtual approach. Many leaders will now need to "show up" differently when they are interacting with some employees face-to-face and others virtually. By defining and embracing new behaviors that are observable to all, and by deliberately making space for virtual employees to engage in informal interactions, leaders can facilitate social cohesion and trust-building in their teams.

More inspirational. There's a reason why military commanders tour the troops rather than send emails from headquarters—hierarchical leadership thrives in person. Tom Peters used to call the in-person approach "management by walking around": "Looking someone in the eye, shaking their hand, laughing with them when in their physical presence creates a very different kind of bond than can be achieved [virtually]."[3]

But when the workforce is hybrid virtual, leaders need to rely less on hierarchical and, by doing so, more on inspirational forms of leadership. The dispersed employees working remotely require new leadership behaviors to compensate for the reduced socioemotional cues characteristic of digital channels.

Cultivate informal interactions. Have you ever run into a colleague in the hallway and, by doing so, learned something you didn't know? Informal interactions and unplanned encounters foster the unexpected cross-pollination of ideas—the exchange of tacit knowledge—that are essential to healthy, innovative organizations. Informal interactions provide a starting point for collegial relationships in which people collaborate on areas of shared interest, thereby bridging organizational silos and strengthening social networks and shared trust within your company.

Informal interactions, which occur more naturally among co-located employees, don't come about as easily in a virtual environment. Leaders need new approaches to creating them as people work both remotely and on-site. One approach is to leave a part of the meeting agenda free, as a time for employees to discuss any topic. Leaders can also establish an open-door policy and hold virtual "fireside chats," without any structured content at all, to create a forum for less formal interactions. The goal is for employees, those working remotely and in-person, to feel like they have access to leaders and to the kind of informal interactions that happen on the way to the company cafeteria.

Further approaches include virtual coffee rooms and social events, as well as virtual conferences in which group and private chat rooms and sessions complement plenary presentations. In between time, make sure you and all your team members are sending text messages to one another and that you are texting your team regularly for informal check-ins. These norms cultivate the habit of connecting informally.

Role model the right stance. It might seem obvious, but research shows that leaders consistently fail to recognize how their actions affect and will be interpreted by others.[4] Consider the location from which you choose to work. If you want to signal that you tolerate virtual work, come into the office every day and join meetings in-person with those who happen to be in the building. This will result in a cultural belief that the HQ or physical offices are the real centers of gravity, and that face time is what's important.

Come into the office every day, though, and your remote-working employees may soon feel that their choice to work virtually leaves them fewer career opportunities, and that their capabilities and contributions are secondary. By working from home (or a non-office location) a couple days a week, leaders signal that people don't need to be in the office to be productive or to get ahead. In a hybrid virtual world, seemingly trivial leadership decisions can have outsize effect on the rest of the organization.

Don't rely solely on virtual interactions. By the same token, despite big technological advancements over the years, nothing can entirely replace face-to-face interactions. Why? In part because so much of communication is nonverbal (even if it's not the 93 percent that some would assert), but also because so much communication involves equivocal, potentially contentious, or difficult-to-convey subject matter. Face-to-face interactions create significantly more opportunities for rich, informal interactions, emotional connection, and emergent "creative collision" that can be the lifeblood of trust, collaboration, innovation, and culture.

Media richness theory helps us understand the need to match the "richness" of the message with the capabilities of the medium. You wouldn't let your nephew know of the death of his father by fax, for instance—you would do it in person, if at all possible, and, failing that, by the next richest medium, probably video call. Some communication simply

[3] See *Tom Peters blog*, "The heart of MBWA," blog entry by Shelley Dolley, February 27, 2013, tompeters.com.
[4] Tomas Chamorro-Premuzic, "How to work for a boss who lacks self-awareness," *Harvard Business Review*, April 3, 2018, hbr.org.

proceeds better face-to-face, and it is up to the leader to match the mode of communication to the equivocality of the message they are delivering.

In other cases, asynchronous communication—such as email and text—are sufficient, and even better, because it allows time for individuals to process information and compose responses after some reflection and thought. However, when developing trust (especially early on in a relationship) or discussing sensitive work-related issues, such as promotions, pay, and performance, face-to-face is preferred, followed by videoconferencing, which, compared with audio, improves the ability for participants to show understanding, anticipate responses, provide nonverbal information, enhance verbal descriptions, manage pauses, and express attitudes. However, compared with face-to-face interaction, it can be difficult in video interactions to notice peripheral cues, control the floor, have side conversations, and point to or manipulate real-world objects.

Whatever the exact mix of communication you choose in a given moment, you will want to convene everyone in person at least one or two times a year, even if the work a particular team is doing can technically be done entirely virtually. In person is where trust-based relationships develop and deepen, and where serendipitous conversations and connections can occur.

Track your informal networks. Corporate organizations consist of multiple, overlapping, and intersecting social networks. As these informal networks widen and deepen, they mobilize talent and knowledge across the enterprise, facilitating and informing cultural cohesiveness while helping to support cross-silo collaboration and knowledge sharing.

Because the hybrid virtual model reduces face-to-face interaction and the serendipitous encounters that occur between people with weak ties, social networks can lose their strength. To counter that risk, leaders should map and monitor the informal networks in their organization with semiannual refreshes of social-network maps. Approaches include identifying the functions or activities where connectivity seems most relevant and then mapping relationships within those priority areas—and then tracking the changes in those relationships over time. Options for obtaining the necessary information include tracking email, observing employees, using existing data (such as time cards and project charge codes), and administering short (five- to 20-minute) questionnaires. It is likely that leaders will need to intervene and create connections between groups that do not naturally interact or that now interact less frequently as a result of the hybrid virtual model.

Hybrid virtual teams

Leadership is crucial, but in the hybrid virtual model, teams (and networks of teams) also need to adopt new norms and change the way they work if they are to maintain—and improve—productivity, collaboration, and innovation. This means gathering information, devising solutions, putting new approaches into practice, and refining outcomes—and doing it all fast. The difficulty rises when the team is part virtual and part on-site. What follows are specific areas on which to focus.

Create 'safe' spaces to learn from mistakes and voice requests

Psychological safety matters in the workplace, obviously, and in a hybrid virtual model it requires more attention. First, because a feeling of safety can be harder to create with some people working on-site and others working remotely. And, second, because it's often less obvious when safety erodes. Safety arises as organizations purposefully create a culture in which employees feel comfortable making mistakes, speaking up, and generating innovative ideas. Safety also requires helping employees feel supported when they request flexible operating approaches to accommodate personal needs.

Mind the time-zone gaps

The experience of a hybrid virtual team in the same time zone varies significantly from a hybrid virtual team with members in multiple time zones. Among other ills, unmanaged time-zone differences make sequencing workflows more difficult. When people work in different time zones, the default tends toward asynchronous communications (email) and a loss of real-time connectivity. Equally dysfunctional is asking or expecting team members to wake up early or stay up late for team meetings. It can work for a short period of time, but in the medium and longer run it reduces the cohesion that develops through real-time collaboration. (It also forces some team members to work when they're tired and not at their best.) Moreover, if there is a smaller subgroup on the team in, say, Asia, while the rest are in North America, a two-culture problem can emerge, with the virtual group feeling lesser than. Better to simply build teams with at least four hours of overlap during the traditional workday to ensure time for collaboration.

Keep teams together, when possible, and hone the art of team kickoffs

Established teams, those that have been working together for longer periods of time, are more productive than newer teams that are still forming and storming. The productivity they enjoy arises from clear norms and trust-based relationships—not to mention familiarity with workflows and routines. That said, new blood often energizes a team.

In an entirely on-premises model, chances are you would swap people in and out of your small teams more frequently. The pace at which you do so will likely decline in a hybrid virtual model, in which working norms and team cohesion are more at risk. But don't take it to an extreme. Teams need members with the appropriate expertise and backgrounds, and the right mix of those tends to evolve over time.

Meanwhile, pay close attention to team kickoffs as you add new people to teams or stand up new ones. Kickoffs should include an opportunity to align the overall goals of the team with those of team members while clarifying personal working preferences.

Keeping track

Once you have your transition to a hybrid virtual model underway, how will you know if it's working, and whether you maintained or enhanced your organization's performance culture? Did your access to talent increase, and are you attracting and inspiring top talent? Are you developing and deploying strong leaders? To what extent are all your employees engaged in driving performance and innovation, gathering insights, and sharing knowledge?

The right metrics will depend on your goals, of course. Be wary of trying to achieve across all parameters, though. McKinsey research shows that winning performance cultures emerge from carefully selecting the right combinations of practices (or "recipes") that, when applied together, create superior organizational performance.[5] Tracking results against these combinations of practices can help indicate, over time, if you've managed to keep your unified performance culture intact in the transition to a new hybrid virtual model.

We'll close by saying you don't have to make all the decisions about your hybrid virtual model up front and in advance. See what happens. See where your best talent emerges. If you end up finding, say, 30 (or 300) employees clustered around Jakarta, and other groups in Kuala Lumpur and Singapore, ask them what might help them feel a socially supported sense of belonging. To the extent that in-person interactions are important—as we guess they will be—perhaps consider a microhub in one of those cities, if you don't have one already.

Approached in the right way, the new hybrid model can help you make the most of talent wherever it resides, while lowering costs and making your organization's performance culture even stronger than before.

[5] See Chris Gagnon, Elizabeth John, and Rob Theunissen, "Organizational health: A fast track to performance improvement," *McKinsey Quarterly*, September 2017, McKinsey.com.

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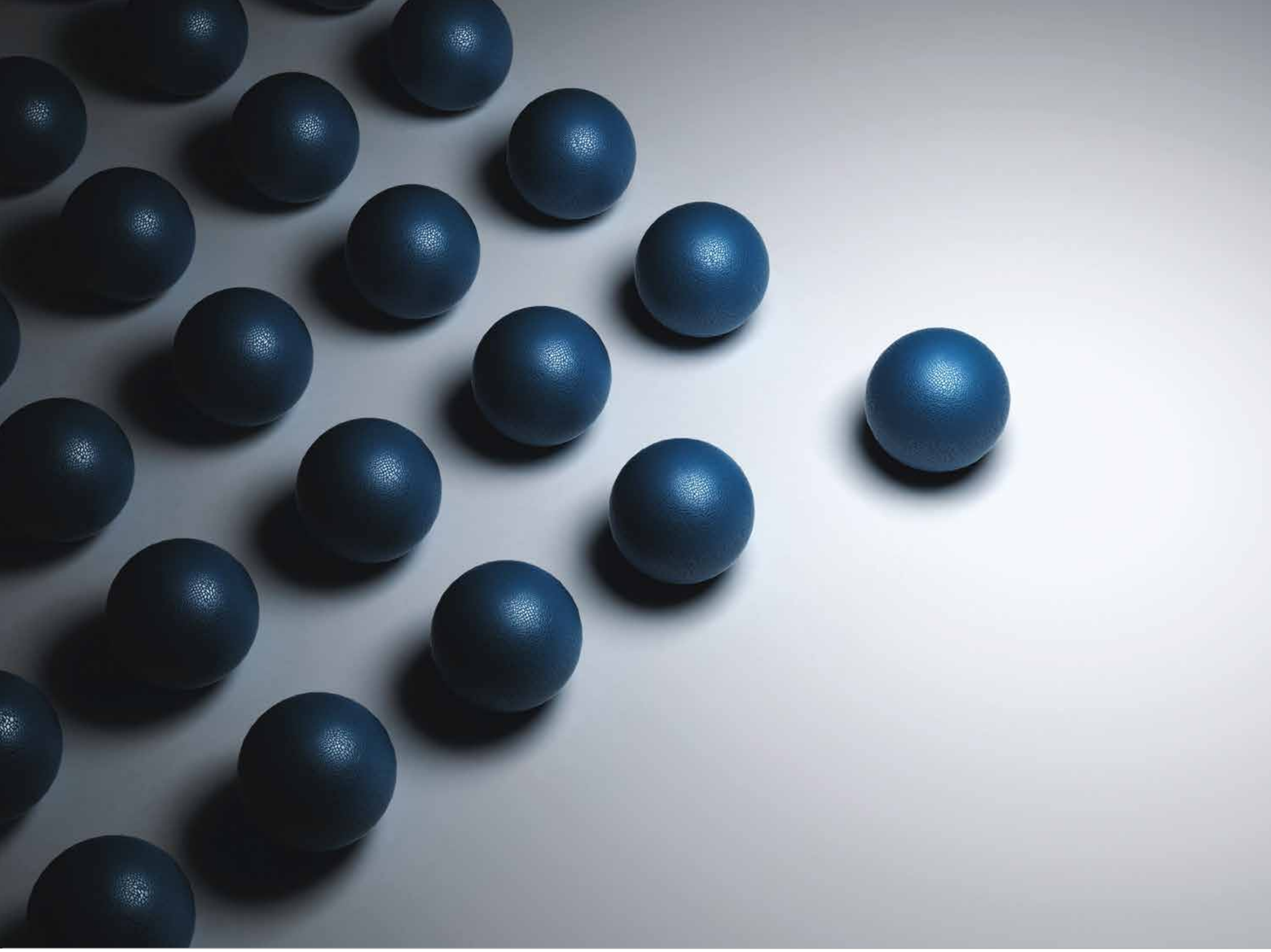

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HR says talent is crucial for performance—and the pandemic proves it

Five talent-management practices can help steer organizations through new ways of working and into the post-COVID-19 era.

by Bryan Hancock and Bill Schaninger

To say that chief HR officers (CHROs) are busy in the COVID-19 era would be an understatement. Now, more than ever, they are central to how companies are reimagining their personnel practices to build organizational resilience and drive value.

In the earliest days of the crisis, CHROs kept people safe while fostering connectivity and caring in an intensely stressful time. In planning for and implementing the restart, they have been working to maintain morale and productivity for remote workforces while trying to figure out how and when to get folks back into office settings.

Those responses were to circumstances that no one had ever faced before. Now, though, the COVID-19 crisis is accelerating preexisting trends in five areas of talent management that are part of the CHRO playbook: finding and hiring the right people, learning and growing, managing and rewarding performance, tailoring the employee experience, and optimizing workforce planning and strategy. In this article, we look at how CHROs can take action in those areas to craft a strong and durable talent strategy for the postpandemic world.

Finding and hiring the right people

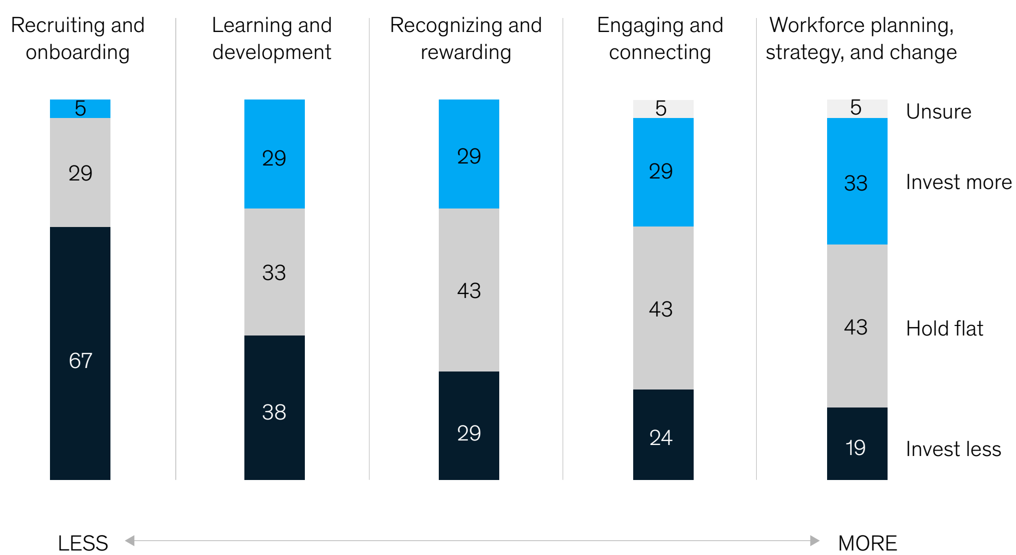
During the COVID-19 crisis, changes in customer demand have caused a temporary spike in hiring in areas such as grocery while leading to massive layoffs in sectors such as hospitality. Even with those shifts and an overall rise in unemployment, efficient and effective hiring will continue to be important—especially for the scarce skills required for the next normal in areas such as IT.

In May 2020, we surveyed more than 190 chief officers and functional leaders across industries to find out how they were thinking about spending allocation in the months ahead. Of those leaders, 67 percent say they anticipate spending less on permanent hiring in the next 12 months (Exhibit 1).

Exhibit 1

Leaders say they anticipate spending less on permanent hiring in the next 12 months.

Expected HR-activity investment for next 12 months, % of respondents[1]



[1]Question: What are your expectations for how HR will invest over 5 categories in next 12 months? Survey of chief officers and functional leaders across industries; n = 195. Figures may not sum to 100%, because of rounding.

[1] Online Labour Index, Oxford Internet Institute, 2020, ilabour.oii.ox.ac.uk.

While some of that decline is related to a reduction in labor demand, organizations are also rethinking their hiring processes more broadly. For example, given successful experiments in remote hiring during the COVID-19 crisis, companies are reconsidering the need to go on campus for interviews (which would admittedly be more difficult now, with many colleges and universities planning to use remote learning in the fall). That is an acceleration of a preexisting trend: companies such as Goldman Sachs were using remote interviewing for on-campus hiring before the pandemic. We expect that trend to continue in the postpandemic era.

In addition, temporary labor, which shrank faster than overall jobs did (a 29 percent reduction from February to May, compared with a 13 percent employment drop overall, according to the US Bureau of Labor Statistics), is poised for a faster recovery. Organizations should be ready to use that flexible labor in additional ways.

Of surveyed leaders, 63 percent expect to spend the same amount or more on IT-staff augmentation in the coming months. The number of online freelancers in software and tech jobs has actually increased significantly during the pandemic, according to the Online Labour Index.

Digital skills are still in short supply, and remote working for all employees places remote and online freelancers on a more equal footing with full-time employees. Even in other talent categories, temporary labor usually responds more quickly in a crisis recovery, as employers value flexibility during its early (and uncertain) stages.

Across both permanent and contingent hiring, CHROs should take a fresh look at the range of tools, including assessments and platforms, that are making it easier to connect people to work. There are a large number of up-and-coming organizations in the prehire ecosystem, and innovation is making it easier to connect people to employment based on a deeper understanding of their skills and how those match with available jobs.

Learning and growing

Learning organizations face a tension between continuing cost pressures in a downturn and the need to deliver training to help workers adapt to a changing organization and business environment. That tension was reflected in our survey, which shows that 29 percent of learning and development organizations plan to invest more in the next 12 months and that 38 percent plan to invest less.

Our research on reskilling shows that CHROs need to think about the effects of large workforce transitions being accelerated by the COVID-19 crisis and how reskilling plays a key role in helping close talent gaps while keeping employees connected to jobs. The agenda for postpandemic learning and development extends beyond reskilling, however, to three categories of cost-effective training:

— *Broad-based digital training in essential skills.* Many organizations are expanding remote training to address challenges, such as effective leadership of remote teams (a new skill set for most managers) and building personal resilience in difficult circumstances. McKinsey Academy, for instance, has updated its Ability to Execute platform with a COVID-19-related edition that provides a series of training modules on remote working, leadership during a crisis, and executional capabilities that matter.

— *Focused upskilling rooted in changing work.* Such forms of upskilling are function and work-group specific and tied to different ways of working. For example, a sales force that is moving from a largely in-person to a hybrid remote model will need to be upskilled in the practices that drive remote success. The right data-driven approach can bolster sales-force performance—and help HR departments draw a direct line from talent to revenue.

  According to recent McKinsey research, 77 percent of leaders indicate that retraining salespeople is very or moderately important. To do that, some companies are retraining field sales reps for inside sales roles, including those that require an increased use of data and analytics and those that provide customers with technical expertise via a website's chat function. In our survey of leaders, IT, marketing, and supply chain were among the most cited areas for specific upskilling. That holds true for HR: 61 percent of respondents believe that upskilling will be very or moderately important in the area (Exhibit 2).

— *Leadership development.* In response to the current crisis, the slow pace of corporate bureaucracy has been replaced by clear goals, focused teams, and rapid decision making. CHROs have a key role to play in making sure that the change sticks. Leadership-development programs can provide support for faster, more agile organizations. In particular, organizations can identify the three to five shifts in leadership behavior that would be required to keep them moving in a more focused way. Leaders who are working on these skills can spend a small amount of their learning time in formal settings (in classroom, online, or with a coach) and the majority of it working on real project-based business problems (which the COVID-19 crisis naturally provided).

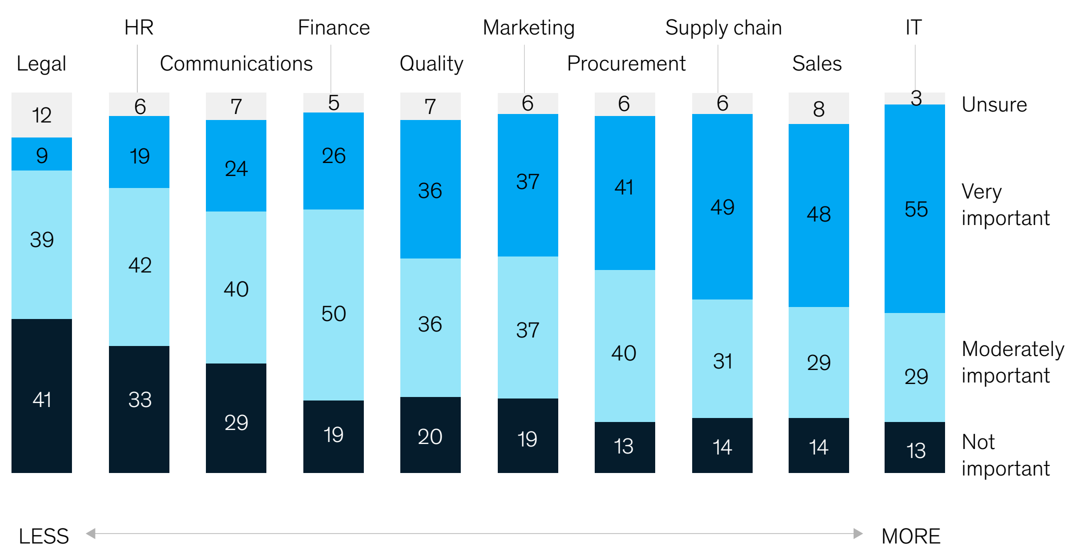
Managing and rewarding performance

The COVID-19 crisis is speeding up needed shifts in how organizations manage and reward performance. As our previous research has shown, the majority of business leaders don't believe that their performance-management system accurately identifies top performers—and the majority of employees don't feel that the performance-management process accurately reflects their contributions.

Exhibit 2

Leaders say reskilling is very important, but they are focusing on certain areas.

Reskilling importance by function, % of respondents[1]



[1]Question: How important will reskilling employees be in this function? Survey of chief officers and functional leaders across industries; n = 195. Figures may not sum to 100%, because of rounding.

It is important for CHROs to craft a talent strategy that calls out and recognizes the truly distinctive and the truly lagging.

The current crisis has dramatically affected goals and performance plans, with the added wrinkle of making the people who are working remotely even more reliant on performance management to tell them how they are doing. That makes three CHRO actions more relevant now:

— *Transparently link employee goals to business priorities and maintain a strong element of flexibility.* Managers should have regular conversations with their employees to set priorities jointly in a changing environment. Annual "set it and forget it" goal setting was already seeing declining relevance among knowledge workers before the pandemic, given the pace of change and need to adapt. And the radical shifting of priorities during the COVID-19 crisis highlights how challenging the annual system has become.

— *Invest in managers' coaching skills.* Coaching is the heart of managing performance, which is even more critical when workers are remote. Organizations need to invest in managerial skills—and mindsets—around coaching and feedback as a continuing process.

— *Keep ratings for the very highest—and lowest—performers but also celebrate the broad range of good performance.* Instead of investing time and energy in making small differentiations in ratings (and pay) for those in the broad range of good performers, organizations should be focused more on having robust development conversations.

The COVID-19 crisis has amplified how hard it is to make distinctions "in the middle," but those distinctions have always been hard to make for knowledge workers. As a result, a movement toward recognizing the broad range of good performance is welcome. At the same time, it is important for CHROs to craft a talent strategy that calls out and recognizes the truly distinctive (to motivate and retain them) and the truly lagging (to boost morale and organizational performance).

Tailoring the employee experience

Employee experience and connectivity have taken on whole new meanings as extended work-from-home policies have required organizations to be intentional about building each. In blunt terms, work can't be another source of anxiety or uncertainty for employees right now. They have more than enough going on.

The blurring of the line between work and life while working remotely means that employee experience is even more critical. For virtual workers, there's no commute to the office, no coffee- or snack-room chat, and no in-person gathering after work. Tethered video (or phone) interactions during the course of the work day are going to make it or break it for most people.

One way to handle employee experience in a remote environment is to tailor the approach to individuals or segments of people. Our research shows that experiences vary widely. That is also true for the hybrid work environment, with some employees back in the office and others remaining at home.

CHROs will need to help establish norms of working that foster engagement and inclusion for all employees. There is no one-size-fits-all solution. The answer, different for every organization, will be based on what talent is needed, which roles are most important, how much collaboration is necessary for excellence, and where offices are located today, among other factors (Exhibit 3).

HR departments should also consider the range of analytics tools they can use to understand and promote connectivity and engagement. From using social-network analyses to map interactions and prompt needed connectivity to using listening tools (such as mobile text platforms) to gather and analyze employee sentiment, organizations must be thoughtful about how they track and comprehend employee well-being—beyond an annual engagement survey.

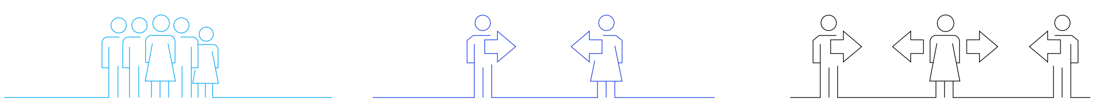
Optimizing workforce planning and strategy

Given the shifts in how value is being created in the post-COVID-19 world (for instance, the shift to contactless experience in grocery, retail, and restaurants and the change from in-person sales meetings to remote sales calls), the talent base required to deliver that value may need to shift as well. As such, it is natural that workforce planning, strategy, and change is the category of HR spending that survey respondents cite as the most likely to

Exhibit 3

HR is central to helping people across an organization adapt to new roles.

Communicating change in a remote workplace



Individual contributors

- Understanding of and comfort in using virtual meeting platforms (eg, Zoom)
- Adaptation to role-specific components of virtual work (eg, a sales rep used to in-person visits to clients learns how to use other avenues to communicate)
- Establishment of comfortable working environments (eg, setting up personal preferences for work hours, creating physical environment comfortable to work in)

Managers

- Effective leadership of virtual teams through various platforms in lieu of in-person meetings
- Strong 2-way communication skills—clear communication to teams and clear channels for teams to communicate with managers
- Flexibility and willingness to adapt to team-member needs in context of virtual work
- Role modeling of new norms and policies of new working environments

Senior executives

- Clear communication with remote and in-person colleagues on changes in working models
- Promotion of cohesion and unified culture, even while workforces may have in-person and remote components
- Facilitation of regular virtual gatherings and town halls to recognize individual and team contributions

increase over the next 12 months, with 76 percent reporting that they will spend the same or more. There are three important components of workforce planning and strategy:

— *Critical roles.* Our research suggests that a small subset of roles (less than 50) is disproportionately important to delivering a business-value agenda. For each of those roles, it is critical to identify the core jobs to be done, the qualities needed of the leaders, and whether the role is set up for success. Given the shifts in the value agenda during the pandemic, it is important that organizations reassess the roles that are most critical in the current stage of the crisis (for example, new product development and innovation) and in the recovery.

— *Skill pools.* In addition to individual roles, organizations should look at their major skill pools (for instance, digital coders) to understand the skills required for the future and whether they are long or short on the required talent. That means embracing a more expansive and dynamic view of their talent supplies—one that tosses out the usual preoccupation with titles and traditional roles, looking instead at the underlying skills that people have. Indeed, we find that when companies start with skills (the ones they need, the ones they have, and how the mix may change over time), they can free up their thinking and find more creative ways to handle the mismatches.

— *Talent systems.* CHROs now have more workforce-planning tools to help them match people to jobs. Artificial-intelligence-enabled tools can help assess an individual's skills, and performance-management systems can be realigned to track skills alongside performance. Longer term, interoperable learning records can serve as skills transcripts that track the skills employees develop across educational institutions and employers.

In an example of matching talent to jobs, Talent Exchange, an online job marketplace powered by Eightfold AI, was launched in April 2020 to help people who are out of work during the COVID-19 crisis find the right employment. Based on an understanding of skills across an organization (and beyond), "smart slates" can be developed for critical roles, agile teams can be staffed dynamically based on matching skills, and redeployment opportunities can meet talent gaps while preventing layoffs. Such tools, in the early stages of deployment now, will become increasingly critical for CHROs and other leaders as they meet the challenges ahead.

The COVID-19 pandemic has imposed a tremendous cost on people's lives and livelihoods, and it has forced businesses to adjust rapidly to survive. We have seen "HR's finest hour" in managing the radical shifts facing workforces during the pandemic, and we are excited to see how CHROs reimagine core talent practices during the recovery—and beyond.

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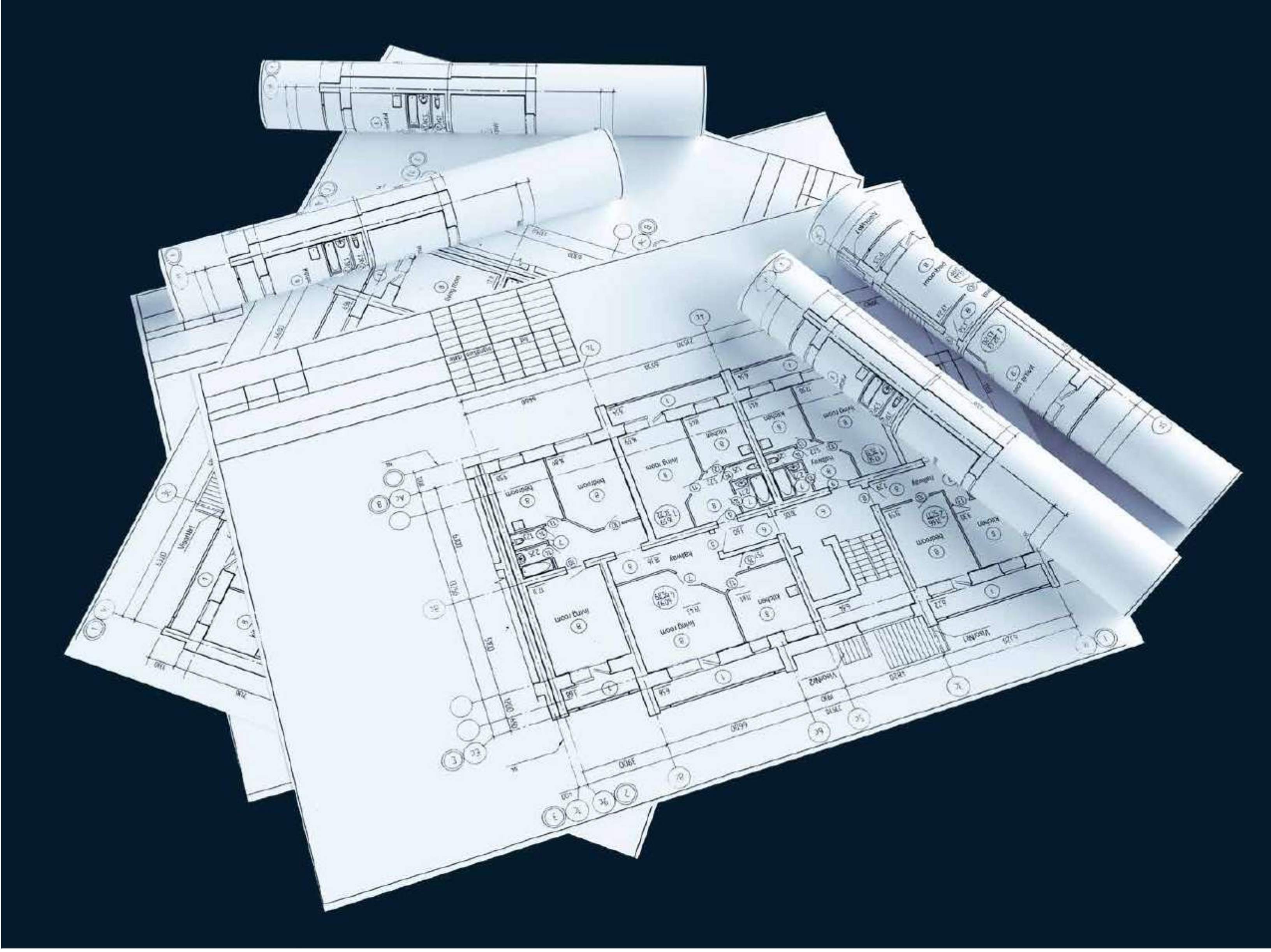
5 Make bold portfolio moves



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A blueprint for M&A success

Programmatic M&A can help companies build resiliency, but this approach to deal making requires a solid game plan—one that will guide proactive deal sourcing and opportunistic deal evaluation.

by Sophie Clarke, Robert Uhlaner, and Liz Wol

Large mergers and acquisitions (M&A) tend to get the biggest headlines, but, as McKinsey research indicates, executives should be paying attention to all the small deals, too. These smaller transactions, when pursued as part of a deliberate and systematic M&A program, tend to yield strong returns over the long run with comparatively low risk.[1] And, based on our research, companies' ability to successfully manage these deals can be a central factor in their ability to withstand economic shocks.[2]

The execution of such a programmatic M&A strategy is not easy, however. Consider the situation at one global cosmetics company (a hypothetical case based on real-world experiences). Enthusiastic executives all had different ideas about which M&A opportunities the company should pursue (exhibit). The CEO was pushing for a big bet on digital given the company's superior financial position. Some senior leaders proposed expansion in greater China, the fastest-growing market for premium cosmetics. Other business-unit leaders saw potential in the markets for organic products and men's grooming. All had their own agendas (see sidebar, "Undue influences").

Propelled by a healthy dose of FOMO (or fear of missing out) but lacking a clear set of priorities, the M&A team made multiple small bets on a range of businesses—even on some unexpected targets in adjacent markets (such as pet grooming). But the team did not have a clear plan for creating value from these targets nor for integrating them into the current business structure. The result?

Exhibit

When there is no clear connection between M&A strategy and corporate strategy, deals may falter.

Enthusiastic ideas for acquisitions …	Let's leverage our superior financial position (healthy balance sheet) vis-à-vis peers to make a "big bet" on digital channel.	Let's expand our business to greater China. That is the fastest-growing market for premium cosmetics.	Let's acquire an organic beauty company. Consumers want organic, and we have nothing to offer.	Let's enter the men's grooming business. Men need products, too.
… wither due to lack of underlying rationale and integration plans	This digital target could have allowed us to do online sales … it was just too expensive.	We acquired a few exciting, high-growth targets in Asia. Unfortunately, integration took longer than we had hoped, as scaling our existing processes in Asia was very complicated.	I know we weren't planning on buying a pet-grooming company, but it turned out to be a great deal and had a surprising amount of synergy with our business.	Our bank managed to find a ton of targets in all the adjacent businesses we were interested in (organics and men's grooming), and we acquired one of each.

[1] Jeff Rudnicki, Kate Siegel, and Andy West, "How lots of small M&A deals add up to big value," July 2019, McKinsey.com.

[2] Martin Hirt, Sven Smit, Chris Bradley, Robert Uhlaner, Mihir Mysore, Yuval Atsmon, and Nicholas Northcote, "Getting ahead of the next stage of the coronavirus," April 2020, McKinsey.com.

The M&A blueprint prompts business leaders to conduct a thorough self-assessment along with a comprehensive market assessment.

The organization ended up wasting time and resources on deals that were mostly unsuccessful, and its executives unintentionally created an unwieldy portfolio of businesses.

As this example illustrates, success in programmatic M&A requires much more than just executing on a long string of deals. Acquirers must articulate exactly *why* and *where* they need M&A to deliver on specific themes and objectives underlying their overarching corporate strategies. In addition, they must give careful thought as to *how* they plan to pursue programmatic M&A—including constructing a high-level business case and preliminary integration plans for each area in which they want to pursue M&A.

Taken together, these factors combine into what we call an M&A blueprint. In this article we discuss how it can be implemented to help organizations remain unrelentingly focused on their investment thesis throughout the deal process. Having a clear M&A blueprint is even more critical as companies begin to consider how to rebound from COVID-19. Without an M&A blueprint, it will be more difficult for companies to distinguish between through-cycle opportunities that are consistent with their corporate strategy and "low hanging, distressed asset" deals that are not.

M&A blueprint: The building blocks

The M&A blueprint can help executives answer three main questions: *Why* and *where* should we use programmatic M&A to achieve our corporate strategy? And *how* should we use programmatic M&A to achieve our corporate strategy? Answering these questions will require asking still more clarifying questions about specific organizational strengths and capabilities, resources available, and other inputs to effective deal making.

Understanding 'why' and 'where'

The M&A blueprint prompts business leaders to conduct a thorough self-assessment along with a comprehensive market assessment. The self-assessment helps establish the baseline from which to identify gaps in corporate ambitions as well as the opportunities for M&A to fill these gaps. It involves examining a company's key sources of competitive advantage and testing their scalability to determine whether they would still play to the company's advantage after a transaction. For its part, the market assessment acts as a "sense check" for business leaders, ensuring that the company's M&A strategy capitalizes on the most recent and relevant trends, accounts for potential disruptions, and acknowledges competitors' likely actions and reactions.

An M&A blueprint should also define any boundary conditions, or limits to the company's use of M&A. These conditions, which are typically imposed by the CFO or the board investment committee, provide an important reality check: they define the constraints on certain types or sizes of deals, thereby further narrowing the scope of potential targets. In setting these conditions, business leaders should account for preexisting financial hurdles—for instance, a rule that "deals must be accretive in the first year" likely would not apply to deals targeting growth and might therefore overly constrain M&A activity. Establishing these boundary conditions at the outset—with explicit agreement from the CFO and the board—can help put teeth into investment commitments and align everyone on negotiable and nonnegotiable terms.

Taken together, the self-assessment, market assessment, and review of boundary conditions can help executives understand the circumstances under which the pursuit of M&A makes the most sense, as well as the markets they are best positioned to enter. Indeed, the output of business leaders' discussions about "why and where" will be a set of M&A themes that reflect the company's best value-creation opportunities—those for which the company has the capabilities and resources to achieve intended strategic goals.

What does a good M&A theme entail? For each theme, senior leaders should identify important deal criteria (categorizing potential targets by geography, sales channel, product type, and so on) as well as standard screening metrics like company size, number of employees, revenue growth, product portfolio, ownership, and so on. With this detailed information, organizations and M&A deal teams can continually cultivate potential targets within focused M&A themes while still being opportunistic about deals that present themselves.

Once these themes have been identified, business leaders should test them to ensure that they can execute against them—for instance, are there enough targets available, and do the right targets exist to fill gaps in the company's capabilities? The M&A blueprint will be particularly critical in target-rich environments to help narrow down the list of potentials.

A "gold standard" M&A blueprint is detailed and focused on critical competitive information (value-creation levers, company capabilities, and so on). To understand whether their companies' M&A themes are detailed enough, business leaders should consider whether they would be comfortable broadcasting those themes to competitors. The answer should be "no." If the answer is "yes," more work on the blueprint will be needed, as it and the related themes are likely not specific enough to be useful to M&A teams.

Undue influences

The hypothetical case of the global cosmetics company points to two common cognitive biases that can emerge when *any* company attempts to pursue programmatic M&A: the shiny-object syndrome and Maslow's hammer.

The shiny-object syndrome—also known as extreme distraction. Companies that continually chase down the next new thing run the risk of pursuing initiatives in the wrong order, skipping foundational tasks, or duplicating efforts and investments.

The M&A team at the cosmetics company, for instance, was reactive. It was swayed by deals sourced by third parties, and it ended up inventing growth strategies around possible, exciting targets without a clear understanding of how they could generate value.

Maslow's hammer. In his 1966 book The *Psychology of Science* (HarperCollins), psychologist Abraham Maslow stated, "I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail." This is the approach the cosmetics company favored—establishing a well-organized M&A team but then using it to drive almost *all* growth rather than applying it only to those opportunities best suited to be bought, not built.

Without an M&A blueprint to provide an incontrovertible fact base and action plan, the cosmetics company's efforts to implement programmatic deal making turned into a quixotic, time-wasting effort.

Understanding 'how'

An M&A blueprint also prompts senior leaders to come up with a plan for "how" they will use M&A to further their overarching corporate strategies. Specifically, the M&A blueprint should delineate the high-level business case and preliminary integration plans associated with each M&A theme.

The business case should explain how the acquiring company plans to add value to the target or targets within a given M&A theme—for instance, the capital and operating expenditures needed (beyond the acquisition price) to integrate and scale the asset or assets. It should also outline the operational changes and capabilities that will be required to integrate the new assets—for instance, the creation of a new business unit or a set of new business processes to manage an acquired digital platform.

One large US healthcare company had committed to a strategy of building scale in its services businesses through M&A. First, it consolidated existing disparate service businesses under a new brand and organized them into three distinct units: pharmacy-care services, diversified health and wellness services, and data-analytics and technology services. These became their three M&A themes. Then, over a ten-year period, this programmatic acquirer closed more than 60 deals, spending well over $20 billion, as it sought to fill out its portfolio along these three themes. The organization knew where it wanted to play and how.

Of course, the business case should include a preliminary integration plan for the acquired asset or assets that is consistent with the deal's value-creation thesis—for instance, all shared services will be absorbed by the acquirer, and the target company's product portfolio will be cross-sold to the acquirer's existing customers.

Through their use of the M&A blueprint, business leaders can stay focused on those parts of the deal that can create the most value—especially important when companies are pursuing multiple deals within the same M&A theme. What's more, they can prepare functional leaders, suppliers, and others well in advance for the actions they may need to take to integrate an asset or multiple assets.

M&A blueprint: Putting it all together

An M&A blueprint cannot and should not be developed based on "gut instinct" by a single executive or defined post hoc to validate the theory behind an exciting deal. An executive or business-unit leader should lead its development but should be supported by corporate-strategy and corporate-development executives. The blueprint itself can take the form of a frequently updated and disseminated written report, or it can be a standing agenda item in every M&A and corporate-strategy meeting. Regardless of format, it can help decision makers assess critical factors relating to deal sourcing, due diligence, and integration planning before making any moves and taking steps to identify targets.

Looking back at the case of the cosmetics company, it becomes clear how an M&A blueprint could have helped the organization prioritize a bunch of scattershot ideas into a comprehensive programmatic M&A strategy.

With its market assessment, for instance, it might have seen that the market for digital cosmetics is projected to grow five times faster than the market for nondigital cosmetics. What's more, market data might have revealed that customers want and expect to buy cosmetics through digital channels, and that there is no clear leader in the space. In its self-assessment, the M&A team might also have seen a gap in the company's product portfolio compared with peers. And a look at boundary conditions might have revealed the time and latitude required to pay off initial acquisition investments, enabling the team to look beyond "base hit" deals with lower acquisition costs.

The M&A blueprint would have led the cosmetics company to a different outcome—perhaps a laser focus on acquiring the set of assets and capabilities needed to build a digital platform for selling cosmetics.

Spending time up front creating an M&A blueprint will pay off over the long term—particularly given the volume of deals associated with a programmatic

M&A strategy. With M&A themes and criteria well defined and understood by all, companies can not only be more proactive but also more opportunistic. The top team will be aligned on strategy and focused on deal must-haves prior to reaching out to potential targets. Negotiations with potential targets can be grounded in the business case. Diligence processes can be accelerated and focused only on the most critical sources of value. Integration planning can begin early, with a focus on realizing the strategic intent of the deal rather than just stabilizing companies, people, and processes in the wake of change. Most important, the M&A blueprint can help executives tell a compelling story (inside and outside the company) about its deal-making strategy and its vision for the future.

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6 Reset technology plans

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Building the vital skills for the future of work in operations

Operationally intensive companies have entered a new wave of automation and digitization. That will have a big impact on the skills they need to remain competitive.

by Kweilin Ellingrud, Rahul Gupta, and Julian Salguero

Technological progress is enabling machines to complete many of the tasks that once required human beings. That new automation revolution will have a major effect on employment in the coming years. Nearly every job will change, many quite profoundly, and the overwhelming majority of today's employees will need to develop new skills. Preparing for the future of work is one of the defining business problems of our time—yet it is one that most organizations are not ready to address.

The transition to the automation revolution has been accelerated by the COVID-19 pandemic. Companies are emerging from the crisis into a world of workplace physical distancing and major changes in customer behaviors and preferences. Recovery is forcing organizations to reimagine their operations for the next normal. Manufacturing companies are reconfiguring their supply chains and their production lines. Service organizations are adapting to emphasize digital-first customer journeys and contactless operations. Those changes will have significant effects on the requirements for workforce skills and capabilities, from a dramatic increase in home-based and remote working to a need for shop-floor personnel to master new tools and newly urgent health and safety requirements.

The future of work will require two types of changes across the workforce: upskilling, in which staff gain new skills to help in their current roles, and reskilling, in which staff need the capabilities to take on different or entirely new roles. Our research suggests that the reskilling challenge will be particularly acute in operationally intensive sectors, such as manufacturing, transportation, and retail, and operations-aligned occupations, such as maintenance, claim processing, and warehouse order picking.[1] Those sectors and occupations will experience a magnitude of change greater than the global average because they often employ large numbers of people and because the predictable and repetitive nature of many operational tasks makes them particularly suitable for automation or digitization.

Our analysis suggests that 39 to 58 percent of the worldwide work activities in operationally intensive sectors could be automated using currently demonstrated technologies. That is 1.3 times the automation potential of activities in other sectors (Exhibit 1).

Beyond the scale of the coming changes in workplace roles and activities, what matters most is the nature of those changes. Increasing automation will significantly shift the skill profiles of tomorrow's jobs. That has implications for employers and employees alike. Companies will need people with the right skills to develop, manage, and maintain their automated equipment and digital processes and to do the jobs that machines cannot. Workers will need the skills that enable them to access employment.

In Europe and the United States, for example, demand for physical and manual skills in repeatable and predictable tasks is expected to decline by nearly 30 percent over the next decade, while demand for basic literacy and numeracy skills would fall by almost 20 percent. In contrast, the demand for technological skills (both coding and especially interacting with technology) is expected to rise by more than 50 percent, and the need for complex cognitive skills is set to increase by one-third. Demand for high-level social and emotional skills, such as initiative taking, leadership, and entrepreneurship, is also expected to rise by more than 30 percent (Exhibit 2).

Leaders are unprepared

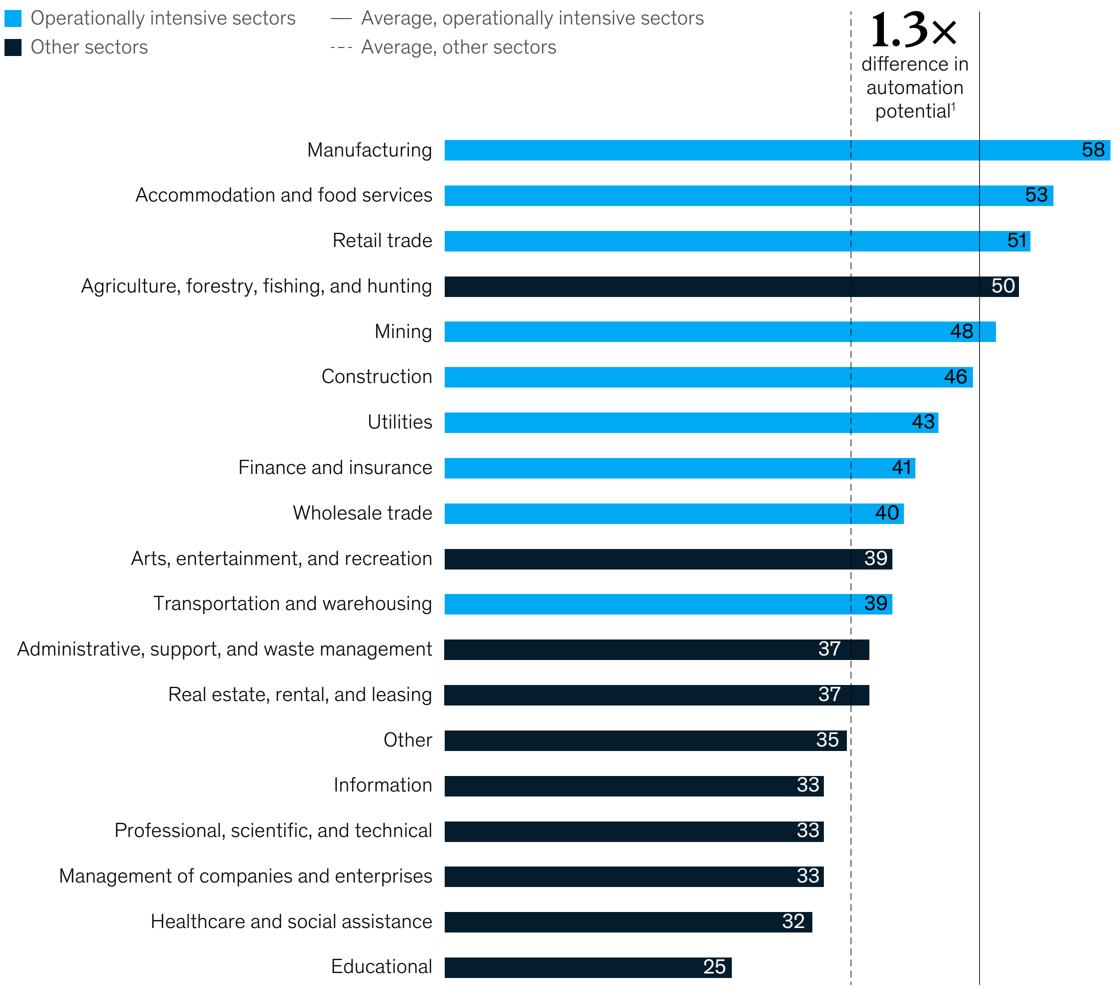
In operationally intensive sectors, leaders recognize that automation and digitization will likely create significant skill gaps, but most report feeling unprepared for the challenge. In a 2017 McKinsey

[1] To investigate the impact of automation on operationally intensive activities, we looked at specific sectors and occupations. Operationally intensive sectors include construction, finance and insurance, food service and accommodation, manufacturing, mining, oil and gas, retail, transportation, utilities, and wholesale trade. Operations-aligned occupations include facilities management, frontline customer service and sales, frontline equipment repair and installation, frontline production, frontline trade work, logistics transportation and warehousing, order and claim processing, procurement, and skilled operations work.

Exhibit 1

Operations-intensive sectors have 1.3 times the automation potential of other sectors.

Technologically automatable activities by sector, % of total activities



[1]We define automation potential by the work activities that can be automated by adapting currently demonstrated technology.
Source: McKinsey Global Institute analysis

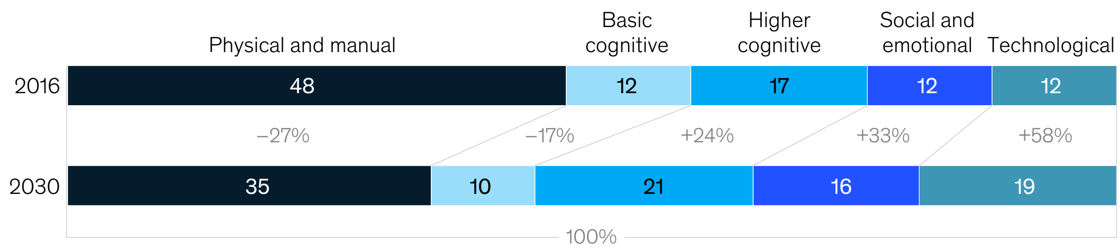
survey of 116 executives at large organizations, nearly two-thirds of respondents said skills were a top ten issue for their companies. Only 7 percent of respondents thought that their companies were fully prepared to address the skill gaps that they expected over the subsequent five years.

When we asked executives in the survey why their organizations were not yet ready to tackle the skill issue, they cited three main barriers. More than one in four respondents said they lacked a clear understanding of the impact that future automation and digitization would have on skill requirements. Nearly one in four said they lacked the tools or the knowledge to quantify the business case for efforts to reskill their workforces. And almost one-third thought that their current HR infrastructure would not be able to execute a new strategy designed

Exhibit 2

Automation will have a significant impact on skill requirements.

Skill shift in US and Western Europe by category, % of time spent



Note: Figures may not sum to 100%, because of rounding.
Source: McKinsey Global Institute analysis

to address emerging skill gaps (Exhibit 3). Across industries, our latest survey data indicate that these problems persist today.

The central role of reskilling

Companies can use several different approaches to address skill gaps. They can look outside the organization, hiring new staff with the right skills. They can build skills internally, retraining their existing workforces to prepare people for new roles. Or they can take a hybrid approach, including using a skilled contract workforce to fulfil short-term needs while developing the necessary skills internally.

Most organizations are likely to adopt a mix of those models. They may look to the external market to fill certain specialized, highly technical roles such as data scientists, while aiming to fill new frontline roles, such as robot controllers and production-exception handlers, from their existing workforces. We believe that ongoing shifts in societal attitudes will increase the expectation that companies do more to retain and retrain their current workers wherever possible.

Executives in our survey are broadly united in the view that their organizations have a significant role to play in the skill transition. Two-thirds of respondents think that corporations should take the lead in the development of the new skills required for the digital era, and 80 percent say at least half of all new roles should be filled by reskilling existing workers. That question reveals some important geographical differences, however. Among European respondents, 94 percent think that the balance between hiring and reskilling would be either equal or tipped in favor of reskilling, but the equivalent figure is only 62 percent among US executives. That may reflect differences in local employment cultures and legal provisions.

To make good on their large-scale reskilling aspirations, most organizations will need to significantly ramp up their employee training and capability-building efforts. A number of large organizations have already begun to do so. Global retailer Walmart, for example, is investing $4 billion over four years to help staff in frontline and back-office jobs transition to new customer-service-oriented roles. E-commerce giant Amazon has pledged to spend $700 million on technology training by 2025 to help employees move to higher-skill jobs. Professional-services company ManpowerGroup has entered a partnership with education company Pearson and others to upskill 130,000 workers over the next five years.

It may take several years for these global reskilling programs to pay back, but they are visible and important investments. Some companies are

Exhibit 3

Large-scale reskilling efforts must overcome significant barriers.

Reported barriers to reskilling by sector type,
% of respondents[1]

[1]Private-sector organizations with >$100 million in annual revenue that view the skill gap as a top 10 priority.
Source: McKinsey survey, November 2017; McKinsey analysis

already reaping returns from smaller-scale reskilling efforts. Tata Steel's plant in Ijmuiden, the Netherlands, for example, established an advanced-analytics academy to train and certify hundreds of engineers on the application of new analytical approaches to manufacturing-process improvement. Using the new techniques helped the plant to boost its earnings before interest, taxes, depreciation, and amortization by more than 15 percent, despite significant cost pressures across the global steel sector.

Preparing for the future of work

Our analysis of companies that have embarked on large-scale, systematic efforts to address future skill requirements suggests that the most successful programs share certain core elements. Above all, they are integral parts of their organizations' overall digital strategies. In fact, senior executives cite talent as the biggest barrier to achieving their digital strategies—those two factors must be deeply connected for success in both. Many companies have learned the hard way that a digital transformation has many moving parts, with multiple elements that must be addressed together to ensure that new approaches deliver real value, are accepted by the wider organization, and can be implemented and sustained at scale.

In our work with the World Economic Forum's Global Lighthouse Network of advanced manufacturing companies, for example, we found that while such companies make extensive use of smart technologies in their operations, they pay equal attention to their business processes, their management systems, and their people.

Second, the programs address every level of the organization. Successful companies approach automation and digitization as a comprehensive transformation program, driven by top management and involving the majority of the organizations' managerial workforces.

Third, most successful companies tailor and customize their training to match both the organizations' goals and the needs of individual learners, from CEOs to frontline operators. Training content is made as specific as possible, covering the technologies, tools, and business scenarios that individuals will face in their new or changing roles.

Finally, content is delivered using adult-learning principles via a combination of classroom or online learning and real, on-the-job experience. In addition to making use of technical content, successful reskilling programs are designed to help learners alter their mindsets: they teach employees about new ways of working and emphasize the personal- and professional-growth opportunities available to them.

Scout, shape, and shift

In the coming years, almost every operations-intensive organization will need a systematic approach to the challenge of shifting skill requirements. Designing, building, and executing such an approach requires three broad steps: scout, shape, and shift (Exhibit 4).

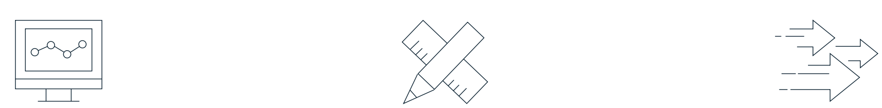
The first step is workforce planning. Companies must scout their future skill needs, analyzing the skills required to deliver on their strategic ambitions. As we noted previously, skill demands are determined by an organization's wider technology strategy, so understanding the potential impact of automation and digitization across an organization and developing a robust strategy to capture those opportunities is a necessary precursor to any "rightskilling" program.

Once an organization understands the combination of skills it requires for future roles, it can match those requirements against the skills available in its current workforce to plan how staff can be redeployed over time and identify the gaps that must be filled to meet the needs of both existing and new roles (Exhibit 5). During the planning phase, companies should also assess the underlying factors that can make or break a reskilling program. Those include the capabilities of an organization's existing HR and training infrastructure, as well as the willingness of its workforce to embrace change.

Next, an organization should prioritize the skills that affect the largest number of employees and the roles that require the largest skill shifts and develop content and delivery mechanisms for each of its priority cohorts. JPMorgan Chase has introduced several schemes to develop the digital skills of current and future workers as part of its five-year, $350 million commitment to skill building. They include a ten- to 14-week immersive coding academy for high-performing technology staff and a degree apprenticeship that allows people to earn a degree while working within the company's technology business. A large integrated energy company uses a gamification approach to train operational staff in new, digitally enabled working methods. Staff are given access to a library of online apps in which they complete progressively more challenging tasks. Their results are recorded in an individual training account, and high performers receive both public recognition and financial reward.

Exhibit 4

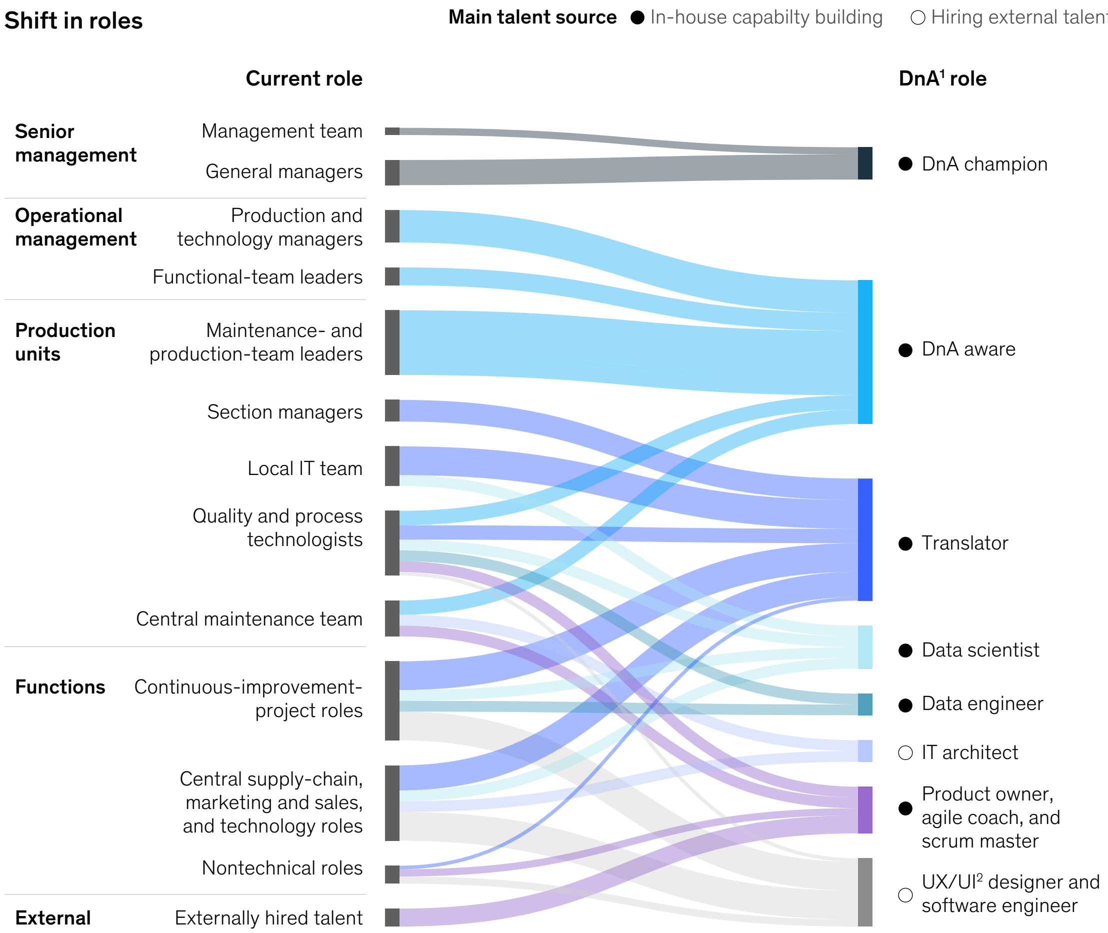
An end-to-end skill transformation follows a three-phase approach.



Scout	Shape	Shift
Analyze skill demand vs supply to deliver on strategic ambitions	Design program architecture to close demand–supply gap	Stand up infrastructure and capabilities to reskill at scale

Exhibit 5

Creating the right talent pool for a digital and analytics transformation combines in-house capability building and hiring for specific roles.



[1]Digital and analytics
[2]User experience and/or user interface.

At the center of a skill-shaping effort should be a talent-transition hub and a corporate academy that oversee the delivery of reskilling programs, allocate employees to learning journeys, and provide reskilled staff to the parts of the business that need them most. The hub will also be responsible for ensuring that an organization's reskilling system grows and adapts to suit the needs of the business, tracking the performance and impact of the program and using agile techniques to test, adapt, and refine curricula and learning systems.

The relationship between an organization and its people is a two-way street, and the design phase of a future-of-work program should also focus on a business's offer to its staff. Companies need to develop clear and compelling value propositions for employees to ensure that their existing staffs see the benefits of developing new skills—and so the organizations can attract external talent to fill the specialized roles for which there are insufficient internal candidates.

The relationship between an organization and its people is a two-way street, and the design phase of a future-of-work program should also focus on a business's offer to its staff.

Finally, companies need to shift the skill profiles of their entire organizations by developing and deploying the infrastructure and capabilities necessary to reskill at scale. While all employees may need to upskill themselves in broad topics, such as the business value and applications of digital and analytics, some may need much deeper and targeted reskilling for particular new roles.

Preparing for the future of work is set to become an integral part of every organization's digital and automation strategy. The imperative for action in operationally intensive companies and sectors is particularly strong, as technology profoundly alters the way their work is done. Is your organization ready to respond?

— How will your digital transformation ensure that your people are equipped to meet future skill demands?

— Is your reskilling program evolving to make effective use of new technologies and approaches to learning?

— What is your organization offering existing and potential employees to ensure that it can attract and retain the talent it needs?

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Rethink the global footprint

7

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Supply-chain recovery in coronavirus times—plan for now and the future

Actions taken now to mitigate impacts on supply chains from coronavirus can also build resilience against future shocks.

by Knut Alicke, Xavier Azcue, and Edward Barriball

Even as the immediate toll on human health from the spread of coronavirus (SARS-CoV-2), which causes the COVID-19 disease, mounts, the economic effects of the crisis—and the livelihoods at stake—are coming into sharp focus. Businesses must respond on multiple fronts at once: at the same time that they work to protect their workers' safety, they must also safeguard their operational viability, now increasingly under strain from a historic supply-chain shock.

Many businesses are able to mobilize rapidly and set up crisis-management mechanisms, ideally in the form of a nerve center. The typical focus is naturally short term. How can supply-chain leaders also prepare for the medium and long terms—and build the resilience that will see them through the other side?

What to do today

In the current landscape, we see that a complete short-term response means tackling six sets of issues that require quick action across the end-to-end supply chain (Exhibit 1). These actions should be taken in parallel with steps to support the workforce and comply with the latest policy requirements:

1. *Create transparency* on multitier supply chains, establishing a list of critical components, determining the origin of supply, and identifying alternative sources.

2. *Estimate available inventory* along the value chain—including spare parts and after-sales stock—for use as a bridge to keep production running and enable delivery to customers.

Exhibit 1

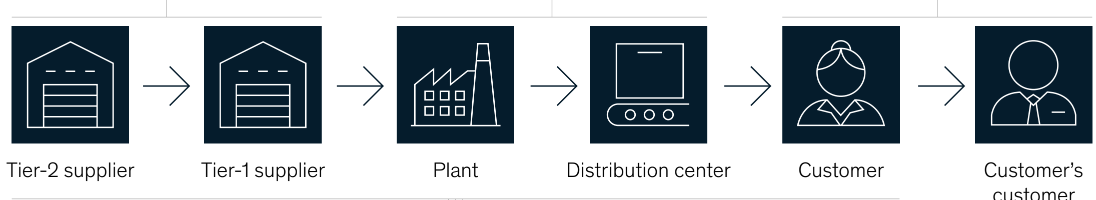
There are multiple immediate, end-to-end supply-chain actions to consider in response to COVID-19.

Supply-chain actions

Create transparency on multitier supply chain
- Determine critical components and determine origin of supply
- Assess interruption risk and identify likely tier-2 and onward risk
- Look to alternative sources if suppliers are in severely affected regions

Optimize production and distribution capacity
- Assess impact on operations and available resource capacity (mainly workforce)
- Ensure employee safety and clearly communicate with employees
- Conduct scenario planning and assess impact on operations, based on available capacity
- Optimize limited production, according to human-health impact, margin, and opportunity cost/penalty

Assess realistic final-customer demand
- Work with sales and operations planning to get demand signal to determine required supply
- Leverage direct-to-consumer channels of communication
- Use market insights/external databases to estimate for customer's customers



Estimate available inventory
- Estimate inventory along the value chain, including spare parts/remanufactured stock
- Use after-sales stock as bridge to keep production running

Identify and secure logistics capacity
- Estimate available logistics capacity
- Accelerate customs clearance
- Change mode of transport and prebook air/rail capacity, given current exposure
- Collaborate with all parties to leverage freight capacity jointly

Manage cash and net working capital
- Run supply-chain stress tests vs major suppliers' balance sheets to understand when supply issues will start to stress financial or liquidity issues

3. *Assess realistic final-customer demand* and respond to (or, where possible, contain) shortage-buying behavior of customers.

4. *Optimize production and distribution capacity* to ensure employee safety, such as by supplying personal protective equipment (PPE) and engaging with communication teams to share infection-risk levels and work-from-home options. These steps will enable leaders to understand current and projected capacity levels in both workforce and materials.

5. *Identify and secure logistics capacity,* estimating capacity and accelerating, where possible, and being flexible on transportation mode, when required.

6. *Manage cash and net working capital* by running stress tests to understand where supply-chain issues will start to cause a financial impact.

In the following sections, we explore each of these six sets of issues.

Create transparency

Creating a transparent view of a multitier supply chain begins with determining the critical components for your operations. Working with operations and production teams to review your bills of materials (BOMs) and catalog components will identify the ones that are sourced from high-risk areas and lack ready substitutes. A risk index for each BOM commodity, based on uniqueness and location of suppliers, will help identify those parts at highest risk.

Once the critical components have been identified, companies can then assess the risk of interruption from tier-two and onward suppliers. This stage of planning should include asking direct questions of tier-one organizations about who and where their suppliers are and creating information-sharing agreements to determine any disruption being faced in tier-two and beyond organizations. Manufacturers should engage with all of their suppliers, across all tiers, to form a series of joint agreements to monitor lead times and inventory levels as an early-warning system for interruption and establish a recovery plan for critical suppliers by commodity.

In situations in which tier-one suppliers do not have visibility into their own supply chains or are not forthcoming with data on them, companies can form a hypothesis on this risk by triangulating from a range of information sources, including facility exposure by industry and parts category, shipment impacts, and export levels across countries and regions. Business-data providers have databases that can be purchased and used to perform this triangulation. Advanced-analytics approaches and network mapping can be used to cull useful information from these databases rapidly and highlight the most critical lower-tier suppliers.

Combining these hypotheses with the knowledge of where components are traditionally sourced will create a supplier-risk assessment, which can shape discussions with tier-one suppliers. This can be supplemented with the described outside-in analysis, using various data sources, to identify possible tier-two and onward suppliers in affected regions.

For risks that could stop or significantly slow production lines—or significantly increase cost of operations—businesses can identify alternative suppliers, where possible, in terms of qualifications outside severely affected regions. Companies will need to recognize that differences in local policy (for example, changing travel restrictions and government guidance on distancing requirements) can have a major impact on the need for (and availability of) other options. If alternative suppliers are unavailable, businesses can work closely with affected tier-one organizations to address the risk collaboratively. Understanding the specific exposure across the multitier supply chain should allow for a faster restart after the crisis.

Estimate available inventory

Most businesses would be surprised by how much inventory sits in their value chains and should estimate how much of it, including spare parts and remanufactured stock, is available. Additionally, after-sales stock should be used as a bridge to keep production running (Exhibit 2).

This exercise should be completed during the supply-chain-transparency exercise previously described. Estimating all inventory along the value chain aids capacity planning during a ramp-up period. Specific categories to consider include the following:

— *finished goods* held in warehouses and *blocked inventory* held for sales, quality control, and testing

— *spare-parts inventory* that could be repurposed for new-product production, bearing in mind the trade-off of reducing existing customer support versus maintaining new-product sales

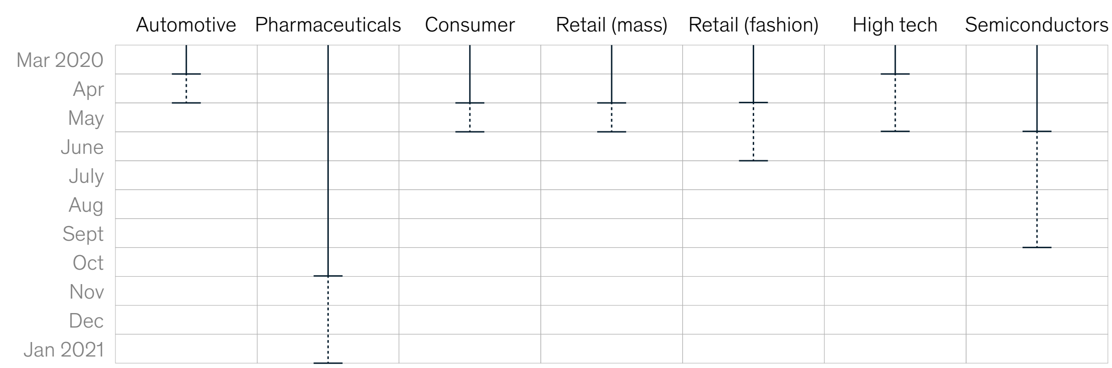
— *parts with lower-grade ratings or quality issues,* which should be assessed to determine whether

Exhibit 2

Built-in inventory in the supply chain will delay the full impact of halted production.

Expected stockout for companies in EU/US with suppliers in China, by industry, illustrative

Low-range estimate
High-range estimate



Inventory, days of stock (including supply in transit)

	Automotive	Pharmaceuticals	Consumer	Retail (mass)	Retail (fashion)	High tech	Semiconductors
2nd-tier supplier	30–40 (China)	35–70 (China)	20–30 (China)	N/A	N/A	40–60 (China)	N/A
1st-tier supplier	7–17 (EU/US)	120–140 (EU/US)	60–90 (China)	60–90 (China)	15–35 (China)	55–70 (China)	70–110 (China)
Assembly/ packaging	2–12 (EU/US)	55–100 (EU/US)	10–17 (EU/US)	10–17 (EU/US)	15–29 (EU/US)	19–45 (China)	60–90 (Philippines)
RDCs[1]	N/A	80–90 (EU/US)	14 (EU/US)	15–17 (EU/US)	15–23 (EU/US)	N/A	N/A
Market buffer	0–30 (EU/US)	N/A	N/A	7 (EU/US)	21–28 (EU/US)	24–40 (EU/US)	20–30
Total inventory days[2]	40–70	230–320	60–90	70–100	70–110	40–100	130–200

[1] Regional distribution centers.
[2] Figures for total inventory buffer and expected stockout are calculated assuming production stop at latest link based in China.

the rework effort would be justified to solve quality issues or whether remanufacture with used stock could address supply issues

— *parts in transit* should be evaluated to see what steps can be taken to accelerate their arrival—particularly those in customs or quarantine

— *supply currently with customers or dealers* should be considered to see if stock could be bought back or transparency could be created for cross-delivery

Assess realistic final-customer demand
A crisis may increase or decrease demand for particular products, making the estimation of realistic final-customer demand harder and more important. Businesses should question whether demand signals they are receiving from their immediate customers, both short and medium term, are realistic and reflect underlying uncertainties in the forecast. The demand-planning team, using its industry experience and available analytical tools, should be able to find a reliable demand signal to determine necessary supply—the result of which should be discussed and agreed upon in the integrated sales- and operations-planning (S&OP) process.

Additionally, direct-to-consumer communication channels, market insights, and internal and external databases can provide invaluable information in assessing the current state of demand among your customers' customers. When data sources are limited, open communication with direct customers can fill in at least some gaps. With these factors in mind, forecasting demand requires a strict process to navigate uncertain and ever-evolving conditions successfully. To prepare for such instances effectively, organizations should take the following actions:

— Develop a demand-forecast strategy, which includes defining the granularity and time horizon for the forecast to make risk-informed decisions in the S&OP process.

— Use advanced statistical forecasting tools to generate a realistic forecast for base demand.

— Integrate market intelligence into product-specific demand-forecasting models.

— Ensure dynamic monitoring of forecasts in order to react quickly to inaccuracies.

With many end customers engaging in shortage buying to ensure that they can claim a higher fraction of whatever is in short supply, businesses can reasonably question whether the demand signals they are receiving from their immediate customers, both short and medium term, are realistic and reflect underlying uncertainties in the forecast. Making orders smaller and more frequent and adding flexibility to contract terms can improve outcomes both for suppliers and their customers by smoothing the peaks and valleys that raise cost and waste. A triaging process that prioritizes customers by strategic importance, margin, and revenue will also help in safeguarding the continuity of commercial relationships.

Optimize production and distribution capacity
Armed with a demand forecast, the S&OP process should next optimize production and distribution capacity. Scenario analysis can be used to test different capacity and production scenarios to understand their financial and operational implications.

Optimizing production begins with ensuring employee safety. This includes sourcing and engaging with crisis-communication teams to communicate clearly with employees about infection-risk concerns and options for remote and home working.

The next step is to conduct scenario planning to project the financial and operational implications of a prolonged shutdown, assessing impact based on available capacity (including inventory already in the system). To plan on how to use available capacity, the S&OP process should determine which products offer the highest strategic value, considering the importance to health and human safety and the earnings potential, both today and during the future recovery. The analysis will draw on a cross-functional team that includes marketing and sales, operations, and strategy staff, including individuals who can tailor updated macroeconomic forecasts to the expected impact on the business. Where possible, a digital, end-to-end S&OP platform can better match production and supply-chain planning with the expected demand in a variety of circumstances.

Identify and secure logistics capacity
In a time of crisis, understanding current and future logistics capacity by mode—and their associated trade-offs—will be even more essential than usual, as will prioritizing logistics needs in required capacity and time sensitivity of product delivery. Consequently, even as companies look to ramp up production and make up time in their value chains, they should prebook logistics capacity to minimize exposure to potential cost increases. Collaborating with partners can be an effective strategy to gain priority and increase capacity on more favorable terms.

To improve contingency planning under rapidly evolving circumstances, real-time visibility will depend not only on tracking the on-time status of freight in transit but also on monitoring broader changes, such as airport congestion and border closings. Maintaining a nimble approach to logistics management will be imperative in rapidly adapting to any situational or environmental changes.

Manage cash and net working capital
As the crisis takes its course, constrained supply chains, slow sales, and reduced margins will combine to add even more pressure on earnings and liquidity. Businesses have a habit of projecting optimism; now they will need a strong dose of realism so that they can free up cash. Companies will need all available internal forecasting capabilities to stress test their capital requirements on weekly and monthly bases.

As the finance function works on accounts payable and receivable, supply-chain leaders can focus on freeing up cash locked in other parts of the value chain. Reducing finished-goods inventory, with thoughtful, ambitious targets supported by strong governance, can contribute substantial savings. Likewise, improved logistics, such as through smarter fleet management, can allow companies to defer significant capital costs at no impact on customer service. Pressure testing each supplier's purchase order and minimizing or eliminating purchases of nonessential supplies can yield immediate cash infusions. Supply-chain leaders should analyze the root causes of suppliers' nonessential purchases, mitigating them through adherence to consumption-based stock and manufacturing models and through negotiations of supplier contracts to seek more favorable terms.

Building resilience for the future

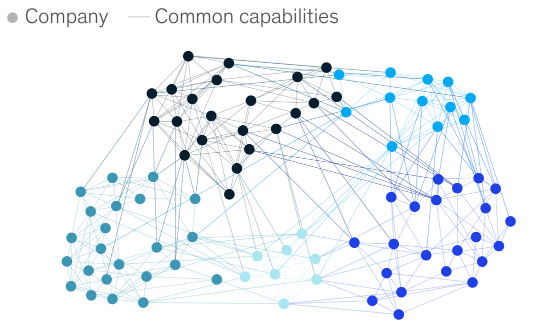
Once the immediate risks to a supply chain have been identified, leaders must then design a resilient supply chain for the future. This begins with establishing a supply-chain-risk function tasked with assessing risk, continually updating risk-impact estimates and remediation strategies, and overseeing risk governance. Processes and tools created during the crisis-management period should be codified into formal documentation, and the nerve center should become a permanent fixture to monitor supply-chain vulnerabilities continuously and reliably. Over time, stronger supplier collaboration can likewise reinforce an entire supplier ecosystem for greater resilience.

During this process, digitizing supply-chain management improves the speed, accuracy, and flexibility of supply-risk management. By building and reinforcing a single source of truth, a digitized supply chain strengthens capabilities in anticipating risk, achieving greater visibility and coordination across the supply chain, and managing issues that arise from growing product complexity. For example, Exhibit 3 shows how a digitally enabled clustering of potential suppliers shows the capabilities they have in common.

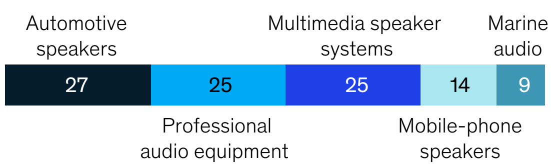
Exhibit 3

Cluster maps reveal alternative sourcing options for all the materials affected.

Cluster map, durable speaker suppliers, illustrative (n = 87 suppliers)



Cluster characteristics, %



Estimating a medtech company's degree of connectiveness helped it expand its supplier base by 600 percent, while an industrial-tools maker identified request-for-qualifications-ready suppliers for highly complex parts that it had been previously unable to source.

Finally, when coming out of the crisis, companies and governments should take a complete look at their supply-chain vulnerabilities and the shocks that could expose them much as the coronavirus has. Exhibit 4 describes the major sources of vulnerability. The detailed responses can reveal major opportunities—for example, using scenario analyses to review the structural resilience of critical logistics nodes, routes, and transportation modes can reveal weakness even when individual components, such as important airports or rail hubs, may appear resilient.

Exhibit 4

Supply-chain vulnerability occurs across five dimensions.

Drivers of potential vulnerability

Typical focus

Planning and supplier network

- How predictable is demand planning?
- How complex or concentrated is the supply network, and how resilient is it to disruption?
- How exposed is the network to tariffs and other trade disruptions?

Full-picture focus

Transportation and logistics

- How resilient is the physical-flow and logistics network?

Financial resiliency

- How much financial flexibility does the company have for increased supply-chain cost or sustained disruption?

Product complexity

- Are components in the products substitutable?
- How flexible is the design if components are no longer available?
- How vulnerable is the product to regulatory changes?

Organizational maturity

- How proactive vs reactive is the organization in identifying and mitigating supply-chain disruptions?

Organizations should build financial models that size the impact of various shock scenarios and decide how much “insurance” to buy through the mitigation of specific gaps, such as by establishing dual supply sources or relocating production. The analytical underpinnings of this risk analysis are well understood in other domains, such as the financial sector—now is the time to apply them to supply chains.

Triaging the human issues facing companies and governments today and addressing them must be the number-one priority, especially for goods that are critical to maintain health and safety during the crisis. As the coronavirus pandemic subsides, the tasks will center on improving and strengthening supply-chain capabilities to prepare for the inevitable next shock. By acting intentionally today and over the next several months, companies and governments can emerge from this crisis better prepared for the next one.

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From thinking about the next normal to making it work: What to stop, start, and accelerate

As businesses step into the post-coronavirus future, they need to find a balance between what worked before and what needs to happen to succeed in the next normal.

by Kevin Sneader and Shubham Singhal

What's next? That is the question everyone is asking. The future is not what we thought it would be only a few short months ago.

In a previous article, we discussed seven broad ideas that we thought would shape the global economy as it struggled to define the next normal. In this one, we set out seven actions that have come up repeatedly in our discussions with business leaders around the world. In each case, we discuss which attitudes or practices businesses should stop, which they should start, and which they should accelerate.

1. From 'sleeping at the office' to effective remote working

Stop assuming that the old ways will come back
In fact, this isn't much of a problem. Most executives we have spoken to have been pleased at how well the sudden increase in remote working has gone. At the same time, there is some nostalgia for the "good old days," circa January 2020, when it was easy to bump into people at the coffee room. Those days are gone. There is also the risk, however, that companies will rely too much on remote working. In the United States, more than 70 percent of jobs can't be done offsite. Remote work isn't a panacea for today's workplace challenges, such as training, unemployment, and productivity loss.

Start thinking through how to organize work for a distributed workforce
Remote working is about more than giving people a laptop. Some of the rhythms of office life can't be recreated. But the norms associated with traditional work—for example, that once you left the office, the workday was basically done—are important. As one CEO told us, "It's not so much working from home; rather, it's really sleeping at the office."

For working from home to be sustainable, companies need to help their staff create those boundaries: the kind of interaction that used to take place in the hallway can be taken care of with a quick phone call, not a videoconference. It may also help to set "office hours" for particular groups, share tips on how to track time, and announce that there is no expectation that emails will be answered after a certain hour.

Accelerate best practices around collaboration, flexibility, inclusion, and accountability
Collaboration, flexibility, inclusion, and accountability are things organizations have been thinking about for years, with some progress. But the massive change associated with the coronavirus could and should accelerate changes that foster these values.

Office life is well defined. The conference room is in use, or it isn't. The boss sits here; the tech people have a burrow down the hall. And there are also useful informal actions. Networks can form spontaneously (albeit these can also comprise closed circuits, keeping people out), and there is on-the-spot accountability when supervisors can keep an eye from across the room. It's worth trying to build similar informal interactions. TED Conferences, the conference organizer and webcaster, has established virtual spaces so that while people are separate, they aren't alone. A software company, Zapier, sets up random video pairings so that people who can't bump into each other in the hallway might nonetheless get to know each other.

There is some evidence that data-based, at-a-distance personnel assessments bear a closer relation to employees' contributions than do traditional ones, which tend to favor visibility. Transitioning toward such systems could contribute to building a more diverse, more capable, and happier workforce. Remote working, for example, means no commuting, which can make work more accessible for people with disabilities; the flexibility associated with the practice can be particularly helpful for single parents and caregivers. Moreover, remote working means companies can draw on a much wider talent pool.

Remote working means no commuting, which can make work more accessible for people with disabilities; the flexibility can be particularly helpful for single parents and caregivers.

2. From lines and silos to networks and teamwork

Stop relying on traditional organizational structures
"We used to have all these meetings," a CEO recently told us. "There would be people from different functions, all defending their territory. We'd spend two hours together, and nothing got decided. Now, all of those have been cancelled—and things didn't fall apart." It was a revelation—and a common one. Instead, the company put together teams to deal with COVID-19-related problems. Operating with a defined mission, a sense of urgency, and only the necessary personnel at the table, people set aside the turf battles and moved quickly to solve problems, relying on expertise rather than rank.

Start locking in practices that speed up decision making and execution during the crisis
The all-hands-on-deck ethos of a pandemic can't last. But there are ways to institutionalize what works—and the benefits can be substantial. During and after the 2008 financial crisis, companies that were in the top fifth in performance were about 20 percentage points ahead of their peers. Eight years later, their lead had grown to 150 percentage points. The lesson: those who move earlier, faster, and more decisively do best.

Accelerate the transition to agility
We define "agility" as the ability to reconfigure strategy, structure, processes, people, and technology quickly toward value-creating and value-protecting opportunities. In a 2017 McKinsey survey, agile units performed significantly better than those who weren't agile, but only a minority of organizations were actually performing agile transformations. Many more have been forced to do so because of the current crisis—and have seen positive results.

Agile companies are more decentralized and depend less on top-down, command-and-control decision making. They create agile teams, which are allowed to make most day-to-day decisions; senior leaders still make the big-bet ones that can make or break a company. Agile teams aren't out-of-control teams: accountability, in the form of tracking and measuring precisely stated outcomes, is as much a part of their responsibilities as flexibility is. The overarching idea is for the right people to be in position to make and execute decisions.

One principle is that the flatter decision-making structures many companies have adopted in crisis mode are faster and more flexible than traditional ones. Many routine decisions that used to go up the chain of command are being decided much lower in the hierarchy, to good effect. For example, a financial information company saw that its traditional sources were losing their value as COVID-19 deepened. It formed a small team to define company priorities—on a single sheet of paper—and come up with new kinds of data, which it shared more often with its clients. The story illustrates the new organization paradigm: empowerment and speed, even—or especially—when information is patchy.

Another is to think of ecosystems (that is, how all the parts fit together) rather than separate units. Companies with healthy ecosystems of suppliers, partners, vendors, and committed customers can find ways to work together during and after times of crisis because those are relationships built on trust, not only transactions.

Finally, agility is just a word if it isn't grounded in the discipline of data. Companies need to create or accelerate their analytics capabilities to provide the basis for answers—and, perhaps as important, allow them to ask the right questions. This also requires reskilling employees to take advantage of those capabilities: an organization that is always learning is always improving.

3. From just-in-time to just-in-time *and* just-in-case supply chains

Stop optimizing supply chains based on individual component cost and depending on a single supply source for critical materials

The coronavirus crisis has demonstrated the vulnerability of the old supply-chain model, with companies finding their operations abruptly halted because a single factory had to shut down. Companies learned the hard way that individual transaction costs don't matter nearly as much as end-to-end value optimization—an idea that includes resilience and efficiency, as well as cost.

The argument for more flexible and shorter supply chains has been building for years. In 2004, an article in the *McKinsey Quarterly* noted that it can be better to ship goods "500 feet in 24 hours [rather than] shipping them 5,000 miles across logistical and political boundaries in 25 days … offshoring often isn't the right strategy for companies whose competitive advantage comes from speed and a track record of reliability."[1]

Start redesigning supply chains to optimize resilience and speed

Instead of asking whether to onshore or offshore production, the starting point should be the question, "How can we forge a supply chain that creates the most value?" That will often lead to an answer that involves neither offshoring nor onshoring but rather "multishoring"—and with it, the reduction of risk by avoiding being dependent on any single source of supply.

Speed still matters, particularly in areas in which consumer preferences change quickly. Yet even in fashion, in which that is very much the case, the need for greater resilience is clear. In a survey conducted in cooperation with *Sourcing Journal* subscribers, McKinsey found that most fashion-sourcing executives reported that their suppliers wouldn't be able to deliver all their orders for the second quarter of 2020. To get faster means adopting new digital-planning and supplier-risk-management tools to create greater visibility and capacity, capability, inventory, demand, and risk across the value chain. Doing so enables companies to react well to changes in supply or demand conditions.

The argument for more flexible and shorter supply chains has been building for years.

[1] Ronald C. Ritter and Robert A. Sternfels, "When offshore manufacturing doesn't make sense," *McKinsey Quarterly*, 2004 Number 4.

One area of vulnerability the current crisis has revealed is that many companies didn't know the suppliers their own suppliers were using and thus were unable to manage critical elements of their value chains. Companies should know where their most critical components come from. On that basis, they can evaluate the level of risk and decide what to do, using rigorous scenario planning and bottom-up estimates of inventory and demand. Contractors should be required to show that they have risk plans (including knowing the performance, financial, and compliance record of all their subcontractors, as well as their capacity and inventories) in place.

Accelerate 'nextshoring' and the use of advanced technologies

In some critical areas, governments or customers may be willing to pay for excess capacity and inventories, moving away from just-in-time production. In most cases, however, we expect companies to concentrate on creating more flexible supply chains that can also operate on a just-in-case approach. Think of it as "nextshoring" for the next normal.

For example, the fashion industry expects to shift some sourcing from China to other Asian countries, Central America, and Eastern Europe. Japanese carmakers and Korean electronics companies were considering similar actions before the coronavirus outbreak. The state-owned Development Bank of Japan is planning to subsidize companies' relocation back to Japan, and some Western countries, including France, are looking to build up domestic industries for critical products, such as pharmaceuticals. Localizing supply chains and creating more collaborative relationships with critical suppliers—for example, by helping them build their digital capabilities or share freight capacity—are other ways to build long-term resilience and flexibility.

Nextshoring in manufacturing is about two things. The first is to define whether production is best placed near customers to meet local needs and accommodate variations in demand. The second is to define what needs to be done near innovative supply bases to keep up with technological change. Nextshoring is about understanding how manufacturing is changing (in the use of digitization and automation, in particular) and building the trained workforce, external partnerships, and management muscle to deliver on that potential. It is about accelerating the use of flexible robotics, additive manufacturing, and other technologies to create capabilities that can shift output levels and product mixes at reasonable cost. It isn't about optimizing labor costs, which are usually a much smaller factor—and sometimes all but irrelevant.

4. From managing for the short term to capitalism for the long term

Stop quarterly earnings estimates

Because of the unprecedented nature of the pandemic, the percentage of companies providing earnings guidance has fallen sharply—and that's a good thing. The arguments against quarterly earnings guidance are well known, including that they create the wrong incentives by rewarding companies for doing harmful things, such as deferring capital investment and offering massive discounts that boost sales to make the revenue numbers but hurt a company's pricing strategy.

Taking such actions may stave off a quick hit to the stock price. But while short-term investors account for the majority of trades—and often seem to dominate earnings calls and internet chatrooms—in fact, seven of ten shares in US companies are owned by long-term investors. By definition, this group, which we call "intrinsic investors" —look well beyond any given quarter, and deeper than such quick fixes. Moreover, they have far greater influence on a company's share price over time than the short-term investors who place such stock in earnings guidance.

Moreover, the conventional wisdom that missing an estimate means immediate retribution is not always true. A McKinsey analysis found that in 40 percent of the cases, the share prices of companies that missed their consensus earnings estimates actually rose. Finally, an analysis of 615 US public companies from 2001 to 2015 found that those characterized as "long-term oriented" outperformed their peers in earnings, revenue growth, and market capitalization. Even as a way of protecting equity value, then, earnings guidance is a flawed tool. And, of course, there can be no bad headlines about missed estimates if there are no estimates to miss.

Along the same lines, stop assuming that pursuing shareholder value is the only goal. Yes, businesses have fundamental responsibilities to make money and to reward their investors for the risks they take. But executives and workers are also citizens, parents, and neighbors, and those parts of their lives don't stop when they clock in. In 2009, in the wake of the financial crisis, former McKinsey managing partner Dominic Barton argued that there is no "inherent tension between creating value and serving the interests of employees, suppliers, customers, creditors, communities, and the environment. Indeed, thoughtful advocates of value maximization have always insisted that it is *long-term value* that has to be maximized."[2] We agree, and since then, evidence has accumulated that businesses with clear values that work to be good citizens create superior value for shareholders over the long run.

Start focusing on leadership and working with partners to create a better future

McKinsey research defines the "long term" as five to seven years: the period it takes to start and build a sustainable business. That period isn't that long. As the current crisis proves, huge changes can take place in much shorter time frames.

One implication is that boards, in particular, should start to think about just how fast, and when, to replace their CEOs. The average tenure of a CEO at a large-cap company is now about five years, down from ten years in 1995. A recent *Harvard Business Review* study of the world's top CEOs found that their average tenure was 15 years.[3] One critical factor: close and constant communication with their boards allowed them to get through a rough patch and go on to lead long-term success.

Like Adam Smith, we believe in the "invisible hand"—the idea that self-interest plus the network of information (such as the price signal) that helps economies work efficiently are essential to creating prosperity. But Adam Smith also considered the rule of law essential and saw the goal of wealth creation as creating happiness: "What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable."[4] A more recent economist, Nobel laureate Amartya Sen, updated the idea for the 21st century, stating that the invisible hand of the market needs to be balanced by the visible hand of good governance.

Given the trillions of dollars and other kinds of support that governments are providing, governments are going to be deeply embedded in the private sector. That isn't an argument for overregulation, protectionism, or general officiousness—things that both Smith and Sen disdained. It is a statement of fact that business needs to work ever more closely with governments on issues such as training, digitization, and sustainability.

Accelerate the reallocation of resources and infrastructure investment

Business leaders love words like "flexible," "agile," and "innovative." But a look at their budgets shows that "inertia" should probably get more attention. Year to year, companies only reallocate 2 to 3 percent of their budgets. But those that do more—

[2] Dominic Barton, "Capitalism for the long term," *Harvard Business Review*, March 2011, hbr.org.
[3] "The best-performing CEOs in the world, 2019," *Harvard Business Review*, November–December 2019, hbr.org.
[4] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, London, UK: W. Strahan and T. Cadell, 1776.

Environmental management is a core management and financial issue.

on the order of 8 to 10 percent—create more value. In the coronavirus era, the case for change makes itself. In other areas, companies can use this sense of urgency to change the way they put together their budgets. Sales teams, for example, are used to getting new targets based on the prior year's results. A better approach is to define the possible, based on metrics such as market size, current market share, sales-force size, and how competitive the market is. On that basis, a company can estimate sales potential and budget accordingly.

In previous economic transitions, infrastructure meant things such as roads and pipelines. In democratic societies, governments generally drew up the plans and established safety and other regulations, and the private sector did the actual building. Something similar needs to happen now, in two areas. One is the irresistible rise of digital technologies. Those without access to reliable broadband are being left out of a sizable and surging segment of the economy; there is a clear case for creating a robust, universal broadband infrastructure.

The second has to do with the workforce. In 2017, the McKinsey Global Institute estimated that as much as a third of workplace activities could be automated by 2030. To avoid social upheaval—more high-wage jobs but fewer middle-class ones—displaced workers need to be retrained so that they can find and succeed in the new jobs that will emerge. The needs, then, are for more midcareer job training and more effective on-the-job training. For workers, as well as businesses, agility is going to be a core skill—one that current systems, mostly designed for a different era, aren't very good at.

5. From making trade-offs to embedding sustainability

Stop thinking of environmental management as a compliance issue

Environmental management is a core management and financial issue. Lloyds Bank, the British insurer, estimated that sea-level rises in New York increased insured losses from Hurricane Sandy in 2012 by 30 percent; a different study found that the number of British properties at risk of significant flooding could double by 2035. Ignore these and similar warnings—about cyclones or extreme heat, for example—and watch your insurance bills rise, as they did in Canada after wildfires in 2016. Investors are noticing too. In Larry Fink's most recent letter to CEOS, the BlackRock CEO put it bluntly: "Climate risk is investment risk."[5] He noted that investors are asking how they should modify their portfolios to incorporate climate risk and are reassessing risk and asset values on that basis.

Start considering environmental strategy as a source of resilience and competitive advantage

The COVID-19 pandemic froze supply chains around the world, including shutting down much of the United States' meat production. Rising climate hazards could lead to similar shocks to global supply chains and food security. In some parts of Brazil, the usual two-crop growing season may eventually only yield a single crop.

[5] Larry Fink, "A fundamental reshaping of finance," BlackRock, January 2020, blackrock.com.

As companies reengineer their supply chains for resilience, they also need to consider environmental factors—for example, is a region already prone to flooding likely to become more so as temperatures rise? One of the insights of a McKinsey climate analysis published in January is that climate risks are unevenly distributed, with some areas already close to physical and biological tipping points. Where that is the case, companies may need to think about how to mitigate the possible harm or perhaps going elsewhere. The principle to remember is that it is less expensive to prepare than to repair or retrofit. In January 2018, the National Institute for Building Sciences estimated spending $1 to build resilient infrastructure saved $6 in future costs.[6] To cope with the COVID-19 pandemic, companies have shortened their supply chains, switched to more videoconferencing, and introduced new production processes. Consider how these and other practices might be continued; they can help make companies more environmentally sustainable, as well as more efficient.

Second, it makes sense to start thinking about the possible similarities between the coronavirus crisis and long-term climate change. The pandemic has created simultaneous shocks to supply chains, consumer demand, and the energy sector; it has hit the poor harder; and it has created serious knock-on effects. The same is likely to be true for climate change. Moreover, rising temperatures could also increase the toll of contagious diseases. It could be argued, then, that mitigating climate change is as much a global public-health issue as dealing with COVID-19 is.

The coronavirus crisis has been a sudden shock that essentially hit the world all at once—what we call "contagion risk." Climate change is on a different time frame; the dangers are building ("accumulation risk"). In each case, however, resilience and collaboration are essential.

Accelerate investment in innovation, partnerships, and reporting

As usual, information is the foundation for action. A data-driven approach can illuminate the relative costs of maintaining an asset, adapting it—for example, by building perimeter walls or adding a backup power supply—or investing in a new one. It is as true for the environment as any part of the value chain that what gets measured gets managed. This entails creating sound, sophisticated climate-risk assessments; there is no generally accepted standard at the moment, but there are several works in progress, such as the Sustainability Accounting Standards Board.

The principle at work is to make climate management a core corporate capability, using all the management tools, such as analytics and agile teams, that are applied to other critical tasks. The benefits can be substantial. One study found that companies that reduced their climate-change-related emissions delivered better returns on equity—not because their emissions were lower, but because they became generally more efficient. The correlation between going green and high-quality operations is strong, with numerous examples of companies (including Hilton, PepsiCo, and Procter & Gamble), setting targets to reduce use of natural resources and ending up saving significant sums of money.

It's true that, given the scale of the climate challenge, no single company is going to make the difference. That is a reason for effort, not inaction. Partnerships directed at cracking high-cost-energy alternatives, such as hydrogen and carbon capture, are one example. Voluntary efforts to raise the corporate game as a whole, such as the Task Force on Climate-related Financial Disclosures, are another.

6. From online commerce to a contact-free economy

Stop thinking of the contactless economy as something that will happen down the line

The switch to contactless operations can happen fast. Healthcare is the outstanding example here. For as long as there has been modern healthcare, the norm has been for patients to travel to an office to see a doctor or nurse. We recognize the value

[6] "National Institute of Building Sciences issues new report on the value of mitigation," National Institute of Building Sciences, January 11, 2018, nibs.org.

of having personal relationships with healthcare professionals. But it is possible to have the best of both worlds—staff with more time to deal with urgent needs and patients getting high-quality care.

In Britain, less than 1 percent of initial medical consultations took place via video link in 2019; under lockdown, 100 percent are occurring remotely. In another example, a leading US retailer in 2019 wanted to launch a curbside-delivery business; its plan envisioned taking 18 months. During the lockdown, it went live in less than a week—allowing it to serve its customers while maintaining the livelihoods of its workforce. Online banking interactions have risen to 90 percent during the crisis, from 10 percent, with no drop-off in quality and an increase in compliance while providing a customer experience that isn't just about online banking. In our own work, we have replaced on-site ethnographic field study with digital diaries and video walk-throughs. This is also true for B2B applications—and not just in tech. In construction, people can monitor automated earth-moving equipment from miles away.

Start planning how to lock in and scale the crisis-era changes

It is hard to believe that Britain would go back to its previous doctor–patient model. The same is likely true for education. With even the world's most elite universities turning to remote learning, the previously common disdain for such practices has diminished sharply. There will always be a place for the lecture hall and the tutorial, but there is a huge opportunity here to evaluate what works, identify what doesn't, and bring more high-quality education to more people more affordably and more easily. Manufacturers also have had to institute new practices to keep their workers at work but apart—for example, by organizing workers into self-contained pods, with shift handovers done virtually; staggering production schedules to ensure that physically close lines run at different times; and by training specialists to do quality-assurance work virtually. These have all been emergency measures. Using digital-twin simulation—a virtual way to test operations—can help define which should be continued, for safety and productivity reasons, as the crisis lessens.

Accelerate the transition of digitization and automation

"Digital transformation" was a buzz phrase prior to the coronavirus crisis. Since then, it has become a reality in many cases—and a necessity for all. The consumer sector has, in many cases, moved fast. When the coronavirus hit China, Starbucks shut down 80 percent of its stores. But it introduced the "Contactless Starbucks Experience" in those that stayed open and is now rolling it out more widely. Car manufacturers in Asia have developed virtual show rooms where consumers can browse the latest models; these are now becoming part of what they see as a new beginning-to-end digital

There are four areas to focus on: recovering revenue, rebuilding operations, rethinking the organization, and accelerating the adoption of digital solutions.

journey. Airlines and car-rental companies are also developing contactless consumer journeys.

The bigger opportunity, however, may be in B2B applications, particularly in regard to manufacturing, where physical distancing can be challenging. In the recent past, there was some skepticism about applying the Internet of Things (IoT) to industry. Now, many industrial companies have embraced IoT to devise safety strategies, improve collaboration with suppliers, manage inventory, optimize procurement, and maintain equipment. Such solutions, all of which can be done remotely, can help industrial companies adjust to the next normal by reducing costs, enabling physical distancing, and creating more flexible operations. The application of advanced analytics can help companies get a sense of their customers' needs without having to walk the factory floor; it can also enable contactless delivery.

7. From simply returning to returning *and* reimagining

Stop seeing the return as a destination
The return after the pandemic will be a gradual process rather than one determined by government publicizing a date and declaring "open for business." The stages will vary, depending on the sector, but only rarely will companies be able to flip a switch and reopen. There are four areas to focus on: recovering revenue, rebuilding operations, rethinking the organization, and accelerating the adoption of digital solutions. In each case, speed will be important. Getting there means creating a step-by-step, deliberate process.

Start imagining the business as it should be in the next normal
For retail and entertainment venues, physical distancing may become a fact of life, requiring the redesign of space and new business models. For offices, the planning will be about retaining the positives associated with remote working. For manufacturing, it will be about reconfiguring production lines and processes. For many services, it will be about reaching consumers unused to online interaction or unable to access it. For transport, it will be about reassuring travelers that they won't get sick getting from point A to point B. In all cases, the once-routine person-to-person dynamics will change.

Accelerate digitization
Call it "Industry 4.0" or the "Fourth Industrial Revolution." Whatever the term, the fact is that there is a new and fast-improving set of digital and analytic tools that can reduce the costs of operations while fostering flexibility. Digitization was, of course, already occurring before the COVID-19 crisis but not universally. A survey in October 2018 found that 85 percent of respondents wanted their operations to be mostly or entirely digital but only 18 percent actually were. Companies that accelerate these efforts fast and intelligently, will see benefits in productivity, quality, and end-customer connectivity. And the rewards could be huge—as much as $3.7 trillion in value worldwide by 2025.

McKinsey and the World Economic Forum have identified 44 digital leaders, or "lighthouses," in advanced manufacturing. These companies created whole new operating systems around their digital capabilities. They developed new use cases for these technologies, and they applied them across business processes and management systems while reskilling their workforce through virtual reality, digital learning, and games. The lighthouse companies are more apt to create partnerships with suppliers, customers, and businesses in related industries. Their emphasis is on learning, connectivity, and problem solving—capabilities that are always in demand and that have far-reaching effects.

Not every company can be a lighthouse. But all companies can create a plan that illuminates what needs to be done (and by whom) to reach a stated goal, guarantee the resources to get there, train employees in digital tools and cybersecurity, and bring leadership to bear. To get out of "pilot purgatory"—the common fate of most digital-transformation efforts prior to the COVID-19 crisis—means not doing the same thing the same way but instead focusing on outcomes (not favored technologies), learning through experience, and building an ecosystem of tech providers.

Businesses around the world have rapidly adapted to the pandemic. There has been little hand-wringing and much more leaning in to the task at hand. For those who think and hope things will basically go back to the way they were: stop. They won't. It is better to accept the reality that the future isn't what it used to be and start to think about how to make it work.

Hope and optimism can take a hammering when times are hard. To accelerate the road to recovery, leaders need to instill a spirit both of purpose and of optimism and to make the case that even an uncertain future can, with effort, be a better one.

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8 Take the lead on climate and sustainability

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Confronting climate risk

The changing climate is poised to create a wide array of economic, business, and social risks over the next three decades. Leaders should start integrating climate risk into their decision making now.

After more than 10,000 years of relative stability—the full span of human civilization—the Earth's climate is changing. Since the 1880s, the average global temperature has risen by about 1.1 degrees Celsius, driving substantial physical impact in regions around the world. As average temperatures rise, acute hazards such as heat waves and floods grow in frequency and severity, and chronic hazards such as drought and rising sea levels intensify. These physical risks from climate change will translate into increased socioeconomic risk, presenting policy makers and business leaders with a range of questions that may challenge existing assumptions about supply-chain resilience, risk models, and more.

To help inform decision makers around the world so that they can better assess, adapt to, and mitigate the physical risks of climate change, the McKinsey Global Institute (MGI) recently released a report, Climate risk and response: Physical hazards and socioeconomic impact. (For more on the methodology behind the report, see sidebar "About the research.") Its focus is on understanding the nature and extent of physical risk from a changing climate over the next three decades, absent possible adaptation measures.

This article provides an overview of the report. We explain why a certain level of global warming is locked in and illustrate the kinds of physical changes that we can expect as a result. We examine closely four of the report's nine case studies, showing how physical change might create significant socioeconomic risk at a local level. Finally, we look at some of the choices most business leaders will have to confront sooner than later.

Our hope is that this work helps leaders assess the risk and manage it appropriately for their company. The socioeconomic effects of a changing climate will be large and often unpredictable. Governments, businesses, and other organizations will have to address the crisis in different and often collaborative ways. This shared crisis demands a shared response. Leaders and their organizations will have to try to mitigate the effects of climate change even as they adapt to the new reality it imposes on our physical world. To do so, leaders must understand the new climate reality and its potential impact on their organizations in different locales around the world.

The new climate reality

Some climate change is locked in.

The primary driver of temperature increase over the past two centuries is the human-caused rise in atmospheric levels of carbon dioxide (CO_2) and other greenhouse gases, including methane and nitrous oxide. Since the beginning of the Industrial Revolution in the mid-18th century, humans have released nearly 2.5 trillion metric tons of CO_2 into the atmosphere, raising atmospheric CO_2 concentrations by 67 percent. Carbon dioxide lingers in the atmosphere for hundreds of years. As a result, nearly all of the warming that occurs is permanent, barring large-scale human action to remove CO_2 from the atmosphere. Furthermore, the planet will continue to warm until we reach net-zero emissions.

If we don't make significant changes, scientists predict that the global average temperature may increase by 2.3 degrees Celsius by 2050, relative to the preindustrial average. Multiple lines of evidence suggest that this could trigger physical feedback loops (such as the thawing of permafrost leading to the release of significant amounts of methane) that might cause the planet to warm for hundreds or thousands of years. Restricting warming to below 1.5 or 2.0 degrees would reduce the risk of the earth entering such a "hothouse" state.

The nature of climate-change risk

Stakeholders can address the risk posed by climate change only if they understand it clearly and see the nuances that make it so complicated to confront. We find that physical climate risk has seven characteristics:

— *Increasing.* Physical climate risks are generally increasing across the globe, even though some countries may find some benefits (such as increased agricultural yields in Canada, Russia, and parts of northern Europe). The increased physical risk would also increase socioeconomic risk.

About the research

This article was adapted from the McKinsey Global Institute (MGI) report *Climate risk and response: Physical hazards and socioeconomic impacts*.[1] Its authors are **Jonathan Woetzel** (a director of MGI and a senior partner in McKinsey's Shanghai office), **Dickon Pinner** (senior partner in the San Francisco office and global leader of McKinsey's Sustainability Practice), **Hamid Samandari** (senior partner in the New York office and chair of McKinsey's knowledge council), **Hauke Engel** (partner in the Frankfurt office), **Mekala Krishnan** (senior fellow at MGI), **Brodie Boland** (associate partner in the Washington, DC, office), and **Carter Powis** (consultant in the Toronto office).

The 131-page MGI report, released in January 2020, measures the impact of climate change based on the extent to which it could affect human beings, human-made physical assets, and the natural world. Most of the climatological analysis performed for the report was completed by the Woods Hole Research Center. There are a range of estimates for the pace of global warming; we have chosen the Representative Concentration Pathway (RCP) 8.5 scenario because it enables us to assess physical risk in the absence of further decarbonization. Action to reduce emissions could delay projected outcomes. Download the full report on McKinsey.com.

[1] See "Climate risk and response: Physical hazards and socioeconomic impacts," McKinsey Global Institute, January 2020, McKinsey.com.

— *Spatial.* Climate hazards manifest locally. There are significant variations between countries and even within countries. The direct effects of physical climate risk must be understood in the context of a geographically defined area.

— *Nonstationary.* For centuries, financial markets, companies, governments, and individuals have made decisions against the backdrop of a stable climate. But the coming physical climate risk is ever-changing and nonstationary. Replacing a stable environment with one of constant change means that decision making based on experience may prove unreliable. For example, long-accepted engineering parameters for infrastructure design may need to be rethought; homeowners and banks may need to adjust assumptions about long-term mortgages.

— *Nonlinear.* Physiological, human-made, and ecological systems have evolved or been optimized over time to withstand certain thresholds. Those thresholds are now being threatened. If or when they are breached, the impact won't be incremental—the systems may falter, break down, or stop working altogether. Buildings designed to withstand floods of a certain depth won't withstand floods of greater depths; crops grown for a mild climate will wither at higher temperatures. Some adaptation can be carried out fairly quickly (for example, better preparing a factory for a flood). But natural systems such as crops may not be able to keep pace with the current rate of temperature increase. The challenge becomes even greater when multiple risk factors are present in a single region.

— *Systemic.* Climate change can have knock-on effects across regions and sectors, through interconnected socioeconomic and financial systems. For example, flooding in Florida might not only damage housing but also raise insurance costs, lower property values, and reduce property-tax revenues. Supply chains are particularly vulnerable systems, since they prize efficiency over resilience. They might quickly grind to a halt if critical production hubs are affected by intensifying hazards.

— *Regressive.* The poorest communities and populations of the world are the most vulnerable. Emerging economies face the biggest increase in potential impact on workability and livability. The poorest countries often rely on outdoor work and natural capital, and they lack the financial means to adapt quickly.

— *Unprepared.* Our society hasn't confronted a threat like climate change, and we are unprepared. While companies and communities are already adapting, the pace and scale of adaptation must accelerate. This acceleration may well entail rising costs and tough choices, as well as coordinated action across multiple stakeholders.

How climate risk plays out on a local level

There is already plenty of evidence of the extensive damage that climate risk can inflict. Since 2000, there have been at least 13 climate events that have resulted in significant negative socioeconomic impact, as measured by the extent to which it disrupted or destroyed “stocks” of capital—people, physical, and natural. The events include lethal heat waves, drought, hurricanes, fires, flooding, and depletion of water supply.

More frequent and more intense climate hazards will have large consequences. They are likely to threaten systems that form the backbone of human productivity by breaching historical thresholds for resilience. Climate hazards can undermine livability and workability, food systems, physical assets, infrastructure services, and natural capital. Some events strike at multiple systems at once. For example, extreme heat can curtail outdoor work, shift food systems, disrupt infrastructure services, and endanger natural capital such as glaciers. Extreme precipitation and flooding can destroy physical assets and infrastructure while endangering coastal and river communities. Hurricanes can damage global supply chains, and biome shifts can affect ecosystem services.

The best way to see how this will play out is to look at specific cases. MGI looked at nine distinct cases of physical climate risk in a range of geographies and sectors. Each considers the direct impact and knock-on effects of a specific climate hazard in a specific location, as well as adaptation costs and strategies that might avert the worst outcomes. Let’s look at four of those cases (see also sidebar “Global problem, local impact”).

Will it get too hot to work in India?

The human body provides one example of the nonlinear effect of breaching physical thresholds. The body must maintain a relatively stable core temperature of approximately 37 degrees Celsius to function properly. An increase of just 0.9 of a degree compromises neuromuscular coordination; 3 degrees can induce heatstroke; and 5 degrees can cause death. In India, rising heat and humidity could lead to more frequent breaches of these thresholds, making outdoor work far more challenging and threatening the lives of millions of people.

As of 2017, some 380 million of India’s heat-exposed outdoor workers (75 percent of the labor force) produced about 50 percent of the country’s GDP. By 2030, 160 million to 200 million people could live in urban areas with a nonzero probability of such heat waves occurring. By 2050, the number could rise to between 310 million and 480 million. The average person living in these regions has a roughly 40 percent chance of experiencing a lethal heat wave in the decade centered on 2030. In the decade centered on 2050, that probability could rise to roughly 80 percent.

India’s productivity could suffer. Outdoor workers will need to take breaks to avoid heatstroke. Their bodies will protectively fatigue, in a so-called self-limiting process, to avoid overheating. By 2030, diminished labor productivity could reduce GDP by between 2.5 and 4.5 percent.

India does have ways to adapt. Increased access to air-conditioning, early-warning systems, and cooling shelters can help combat deadly heat. Working hours for outdoor personnel could be shifted, and cities could implement heat-management efforts. At the extreme, coordinated movement of people and capital from high-risk areas could be organized. These would be costly shifts, of course. Adaptation to climate change will be truly challenging if it changes how people conduct their daily lives or requires them to move to areas that are less at risk.

Will mortgages and markets stay afloat in Florida?

Florida’s expansive coastline, low elevation, and porous limestone foundation make it vulnerable to flooding. The changing climate is likely to bring more severe storm surge from hurricanes and more tidal flooding. Rising sea levels could push salt water into the freshwater supply, damaging water-management systems. A once-in-100-years hurricane (that is, a hurricane of 1 percent likelihood per year) would damage about $35 billion in real estate today. By 2050, the damage from such an event could be $50 billion—but that's just the beginning. The accompanying financial effects may be even greater.

Real estate is both a physical and a financial store of value for most economies. Damage, and the expectation of future damage, to homes and infrastructure could drive down the prices of exposed homes. The devaluation could be even more significant if climate hazards also affect public-infrastructure assets such as water, sewage, and transportation systems, or if homeowners increasingly factor climate risk into buying decisions.

Lower real-estate prices could have significant knock-on effects in a state whose assets, people, and economic activity are largely concentrated in coastal areas. Property-tax revenue in affected counties could drop 15 to 30 percent, which could lower municipal-bond ratings and the spending power of local governments. Among other things, that would make it harder for cities and towns to invest in the infrastructure they need to combat climate change.

The impact on insurance and mortgage financing in high-risk areas could also be significant. There's a duration mismatch between mortgages, which can be 30 years long, and insurance, which is repriced every year. This mismatch means that current risk signals from insurance premiums might not build in the expected risk over an asset's lifetime, which could lead to insufficiently informed decisions. However, if insurance premiums do rise to account for future climate-change risk, lending activity for new homes could slow, and the wealth of existing homeowners could diminish.

When home values fall steeply with little prospect of recovery, even homeowners who are not financially distressed may choose to strategically default. One comparison point is Texas: during the first months after Hurricane Harvey hit Houston, in 2017, the mortgage-delinquency rate almost doubled, from about 7 to 14 percent. Now, as mortgage lenders start to recognize these risks, they could raise lending rates for risky properties. In some cases, they might even stop providing 30-year mortgages.

To adapt, Florida will have to make hard choices. For example, the state could increase hurricane and flooding protection, or it could curtail—and perhaps even abandon—development in risk-prone areas. The Center for Climate Integrity estimates that 9,200 miles of seawalls would be necessary to protect Florida by 2040, at a cost of $76 billion. Other strategies, such as improving the resilience of existing infrastructure and installing new green infrastructure, come with their own hefty price tags.

Can supply chains weather climate change?
Supply chains are typically optimized for efficiency over resilience, which may make them vulnerable to extreme climate hazards. Any interruption of global supply chains can create serious ancillary effects. Let's focus on two such supply chains: semiconductors, a specialty supply chain, and heavy rare earths, a commodity.

The risk to each is slightly different. Key parts of semiconductor supply chains are located in the Western Pacific, where the probability of a once-in-100-years hurricane occurring in any given year might double or even quadruple by 2040. Such hurricanes could potentially lead to months of lost production for the directly affected companies. Unprepared downstream players—for example, chipmakers without buffer inventories, insurance, or the ability to find alternative suppliers—could see revenue in a disaster year drop by as much as 35 percent.

Mining heavy rare earths in southeastern China could be challenged by the increasing likelihood of extreme rainfall. The probability of downpours so severe that they could trigger mine and road closures is projected to rise from about 2.5 percent per year today to about 4.0 percent per year in 2030 and 6.0 percent in 2050. Given the commoditized nature of this supply chain, the resulting production slowdowns could result in increased prices for all downstream players.

Mitigation is relatively straightforward for both upstream and downstream players. Securing semiconductor plants in southeast Asia against hazards, for example, might add a mere 2 percent to building costs. Downstream players in both the

Global problem, local impact

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Will it get too hot to work in India?

Increasing risk: in India, the probability of anyone experiencing a lethal heat wave is effectively 0 today, but by 2030, 160 million to 200 million people could be at risk

Degree of exposure: as of 2017, heat-exposed work in India produced ~50% of GDP, drove ~30% of GDP growth, and employed ~75% of the labor force

Effect on labor productivity: by 2050, some parts of India may be under such intense heat and humidity duress that working outside would be unsafe for ~30% of annual daylight hours

Adaptation: adaptation measures for India could include providing early-warning systems, building cooling shelters, shifting work hours for outdoor laborers, and accelerating the shift to service-sector employment

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Will mortgages and markets stay afloat in Florida?

Increasing risk: rising sea levels, increased tidal flooding, and more severe storm surges from hurricanes are likely to threaten Florida's vulnerable coastline

Physical damage to real estate: in 2050, a once-in-100-years hurricane might cause $75 billion worth of damage to Florida real estate, up from $35 billion today

Knock-on effects: in Florida, prices of exposed homes could drop, mortgage rates could rise, more homeowners may strategically choose to default, and property-tax revenue could drop 15–30% in directly affected countries

Adaptation: adaptation measures in Florida could include improving the resilience of existing structures, installing new green infrastructure, and building seawalls

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Can supply chains weather climate change?

Increasing risk: a once-in-100-years hurricane in the western Pacific, which will be 4x more likely by 2040, could shut down the semiconductor supply chain

Potential damage: supply chains are optimized for efficiency, not resilience, so production could halt for months; unprepared downstream players could see revenue dip 35% in 1 year

Upstream mitigation: protecting semiconductor plants against hazards could add 2% to building costs

Downstream mitigation: increasing inventory to provide a meaningful buffer could be cost-effective

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Can coastal cities turn the tide on rising flood risk?

Increasing risk: increased flooding and severe storm surges threaten to cause physical damage to coastal cities, while knock-on effects would hamper economic activity even more

Infrastructure threats: ports, low-lying train stations, and underground metros could be at risk, as could factories close to the coast

Total damage: in Bristol, England, a once-in-200-years flood in 2065 could cause ≤$3 billion in damage; in Ho Chi Minh City, Vietnam, a once-in-100-years flood in 2050 could wreak ~$10 billion in damage

Adaptation: it would take up to $500 million for Bristol to protect itself now from that scenario; Ho Chi Minh City might need seawalls, which could be very costly rare-earth and semiconductor pipelines could mitigate impacts by holding higher inventory levels and by sourcing from different suppliers across multiple regions. This can be done efficiently. For buyers of semiconductors, for example, raising inventory to provide a meaningful buffer could be cost effective, with estimated costs for warehousing and working capital increasing input costs by less than 1 percent. Nonetheless, the price of climate prudence will almost always be some decrease in production efficiency—for example, by creating limitations on lean or just-in-time inventory.

Can coastal cities turn the tide on rising flood risk?

Many coastal cities are economic centers that have already confronted flood risk. But the potential direct and knock-on effects of flooding are likely to surge dangerously.

Bristol is a port city in the west of England that has not experienced major flooding for decades. But without major investment in adaptation, extreme flood risk there could grow from a problem potentially costing millions of dollars today to a crisis costing billions by 2065. During very high tides, the Avon River becomes "tide locked" and limits land drainage in the lower reaches of the river-catchment area. As a result, Bristol is vulnerable to combined tidal and pluvial floods, which are sensitive to both sea-level rise and precipitation increase. The likelihood of both are expected to climb with climate change.

While Bristol is generally hilly and most of the urban area is far from the river, the most economically valuable areas of the city center and port regions are on comparatively low-lying land. More than 200 hectares (494 acres) of automotive storage near the port (often harboring up to 600,000 vehicles) could be vulnerable to even low levels of floodwater, and the main train station could become inaccessible. Bristol has flood defenses that would prevent the vast majority of damage from an extreme flood event today. By 2065, however, more extreme floods could overwhelm the defenses, in which case water would reach infrastructure that was previously safe.

We estimate that a 200-year flood today (that is, a flood of 0.5 percent likelihood per year) in Bristol would cause infrastructure-asset damage totaling between $10 million and $25 million. This may rise to $180 million to $390 million by 2065. The costs of knock-on effects would rise even more, from $20 million to $150 million today to as much as $2.8 billion by 2065, when an extreme flood might shut down businesses, destroy industrial stores, and halt transportation.

We estimate that protecting the city from this 2065 scenario would cost $250 million to $500 million today. However, the actual costs will largely depend on the specific adaptation approach.

Vietnam's Ho Chi Minh City is prone to monsoonal and storm-surge flooding. Today, the direct infrastructure-asset damage from a 100-year flood could be on the order of $200 million to $300 million, rising to $500 million to $1 billion in 2050. Here, too, the knock-on costs in disrupted economic activity are expected to be more substantial, rising from between $100 million and $400 million today to $2 billion to $8.5 billion in 2050.

Many new infrastructure assets in the city, particularly the local metro system, were designed to tolerate an increase in flooding. Yet the hazards to which these assets may be subjected could be greater than even the higher thresholds. In a worst-case scenario, of 180 centimeters of sea-level rise, these thresholds could be breached in many locations, and some assets might be damaged beyond repair.

Compared with Bristol, Ho Chi Minh City has many more adaptation options, as less than half of the city's major infrastructure needed for 2050 exists today. But adaptation may carry a hefty price tag. One potential comparison is Jakarta's major coastal-defense plans, which have a potential cost of roughly $40 billion. That is comparable to Ho Chi Minh City's current GDP.

An effective response

Local climate threats are increasing in most of the world. The changing environment is steadily altering the very nature of regions around the world. At the same time, the likelihood of "long tail" climate events that create cascading systemic risk is growing. Physical climate risk will affect everyone, directly or indirectly.

We think there are three steps that stakeholders could consider as they seek an effective response to the socioeconomic impacts of physical climate risk: integrating climate risk into decision making, accelerating the pace and scale of adaptation, and decarbonizing at scale to prevent a further buildup of risk.

Integrate climate risk into decision making

Climate change needs to become a major feature in corporate and public-sector decision making. As we have noted, physical climate risk is simultaneously spatial and systemic, nonstationary, and nonlinear in its effect. Potential impacts are regressive and rising over time, and stakeholders today may be underprepared to manage them. Decision making will need to reflect these characteristics.

For companies, this will mean taking climate considerations into account when looking at capital allocation, development of products or services, and supply-chain management, for example. Large capital projects would be evaluated in a way that reflects the increased probability of climate hazards at their location: How will that probability change over time? What are the possible changes in cost of capital for exposed assets? How will climate risk affect the broader market context and other implicit assumptions in the investment case? Cities will have to ask similar questions for urban-planning decisions. Moreover, while the MGI report focuses on physical risk, a comprehensive risk-management strategy will also need to include an assessment of transition and liability risk, as well as the interplay between these forms of risk.

Changes in mindset, operating model, and tools and processes will be needed to integrate climate risk into decision making. For centuries, we have made decisions based on a world of relative climate stability. We are not accustomed to planning for a world with a changing climate. For example, statistical risk management is often not part of ordinary processes in industrial companies. With the changing climate, it will be important to understand and embrace the probabilistic nature of climate risk and be mindful of possible biases and outdated mental models; experiences and heuristics of the past may no longer be a reliable guide to the future. The systemic nature of climate risk requires a holistic approach to understand and identify the full range of possible direct and indirect impacts.

One of the biggest challenges from climate risk will be rethinking the current models we use to quantify risk. These range from financial models used to make capital-allocation decisions to engineering models used to design structures. There is some uncertainty associated with a methodology that leverages global and regional climate models, makes underlying assumptions on emission paths, and seeks to translate climate hazards to potential physical and financial damage. But exploring new ways to quantify climate risk is not the highest "model risk." Continued reliance on current models based on stable historical climate and economic data may be even riskier.

Indeed, current models have at least three potential flaws. First, they lack geographic granularity, at a time when companies need to know how their key locations—and those of their suppliers—are exposed to different forms of climate threat. Second, they don't consider that the climate is constantly changing, a critical factor in determining such things as how resilient to make new factories, what tolerance levels to employ in new infrastructure, and how to design urban areas. And third, they are subject to potential sample bias, since decision makers are accustomed to trusting their own experience as they make decisions about the future.

Accelerate the pace and scale of adaptation

The pace and scale of adaptation will likely need to increase significantly. But adaptation is challenging. With hazard intensity projected to increase, the economics of adaptation could worsen over time. Technical limits may crop up. Difficult trade-offs may need to be assessed, including who and what to protect and who and what to relocate.

Many instances may require coordinated action by multiple stakeholders.

Despite all that, many stakeholders will have to figure out ways to adapt. Key measures include protecting people and assets, building resilience, reducing exposure, and ensuring that appropriate insurance and financing are in place.

Protecting people and assets. In response to the record-breaking 2010 heat wave in India that killed 300 people in a single day, the Ahmedabad Municipal Corporation developed the country's first heat-action plan. Its measures included establishing a seven-day probabilistic heat-wave early-warning system, developing a citywide cool-roof program, and setting up teams to distribute cool water and rehydration pills to vulnerable populations during heat waves. Steps such as these are crucial for protecting people. Stakeholders must also be prepared to prioritize emergency response and preparedness, erect cooling shelters, and adjust working hours for outdoor workers who are exposed to heat.

Measures to make existing infrastructure and assets more resilient can help limit risk. Some of this would address "gray" infrastructure—for example, raising the elevation level of buildings in flood-prone areas—while other moves would protect "green" infrastructure. The Dutch program Room for the River, for example, gives rivers more room to manage higher water levels.

On the other hand, it will sometimes be more cost effective to erect new buildings than to retrofit old ones. Some $30 trillion to $50 trillion will be spent on infrastructure in the next ten years, much of it in developing countries. These infrastructure systems and factories could be designed to withstand the withering storms of the future, rather than what passes for a once-in-200-years event now.

Building resilience. Decisions about strengthening assets will need to go hand in hand with measures to drive operational resilience in systems. An important aspect of this is understanding the impact thresholds for systems and how and when they could be breached. Examples of resilience planning for a world of rising climate hazards include building global inventories to mitigate the risk of food or raw-material shortages, building inventory levels in supply chains to protect against interrupted production, establishing the means to source from alternate locations or suppliers, and securing backup power sources.

Reducing exposure. Adaptation strategies for many physical assets will have to reflect their full life cycle. For example, it may make sense not only to invest in addressing asset vulnerabilities for the next decade but also to shorten asset life cycles. In subsequent decades, as climate hazards intensify, the cost–benefit equation of physical resilience measures may no longer be attractive. At that point, it may become necessary to redesign asset footprints altogether by relocating employees and assets. We have already seen some examples of this, such as the buyout programs in Canada for residents in flood-prone areas. Quebec prohibits both the building of new homes and the rebuilding of damaged homes in its floodplain.

Decisions will need to be made about when to focus on protecting people and assets versus when to find ways to reduce their exposure to hazards, which regions and assets to spend on, how much to spend on adaptation, and what to do now as opposed to in the future. Companies need to develop a long-term perspective on how risk and adaptation costs will probably evolve, and they will need to integrate voices of affected communities into their decision making.

Rethinking insurance and finance. People are reluctant to carry insurance for unlikely events, even if they can cause significant damage. Today, only about 50 percent of losses are insured. That percentage is likely to decrease as the changing climate brings more—and more extreme—climate events. Without insurance, recovery after disaster becomes harder, and secondary effects become more probable. Underinsurance reduces resilience.

To adjust to constantly changing physical risk, insurers will have to reconsider current data and models, current levels of insurance premiums, and their own levels of capitalization. Indeed, the entire risk-transfer process (from insured to insurer to reinsurer to governments as insurers of last resort) may need examination, looking at whether each constituent is still able to fulfill its role. Without changes in risk reduction, risk transfer, and premium financing or subsidies, some risk classes in certain areas may become harder to insure, widening the insurance gap that already exists in some parts of the world. New questions will have to be asked, and innovative approaches will be needed.

Finance will also have to adjust if it is to play a significant role in funding adaptation measures, especially in developing countries. Public–private partnerships or participation by multilateral institutions is needed to prevent capital flight from risky areas. Innovative products and ventures have already been developed to broaden the reach and effectiveness of such measures. They include "wrapping" a municipal bond into a catastrophe bond, to allow investors to hold municipal debt without worrying about hard-to-assess climate risk.

Decarbonizing at scale

There is one critical part of addressing climate change that the MGI report does not examine: decarbonization. While adaptation is urgent, climate science tells us that further warming and risk increase can only be stopped by achieving net-zero greenhouse-gas emissions. Decarbonization is a daunting challenge that leaders will need to address in parallel with adaptation during the years ahead. For a closer look, see "Climate math: What a 1.5-degree pathway would take," on McKinsey.com.

To prepare for the climate of tomorrow, stakeholders will have to learn, mitigate, and adapt. Individuals, businesses, communities, and countries will need to recognize physical climate risk and integrate it into decision making. The next decade will be critical, as decision makers rethink the infrastructure, assets, and systems of the future, and the world collectively sets a path to manage the risk from climate change.

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Addressing climate change in a postpandemic world

The coronavirus crisis holds profound lessons that can help us address climate change—if we make greater economic and environmental resiliency core to our planning for the recovery ahead.

by Dickon Pinner, Matt Rogers, and Hamid Samandari

A ferocious pandemic is sweeping the globe, threatening lives and livelihoods at an alarming rate. As infection and death rates continue to rise, resident movement is restricted, economic activity is curtailed, governments resort to extraordinary measures, and individuals and corporations scramble to adjust. In the blink of an eye, the coronavirus has upended the world's operating assumptions. Now, all attention is focused on countering this new and extreme threat, and on blunting the force of the major recession that is likely to follow.

Amid this dislocation, it is easy to forget that just a few short months ago, the debate about climate change, the socioeconomic impacts it gives rise to, and the collective response it calls for were gaining momentum. Sustainability, indeed, was rising on the agenda of many public- and private-sector leaders—before the unsustainable, suddenly, became impossible to avoid.

Given the scope and magnitude of this sudden crisis, and the long shadow it will cast, can the world afford to pay attention to climate change and the broader sustainability agenda at this time? Our firm belief is that we simply cannot afford to do otherwise. Not only does climate action remain critical over the next decade, but investments in climate-resilient infrastructure and the transition to a lower-carbon future can drive significant near-term job creation while increasing economic and environmental resiliency. And with near-zero interest rates for the foreseeable future, there is no better time than the present for such investments.

To meet this need and to leverage this opportunity, we believe that leaders would benefit from considering three questions:

— What lessons can be learned from the current pandemic for climate change?

— What implications—positive or negative—could our pandemic responses hold for climate action?

— What steps could companies, governments, and individuals take to align our immediate pandemic response with the imperatives of sustainability?

What follows is our attempt at providing some initial answers to these questions, in the hope that they will inspire ideas and actions that help connect our immediate crisis response with priorities for recovery.

Potential lessons from the current pandemic

Understanding the similarities, the differences, and the broader relationships between pandemics and climate risk is a critical first step if we are to derive practical implications that inform our actions.

Fundamental similarities

Pandemics and climate risk are similar in that they both represent physical shocks, which then translate into an array of socioeconomics impacts. By contrast, financial shocks—whether bank runs, bubble bursts, market crashes, sovereign defaults, or currency devaluations—are largely driven by human sentiment, most often a fear of lost value or liquidity. Financial shocks originate from within the financial system and are frequently remedied by restoring confidence. Physical shocks, however, can only be remedied by understanding and addressing the underlying physical causes. Our recent collective experience, whether in the public or the private sector, has been more often shaped by financial shocks, not physical ones. The current pandemic provides us perhaps with a foretaste of what a full-fledged climate crisis could entail in terms of simultaneous exogenous shocks to supply and demand, disruption of supply chains, and global transmission and amplification mechanisms.

Pandemics and climate risk also share many of the same attributes. Both are *systemic*, in that their direct manifestations and their knock-on effects propagate fast across an interconnected world. Thus, the oil-demand reduction in the wake of the initial coronavirus outbreak became a contributing factor to a price war, which further exacerbated the stock market decline as the pandemic grew. They are both *nonstationary*, in that past probabilities and distributions of occurrences are rapidly shifting and proving to be inadequate or insufficient for future projections. Both are *nonlinear*, in that their socioeconomic impact grows disproportionally and even catastrophically once certain thresholds are breached (such as hospital capacity to treat pandemic patients). They are both *risk multipliers*, in that they highlight and exacerbate hitherto untested vulnerabilities inherent in the financial and healthcare systems and the real economy. Both are *regressive*, in that they affect disproportionally the most vulnerable populations and subpopulations of the world. Finally, neither can be considered as a "black swan," insofar as experts have consistently warned against both over the years (even though one may argue that the debate about climate risk has been more widespread). And the coronavirus outbreak seems to indicate that the world at large is equally ill prepared to prevent or confront either.

Furthermore, addressing pandemics and climate risk requires the same fundamental shift, from optimizing largely for the *shorter-term performance* of systems to ensuring equally their *longer-term resiliency*. Healthcare systems, physical assets, infrastructure services, supply chains, and cities have all been largely designed to function within a very narrow band of conditions. In many cases, they are already struggling to function within this band, let alone beyond it. The coronavirus pandemic and the responses that are being implemented (to the tune of several trillion dollars of government stimulus as of this writing) illustrate how expensive the failure to build resiliency can ultimately prove.

In climate change as in pandemics, the costs of a global crisis are bound to vastly exceed those of its prevention.

Finally, both reflect "tragedy of the commons" problems, in that individual actions can run counter to the collective good and deplete a precious, common resource. Neither pandemics nor climate hazards can be confronted without true *global coordination and cooperation*. Indeed, despite current indications to the contrary, they may well prove, through their accumulated pressures, that boundaries between one nation and another are much less important than boundaries between problems and solutions.

Key differences

While the similarities are significant, there are also some notable differences between pandemics and climate hazards.

A global public-health crisis presents *imminent, discrete, and directly discernable dangers*, which we have been conditioned to respond to for our survival. The risks from climate change, by contrast, are *gradual, cumulative, and often distributed dangers* that manifest themselves in degrees and over time. They also require a present action for a future reward that has in the past appeared too uncertain

Healthcare systems, physical assets, infrastructure services, supply chains, and cities have all been largely designed to function within a very narrow band of conditions.

and too small given the implicit "discount rate." This is what former Bank of England Governor Mark Carney has called the "tragedy of the horizon."[1]

Another way of saying this is that the *timescales* of both the occurrence and the resolution of pandemics and climate hazards are different. The former are often measured in weeks, months, and years; the latter are measured in years, decades, and centuries. What this means is that a global climate crisis, if and when ushered in, could prove far lengthier and far more disruptive than what we currently see with the coronavirus (if that can be imagined).

Finally, pandemics are a case of *contagion* risk, while climate hazards present a case of *accumulation* risk. Contagion can produce perfectly correlated events on a global scale (even as we now witness), which can tax the entire system at once; accumulation gives rise to an increased likelihood of severe, contemporaneous but not directly correlated events that can reinforce one another. This has clear implications for the mitigation actions they each call for.

Broader relationships

Climate change—a potent risk multiplier—can actually contribute to pandemics, according to researchers at Stanford University and elsewhere.[2] For example, rising temperatures can create favorable conditions for the spread of certain infectious, mosquito-borne diseases, such as malaria and dengue fever, while disappearing habitats may force various animal species to migrate, increasing the chances of spillover pathogens between them. Conversely, the same factors that mitigate environmental risks—reducing the demands we place on nature by optimizing consumption, shortening and localizing supply chains, substituting animal proteins with plant proteins, decreasing pollution—are likely to help mitigate the risk of pandemics.

The environmental impact of some of the measures taken to counter the coronavirus pandemic have been seen by some as a full-scale illustration of what drastic action can produce in a short amount of time. Satellite images of vanishing pollution in China and India during the COVID-19 lockdown are a case in point. Yet this (temporary) impact comes at tremendous human and economic cost. The key question is how to find a paradigm that provides at once environmental and economic sustainability. Much more easily said than done, but still a must-do.

What could happen now?

While we are at the initial stages of a fast-unfolding crisis, we can already start seeing how the pandemic may influence the pace and nature of climate action, and how climate action could accelerate the recovery by creating jobs, driving capital formation, and increasing economic resiliency.

Factors that could support and accelerate climate action

For starters, certain temporary adjustments, such as teleworking and greater reliance on digital channels, may endure long after the lockdowns have ended, reducing transportation demand and emissions. Second, supply chains may be repatriated, reducing some Scope 3 emissions (those in a company's value chain but not associated with its direct emissions or the generation of energy it purchases). Third, markets may better price in risks (and, in particular, climate risk) as the result of a greater appreciation for physical and systemic dislocations. This would create the potential for additional near-term business-model disruptions and broader transition risks but also offer greater incentives for accelerated change.

There may, additionally, be an increased public appreciation for scientific expertise in addressing systemic issues. And, while not a foregone conclusion, there may also be a greater appetite for the preventive and coordinating role of governments in tackling such risks. Indeed, the tremendous costs of being the payor, lender, and insurer of last resort may prompt governments to take a much more

[1] "Breaking the tragedy of the horizon—climate change and financial stability—speech by Mark Carney," Bank of England, September 29, 2015, bankofengland.co.uk.

[2] See Andrew Winston, "Is the COVID-19 outbreak a black swan or the new normal?," *MIT Sloan Management review*, March 16, 2020; and Rob Jordan, "How does climate change affect disease?," Stanford Earth, School of Earth, Energy & Environment, March 15, 2019.

active role in ensuring resiliency. As for the private sector, the tide may be turning toward "building back better" after the crisis.[3]

Moreover, lower interest rates may accelerate the deployment of new sustainable infrastructure, as well as of adaptation and resilience infrastructure—investments that would support near-term job creation. And lastly, the need for global cooperation may become more visible and be embraced more universally.

If past is prologue, both the probability of such shifts and their permanence are likely to be proportional to the depth of the current crisis itself.

Factors that may hamper and delay climate action
Simultaneously, though, very low prices for high-carbon emitters could increase their use and further delay energy transitions (even though lower oil prices could push out a number of inefficient, high-emission, marginal producers and encourage governments to end expensive fuel-subsidy regimes). A second crosscurrent is that governments and citizens may struggle to integrate climate priorities with pressing economic needs in a recovery. This could affect their investments, commitments, and regulatory approaches—potentially for several years, depending on the depth of the crisis and hence the length of the recovery. Third, investors may delay their capital allocation to new lower-carbon solutions due to decreased wealth. Finally, national rivalries may be exacerbated if a zero-sum-game mentality prevails in the wake of the crisis.

What should be done?

In this context, we believe all actors—individuals, companies, governments, and civil society—will have an important role.

For governments, we believe four sets of actions will be important. First, build the capability to model climate risk and to assess the economics of climate change. This would help inform recovery programs, update and enhance historical models that are used for infrastructure planning, and enable the use of climate stress testing in funding programs. Second, devote a portion of the vast resources deployed for economic recovery to climate-change resiliency and mitigation. These would include investments in a broad range of sustainability levers, including building renewable-energy infrastructure, expanding the capacity of the power grid and increasing its resiliency to support increased electrification, retrofitting buildings, and developing and deploying technologies to decarbonize heavy industries. The returns on such investments encompass both risk reduction and new sources of growth. Third, seize the opportunity to reconsider existing subsidy regimes that accelerate climate change. Fourth, reinforce national and international *alignment and collaboration* on sustainability, for inward-looking, piecemeal responses are by nature incapable of solving systemic and global problems. Our experiences in the weeks and months ahead could help inform new paths toward achieving alignment on climate change.

For companies, we see two priorities. First, seize the moment to decarbonize, in particular by prioritizing the retirement of economically marginal, carbon-intensive assets. Second, take a systematic and through-the-cycle approach to building resilience. Companies have fresh opportunities to make their operations more resilient and more sustainable as they experiment out of necessity—for example, with shorter supply chains, higher-energy-efficiency manufacturing and processing, videoconferencing instead of business travel, and increased digitization of sales and marketing. Some of these practices could be expedient and economical to continue, and might become important components of a company-level sustainability transformation—one that accompanies the cost-efficiency and digital-transformation efforts that are likely to be undertaken across various industries in the wake of the pandemic.

When it comes to resilience, a major priority is building the capability to truly understand,

[3] María Mendiluce, "How to build back better after COVID-19," World Economic Forum, April 3, 2020, weforum.org.

qualitatively and quantitatively, corporate vulnerabilities against a much broader set of scenarios, and particularly physical events. In that context, it will also be important to model and prepare for situations where multiple hazards would combine: it is indeed not difficult to imagine a pandemic resurgence coinciding with floods or fires in a given region, with significant implications for disaster response and recovery. The same holds true for public entities, where resilience thinking will have to take greater account of the combination and correlation of events.

For all—individuals, companies, governments, and civil society—we see two additional priorities. First, use this moment to raise awareness of the impact of a climate crisis, which could ultimately create disruptions of great magnitude and duration. That includes awareness of the fact that physical shocks can have massive nonlinear impacts on financial and economic systems and thus prove extremely costly. Second, build upon the *mindset and behavioral shifts* that are likely to persist after the crisis (such as working from home) to reduce the demands we place on our environment—or, more precisely, to shift them toward more sustainable sources.

By all accounts, the steps we take in the decade ahead will be crucial in determining whether we avoid runaway climate change. An average global temperature rise above 1.5 or 2°C would create risks that the global economy is not prepared to weather. At an emission rate of 40 to 50 gigatons of CO_2 per year, the global economy has ten to 25 years of carbon capacity left. Moving toward a lower-carbon economy presents a daunting challenge, and, if we choose to ignore the issue for a year or two, the math becomes even more daunting. In short, while all hands must be on deck to defeat the coronavirus and to restart the economy, to save lives and livelihoods, it is also critical that we begin now to integrate the thinking and planning required to build a much greater economic and environmental resiliency as part of the recovery ahead.

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Think about the role of regulation and government

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‘And now win the peace’: Ten lessons from history for the next normal

We are not at the end of the COVID-19 crisis, and maybe not even at the end of the beginning. But it is not too soon to build the strategies that will foster broad-based growth.

by Kevin Sneader and Shubham Singhal

Two months after Germany surrendered, Britain held a general election. "And now win the peace," exhorted the Labour Party, which promised massive social and economic change. The words struck a chord and Labour won big, sweeping Winston Churchill out of leadership.

Western Europe, Japan, and the United States did win the peace, enjoying more than two decades of broad-based economic growth that not only raised living standards and brought a better quality of life to their citizens but also helped to fuel global growth (Exhibits 1 and 2).

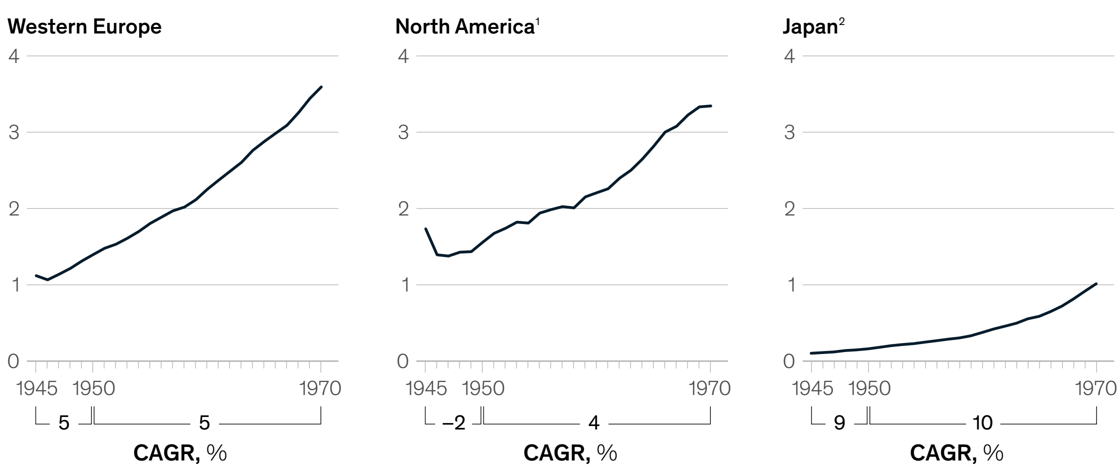
As the world considers how to navigate the post-COVID-19 future, the only certainty is that it will be different, or as we wrote in a prior article, "the future is not what it used to be." But then, the future is always different, and always uncertain. The past is less so. Considering the lessons of history can help business leaders and policy makers figure out how to manage the challenging years ahead.

With that in mind, we looked specifically at the post–World War II era—a time when much of the world rose, quite literally, from the ashes. Not everywhere, of course, or to the same degree. Indeed, many countries would not want to revisit the decades after the war. Eastern Europe went behind the iron curtain; China suffered civil war, starvation, and the Cultural Revolution; much of Africa, Latin America, and the Middle East was unstable and wracked by conflict (although there were bright spots in these regions, too). So the following discussion draws chiefly on the experience of Japan, the United States, and Western Europe, which

Exhibit 1

Economic growth was strong from 1945 to 1970 in Western Europe, North America, and Japan.

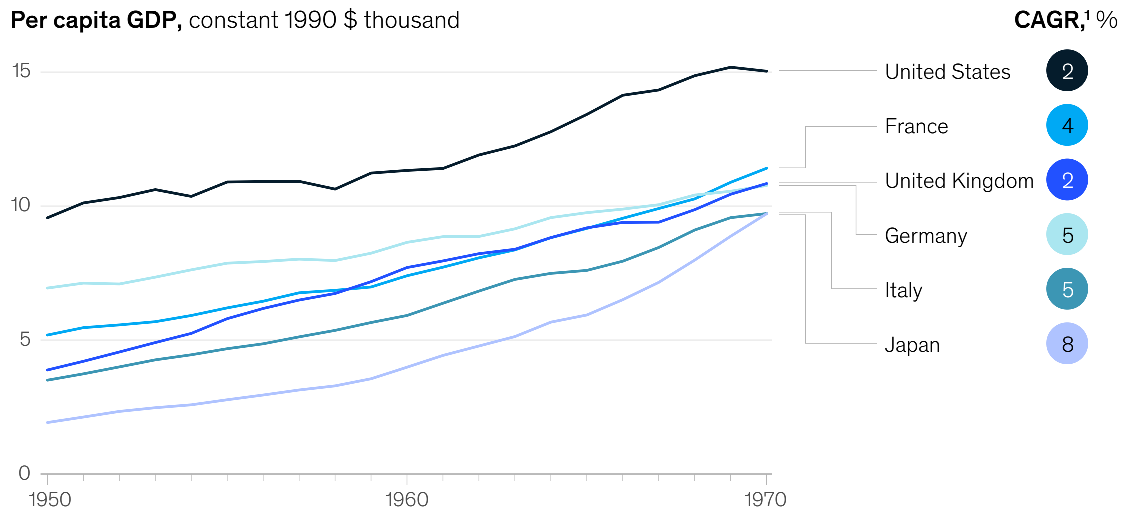
GDP, constant 1990 $ trillion



[1]Canada and United States.
[2]Data unavailable for 1941–49, and so GDP was estimated using 1940–50 compound annual growth rate (CAGR).
Source: Maddison Project Database (2010), University of Groningen

Exhibit 2

Per capita GDP growth also was strong from 1950 to 1970.



[1]Compound annual growth rate.
Source: Maddison Project Database (2010), University of Groningen

were conspicuous in their success. Technologies developed for war were adapted for peace-time use. Poverty, government debt, and inequality fell, while living standards improved and prosperity spread broadly.

In this article, we address two questions. First, what accounted for this record of inclusive growth, sustained for more than two decades? And second, while acknowledging that the world has changed enormously since 1945, are there ideas and actions taken then that can inspire us now?

The lessons of the past: Factors behind postwar recovery

When everybody else thinks it's the end, we have to begin.
—Konrad Adenauer, chancellor of West Germany, 1949–1963

The French have a phrase for it—"les trente glorieuses," or the "glorious 30"—the period from 1945 to 1975 in which faster growth, greater productivity, higher wages, and generous social benefits transformed the country. The German term is "wirtschaftswunder," or economic miracle, and the Italian is similar, "il miracolo economico." In 1964, a rebuilt Japan successfully hosted the Tokyo Olympics.

The coronavirus pandemic is not nearly on the scale of the tragedy of World War II, in which an estimated 60 million people died and many cities were leveled. But COVID-19 has killed more than 600,000 people so far and shut down huge swathes of the global economy, with all the suffering that implies. By any standard, that constitutes a global catastrophe. So it may be useful to think about how Western Europe, Japan, and the United States recovered from a previous catastrophe. We think the following factors were particularly relevant.

Considering the lessons of history can help business leaders and policy makers figure out how to manage the challenging years ahead.

There was a sense of purpose around rebuilding lives and livelihoods

In June 1941, when Britain was near its wartime nadir, a British civil servant named William Beveridge was tasked with writing a report on the country's social-insurance programs. In November 1942, he produced something much more substantive. What became known as the Beveridge Report made the case for eradicating what Beveridge called five "giant evils": want, disease, ignorance, squalor, and idleness. The report had both a sense of urgency, and of possibility: "Now, when the war is abolishing landmarks of every kind, is the opportunity for using experience in a clear field. A revolutionary moment in the world's history is a time for revolutions, not for patching." The report argued for "cooperation between the State and the individual" but without stifling "incentive, opportunity, responsibility." These principles, adapted to local conditions, to a large degree describe the basis for the development of many of the postwar European welfare states.

The United States also played an important role. It suffered little physical destruction during the war and endured nothing like the postwar distress of Japan and Europe, where even several years after the war, tens of millions of people remained hungry and cold. The United States recognized that, for both humanitarian and geopolitical reasons, it needed to help. The most famous effort to meet these pressing needs was the Marshall Plan. From 1948 to 1952, the United States gave $13 billion in aid to 16 European countries (equivalent to $126 billion today) to get European economies back on their feet. Assistance went to everything from funding the French aircraft industry (to help buy propellers) to fighting tuberculosis to bringing European specialists to the United States to learn new industrial and agricultural techniques to financing Portugal's cod-fishing fleet. By 1952, when funding ended, each participating country's economy had surpassed prewar levels. Japan also received considerable aid and other support that fostered the structural adjustments it needed to transition from a war-focused to a peacetime economy. All told, US economic aid totaled $44 billion by 1954—the equivalent of $420 billion today.

No two countries are alike, and there were no magic multinational bullets that solved these countries' problems. What can be said, however, is that after World War II, there was a broad sense that it was time to do better for the millions of people who had suffered so terribly and whose leaders had previously failed them so badly.

Global institutions created the structures to promote technology sharing, economic growth, and political stability

It's a veritable alphabet soup: EAEC, ECSC, GATT, IMF, NATO, UN.[1] All of these were created in the years after the war in an effort to forge a more constructive economic and international order. The creation of GATT, for example, created a framework that liberalized international trade. As trade barriers fell, technological transfer between industries and

[1] European Atomic Energy Community, European Coal and Steel Community, General Agreement on Tariffs and Trade, International Monetary Fund, North Atlantic Treaty Organization, United Nations.

countries rose. Global foreign direct investment grew eight times from 1950 to 1970. At the same time, the formation of NATO in 1949 created the geopolitical security that allowed Western European governments breathing room to reconstruct their countries.

The creation of these international institutions allowed individual economies and businesses to get on with the job of deploying the capital and technology available to rebuild their countries—with far-reaching effects. The European Coal and Steel Community, for example, eventually evolved into what is now the European Union.

There was sustained investment in human and physical infrastructure

Governments took a long-term view, with effective planning teams that implemented multiyear initiatives in areas such as education, energy, infrastructure, R&D, telecom, and transportation. These were sustained through changes in political leadership and included the expertise of scientists and economists.

War-torn countries needed to fix their roads and replace their bridges, and they did, often remarkably quickly. France restored more than 80 percent of its coal capacity by the end of 1945 and doubled its steel capacity between 1947 and 1950. The US interstate highway system, begun in 1956, contributed to higher productivity and lower transportation costs. "We needed them [highways] for the economy," noted one of the system's architects, "Not just as a public-works measure, but for future growth."

The infrastructure efforts went well beyond bricks and mortar. Japan introduced reforms that both demilitarized and broadened education. In the United States, the GI Bill more than doubled the number of college graduates between 1940 and 1950. Britain mandated free secondary education, and France extended how long children stayed in school. What this translated into isn't just better-educated people—a good in and of itself—but a pool of workers capable of excelling in the fast-changing industrial economy.

Business adapted

Once the basics were established, such as stable currencies, relatively open trade, antitrust laws, workforce training, and land and labor reforms, business was able to get back to business. Public and private investment had no difficulty finding commercial applications, and the private sector absorbed it productively. In 1948, when West Germany scrapped price controls and created the Deutsche Mark, industrial production immediately responded, rising 50 percent.

Wartime economic policy also played a role, as it forced selected companies to scale up, make new products, and innovate faster than they would have otherwise. For example, Pfizer was a citric-acid manufacturer when the US government asked it to participate in the production of penicillin. After the war, the company adapted what it had learned to create an improved, deep-tank fermentation production process that enabled it to create new antibiotics and become a major pharmaceutical player. Wartime investments in areas like nuclear energy, rocketry, synthetic rubber, and automotive engineering all had positive spillover effects during peacetime.

With reduced postwar government controls, business also consolidated, creating larger units that were able to make sizeable investments in innovative technologies; the chemicals, pharmaceuticals, and high-tech industries are notable examples of this effect. At the same time, a stable political and social environment, along with flexible working conditions, also encouraged new business formation. With investment coming in, and liberalized trade rules fostering the transfer and expansion of technology, the stage was set for sustained growth with broad social benefits, as workers moved from lower-paid sectors, such as agriculture, into more productive and higher-paid ones.

Drawing the right conclusions: The limits of the postwar analogy

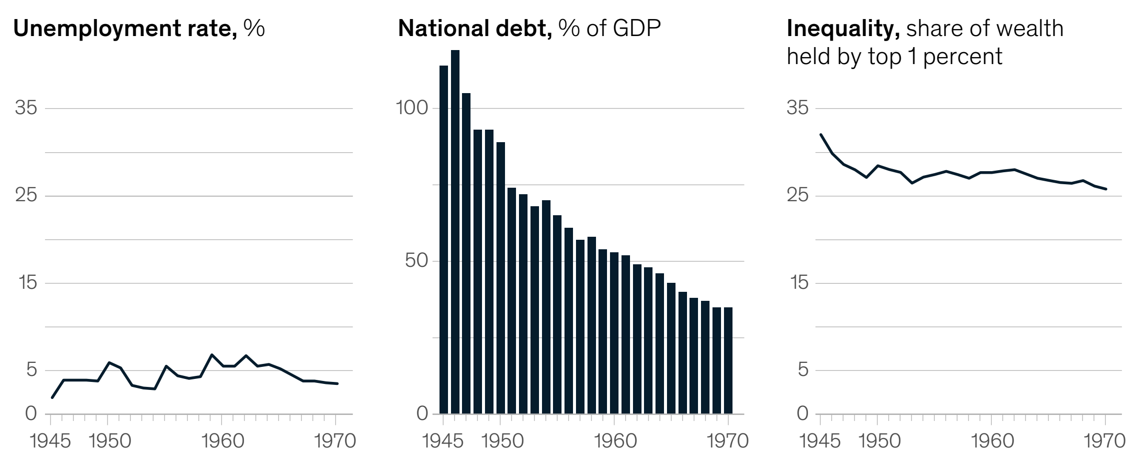
It is not often that nations learn from the past, even rarer that they draw the correct conclusions from it.
—Henry Kissinger, *A World Restored*

There was no postwar miracle; the actions that forged recovery were all human made. Good policies, political commitment, and hard work made it happen. The same will have to be the case in recovering from the coronavirus crisis. Not the same policies, of course—the conditions are too different. Trade flows are much bigger, international travel is routine, information is transferred seamlessly, and the use of digital tools is only going to get much greater. But there are broad themes that we believe are pertinent.

In the postwar era, international institutions (GATT, Bretton Woods, Marshall Plan[2]), domestic government policies (education, training, infrastructure, currency reform), and private-sector actions (innovation, technology partnerships, structural change) worked together to create the conditions for broad-based growth (Exhibits 3, 4, 5).

Exhibit 3

In the United States, employment remained robust after 1945, while national debt and inequality declined.

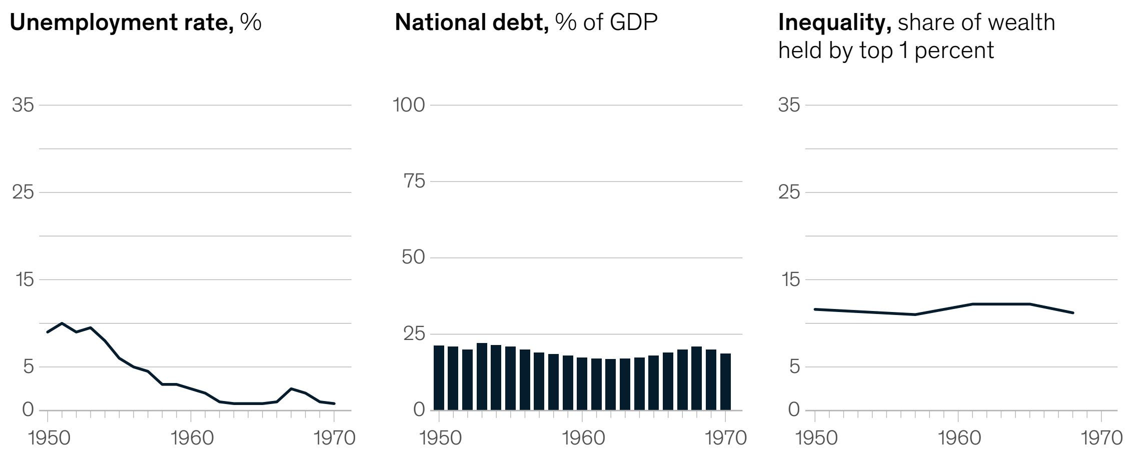


Source: Federal Reserve Bank of St. Louis

[2] The Bretton Woods Agreement, negotiated in 1944 by delegates from 44 countries at a UN conference held in Bretton Woods, New Hampshire, stated that gold was the basis for the US dollar, and other currencies would be pegged to the US dollar's value. The system came to an end in the early 1970s when President Richard Nixon announced that the United States would no longer exchange gold for US currency. The Marshall Plan, formally approved in 1948, was a US initiative that provided foreign aid to Western Europe.

Exhibit 4

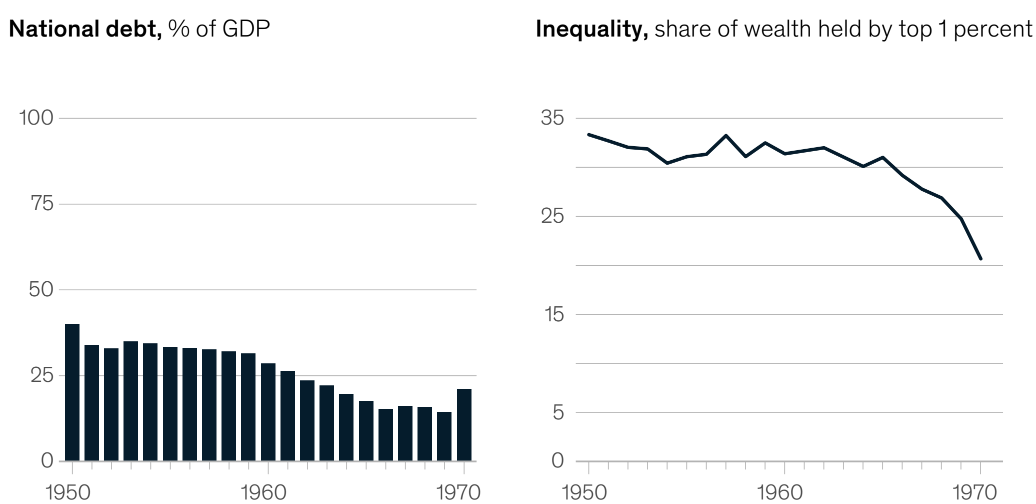
German unemployment dropped after 1950, while debt and inequality also declined.



Source: German Federal Bank; German Ministry of Finance

Exhibit 5

France saw significant improvements in levels of both debt and inequality after 1950.



Source: International Monetary Fund

And in fact, the same factors were also critical in more recent success stories, such as Estonia, Israel, Singapore, South Korea, and Taiwan, all of which emerged from difficult circumstances to create advanced economies and prosperous societies. In the postpandemic world, there needs to be a similar cohesiveness of action.

Adapting the lessons of the postwar era to the coming post-COVID-19 era

Part of being optimistic is keeping one's head pointed toward the sun, one's feet moving forward. There were many dark moments when my faith in humanity was sorely tested, but I would not and could not give myself up to despair. That way lays defeat and death.
—Nelson Mandela, *Long Walk to Freedom: The Autobiography of Nelson Mandela*

To win the post-COVID-19 peace, today's policy makers and business leaders need to channel the optimism and imagination of their postwar equivalents—but differently. In many ways, we live in the world created then. While keeping what is worthwhile, it is time to do better. Here we suggest ten ways to win the peace.

Reform and reshape globalization
When future historians look back on the first two decades of the 21st century, one of the themes they will emphasize will be globalization—the world's growing connectedness, in both cultural and economic terms. Globalization is a long-term phenomenon: exports of goods as a share of global GDP doubled from 4 percent in 1945 to 9 percent in 1970 and doubled again in the 1980s. By 2017, the cross-border trade in goods and services had reached 28 percent of global GDP. In addition, the continued emergence of China, India, and other economies, plus the rise of seamless communications, in the form of the mobile phone and the internet, have quickened the pace and deepened the effects of globalization. On the whole, this has been a very good thing: the spread of globalization has helped lift billions of people out of poverty. But there have been losers, in both environmental and social terms.

Global problems need global attention, something the architects of the postwar world recognized. Today, we need to do the same, reshaping globalization and its institutions to meet modern needs. The good news is that doing so may be a matter of pushing on an open door. A 2019 poll by the World Economic Forum, with respondents from 29 countries, for example, found that at least 72 percent in all regions agreed that "all countries can improve at the same time"; and majorities in all regions (and 76 percent overall) believe that it is important for countries to work together. Here are some ways to address some of the discontents associated with globalization.

When future historians look back on the first two decades of the 21st century, one of the themes they will emphasize will be globalization.

Create trade policies that take into account how globalization is changing

One change is that trade in services is now growing much faster than trade in goods—60 percent faster overall, and two to three times as fast in specific sectors, such as information technology. In fact, depending on how the figures are calculated, trade in services may already be more valuable than that in goods. Digital flows exert a larger impact on GDP growth than the trade in goods, and even the trade in goods often has a digital component. Another departure from the 20th century is that labor-cost arbitrage is less important, accounting for only 18 percent of the trade in goods from poorer to richer countries. A third is that more trade is happening regionally, particularly within Europe and Asia; the COVID-19 crisis could well accelerate this development, as many companies will want to bring critical parts of their supply chain closer to home. Trade disputes have been a constant feature of the international environment, and they still are. But they have generally been related to goods. Recognizing that intellectual property- and tax-related issues will likely be more complex with services and digital technologies than with goods, it makes sense to get ahead of the action before these also become mired in endless conflict.

Global institutions need to be modernized so that these (and other technologies and trends) can become the basis for inclusive growth. International agreements that enable a balanced and safe flow of data and services, including standards for taxes on digital products and services, intellectual-property protection, data privacy, and security, all need to be developed.

Promote the diffusion of technology

The McKinsey Global Institute (MGI) has identified a dozen technologies[3] that could create $33 trillion a year in value by 2025. For technology to continue to advance and thrive, there must be a global framework within which companies can operate; without it, regulation will be fragmented, which raises costs and irritation to no good effect. Again, the COVID-19 era is showing the possibilities, with new and nimble partnerships producing equipment and working together to find and develop a vaccine.

Renew the role and effectiveness of the public sector

In many countries, there is rising distrust of established institutions, fueled by a sense that the young, minorities, and low- and middle-income earners are losing out.[4] There is widening economic inequality within many countries and a sense that the next generation is growing up in a more dangerous, less financially secure, and generally unsettled age. The COVID-19 crisis has only exacerbated these concerns. To increase trust, governments need to show that they are serious about fostering economic inclusion and making technology work for everyone. And they need to do so effectively; only 10 percent of those surveyed in 2019 believed government executed its duties competently; more than half characterized government as unfair and often corrupt. Just as in business, execution matters.

Modernize social policies

The reality is that many countries offer more insecure work, higher housing costs, and greater economic polarization. Yet social policies related to work, unemployment, and income support have not changed nearly as much as the circumstances around them. That said, some initiatives are worth evaluating to see how well they work (or not). For instance, some governments are legislating new labor laws to address the needs of temporary, gig, and other unconventional working patterns. Australia, France, Georgia, and Massachusetts are considering or have passed legislation that extends unemployment insurance to independent

[3] Mobile Internet, automation of knowledge work, the Internet of Things, cloud technology, advanced robotics, autonomous vehicles, next-generation genomics, energy storage, 3-D printing, advanced materials, advanced oil and gas exploration and recovery, and renewable energy.

[4] Trust in government fell in more than half of the Organisation for Economic Co-operation and Development (OECD) economies between 2006 and 2016, and almost half the people polled in 16 OECD economies believe the average person in their country is worse off today than 20 years ago. “What worries the world,” Ipsos, September 2018, Ipsos.com.

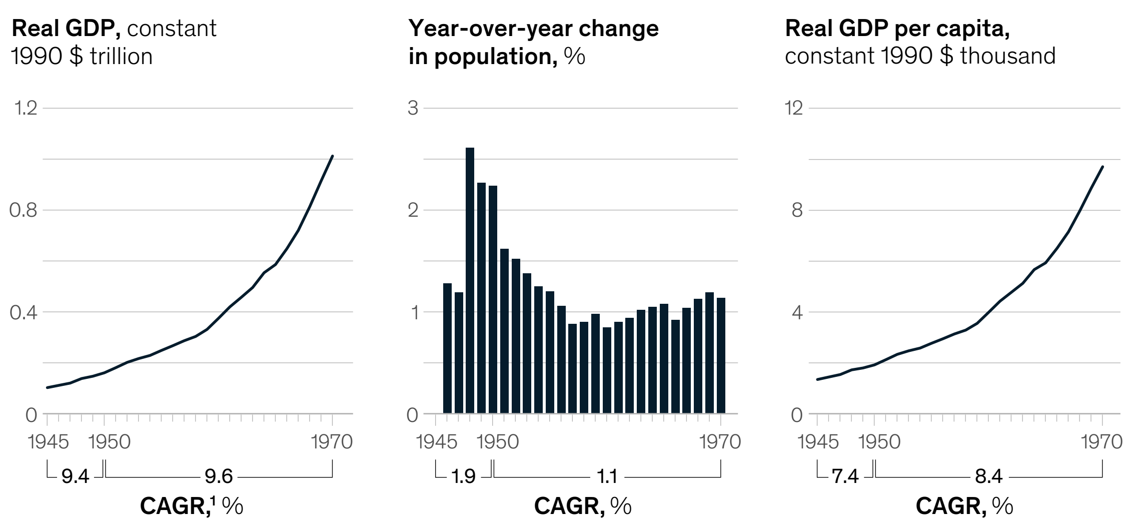
contractors. Others allow recipients to continue to receive benefits if they are working part-time or starting a business. Governments from Germany to Nebraska to Minneapolis are considering changes to zoning laws to encourage the construction of denser and cheaper housing. Others are looking at restricting rent increases. Making benefits portable—that is, attached to individuals, rather than workplaces—is another option. For example, New York State's Black Car Fund provides workers' compensation, paid for by a fare surcharge, for livery and rideshare drivers. Lifelong training accounts, funded by business, government, and individuals, could encourage workers to invest in themselves, and also boost productivity. These are just some of the ideas that countries and states are experimenting with; we cite them to illustrate that there are many different options to learn from. The role of government is to identify the best ideas, test them, and then expand (or discard) them.

Institute measures to increase productivity

There can be no inclusive growth without economic growth, which means productivity has to grow, too. Productivity was the foundation of the economic success of the postwar era (Exhibit 6). Led by rising business investment and technology diffusion, Germany, Japan, and other war-torn economies built world-class industries in sectors ranging from cars and luxury goods to steel and energy. It is still true that only through greater productivity do wages and living standards improve, particularly in markets where population growth ranges from little to none.

Exhibit 6

Strong productivity contributed to Japan's postwar growth, even when population growth slowed after 1960.



[1]Compound annual growth rate.
Source: Maddison Project Database (2010), University of Groningen

In many advanced economies, however, productivity growth has slowed—to 0.5 percent in 2010 to 2014, down from 2.4 percent a decade earlier. We recognize that economists discuss whether productivity gains are well measured and why digital technology does not translate in expected productivity gains. Nevertheless, to do better, there are proven "catch-up" approaches, such as removing barriers to competition in services, cutting red tape that impedes business formation (and dissolution), and allowing more effective reallocation of human and financial resources as new technologies emerge and productivity gains shift across industries. The productivity of public and regulated sectors, such as healthcare, has been notably slow to improve.

The other way to boost productivity is to "push the frontier" of innovation and technology. This is where sustained, long-term growth will come from. It will not come from industry as we knew it in the 20th century but from Industry 4.0, meaning the use of advanced technologies such as artificial intelligence (AI), robotics, genetics, biomedicine, and the Internet of Things. The latter, for example, has a wide range of uses, from detecting production errors early to boosting crop yields by measuring the moisture of fields to monitoring the health status of patients. Fulfilling the potential of these technologies, however, requires supportive regulation and a well-prepared workforce. Otherwise, the danger is that those who are displaced by technological change will end up in lower-paid or casual work—the opposite of inclusive growth.

Build digital infrastructure

After the war, countries built physical assets, such as Japan's high-speed railways or deepwater ports in Europe and the United States, to accelerate their economies. In the 21st century, digital capabilities are likely to be the most important infrastructure investment. In four sectors alone—mobility, healthcare, manufacturing, and retail—McKinsey has identified use cases that could boost global GDP by as much as $2 trillion by 2030.

Beyond the implications for industry, connectivity also has ramifications for equity and society—something that has been proved emphatically true during the pandemic, in which the use of online education and telemedicine has skyrocketed. However, even in advanced economies, not everyone has access to high-speed internet, and those without digital connectivity will have less access to economic opportunity. Governments can play a role in expanding access, with the goal of universal connectivity. For example, they can illustrate the possibilities in their own operations; encourage its use in the development of smart cities; and establish a regulatory framework that ensures privacy, security, ownership, and interoperability.

Invest in reskilling

Industry 4.0 and the knowledge economy could bring significant economic and social benefits. McKinsey has estimated that AI adoption alone could raise global GDP $13 trillion by 2030—but only if the right talent is available. The change could be wrenching. By 2030, according to MGI, as many as 375 million workers—or roughly 14 percent of the global workforce—may need to switch occupational categories as digitization, automation, and advances in AI disrupt the world of work. One out of 11 jobs in 2030 could be in occupations that didn't exist in 2015. There will be more jobs that require tertiary education and fewer available to those with only a high-school education or less.

The case for change is clear. But educational models have not changed much over the past century, and in the countries that are part of the Organisation for Economic Co-operation and Development (OECD), government spending on training has

COVID-19-riddled 2020 is not war-wracked 1950. But history can still provide useful lessons.

actually fallen. The public sector will need to devise new unemployment income and worker-transition support programs and work more closely with the private sector and organized labor to develop effective ways to build capabilities. The GI Bill and other postwar education reforms helped to create a workforce capable of excelling in a sophisticated industrial economy. Now the need is to work with business to invest in a workforce that can do the same in Industry 4.0. One priority: compile the data—a problem cannot be fixed if it is undefined. The European Union is creating a tool that can be used by all its members to consolidate information on what skills are in demand where; and Denmark is compiling detailed information on the skills required for hundreds of occupations. Another area to look at is extending educational support into adulthood through the creation of lifelong learning programs, such as the individual training accounts established in France and Singapore.

Expand the labor force

In the postwar era, population growth was an important factor in the period's economic and productivity success. In today's context of aging populations (and in many countries—notably Japan, but others, too—absolute population decline), there is no new baby boom in sight, and women can only enter the workforce in big numbers once. In this context, how could the labor force be expanded?

One way is through better health. According to new research from MGI,[5] poor health reduces global GDP by 15 percent. Investment in health, MGI suggests, is also sound economic policy, with a return of $2 to $4 for every $1 in spending on known health improvements.

In emerging economies, poor health is a drag on productivity. In advanced economies, the benefit is subtler: the possibility of creating a longer, healthier middle age. As MGI put it, 65 would be the new 55. The value of improved health to the happiness of individuals is, of course, incalculable. In strictly economic terms, a healthier late middle age would allow more people to work longer and more productively. In the United States, where population growth is slowing, delayed retirement could add 675 million work hours per week. We understand that this would require changes to retirement laws and pension systems, and that this could be contentious (to put it mildly). Strictly in economic terms, however, increasing labor-force participation in this way could bring big dividends.

Reimagine and reinvigorate the private-sector social contract

As individuals assume more responsibility (and the state less) for their careers, benefits, and retirement, the role of the workplace becomes more important. In January 2020, the Edelman Trust Barometer found that more than half (56 percent) of respondents in 28 markets (and majorities in 22 of them) agreed that "capitalism as it exists today does more harm than good in the world." Almost three-

[5] *Prioritizing health: A prescription for prosperity*, McKinsey Global Institute, July 8, 2020, McKinsey.com.

quarters said CEOs should take the lead on change, rather than waiting for government. Pressure on businesses to serve their communities in variegated ways will only build, given the substantial aid governments have provided to the private sector to cope with the COVID-19 crisis—double the scale of that related to the 2008 financial crisis. Just as business stepped up after the war, so must it do now, but in different ways.

Embrace 'stakeholder capitalism'

The term encompasses the idea that companies consider the interests of their employees, customers, suppliers, and communities, as well as shareholders, in their decision making. In a general sense, few CEOs would disagree (and even fewer publicly). But the good intentions embodied in this phrase must be accompanied by action. Again, there are many examples, such as Walmart's education and training programs and global software company SAP's extensive reskilling initiatives. Others, such as Unilever and Bank of America, have voluntarily raised wages for lower-paid workers; in high-cost Silicon Valley, a few companies are building housing for some of their workers and also funding affordable housing in their communities. But it is fair to say that business can do more.

The research is limited, but there is evidence to suggest that companies that execute the "triple bottom line" well—meaning economic, social, and governance programs—create positive financial value through greater efficiency, innovation, risk management, and access to markets. In the future, regardless of the bottom-line effects, actively participating along all three dimensions may be seen as part of the social license that business needs to operate. This is a curve that the best companies will want to get ahead of.

Invest in employees

When it comes to the social contract between companies and communities, reskilling—that is, equipping existing workers to do higher-level jobs—would appear to be an area where the role of business is straightforward. But the record is patchy. In a 2017 survey of executives, only 16 percent said they felt "very prepared" to address potential skills gaps. About twice as many said they were "somewhat" or "very" unprepared. While training budgets have risen over the past few years, that is not the same thing as reskilling; much of the former goes to leadership conferences and showing new workers the ropes.

Reskilling is essential if businesses are to deliver on the promise of Industry 4.0—and if workers are to benefit from it. Amazon, for example, is spending $700 million to upskill as much as a third of its workforce, or 100,000 people. One program trains nontechnical staff to transition them into software-engineering careers; in another, warehouse workers can earn an A+ certification that qualifies them for IT support positions.

Altruism may be an element in this and similar efforts, but there are also economic benefits: it can be much more profitable to reskill a valued employee than to find a new one. And as labor forces grow more slowly, or even shrink, a company's existing pool of workers can be a source of new talent. As one executive told the *Wall Street Journal*, "Executives have this idea that 'as my people become obsolete, I'll just hire new people.' Well, they won't be there."

Reskilling can be expensive, particularly for smaller companies; and it's true that sometimes employees take their new skills elsewhere. One approach is to work with other institutions—community colleges, government agencies, even companies in the same sector—to spread the costs, as winemakers have done in Washington state. And it's worth remembering that while reskilling carries cost—so does having a less adept and discouraged workforce.

Deploy productivity-boosting technology

During the COVID-19 crisis, companies have used technology in new ways to cope, often with a speed and success that surprised them. For example, retail stores cut down on the number of in-store cashiers but added more people to deal with online-enabled curbside pickup and delivery. On the whole, however, there are big gaps between what is being done and what could be done. In 2017, MGI found that on average, industries were less than 40 percent digitized; China, Europe, and the United States, other research found in 2019, had tapped into only 20 percent of their digital potential. That matters, because just as technological diffusion powered postwar growth, digital capabilities will likely be a major factor in fueling post-COVID-19 growth.

An analysis of the effect of digital on productivity is compelling—70 percent of those identified as "digital superstars" achieve higher-than-average productivity, and the most digitized sectors are also the ones that are the most productive. Even so, only a quarter of global sales and supply-chain operations were digitized in 2019, less than a third of operations volume was digitally automated, and in 2018, only 12 percent of companies had invested in AI in domains where the business case to do so was strong. There is particular potential in supply-chain digitization, where the process has barely started. Some companies are getting it right, by closely tying their digital and corporate strategies and creating a healthy organizational culture. But not nearly enough are doing so, meaning that the economy is not benefiting from these proven productivity technologies.

The good old days, in many ways, weren't all that good. People all over the world today are richer and healthier, with more access to information, culture, and education. From 2004 to 2018, more than 300 million people in India alone have lifted themselves out of poverty. Global life expectancy in 2016 was 72 years—up from 46 years in 1950 and higher than in any single country then. In Africa, life expectancy increased by almost a decade from 2000 to 2016 (to 62.1 years).

In one sense, however, the 1950s and '60s do look pretty good, as many economies enjoyed sustained and inclusive growth. COVID-19-riddled 2020 is not war-wracked 1950. But history can still provide useful lessons. One is the need for international institutions and the public and private sectors to pull in the same direction. Another is the importance of health, education, and training.

There are also lessons in what not to do. Countries that cut themselves off from global flows of technology, trade, and information generally underperform. Controls on capital, wages, and prices suppress growth. Nationalizing industry is a productivity dud (with rare exceptions). Even with the right goals and the best of intentions, making the wrong choices can hurt productivity—as happened in postwar Britain—and thus make it less likely that the desired outcomes occur.

Imagination, leadership, and a dash of inspiration will be required to figure out the right policies for the 21st century. During the COVID-19 crisis, there have been many examples from the public, private, and social sectors to prove that these qualities are alive and well. What is needed now is the commitment to make the changes and investments that will create a future of broad prosperity.

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COVID-19: Strategies for getting ahead of the pandemic crisis

Even as organizations focus on the immediate business shocks, they need to plan for the postcrisis world. Here is how to respond to a disruption for which there are no playbooks.

In this episode of *Inside the Strategy Room*, we share an excerpt from a webcast session on COVID-19's implications for business resilience. It was recorded at the 2020 Global Business Leaders Forum, which had been scheduled to take place in New York in early April but was instead held virtually. In conversation with Sean Brown, director of communications for strategy and corporate finance, two McKinsey experts offer their perspectives on how businesses can develop strategies for responding to the pandemic crisis and preparing for the "next normal." Mihir Mysore is a leader of McKinsey's work on crisis response and recently coauthored "Responding to coronavirus: The minimum viable nerve center." Shubham Singhal is the global leader of the healthcare practice who co-wrote "Beyond coronavirus: The path to the next normal." This is an edited transcript. For more conversations on the strategy issues that matter, subscribe to the series on Apple Podcasts or Google Play.

Sean Brown: Mihir, why don't you take us through what business leaders should be doing in the coming weeks.

Mihir Mysore: Thank you, Sean. There is, of course, a large amount of uncertainty today, especially on the economic front, which makes it hard for business decision makers to start taking action. A lot of information is floating around, and depending on what you choose to pay attention to, you can be an optimist or a pessimist. By the time it becomes fully clear which of the several possible scenarios ends up being the reality, many strategic actions you could have taken while the scenarios were still emerging will be either not feasible or too expensive.

You have to make sure to remain flexible where you can be flexible, but you also have to make certain choices and commit to them in the face of uncertainty. So how do you balance that? This is not a muscle that many organizations have developed. So, we have created some guidelines for how you can start to think about the future (exhibit).

First, we recommend you identify the regions most relevant to your business—ones where you have large workforces or that represent your biggest markets. At this point, you should have a sense of which ones are most affected by the coronavirus and, based on that exercise alone, you can start to evaluate which regions are likely to return in some form sooner than others. You won't know this 100 percent; a lot will depend on government regulations and how the virus evolves. But it is nevertheless useful to engage in the planning exercise.

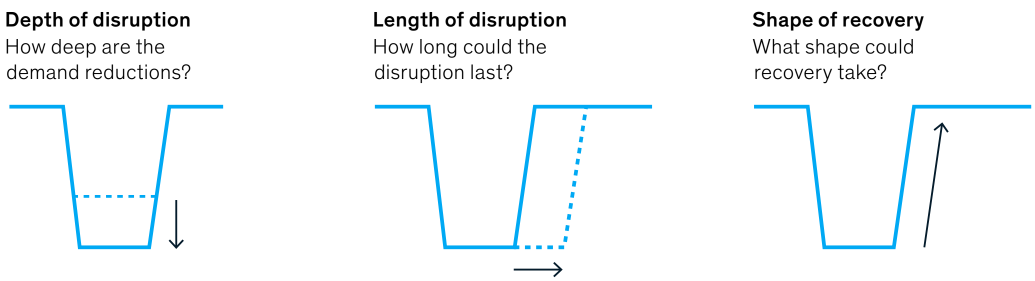
Then, for regions that are critical to your company, start breaking down the impact into a finer level of detail. You should pick some indicators that will provide a compass for your decisions. First, think about how much time passed in a particular region from the moment community transmission started to when the region got serious about physical distancing. You can measure that in different ways—reduction in traffic congestion or the level of restaurant bookings—but what is important is how much time that took. Combined with the region's population density, this will give you a clue to how large a caseload of COVID-19 infections that region is likely to face. You won't have a perfect answer but directionally you should be able to rank your different business regions.

Secondly, you can start to get a sense of the length of the disruption based on how quickly governments and policymakers are addressing both the lives and the livelihoods part of the problem. Addressing them quickly will mean you primarily have to worry about demand drawdown. Addressing it slowly will mean that you need to be concerned not only about the demand drop now but the recession that follows, when even with no new cases there will a continued impact on the economy. You want to measure that. One way is to look at the daily changes in the rate of new cases. If that rate is dropping quickly, it effectively means the region is reacting quickly.

Then you can look at the economic side, breaking it down by sector in each region. For example, late payments or credit defaults, volatility indices—these are all early warning indicators of whether the initial demand drawdown is translating to a broader recessionary impact. Again, these are not perfect metrics, but they are valid early indicators of what could happen.

Exhibit

Business leaders should consider these indicators in the coming weeks.



Finally, you look at the recovery. The question of what shape the recovery will take is still up in the air, but there are lessons we can already glean. We know that some countries are finding ways to get healthy populations back to economic activity. We also know there could be a virus resurgence in the fall, and the level of preparedness by public-health systems for that resurgence could provide a clue to the recovery's shape. Thinking about the recovery will allow you to begin detailed planning now rather than waiting until it's clear that the epidemic has passed and economic activity has restarted. At that point, you may be behind your competitors.

Sean Brown: How can leaders get a handle on these indicators? At last year's Global Business Leaders Forum, you did a presentation on business resilience that included the idea of creating a nerve center. Is doing that now important?

Mihir Mysore: Definitely. So far, we are seeing companies put in place project-management offices (PMOs) to oversee the biggest operational issues. How do I protect my people? How do I stabilize my supply chain? How do I make sure to physically protect any customers who may come onto my premises or, in a B2B situation, be transparent with my customers about our situation? A crisis nerve center is not an operational PMO. By definition, it needs to include a plan-ahead team—plan-ahead *teams*, actually—that do two very important things.

The first is to discover the truth about what lies ahead and then determine the portfolio of strategic actions that respond to whatever truth the team has uncovered. Most of the strategic actions will be trigger-based, meaning that when a certain leading indicator lights up, this is the moment to launch the action—or at least the detailed planning that will lead to that action's execution. It's important

"It's important that the plan-ahead team consider every possible scenario. Optimism bias can be a big problem in this situation."

–Mihir Mysore

that the plan-ahead team consider every possible scenario. It should ideally have red teams and blue teams to make sure there are no biases in how it assesses the scenarios. Optimism bias can be a big problem in this situation.

At the end of this process, the organization needs to settle on a planning scenario that includes a set of simple assumptions that delivery teams can take as their go-to assumptions. For example, the scenario may take the view that Region A will be up and running by a given time. The delivery team does not get to question that assumption; the scenario-planning and the strategic-actions team, together with the decision-making team, define it. However, the truth-discovery team needs to make sure that the strategic-actions team has the benefit of all the different scenarios they have come up with. Confining the portfolio of strategic actions to only one possible scenario creates too narrow a planning effort. You need a series of possible futures as inputs into strategic actions, which then get translated into triggers for each of those actions.

One last point: operational-risk teams usually become very tactical very quickly, for the simple reason that we do not regularly update goals for operational teams. A critical part of a crisis nerve center's role is making sure the scenario-planning team, together with the strategic-actions team, feeds into the operational-risk team on a weekly basis, so you can update goals, start new teams when needed, and reallocate resources as required.

Sean Brown: Thanks very much, Mihir. Shubham, now I turn it over to you to discuss the various horizons across which business leaders should be planning.

Shubham Singhal: Thank you, Sean. Businesses are obviously experiencing a significant shock, so leaders need to think through the stages this crisis, and by extension their companies, will go through. There are five stages we see, and whether you are a public-, social-, or private-sector institution, you need to be thinking about all five horizons, because they blend into each other. And they can move very fast.

The first stage is Resolve. This is where we find ourselves now—all the choices around public-health measures and the expansion of the healthcare system and testing capacity by a factor of four or five in a few weeks. If you are a private-sector institution, you face decisions about business continuity. What are the critical functions that must continue? What could close? The second state is the Resilience category. That involves significant planning around liquidity, solvency, and economic sustainability.

Next comes planning for the Return. Vaccines and other treatments are fairly far away, and just gaining control of rising infections and treating critical cases does not mean the virus won't resurge. So how do you think about returning to normal business? How do you get employees back? What distancing measures do you keep in place? Which geographies and parts of the economy can return to business? For a lot of businesses that shut down, it is not that easy to open again. You may have lost the workforce along the way, need to bring on new

"We are in a wartime period, if you will, questioning how information is being used, what opens when, who gets what money. What part of that will sustain into peacetime?"

–Shubham Singhal

people, train them, get employees back to peak productivity. Then there is the issue of global supply chains. Companies in China are finding that they can restart an automotive plant there, but if the parts are made in Mexico, they have a problem. The return is a challenge for governments and healthcare organizations as well. How do you, as a hospital system, think about bringing back some degree of normalcy to operations? And how much capacity should you keep open for possible future critical-care surges?

Senior leaders, meanwhile, need to be thinking further out still. We hear executives say, "When we do return, I would like to come back into a reimagined future." That is important, because the fundamentals will likely be different. You may be able to run some operations with fewer people. What can you do remotely? How much more productivity can you gain? How do you move to a digital, contactless world? The crisis is an accelerant to the Reimagination horizon of the business. Do we return to where we were, or to the next normal? Management teams right now are busy with crisis response, but most have a chief strategy officer, for example, who, along with their team, could be thinking about this.

The final one, particularly relevant to more heavily regulated industries, is the relationship between government, business, and individuals. We are in a wartime period, if you will, questioning how information is being used, what opens when, who gets what money. What part of that will sustain into peacetime? After the financial crisis, banks had to change their capital and liquidity policies. Will something similar happen here? Can we have supply chains designed globally for efficiency, or will governments intervene and want to put something else in place? Whether you are a policymaker, a business or an institution, you have to think about the future regulatory construct, and therefore the competitive construct. This is not just a few weeks, let's hold our breaths and we will come back. Organizations need to think through the implications across all these stages.

Sean Brown: Have you seen indications that leaders are already rethinking their supply chains, their manufacturing, their logistics, and other aspects of that third horizon?

Shubham Singhal: Yes. What we see on the Return so far is addressing the practical part, which is, where are we exposed? What is the weakest link in the chain? Will the weakest link prove to be getting our employees back or will it be where our parts or raw materials come from? Those who are ahead already have a clear plan that helps them analyze that. Executives are also beginning to ask themselves how to build supply chains for greater resilience, and what choices they should start making now. At a minimum, that will mean not having concentration risk in one area and diversifying away that risk.

This presentation was recorded on April 2, 2020. The situation surrounding COVID-19 is evolving daily. For the most current information and insights on the implications of COVID-19 for your business, please visit Coronavirus: Leading through the crisis, *a regularly updated collection of McKinsey briefing notes.*

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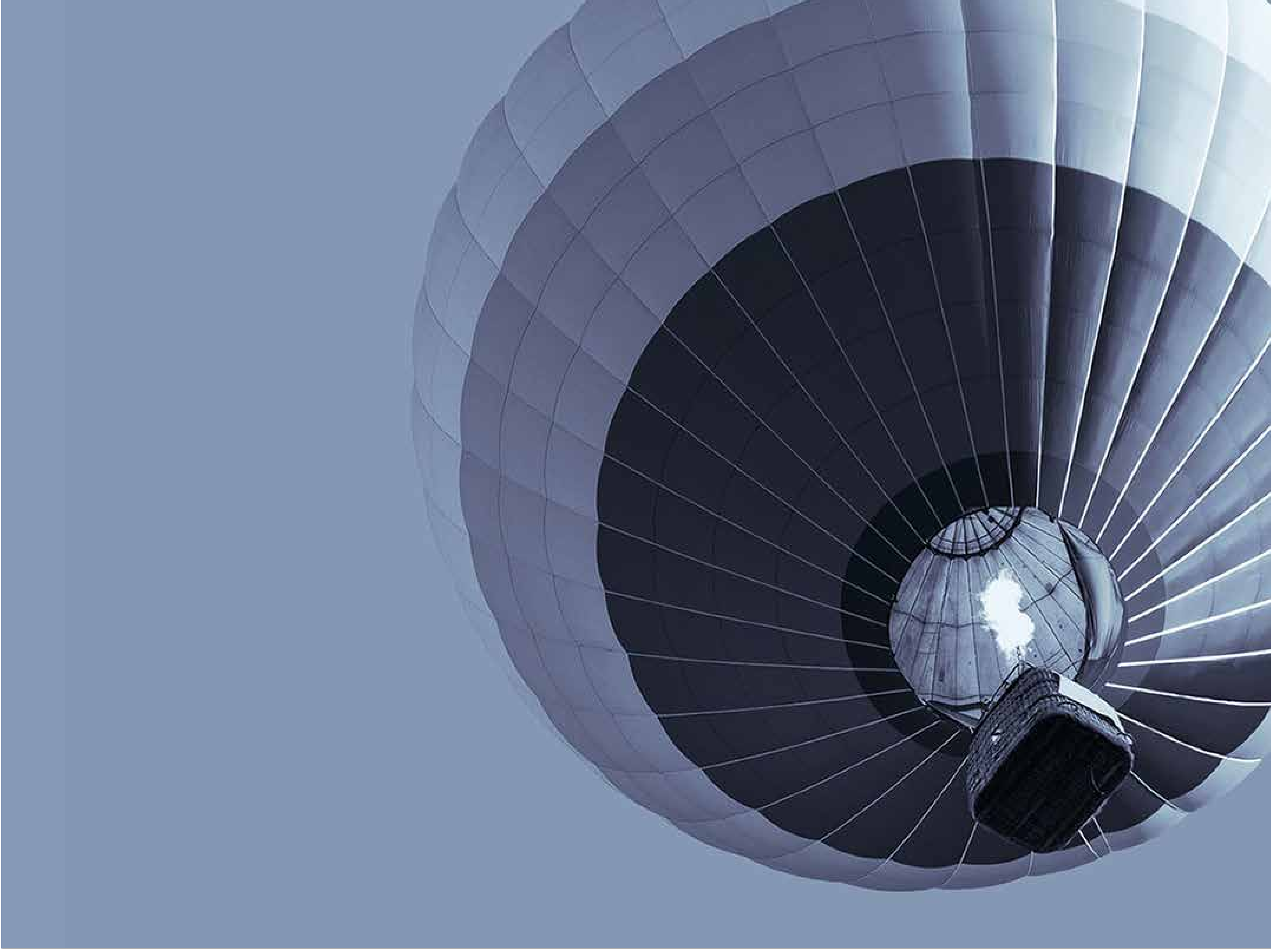
10 Make purpose part of everything



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Igniting individual purpose in times of crisis

Creating strong links to an individual purpose benefits individuals and companies alike—and could be vital in managing the postpandemic uncertainties that lie ahead.

by Naina Dhingra, Jonathan Emmett, Andrew Samo, and Bill Schaninger

In these stressful, surreal times, it's understandable for CEOs to fixate on urgent corporate priorities at the expense of more intangible, personal considerations. How important is getting your people to think about their "purpose in life" right now when you're worried about their well-being—not to mention corporate survival?

It's more important than you think. During times of crisis, individual purpose can be a guidepost that helps people face up to uncertainties and navigate them better, and thus mitigate the damaging effects of long-term stress. People who have a strong sense of purpose tend to be more resilient and exhibit better recovery from negative events.[1] Indeed, our research conducted during the pandemic finds that when comparing people who say they are "living their purpose" at work with those who say they aren't, the former report levels of well-being that are five times higher than the latter. Moreover, those in the former group are four times more likely to report higher engagement levels.[2]

Purposeful people also live longer and healthier lives. One longitudinal study[3] found that a single standard deviation increase in purpose decreased the risk of dying over the next decade by 15 percent—a finding that held regardless of the age at which people identified their purpose. Similarly, the Rush Memory and Aging project, which began in 1997, finds that when comparing patients who say they have a sense of purpose with those who say they don't, the former are:

— 2.5 times more likely to be free of dementia

— 22 percent less likely to exhibit risk factors for stroke

— 52 percent less likely to have experienced a stroke

And if this wasn't enough, individual purpose benefits organizations, too. Purpose can be an important contributor to employee experience, which in turn is linked to higher levels of employee engagement, stronger organizational commitment, and increased feelings of well-being. People who find their individual purpose congruent with their jobs tend to get more meaning from their roles, making them more productive and more likely to outperform their peers. Our own research finds a positive correlation between the purposefulness of employees and their company's EBITDA[4] margin.

Against this backdrop, CEOs and other senior executives should pay more attention to individual purpose as companies return to operations and begin feeling their way into the subsequent phases of the "next normal."

It's a sure bet your employees will be doing just that. People seek psychological fulfillment from work, and, as the crisis recedes and companies ramp up new ways of working, some people will experience friction, and even dissonance, around issues of purpose. Workplace interactions that felt meaningful and energizing face-to-face, for example, may feel much less so over a video call. Meanwhile, other employees will be looking to see if their companies' actions during the crisis matched their companies' high-minded words beforehand—and basing their career plans on the answer. And at companies where employees excelled during the crisis, business leaders will want to find ways to recapture, and sustain, the sense of organizational energy, urgency, and speed—without the accompanying fear and stress.

In this article, we explore the organization's role in individual purpose by highlighting results from an ongoing research project into the intersection of organizational purpose and individual purpose, and

[1] Stacey M. Schaefer et al., "Purpose in life predicts better emotional recovery from negative stimuli," *PLoS One*, Volume 8, Number 11, 2013, ncbi.nlm.gov.
[2] See Jonathan Emmett, Gunnar Schrah, Matt Schrimper, and Alexandra Wood, "COVID-19 and the employee experience: How leaders can seize the moment," June 2020, McKinsey.com.
[3] See Patrick L. Hill and Nicholas A. Turiano, "Purpose in life as a predictor of mortality across adulthood," *Psychological Science*, Volume 25, Number 7, pp. 1482–6, May 8, 2014, journals.sagepub.com.
[4] Earnings before interest, taxes, depreciation, and amortization.

examine how the two interact and fuel each other through the medium of the employee experience. Along the way, we highlight ways that companies can help employees find or articulate their purpose, explore how it applies to their working life, and seek to make purpose a tangible part of people's jobs. Finally, we hope to provide an occasion for deeper introspection on the parts of CEOs and other leaders themselves. After all, if we don't reflect on life's direction and meaning when life as we know it feels so threatened, when will we?

Get personal

Individual purpose can be thought of as an overarching sense of what matters in our lives, and we experience purposefulness when we strive or work toward something personally meaningful or valued. Research shows that most people say they have a purpose when asked, although it's often difficult for them to identify or articulate.

Yet even when a person's purpose is clear, it can intersect with an organization's purpose in counterintuitive ways. Consider Alice, Maya, and Peter—fictitious composites drawn from our experience. All three work for a global healthcare organization with a strong, well-communicated purpose: to transform the lives of patients and their families by developing lifesaving therapies. This is music to Alice's ears—she sees her purpose as alleviating the suffering experienced by people living with chronic diseases; the company's purpose is a big part of why she joined. Maya appreciates the company's purpose, but it's much less inspiring for her than it is for Alice. Maya feels a deeper sense of meaning from taking care of her family and supporting it financially. Peter, meanwhile, clearly sees his purpose as caring for others and alleviating their suffering. Yet unlike Alice, who loves her job because of how well it aligns with her purpose, Peter is saving his paychecks and counting the months until he can quit and begin nursing school, where he expects to start truly living his purpose.

As these examples suggest, what people need from work and what drives them personally can be complicated. Sometimes an individual's purpose aligns perfectly with organizational purpose, as with Alice. But other times it's only a partial match, as with Maya and Peter. And for still other employees, it may be a poor match or none at all.[5] As CEO, part of your job as organizational architect is to ensure that these two different forms of purpose—organizational and individual—are connected and mutually reinforcing, and are ultimately a consideration in everything from hiring, feedback and incentives, and learning to matching individuals to jobs they will find most fulfilling.

Before you can do any of that, however, you need to help your employees better understand their own purpose and how it operates, starting with the general types that help describe and characterize it. And don't forget: this applies to you, too. The more purposeful, open, and empathetic the leader, the more likely that he or she can instill the trust necessary to encourage people to leave their comfort zones and explore how their purpose might be better met at work.

What we measured

Human values are an important factor when defining individual purpose, as they help people determine what is personally important to pursue in life and work. Therefore, to better understand how people think about and experience purpose, we developed a survey to map the type and intensity of a range of universally held human values including tradition, security, power, and achievement, among others.[6]

Subsequent statistical analysis of the survey responses highlighted nine common ways that people

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[5] To learn more about designing work to be more meaningful, see Dan Cable and Freek Vermeulen, "Making work meaningful: A leader's guide," *McKinsey Quarterly*, October 2018, McKinsey.com.

[5] Our survey was adapted from the academic work of Shalom Schwartz, whose theory of basic human values identifies ten values that subsequent research has demonstrated are universally recognized across cultures. For more, see Shalom Schwartz, "An overview of the Schwartz Theory of Basic Values," *Online Readings in Psychology and Culture*, Volume 2, Number 1, scholarworks.gvsu.edu.

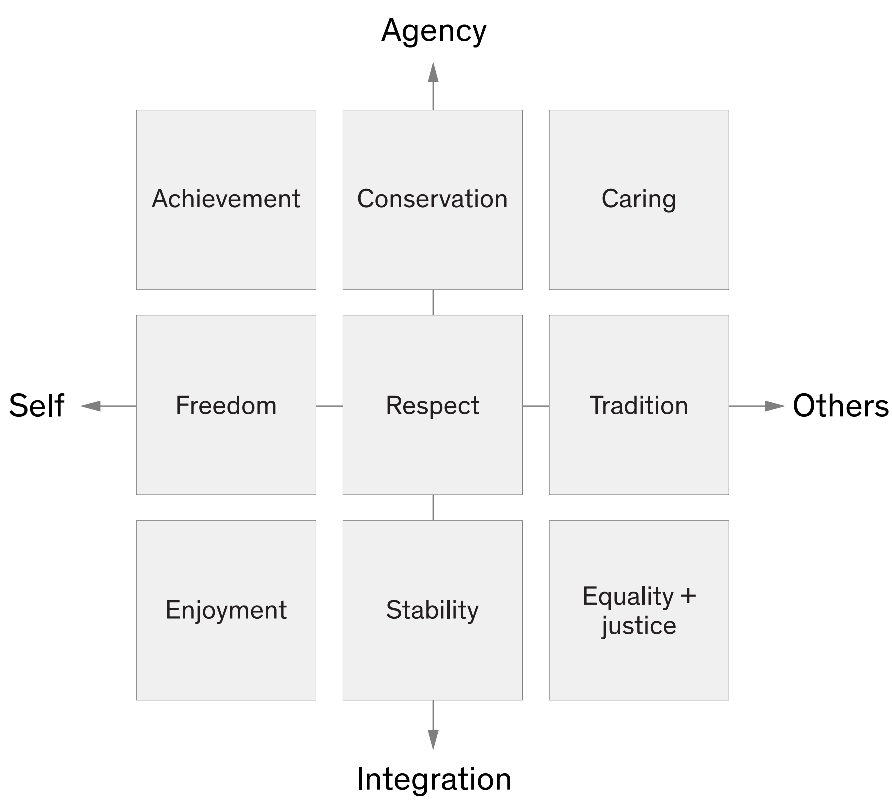
orient themselves toward purpose (see sidebar "Nine types of purpose"). While an individual's purpose may hew quite closely to one of these nine types (Exhibit 1), it may instead arise from combinations of them, with the relative emphasis and priority of elements varying from person to person. Exhibits 2, 3, and 4 show three such patterns (or purpose archetypes) that arose from our research.

Academic research and our own experience tell us that an individual's sense of purpose isn't fixed or static—it can be clarified, strengthened, and, for some, may serve as a lifelong aspiration, or North Star. And, while what people find meaningful tends to evolve over long timeframes, it can shift relatively quickly, particularly in response to the kinds of life-changing events that many people are

Exhibit 1

Your individual purpose (that is, where you find meaning) will likely map to some combination of the values below.

Nine types of individual purpose



[1]The vertical axis reflects the **target** of our work activities, whether directed toward ourselves or toward other people. We may find either or both orientations meaningful. The horizontal axis reflects the underlying **motives** for our work activities, ranging from our drive to expand our sense of self to our drive to cooperate and unite with the world around us. Both dimensions may be experienced simultaneously and in combination.

experiencing now as a result of the pandemic, or the more recent racial-justice protests. A leader previously fueled by personal achievement, for example, might emerge from the trauma of these times more motivated by issues of equality or by contributing to community. Or a leader formerly motivated by freedom and independence might find the tug of stability meaningful.

What to do about it

The pandemic has been a cruel reminder for companies everywhere of how important it is to never take healthy or motivated employees for granted. Since individual purpose directly affects both health and motivation, forward-looking companies will be focusing on purpose as part of a broader effort to ensure that talent is given the primacy it deserves.

Nine types of purpose

We surveyed 509 people representing a range of personal demographics (gender, age, ethnicity, and education) and occupational characteristics (industry, sector, and role). We asked them about the type and intensity of their life values by having them rate the importance of a series of statements, each related to a value that academic research has found to be universal. Statistical analysis of the results showed that respondents' life values clustered in one of nine categories. Taken together, our results suggest that an individual's purpose maps to one of the nine—or is formed by combinations of them.

The nine types of purpose, and examples of their characteristics, are as follows:

Achievement
- Having a sense of authority
- Being the most influential person in any group
- Having high status and power
- Having a high income

Conservation
- Working against threats to the environment
- Raising awareness of the importance of preserving the environment
- Caring for the environment

Caring
- Helping the people close to me
- Sacrificing for my loved ones
- Being responsive to the needs of my family and friends

Freedom
- Learning things for myself
- Forming my own opinions
- Choosing my own goals

Respect
- Not being shamed in front of others
- Avoiding humiliation

Tradition
- Respecting my culture's history
- Practicing the rituals of my culture or religion
- Preserving the established values of my culture or religion

Enjoyment
- Having new and different experiences
- Going on adventures
- Having excitement in life

Stability
- Respecting authority figures
- Having order and stability in society
- Adhering to standard rules

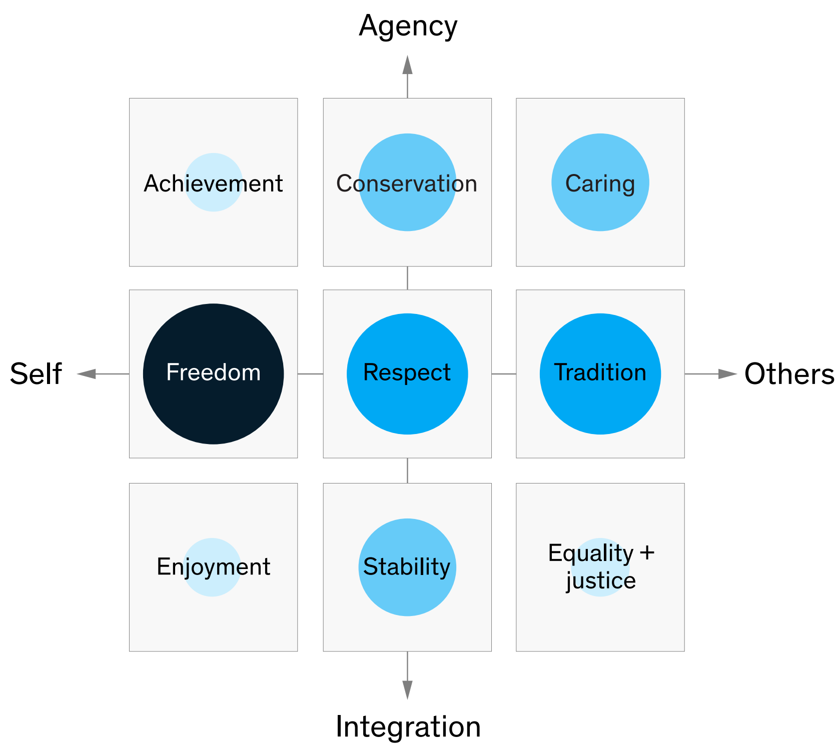
Equality and justice
- Listening to people who are different than I
- Trying to understand people, even when I disagree with them
- Ensuring everyone is treated fairly

Exhibit 2

‘Free spirits’ tend to find meaning in situations where they control what they do and when they do it.

Archetype 1: The free spirit

Higher importance — Lower importance



Primary type:	Secondary type:
Freedom	Respect, tradition

Purpose activators:

Working independently while having opportunities to stress test ideas with others

Choosing how I accomplish my goals while still observing the traditions of my family and culture

Purpose blockers:

Being micromanaged or stuck with inflexible processes

Being censured in public

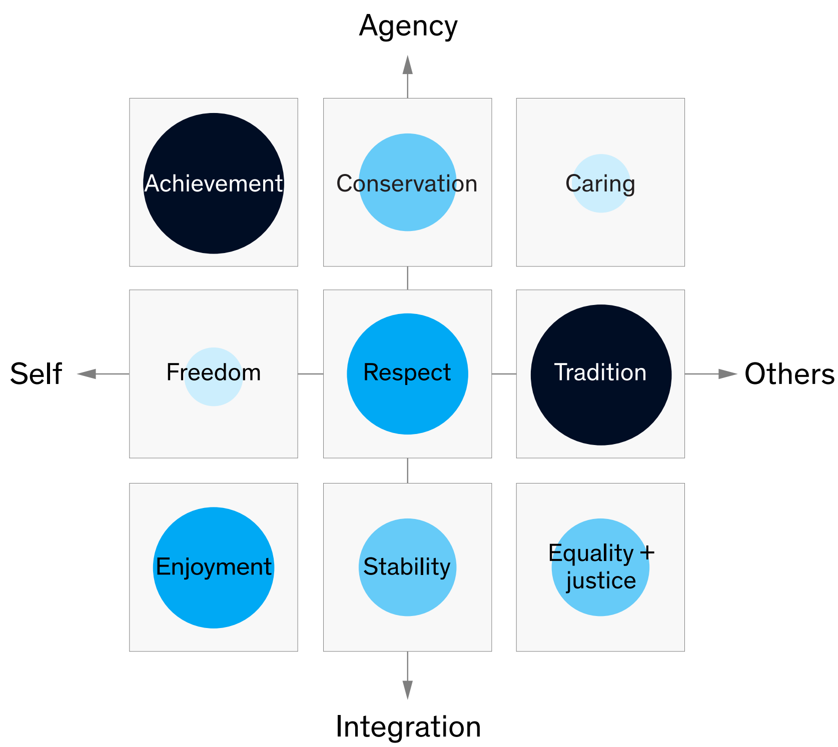
Being pressured to take a direction that goes against established practices

Exhibit 3

'Achievers' find purpose in accumulating social or material resources; they often find meaning in self-improvement.

Archetype 2: The achiever

Higher importance — Lower importance



Primary type:	Secondary type:
Achievement, tradition	Enjoyment, respect

Purpose activators:

Opportunities to increase earnings and gain stature in the eyes of others

Being the authority on a subject and impressing others

Opportunities for fun and excitement

Purpose blockers:

Feeling invisible or lacking influence in a group

Fear that failure will lead to humiliation

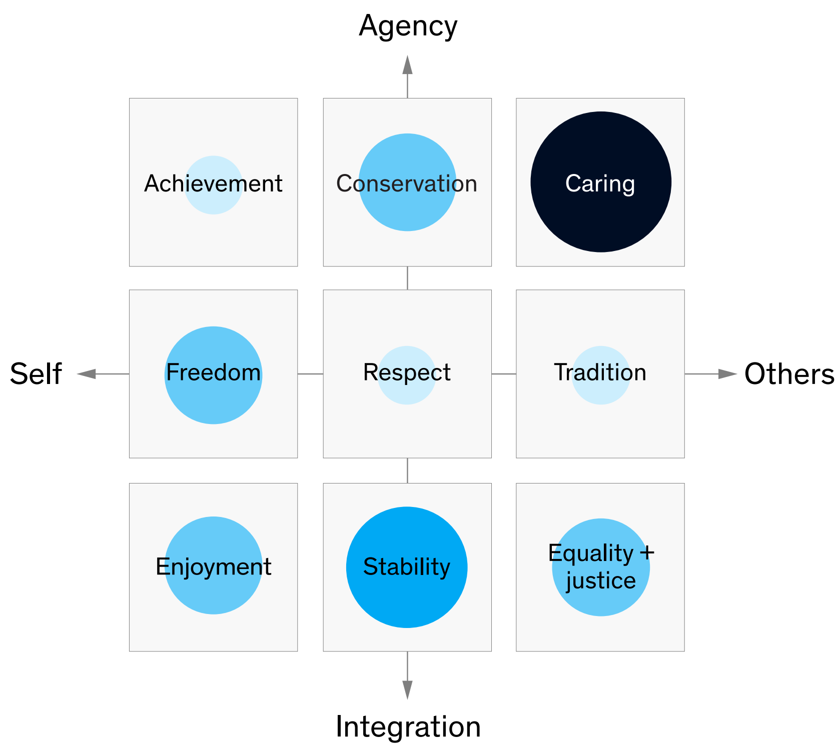
Having to act out of sync with one's culture/religion

Exhibit 4

‘Caregivers’ find meaning in choosing how and when they care for others; they care less about material gain or what others think of them.

Archetype 3: The caregiver

Higher importance — Lower importance



Primary type:	Secondary type:
Caring	Stability

Purpose activators:

Being able to help others or mentor colleagues

A work–life balance that provides opportunities to respond to the needs of family and friends

A sense of security and order

Purpose blockers:

Being pulled away from family and friends or isolated from colleagues

Uncertainty, or lack of an orderly path

While it may be early days in understanding precisely how an individual's purpose connects to what he or she wants and needs from work—or how these tie to an organization's purpose—now is the time to start figuring it out. Start by simply discussing these matters with your team openly, honestly, and thoughtfully. By treating this as the beginning of an ongoing conversation about purpose, meaning, and what your employees want from work, you can help people better identify and articulate their purpose, and even start finding ways to help them live it more fully at work—an outcome that will benefit everyone.

And as you get started, remember that your actions and your capacity to lead with compassion play an outsize role now. You will have access to only what your people give you access to. Treat these conversations and resulting insights as the gifts that they are, and you'll increase the odds of seeing more of both.

Start the conversation—yesterday

During times of crisis, effective leaders are important sources of trust, stability, meaning, and resilience. They also play a vital "sensemaking" role for those around them. For many people in your organization, the urgency of this time is to blend exhilaration with extraordinary stress. Those who compartmentalize the pressure and trauma may face stress, anxiety, and burnout later—and purpose will be a catalyst in these dynamics.

Consider, for example, the teammate who feels tension between the imperative to meet foundational needs by earning a paycheck, and the frustration (which may be unconscious) of not having the time, opportunity, or license to focus on their purpose. Or the colleague who thrives on face-to-face interactions with customers and coworkers but finds days filled with video interactions draining and deadening. People need empathetic and caring leadership to help be aware of, understand, and grapple with such tensions as they develop.

Simply talking about the pressures can help heighten your colleagues' sense of purpose at work, as will encouraging your team to step back from the immediacy of the crisis to focus on the bigger picture and what matters to them.

One effective way to do this is through periodic, guided conversations with your direct reports. Don't think of these as project check-ins, or even as purpose check-ins, but rather as empathetic check-ins—a chance to understand how employees are doing and learn how you can support what they need. Have your company's managers make these meetings a recurring part of how they lead as well.

Make personal reflection a business priority

By creating a space for honest discussions about purpose—including your own—your team will hopefully be more willing to explore the topic for themselves. A "purpose audit" can help. Create the time that people need to consider how their work is fitting into the bigger picture, using the nine types of purpose as a starting point to explore what elements resonate and why. When people can articulate a purpose, do they feel they are living it? What barriers prevent them from living it more fully? How—if at all—have recent events changed the way they think about purpose? One deceptively simple ice-breaking question that we've seen elicit rich conversations is: "When do you feel most alive?"

Sharing purpose with others can build accountability and act as an accelerator that helps people consider where and how to bring more of their purpose to work. With your help, the crisis may provide new opportunities for employees to take action in line with their purpose. It may even motivate you to further explore your own sense of purpose and see how you could benefit as well (see sidebar "One CEO's story").

Help people take action

There are many things leaders can do to help ignite purpose for their colleagues. For example, one large retailer dedicates time for a regular "purpose pause," where teammates are encouraged to celebrate their involvement in local community projects and to identify new ones to support. The company uses an app to spur connectivity and increase the odds that good ideas are applauded and shared.

For its part, Zappos created a customer-service line to answer questions and help find solutions for people dealing with the pandemic. The kicker? Callers need not be Zappos customers, and the topics can be anything—from food delivery and finding essential supplies to literally anything on a caller's mind. To be sure, with business slower and call volumes down, the hotline gives the company's customer-service reps something to do between their regular calls. Yet it also offers reps the chance to help others and connect with them, which is one way that people can help satisfy the psychological need for belonging. And research around job design suggests that even simple tasks are perceived as more meaningful when our psychological needs are satisfied.

As these examples suggest, purpose and meaning can be valuable considerations in adjusting day-to-day routines or even in designing roles. But even if you're not ready to go as far as Zappos, there are other ways to give people license to be purposeful now. When possible, create opportunities, such as the following, for people to live their purpose during this time by tailoring projects, support, communication, and coaching to suit different needs, values, and situations:

— For the up-and-coming leader who views her purpose as freedom to learn, grow, and experiment, empower her to try new things in service of customers and stakeholders, keeping projects within guardrails but without multiple layers of oversight. Be sure to frame any negative outcomes as learning, not failure.

— For a team member who values preserving and upholding tradition, invite him to help plan important organizational or community rituals (like team events or company days). Such events create connection and can be critical to build and maintain culture.

— For colleagues whose purpose is aligned with equality and opportunity for others, consider connecting them to the forefront of company initiatives and projects where your organization is helping the communities in which you operate.

Keep in mind that some people view their purpose as caring and providing for those closest to them—and practically everyone else in your organization will be feeling anxiety around these issues right now. Be sure to tailor your communication to address their needs, too, so that this time takes less of a toll on their personal purpose.

Reimagine a purpose-led future

As much as the pandemic is testing your leadership right now, the real test with purpose starts as the immediate crisis fades and the hard work of reimagining and reforming your business for a postpandemic world begins. Embedding and activating individual purpose more thoroughly in the various elements of the employee experience will take hard work and commitment. While it's too soon to say what best practice will look like, it's safe to say that the more you can connect purpose to the following areas, the more likely the benefits will build upon one another:

— *Recruiting.* Explicitly connect the purpose of the organization to the personal contributions an individual in the role could bring to the company. By backing it up with real, purpose-rich stories from hiring managers who have seen this in action, you will increase the odds of attracting people whose purpose fits well with the organization and the work, and help them be productive sooner.

— *Onboarding.* Make purpose part of the first conversation with both the manager and the team to build a shared vocabulary. Start people off right by helping them reflect on how the work and the organization connect with their own purpose. In fact, applied research finds that encouraging new employees to focus on expressing personal values at work allowed them to significantly outperform peers, be more satisfied at work, and increased retention by more than 30 percent.[7]

— *Feedback and performance management.* The value of strengths-based feedback is well known; purpose is a natural extension

[7] Daniel M. Cable, Francesca Gino, and Bradley R. Staats, "Breaking them in or eliciting their best? Reframing socialization around newcomers' authentic self-expression," *Administrative Science Quarterly*, Volume 58, Number 1, pp. 1–36, February 8, 2013, journals.sagepub.com.

One CEO's story

One CEO found that articulating his sense of purpose was the first step to becoming a more observant, empathetic leader. Here's his take.

"I want the relations I form to be true, to have relevance, depth, meaning. This is a big part of how I see my purpose. I'm willing to make myself vulnerable and open to connect with people in a truthful and meaningful way.

"[Since articulating my purpose,] I believe I'm more honest with myself and faster to recognize if I might be doing something that's motivated by my own vanity, fear, or pleasure. I know I'm more open to feedback and criticism. I spend less time talking about weekend or vacation plans and more time exploring what motivates, frustrates, or scares people—the things that really matter. I make faster connections with people now—in part, I think—because of this.

"With my team, I do my best to check in emotionally during meetings, and not be afraid to share my own weaknesses and doubts. If I don't know the answer, I'll say so, and I find all of this strengthens my impact and credibility as a CEO. The idea of being vulnerable in front of a group of people is no longer something to be ashamed of, but rather a strength. I'm a better listener now.

"Whenever I feel disconnected from my purpose, I get flustered, lose sleep, and generally feel stressed out. This is a biological signal for me to stop, get back to what matters, and search for whatever it is that feels *untrue* so I can make it truthful."

that can help connect an individual's broader self to their work. Activating purpose during feedback sessions may even help buffer people against the uncomfortable aspects of receiving negative feedback. Try starting a performance conversation with a reflection on purpose and how the work the individual has been doing—as well as their performance—illuminates their purpose and values.

Other employee journeys present moments for purpose as well. Ask yourself at each point: How could we make purpose part of this conversation or interaction? What unexpected benefits might result? How might the accumulation of these small moments build a purpose movement in my team and organization?

These are challenging times, and people who are able to draw energy and direction from a sense of individual purpose will weather them with more resilience, and will recover better afterward. Companies that embed and activate individual purpose in the employee experience can benefit as well, including through improved performance. And, of course, purposeful work and a purposeful life are enduring benefits in and of themselves—ones that everyone should have the opportunity to seek.

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The CEO moment: Leadership for a new era

Challenged by the global pandemic, CEOs have made four shifts in the way they lead that hold great promise for both companies and society. Will they build on this unique moment, or return to the ways of the past?

by Carolyn Dewar, Scott Keller, Kevin Sneader, and Kurt Strovink

COVID-19 has created a massive humanitarian challenge: millions ill and hundreds of thousands of lives lost; soaring unemployment rates in the world's most robust economies; food banks stretched beyond capacity; governments straining to deliver critical services. The pandemic is also a challenge for businesses—and their CEOs—unlike any they have ever faced, forcing an abrupt dislocation of how employees work, how customers behave, how supply chains function, and even what ultimately constitutes business performance.

Confronting this unique moment, CEOs have shifted how they lead in expedient and ingenious ways. The changes may have been birthed of necessity, but they have great potential beyond this crisis. In this article, we explore four shifts in how CEOs are leading that are also better ways to lead a company: unlocking bolder ("10x") aspirations, elevating their "to be" list to the same level as "to do" in their operating models, fully embracing stakeholder capitalism, and harnessing the full power of their CEO peer networks. If they become permanent, these shifts hold the potential to thoroughly recalibrate the organization and how it operates, the company's performance potential, and its relationship to critical constituents.

Only CEOs can decide whether to continue leading in these new ways, and in so doing seize a once-in-a-generation opportunity to consciously evolve the very nature and impact of their role. Indeed, as we have written elsewhere, part of the role of the CEO is to serve as a chief calibrator—deciding the extent and degree of change needed.[1] As part of this, CEOs must have a thesis of transformation that works in their company context. A good CEO is always scanning for signals and helping the organization deliver fine-tuned responses. A great CEO will see that this moment is a unique opportunity for self-calibration, with profound implications for the organization.

We have spoken with and counseled hundreds of CEOs since the pandemic first hit. It is clear to us that they sense an opportunity to lead in a new, more positive and impactful way. If a critical mass of CEOs embraces and extends what they have learned during the pandemic, this CEO moment could become a CEO movement—one that is profoundly positive for the achievement of corporate, human, and societal potential. As Rajnish Kumar, chairman of the State Bank of India, reflects, "This will be a true inflection point. I think that this pandemic, in terms of implications, will be as big an event as World War II. And whatever we learn through this process, it must not go to waste."

Aspire 10x higher

The global health crisis and its resulting business dislocations have unlocked change at a pace and magnitude that has made even the boldest and most progressive of CEOs question their assumptions. From what we have observed, there are at least two related areas that are ripe for innovation: goal setting and the operating model.

Think bigger and faster

During the pandemic, many organizations have accomplished what had previously been thought impossible. Cincinnati Children's Hospital Medical Center (CCHMC), for example, scheduled 2,000 telehealth visits in 2019. It is now handling 5,000 a week—a goal that, prior to the pandemic, it had estimated would be accomplished several years from now and only after a large-scale transformation. At Dubai-based Majid Al Futtaim (MAF), attendance at movie theaters fell (as a result of government-mandated closures) while demand for its online supermarket soared; in two days, the company retrained 1,000 ushers and ticket sellers to work for the online grocer. Without the crisis, that speed and magnitude of reskilling to leverage talent across MAF's portfolio of companies would never have been contemplated. Best Buy, which had spent months testing curbside pickup at a handful of stores, rolled it out to every store in just two days. In four days, Unilever converted factory lines that were making deodorants into ones making hand sanitizer. Life insurers have wrestled ingeniously with a unique COVID-19-related problem, says Jennifer Fitzgerald, CEO of Policygenius, an online insurance broker: "Some consumers don't want the examiner in their

[1] See Carolyn Dewar, Martin Hirt, and Scott Keller, "The mindsets and practices of excellent CEOs," October 2019, McKinsey.com.

house. We've seen a lot of flexibility from carriers. Some have moved quickly on the electronic medical-record side. We've also seen carriers increase the face amount that they're willing to underwrite using data instead of the medical exam. . . . Overall, I think this has pushed the industry to adopt some changes much more quickly than it otherwise would have." In a week, companies went from having 100,000 people working in offices to having 100,000 people working from home—a shift requiring systems and policy transformation that under normal circumstances might have taken years.

Of course, the unprecedented scale and speed of the pandemic have created "burning platform" impetus for these feats, but it is still remarkable that organizations have been able to make it happen. These achievements have come partly from people working faster and harder, although this is not the whole story, and many CEOs are taking the long-term view. Says Guardian CEO Deanna Mulligan, "We've been worried about our broader team in general because they've been working very hard. We've found that people are substituting their commuting time with working. Our IT guys are telling us that they're getting three extra hours a day out of the coders. We're mandating across the whole company that they can't work after a certain hour at night or that they have to take vacation because nobody's taking their vacation days; they don't want to waste their time off hanging around at home. But it's going to be this way for a while, and we don't want them to go a whole year working at this pace without a break."

CEOs are recognizing that the barriers to boldness and speed are less about technical limits and more about such things as mindsets toward what is possible, what people are willing to do, the degree to which implicit or explicit polices that slow things down can be challenged, and bureaucratic chains of command.

Realizing this, CEOs are appropriately celebrating the magnitude of what their organizations have achieved and considering how to stretch for more. Michael Fisher, CEO of CCMHC, thinks that going forward telehealth will account for up to 50 percent of visits in certain ambulatory settings, and perhaps 30 percent of visits overall. Before COVID-19, less than 1 percent of visits were telehealth. Says Fisher, "I keep pushing myself and our team to think about how we use this inflection point to reimagine our potential together, as opposed to allowing our organization to just go back to the comfort of 'Let's do what we're doing.'"

Research by our colleagues in McKinsey's Strategy and Corporate Finance Practice has long shown that CEOs making bold moves is vital to achieving outstanding performance, which itself is elusive—only one in 12 companies goes from being an average performer to a top-quintile performer over a ten-year period.[2] Making one or two bold moves more than doubles the likelihood of making such a shift; making three or more makes it six times more likely. Our research has also shown that CEOs who are hired externally tend to move with more boldness and speed than those hired within an organization, partly because of the social pressures that constrain internally promoted CEOs. As a result, we often advise CEOs who are promoted from within to ask themselves the question that famously prompted Andy Grove and Gordon Moore to focus Intel on microprocessors: "What would an outsider do?" Given the performance we have seen during the pandemic, we would now encourage CEOs to ask themselves and their teams a follow-on question: "What would your COVID-19 answer be?" The power that these frames of reference hold, to reimagine the possible and recalibrate what can be achieved, is profound.

Other questions for CEOs to reflect on to help calibrate their aspirations include:

— Where should we be aspiring 10x higher and/or 10x faster?

— What beliefs or long-held assumptions do I need to explicitly reset in the organization and with stakeholders to achieve this?

— What do we say no to, or stop doing, to create the additional space to go bigger and faster?

[2] See Chris Bradley, Martin Hirt, and Sven Smit, "Strategy to beat the odds," *McKinsey Quarterly*, February 2018, McKinsey.com.

Many CEOs have since adapted by booking “flight time” into their schedule so as to avoid spending all day, every day, on videoconference meetings.

Zero-base how work gets done

In addition to the mindset shifts mentioned earlier, there are any number of more tangible reasons why companies have been able to drive this kind of progress so quickly. Some CEOs, such as Vivek Sankaran of Albertsons and Lance Fritz of Union Pacific, have noted that remote work and bans on travel have opened up banks of time that give them the opportunity to focus more on what really matters. As Natarajan Chandrasekaran, chairman of the Tata Group, says, “[As a consultant,] I used to fly to meet a customer, even if it took all day or more, for a one-hour meeting. Now I know that the amount of time that goes into traveling is not necessary. That’s the way people used to live, but I think that that will come down now.” Unilever CEO Alan Jope tells us, “We’re all discovering what a capacity trap travel is. I feel a quite calming sense of control over my own time.” Others, however, like BlackRock CEO Larry Fink, discovered early in the crisis that not having travel time took from them valuable reflection, focus, and restoration time. Fink reminds us that downtime at the water cooler with colleagues and travel by oneself can be creative openings and outlets for new thinking. Many CEOs have since adapted by booking “flight time” into their schedule so as to avoid spending all day, every day, on videoconference meetings. In either case, the COVID-19 experience has made it clearer than ever that CEOs must be extremely intentional about how they use their time.

Beyond personal time and energy management, organizational adjustments that CEOs have made to decision making and execution hold great promise for the future. Arvind Krishna, the new CEO of IBM, tells us that his company has recently relied on a two-speed model of decision making. “Your CMT [crisis-management team] will handle all of the stuff around health, safety, employee confidence, and client confidence,” says Krishna. “That lets the others focus on running the business. I think it’s a reasonable model for three to nine months. The bigger question is, ‘How do we learn from this and evolve better for the future? What structural changes do we make?’” One significant aspect of structural change that most CEOs are grappling with is how much of a physical footprint their companies need, now that the ability to work virtually and productively has, by and large, been proved.[3] If companies do move to a more virtual model (50 percent or more virtual, up from 20 percent, for example), what does that mean for team building, compliance, distribution channels, and so on?

The magic of the moment is that both the CEO and the organization’s operating models have been unfrozen, perhaps more than in any time in a generation. There is an opportunity to reset how work gets done in ways that make it multiple times more efficient and effective—free of the burden of historical norms. Our colleagues have found, in their research on innovation “essentials,” that breakthrough moments arise when leaders dramatically raise their sights, and then commit to the operating implications (particularly with difficult resource-allocation and portfolio choices) needed to achieve those aspirations.[4] Operating-model issues loom large for CEOs as individuals, too: our research shows that CEOs who focus their scarce

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[3] Andrea Alexander, Aaron De Smet, and Mihir Mysore, “Reimagining the postpandemic workforce,” *McKinsey Quarterly*, July 2020, McKinsey.com.

[4] See Marc de Jong, Nathan Marston, and Erik Roth, “The eight essentials of innovation,” *McKinsey Quarterly*, April 2015, McKinsey.com.

time doing work that only the CEO can do, and who manage their energy with the same rigor and discipline with which they manage their time, deliver higher performance.

As CEOs begin to seize the unique opportunity at hand to recalibrate their personal, team, and company operating models, they should reflect on the following questions:

— How have we worked differently to enable the impossible to happen during the pandemic (including our decision making, processes, resource allocation, communication, and location)?

— What learnings and new muscles should we bring forward into the organization for the future?

— How will this change my day-to-day as I run the company as CEO?

Elevate 'to be' to the same level as 'to do'

In a moment of crisis, everyone looks to their leader. CEOs have felt this acutely during the pandemic. David Schwimmer, CEO of London Stock Exchange Group, says, "People are looking to me for a different kind of leadership. In a normal environment, it's about business leadership and setting up strategy, as well as culture and people decisions. In this environment, it's about helping people maintain morale. It's about people being prepared for whatever may come in the face of uncertainty." As a result, leaders have shown up differently and have starting using a different lens to take notice of how members of their senior team show up. We see both of these areas as candidates for permanent change in the future.

Deliberately choose 'how I show up'

Perhaps the most notable feature of how CEOs are showing up differently is that they are showing more of their humanity. As Paul Tufano, CEO of AmeriHealth Caritas, explains, "This has been a sustained period of uncertainty and fear, but also a great opportunity to forge a stronger, more cohesive and motivated workforce. If CEOs can step into a ministerial role—extending hands virtually, truly listening, relating to and connecting with people where they are—there is enormous potential to inspire people and strengthen bonds and loyalties within the company." Adds Alain Bejjani, CEO of MAF, "The people you are leading have big expectations of you. They want you to be perfect and often forget that you are human. But the more human you are with them, the more trust and empathy they lend to you. They understand you better. That gives you the ability to do so much more, as people give you the benefit of the doubt."

Many CEOs we have spoken with have been positively surprised that bringing more of themselves into the workplace has created connection and motivation. Says Steve Collis, CEO of AmerisourceBergen, "One of the smartest things that we did the very first week was to set up a daily executive-management meeting at 5:00 p.m. That's important from a decision-making point of view, but it's even more important for touching base and showing empathy. We're now in each other's homes—you're seeing my study, and we've met each other's families. . . . I asked all my direct reports, 'Is there someone who wants me to reach out to someone who's doing a great job or someone who's struggling? Maybe someone who has a relative with COVID-19?' Sometimes all that's needed is a word of encouragement to show you care. It's been a great gift to be able to do that for the people in AmerisourceBergen."

Showing up isn't only about opening up more of oneself to others, however; it's also about being the organization's rock during a time that's fraught with anxiety and uncertainty. "[Employees] need to see that their leadership is vulnerable, empathetic, and making decisions in accordance with our values, which I'd better be the living proof of," says Lance Fritz, CEO of Union Pacific. "Our people are expecting me to be transparent, to have a grip on the situation, and to be reasonable about what I do know, what I don't know, and what we're doing about it."

Michael Fisher of CCMHC has begun to operationalize these insights by being explicit about what is on his "to do" and "to be" lists. As Fisher explains: "I never purposefully gave thought to whether there's a way to be really intentional about how I want to show up every day. So I've added a 'to be' list to my repertoire. Today, for example, I want to be generous and genuine. I hope I'm that way every day. But today, I want to make sure it stays top of mind. On a different day this week—and look, you can see it here in my calendar—I knew that part of my job was to be collaborative and catalytic. So I pick out two qualities, two kinds of 'to be,' every morning as part of my normal routine."

Choosing how one wants "to be" is yielding concrete results. Deanna Mulligan, CEO of Guardian, says, "Like many New York financial-services firms, our culture and corporate communications tend to be a bit more formal. Pre-COVID-19, when I was preparing for a company-wide video or speech, that formality, in the form of rehearsals and professional staging, was standard practice. That culture had to change overnight because everyone's at home. Now, I'm more casually dressed, and it's more intimate and personal. I've made some of my videos outside with the dog, something that we'd never have thought to do before. The feedback has been terrific. Our employee engagement scores, confirmed by regular pulse surveys, have been consistently on the rise since going remote."

By reflecting on the following questions, CEOs can use this moment as an opportunity to recalibrate how they show up every day:

- What qualities am I bringing to being and showing up today that I should continue to bring into the future?
- Going forward, is there an opportunity for me to manage a "to be" list with the same rigor as my "to do" list?
- How, practically, should I hold myself accountable? How will I ensure that others help hold me accountable?

Recalibrate how I expect leaders and employees to show up

Just as the "being" side of the CEO has come to the fore during the crisis, the same is true for other leaders in the organization. At his recent top-300 executive meeting, Verizon Communications CEO Hans Vestberg shared a visual showing how he's spent his time over the past three months during the crisis and how his energy has changed: "Ultimately, my job is to give energy, empowerment, and vision to the organization. If I'm down, I'm not really using the only asset I have as a leader. And I have bad days like anybody else. I tell my leaders, 'You need to self-assess so you know what you're good at, and double down on that in your own leadership.'"

Several CEOs have told us that they have learned a lot about their leadership teams during the pandemic. "This environment offers some terrific empirical evidence," says Union Pacific's Lance Fritz. "This is a great environment if you're prone to saying, 'Not in my sandbox.' You can really shut others down. It's a challenging environment if you're prone to be inviting, but if you can do it in this environment, you're probably going to do it in the normal world, too. I'm seeing behaviors like that bubble up, and it's very informative."

CEOs are noticing aspects of their people that had always been there but perhaps had gone overlooked or weren't considered important until the pandemic helped make those characteristics more pronounced.

CEOs are noticing aspects of their people that had always been there but perhaps had gone overlooked or weren't considered important until the pandemic helped make those characteristics more pronounced. Most job descriptions list what is expected in terms of skills and experience, but during COVID-19, CEOs have seen the critical importance of other attributes and qualities of character. As Alain Bejjani, CEO of MAF, states, "I think we're moving from a world of specialists toward a world of generalists. Leaders need to adapt to all kinds of different circumstances, and generalists can succeed when life is so fast and volatile. We will need more generalists to lead in disruptive times, whether they're caused by technological shifts or this unimagined pandemic."

A conscious, deliberate choice to adjust people expectations to include "to be" as well as "to do" considerations will change how CEOs and their organizations select, train, coach, recognize, and reward leaders. As CEOs decide how to make this shift permanent, they, together with their chief human-resources officer, should consider the following:

— What will I look for differently in leaders as a result of what I've learned during the pandemic?

— What actions should I take in the near term to reinforce what "being" attributes will be of elevated importance going forward?

— How can these attributes be hardwired into our people model to ensure they are institutionalized in how we develop, reward, and promote?

Fully embrace stakeholder capitalism

Over the past few years, many CEOs have begun to embrace the idea that their companies' obligations to shareholders should not come at the expense of other stakeholders—that is, employees, customers, the community, suppliers, and society. The most public affirmation of the idea came just last summer, when 181 CEOs committed to the idea by signing on to the US Business Roundtable's "Statement on the purpose of a corporation." The pandemic has brought this issue to the fore in powerful ways, prompting many CEOs to gut check what they really believe and take action accordingly—something we believe all CEOs would benefit from, given the moment at hand.

Decide what you really believe

The COVID-19 pandemic has emphatically affirmed the interconnection and interdependence of businesses with their full range of stakeholders. As Robert Smith, CEO of Vista Equity Partners, a private-equity firm with some 60 companies in its portfolio, says, "At the beginning of COVID-19, CEOs zipped right to thinking about shareholders above everything. It was almost a muscle memory. But then they realized that at every turn they were bumping up against different stakeholders: partners, governments, suppliers, employees. They were experiencing the interconnectedness of stakeholder capitalism in everything they did."

CEOs are being called upon to make decisions they have never been trained for. Few have any expertise on the general health of their employees, yet they are called upon to decide when it is safe to return to the office. Tough decisions with profound human consequences are confronting CEOs every day. CCHMC's Michael Fisher told his board leaders that he was willing to repurpose a beautiful, relatively new satellite hospital already being fully used to care for children to instead serve adult patients exposed to COVID-19, if that's what the community needed. "That would not have been a popular decision with some important stakeholders, for a range of reasons, and, thankfully, we haven't had to do it. But if that was the right way for our community to respond to this crisis, I would have been ready to do it again." Throughout the crisis, Fisher says, "What went through my mind was the range of issues that needed to be dealt with—and the range of responsibilities that we had to patients, to families, to our employees, and to the community. How would we take this moment and not only preserve trust with stakeholders but also strengthen it?"

Starting with the needs of their employees, stakeholder capitalism moved from an idea talked about at conferences to a rapid-sequence decision-making reality for many CEOs. Unilever's Alan Jope tells us, "We realized after the event that we had followed our multistakeholder model. Week one was all about our employees. We secured everyone's jobs and income for three months. The next week, we started thinking about our community response. We donated products, got into a big partnership for handwashing, and made €500 million available as working capital to pay small suppliers early. And after we had taken care of people and the community, that's when we thought fundamentally about the business, about the fact that we make things and collect cash for them. That's when we secured supply lines and built extra resilience into our supply chain."

Research has made it clear that tending to multiple stakeholders and managing for the long haul is good for not only stakeholders but also the company.[5] Exposure to customer and stakeholder-related risks are minimized, and new opportunities present themselves. For example, 87 percent of customers say that they will purchase from companies that support what they care about. Ninety-four percent of millennials say that they want their skills to benefit a cause. Sustainable investing has grown 18-fold since 1995. These facts are not new to CEOs, but the COVID-19 pandemic has laid bare the profound interconnectedness between businesses and the broader world in which they operate. Furthermore, our early research indicates that consumers will be even more committed to social responsibility coming out of the pandemic.

In this context, we encourage CEOs to reflect on issues such as:

- On what stakeholders should I explicitly recalibrate my personal focus and our company's overall focus?

- How would I convince my shareholders that the long-term benefits of shifting the company's focus outweighs the short-terms costs?

- Do my answers to the questions above implicitly show that I'm not yet ready to embrace stakeholder capitalism, and, if so, what is holding me back from having true conviction?

Once you have made the decision, make it happen

Determining how to manage the short-term costs of stakeholder capitalism practically is one of the most daunting challenges for CEOs who have chosen to fully embrace the ideal. Consider, for example, the issue of job reductions in the face of declining revenues. It may be the right thing to do for shareholders in the near term, but it can also be catastrophic for employees who lose their jobs at a time of human-health and economic crisis.

At Union Pacific, rail traffic dropped during the early days of the pandemic, although it has since slowly recovered. As CEO Lance Fritz explains, "I made the conscious decision to spread the impact across the whole organization, so that our frontline professionals—the transportation employees, mechanical employees, and engineering employees—wouldn't be the only ones feeling it. Every manager is taking a one-week unpaid leave of absence every month [for four months]. Every board member and executive has had their pay docked 25 percent for those four months. We don't need to do that for liquidity. We need it to demonstrate to the entire workforce that we're in this together. We're not riding the backs of our frontline team—or doing anything that would appear that way. We are keeping an open line of dialogue with our frontline team and doing our best to listen."

Important stakeholder questions are also intrinsic to CEO decisions regarding returning to the workplace. On one hand, the economic downturn is having a catastrophic impact on many of the most vulnerable groups in our society. The sooner economic activity can resume, the sooner unemployment can be addressed and goods and services can be delivered to those who need them. At the same time, the more that people are brought together, the higher the risk that lives are put in jeopardy.

CEOs acknowledge that these and many other multistakeholder decisions become more difficult the worse your business gets. Says Fritz, "When

[5] See "Where companies with a long-term view outperform their peers," McKinsey Global Institute, February 2017, McKinsey.com; and Marc Goedhart and Tim Koller, "The value of value creation," *McKinsey Quarterly*, June 2020, McKinsey.com.

Employees, customers, and stakeholders expect a CEO to articulate where the company stands on critical issues—it's increasingly becoming an expectation of the CEO role.

the chips are down, you're going to find out just how strong your values are." Robert Smith puts it simply: "When the bills come due, we'll see what CEOs do—it is not guaranteed that there has been a full shift to stakeholder capitalism yet." Still, more CEOs are stepping out in front vocally, making their views known on topics ranging from values to ethics. Employees, customers, and stakeholders expect a CEO to articulate where the company stands on critical issues—it's increasingly becoming an expectation of the CEO role. Some, such as Larry Fink, expect that this shift will continue to gain strength: "Going forward, there is going to be a lot more focus on society, customers and clients, family, and employees." The moment of the pandemic offers CEOs the opportunity—and increases their obligation—to acknowledge this reality.

CEOs who believe in the opportunity of stakeholder capitalism should ask themselves the following questions to help turn beliefs into action:

— Based on the stakeholder interests that I need to recalibrate, what practically must look different in the next six, 12, and 18 months (including the frequency and nature of interactions, management processes, and resource allocation)?

— How and when will I reset expectations with my shareholders?

— How will we measure progress as we transition?

Harness the real power of peer networks

Here's one of the most noteworthy changes we have seen during the pandemic: CEOs are talking to one another much more and are seeking to do so at a much greater rate. Says Lance Fritz, "Two months ago, the business community was thinking, 'If we don't figure out a thoughtful path, we could wallow in this for a long, long time.' So CEOs started thinking, 'Let's learn from each other. Let's hold hands.' There's even a little bit of commiseration. I haven't put enough value on the ability to be with a couple of other CEOs on one of these Zoom calls, or on the phone, and talk about any number of things that are unique that you can't talk to anybody else about." We believe that having CEOs spend more time laterally will prove useful not only for responding to the current pandemic, but also for addressing emergent issues and unlocking higher levels of business performance, innovation, and multistakeholder impact in an ever more complex and uncertain world.

Invest further in building relationships with other CEOs

CEOs are communicating more, and expanding their networks, in part because only another CEO confronting the pandemic can fully identify with today's leadership challenges. As Laxman Narasimhan, CEO of Reckitt Benckiser, puts it: "I find talking to other CEOs about how they are handling the crisis extremely helpful—this shared experience connects us and gives me added perspectives." Says AmerisourceBergen CEO Steve Collis, "From an external perspective, I've been a beneficiary of amazing calls with other CEOs who have been willing to share their knowledge. This has been such a growing experience."

It's no surprise that CEOs are seeing the benefits of connecting in new ways during this crisis. The urgency of the moment has given focus and urgency to the nature of the dialogue. Kate Walsh, CEO of Boston Medical Center, started talking to her peers early in the pandemic, when Boston was becoming one of the country's COVID-19 hot spots. "Hospital CEOs realized we were chasing each other around the supply chains," says Walsh. "We began to coordinate, so at least we could let people know that we'd give everybody a mask when they come to work on Monday morning. It became almost a daily call [with other hospitals] as we tried to figure out how to respond to the volume of cases." Leaders are less focused on showing up to large group meetings and putting on a corporate face that suggests "We've got it under control." Instead, they are intent on accelerating problem solving together by building on one another's ideas, iterating novel solutions to use in the workplace, trading notes, and moving forward having learned what works best. They are also encouraging one another to conduct bold experiments, taking advantage of the current environment to do A/B testing on a massive scale and trying new ways of operating virtually and digitally.

In order for CEOs to leverage such interactions in the future and accelerate impact on shared challenges, they will have to continue to approach such opportunities—both formal and informal—with humility, a learning mindset, and an open-minded commitment to ongoing development. The benefits of doing so are more significant than one might imagine: role modeling this has the potential to create more open learning organizations for companies, and to identify the cross-industry analogies that often provide the touchstone for innovation. Without the pressure of a crisis, however, leadership resolve will be required to maintain such an approach—research makes it clear that none of this is easy for people in powerful roles.[6]

In light of the newfound connectivity among CEOs within and across industries happening in this moment, CEOs will benefit from reflecting on the following questions:

— What peer networks should I continue to create beyond the crisis (in particular, those in analogous but not identical situations)?

— What makes for a valuable peer interaction, and how can I ensure that these conditions are in place when I interact with other CEOs?

— Beyond role modeling, how can I encourage my senior team and other leaders to enrich their own networks and the velocity of learnings with their peers across industries?

Leverage networks to tackle a broad set of issues

CEO networks also have a unique potential to enable some of the other things we have talked about thus far in this article. CEOs in noncompetitive industries are well positioned to both challenge and support their peers in aiming higher; in sharing learnings, best practices, and encouragement regarding elevating "to be" to the same level as "to do"; and in working through how to fully embrace stakeholder capitalism.

The pharmaceutical industry's "10x" rush to counter COVID-19 bears witness to this. As Christophe Weber, CEO of Takeda Pharmaceuticals, explains, "We started the development of a plasma-derived medicine for COVID-19 by ourselves. But our head of Plasma-Derived Therapies realized that if we formed an alliance with other plasma companies, we could go much faster and would have the potential to produce a product on a bigger scale. So now we have a pro bono, not-for-profit alliance. And we have a very good alliance with other major plasma companies, smaller ones, and also nonplasma companies, like Microsoft. When everybody saw that it was a true alliance to do good for society, we were able to get the convergence of many companies."

This interest in shared success can create wins for multiple stakeholders. "Part [of the adjustment to COVID-19] is focusing even more on partnering with

[6] See Jennifer Garvey Berger and Zafer Gedeon Achi, "Understanding the leader's 'identity mindtrap': Personal growth for the C-suite," *McKinsey Quarterly*, January 2020, McKinsey.com.

and supporting the community," says CCHMC's Fisher. "For example, CEOs of major employers, including P&G, Kroger, Fifth Third Bank, Cincinnati Children's, and others, initiated a task force to focus on a robust and inclusive restart of our economy and region. Being part of those things is more important than ever to me, our institution, and our community."

Alain Bejjani of MAF frames the potential for CEOs to work together in ways that change the world for the better. Says Bejjani, "Employers enjoy the highest level of trust compared to governments and even NGOs [nongovernmental organizations]. This capital of trust is very important and something CEOs should leverage going forward. We should be at the bridgehead for change. Governments cannot win, cannot deal with the complex issues of our time, without business. Business, in turn, cannot win without government and civil society." As COVID-19 has made clear, changing the world for the better is good not only for society but also for business.

As CEOs look forward to decide what issues to tackle with their peers, they can build on their pandemic experience by considering the following questions:

— On what issues has peer connectivity most benefited my business, now and in the future?

— On what societal issues (such as inequity and racism, climate change, porous social safety nets, weakened healthcare systems) should peer connectivity be directed, and how can I maintain the same level of intensity that I did during the pandemic?

— What issues will I take personal leadership on and convene others around?

COVID-19 has brought with it a pressurized operating environment the likes of which few of today's CEOs have ever experienced. It has necessitated a reappraisal of how much is possible and in what time frames. It has forced personal disclosure at levels previously considered uncomfortable and, in doing so, has increased awareness of the importance of how leaders show up personally. It has shined a light on the interconnectivity of stakeholder concerns. It has prompted a level of substance-based, peer-to-peer CEO interaction that has elevated all involved. Ultimately, it has "unfrozen" many aspects of the CEO role, making possible a re-fusing of new and existing elements that could define the CEO role of the future.

When the pressure decreases, will CEOs go back to operating as they did before? Or will the role at the top be thoughtfully reconsidered and reconceived by those who occupy it? Clearly, not every CEO will choose to make permanent the four shifts we've discussed. The more that CEOs do, however, the more the moment has the potential to become a movement—one that could create higher-achieving, more purposeful, more humane, and better-connected leaders. Judging by the evolution underway, many companies and societies stand to benefit.

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