



Executive
Perspectives

The CEO's Dilemma

Transform for Resilience

October 2022




Introduction to this document

With the evolving economic, social, and political landscape, there are accelerated changes affecting corporate strategic priorities and targets

In this increasingly complex and competitive environment, it is essential that organizations face uncertainty with an immediate response and a transformation plan to win

This document focuses on how to rapidly address this uncertainty with concrete actions while leveraging the right behaviors and mindset to successfully transform an organization with sustained results

For leaders, this entails holistically delivering on executional certainty, leadership enablement, people engagement, and desired culture and purpose



In this BCG Executive Perspectives edition, we address how to respond to uncertainty and transform for resilience

Executive Summary | The CEO's dilemma: how companies can respond to uncertainty and transform for resilience

Macro outlook

Current environment is fraught with increasing uncertainty driven by a set of **global disruptions and exacerbated by macroeconomic headwinds**; global **recession risks are elevated**

Need for immediate action

It is imperative for organizations to face uncertainty with **an immediate response and a plan to win**

Building **resilience creates significant competitive advantages** for companies, especially when future crises arise as a result of external shocks and disruptions

Rapid and sustained success for all companies requires a focus on both the **WHAT**, in the form of value delivery actions needed, and the **HOW**, in terms of the best way to make these plans truly happen

WHAT actions companies need to take rests on identifying immediate actions and creating an implementation plan that exceeds “self-identified” actions

How to respond and ensure sustained impact

The starting point of the transformation should be a pragmatic, rapid assessment, with an evaluation of key value drivers and **execution of immediate response and resilience actions**

For sustained results, **establishing a strong behavior and mindset** within the organization is equally important, comprising four elements:

- **Executorial certainty:** setting up comprehensive transformation governance including a transformation management office that drives actions using agile planning cycles
- **Culture and purpose:** creating the desired organizational environment for sustained change
- **Leader enablement:** activating and motivating leaders to embody role-model best practices
- **People engagement:** defining key activities and linking desired purpose, culture, and target behaviors

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AGENDA

- ✓ **Current macroeconomic outlook**
- ✓ Need for immediate action
- ✓ How to respond and ensure sustained impact

Rising uncertainty—driven by a set of global disruptions and exacerbated by macroeconomic headwinds—needs to be met head on

Global disruptions

Geopolitical tension

With tension unlikely to ease soon, organizations need to rethink—not just derisk—their business models for greater advantage in a multipolar world.

Supply chain bottlenecks

Bottlenecks will continue, increasing strategic importance of agile & sustainable supply chains to support strategies and boost advantage.

Tech disruption

The inexorable rise of new technologies (e.g., AI, quantum) will raise the bar for disruptive innovation and reinvention.

Consumer behavior shifts

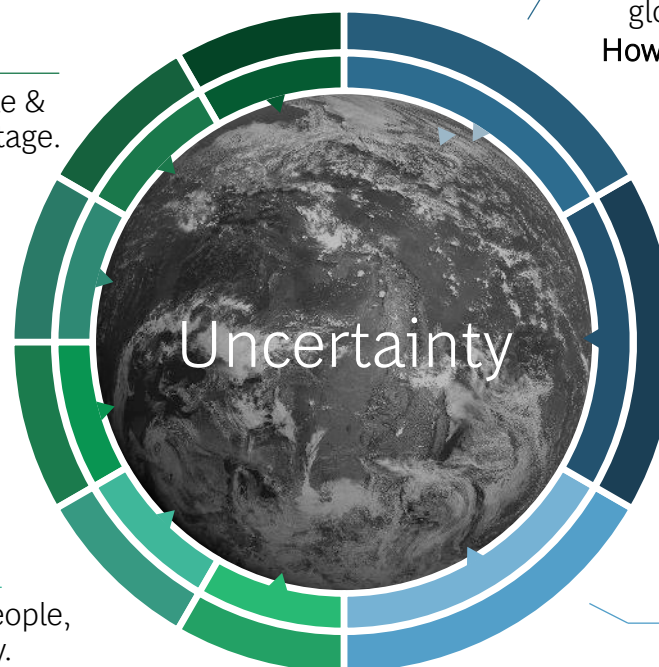
Consumers are rapidly changing their purchasing behavior as a result of recent disruptions (e.g., COVID-19).

People challenges

Talent is a critical source of advantage; companies focused on people, culture, and new ways of working perform stronger in uncertainty.

Climate change

The climate crisis, the defining challenge of our time, is challenging companies to step up with ambitious ESG and net-zero strategies and commitments.



Macroeconomic headwinds

Soaring inflation

Inflationary pressure and consumer demand shifts continue to affect global businesses with impacts on labor, energy, and materials costs. How will inflation evolve globally and how can leaders blunt its impact on their businesses?

Rising interest rates

Central banks are moving carefully and decisively to tamp down inflation via higher interest rates with knock-on effects for borrowing costs, investment levels, and relative currency values. How will rising interest rates affect capital access for businesses and consumers, and will rate increases create tectonic shifts in competitiveness around the world?

Uncertain recession outlook

Global economic sentiment has been gloomy, with recession indicators mixed and a wide range of forecasts. What is the economic outlook, how does it differ from previous downturns, and how will it play out across sectors?

In the News | There is an increasingly complex sector- and region-specific economic outlook

Growing global uncertainty...

FORTUNE

Oct 3, 2022



'Excessive' policy choices could trigger an economic downturn even worse than 2008 recession, UN agency says

FT

Oct 6, 2022



Central banks face recessionary dangers



Oct 4, 2022



'We must change course': UN warns that the world is on the brink of recession

... varies by sector and region

WSJ

Oct 4, 2022



Pharma is place to hide during recession

Forbes

Sept 9, 2022



3 industries that are poised to do well in a recession

Forbes

Oct 4, 2022



CEOs are predicting a recession: here's what you need to know & do now

The New York Times

Oct 4, 2022



The first global deflation has begun and it's unclear just how painful it will be

Bloomberg

Oct 7, 2022



Chipmakers see 'breathtaking' drop in demand as recession looms

Bloomberg

Oct 5, 2022



Tesla's retail fans undeterred by delivery miss, recession fears

FORTUNE

Oct 6, 2022



Tech stocks could bounce back by next year, but it will be a 'volatile ride,' Citi says

Recession risks are elevated in both US and EU but drivers and timing remain distinct

Key risk indicators



US



EU

1	GDP growth	Baseline expectations for very slow growth, under 1%, through 2023	●	Negative growth in 4Q22/1Q23 expected to be a trough as growth accelerates later in 2023	●
2	Inflation	Inflation may have peaked, but concern remains over the degree of moderation	●	Inflation surge has hammered real incomes but remains largely about energy	●
3	Financial markets	An equity bear market and much higher borrowing rates are headwinds to activity	●	Sharply lower stock prices and increasing borrowing rates are a headwind to activity	●
4	Monetary policy	Policy will tighten until price trends improve	●	Monetary policy has tightened but does not intend to become a large sustained headwind	●
5	Labor market	Labor market remains strong with solid job creation and low unemployment rates	●	Labor markets still tight, pointing toward residual strength	●
6	Manufacturing	Surveys of manufacturing activity point to a significant slowdown in growth	●	Surveys of manufacturing activity point to a contraction	●

Magnitude of risk

- Very high
- High
- Moderate



Key risk: Policy tightening, driven by persistent high inflation, delivers a recession in 2023



Deep energy shock has hammered real incomes and impaired competitiveness, leaving Europe in near-term recession

Select business implications

- Margin compression underway, as passing through price increases gets harder
- Labor markets may remain tighter than in prior downturns, keeping labor retention top of mind
- Interest rates may stay higher for longer, with distinct cost of capital implications
- Overall, a recession increases competitive spread – to outperform in the long run, businesses need to build resilience & seek advantage
- Winners are likely to target M&A and CAPEX through the downturn to build strength for the next cycle

Economic snapshot for October shows most recent developments across risk indicators

1 Global growth outlook

GDP forecasts¹ (Real GDP YoY)

	2021A	2022E	2023E	2024E
US	5.9%	1.6%	0.7%	1.6%
Eurozone	5.2%	3.0%	0.2%	1.8%
Global	6.0%	2.9%	2.5%	3.0%

2 Commodity prices and inflation

Commodity prices²

	Jul '22	Aug '22	Sep '22	Change ¹⁰
Brent oil	98.6	89.6	79.5	-11.2%
Natural gas				
US	8.2	9.1	6.8	-25.9%
Eurozone	194.7	228.9	165.0	-27.9%

Consumer price inflation (YoY)³

	Jul '22	Aug '22	Sep '22	Change ¹⁰
US	8.5%	8.3%	8.2%	-0.2ppts
Eurozone	8.9%	9.1%	10.0%	+0.9ppts

3 Financial markets

Equity market performance (YTD change)⁷

	Jul '22	Aug '22	Sep '22
S&P 500	-13.3%	-17.0%	-24.8%
Eurostoxx 50	-13.7%	-18.2%	-22.8%

Corporate spreads (High Yield)⁸

	Jul '22	Aug '22	Sep '22	Change ¹⁰
US	4.69%	4.84%	5.52%	+68bps
Eurozone	5.90%	5.60%	6.31%	+71bps

4 Monetary policy

Monetary policy rates⁶

	Jul '22	Aug '22	Sep '22	Change ¹⁰
US	2.5%	2.5%	3.25%	+75bps
Eurozone	0.5%	0.5%	1.25%	+75bps

5 Labor market

Job openings rate⁴

	Q4 '21	Q1 '21	Q2 '22	Change ¹⁰
US	7.1%	7.3%	6.8%	-0.5ppts
Eurozone	2.8%	3.1%	3.2%	+0.1ppts

Unemployment rate⁵

	Jul '22	Aug '22	Sep '22	Change ¹⁰
US	3.5%	3.7%	3.5%	-0.2ppts
Germany	3.0%	3.0%	-	0ppts
France	7.4%	7.3%	-	-0.1ppts

6 Manufacturing

PMI manufacturing (<50 = contraction)⁹

	Jul '22	Aug '22	Sep '22	Change ¹⁰
US	52.8	52.8	50.9	-3.6%
Eurozone	49.8	49.6	48.4	-2.4%

1. Bloomberg, data as of 10/12/2022. 2. Data presented as end of month figures. Brent oil in \$/bbl; US Natural gas (Henry Hub) in \$/MMBtu; Dutch Natural gas (TTF front month future) in EUR/MWh. 3. CPI monthly seasonally adjusted data from Bureau of Labor Statistics; HICP monthly data for Eurozone from Eurostat. 4. Seasonally adjusted rates; Bureau of Labor Statistics for US; Job vacancy rate from Eurostat for Eurozone. 5. Bureau of Labor Statistics for US; Eurostat for Eurozone. 6. Federal Reserve for US; ECB for Eurozone (main refinancing rate). 7. Bloomberg. 8. Bloomberg US Corporate High Yield Average OAS; Bloomberg Pan-European High Yield Average OAS. 9. ISM manufacturing PMI for US; S&P Global Eurozone Manufacturing PMI from Markit for Eurozone. 10. Change Sep vs Aug '22 vs Q1 '22 vs Q2 '22. Note: All displayed numbers are based on end of month figures. Changes based on incremental changes vs. previous months.

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- ✓ Current macroeconomic outlook
- ✓ **Need for immediate action**
- ✓ How to respond and ensure sustained impact

To rise above competition and capitalize on new opportunities, companies need to adapt to uncertainties



What you stand to lose from inaction

- **Decline in competitive position** by resting on an initial strong position
- **Overlooked growth opportunities** that uncertainty exacerbates
- Loss of **financial buffer** and investment flexibility
- **High burn rate** and potential to 'run out of cash'
- Becoming '**easy prey**' for stronger-positioned companies

Companies that **build resilience immediately** in uncertainty are¹ ...

19%

More likely to be **growth oriented**

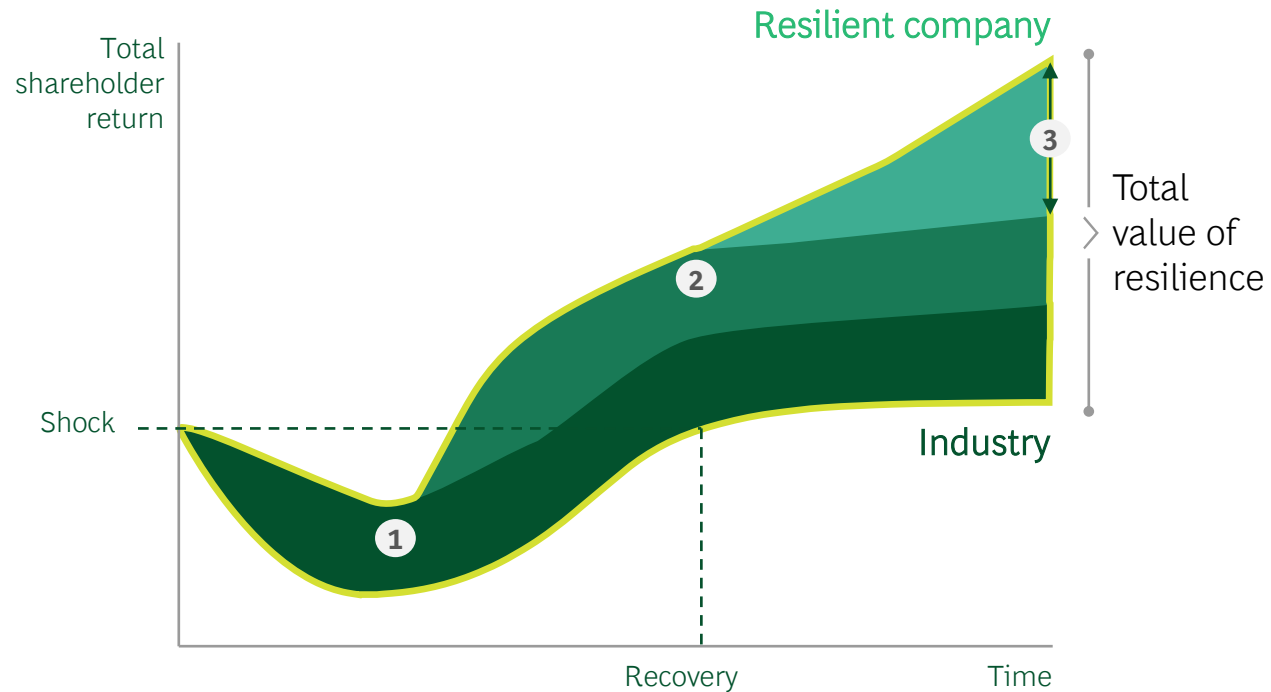
20%

Less likely to **increase debt**

... than those that **wait**

Companies that build resilience rapidly in changing environments have a higher chance of creating significant long-term value

Building resilience is key for companies in order to create significant long-term value by increasing preparedness against external shocks and disruptions



Building resilience creates competitive advantages and allows companies to rise above their peers:

- 1 Rapid execution of no-regret actions to absorb the shock
- 2 Adapt to new circumstances and ensure a high-speed recovery
- 3 Reimagine their business to fit the new circumstances in the 12 months following the shock

Transformations improved performance¹ by...

+25pp

*For top quartile
of resilience built*

-20pp

*For bottom quartile
of resilience built*

Rapid and sustained success requires a focus on both the WHAT and the HOW of transformation

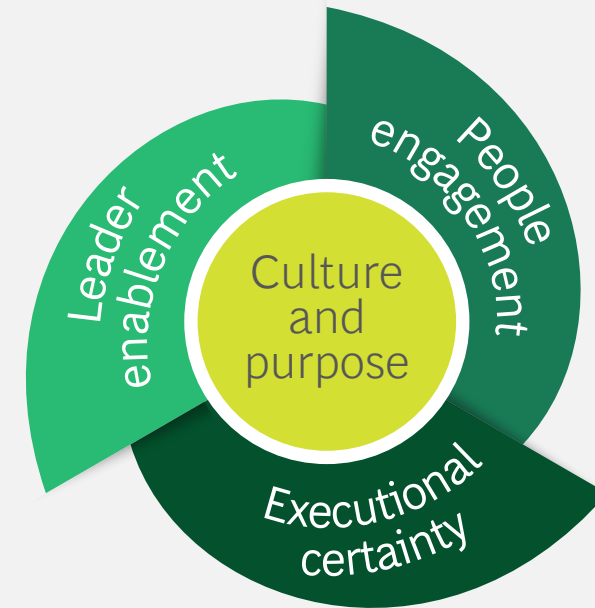
What actions are needed?

Defined **actions** that need to be taken



How do we make it happen?

Ensure that actions **realize rapid and sustained impact**



The starting point should be a pragmatic rapid assessment

The WHAT | The current environment causes changes to P&L and balance sheet items that drive the need for transformation

Changes across P&L and BS items

Income statement			
In millions of USD			
	FY22	FY21	
1 Total revenues	-	-	
2 Costs of goods sold	-	-	
Gross profit			
Operating expenses			
3 Salaries	-	-	
4 SG&A	-	-	
5	-	-	
EBITDA			
6	-	-	

Balance sheet			
In millions of USD			
	FY22	FY21	
Assets	-	-	
...	-	-	
Liabilities			
...	-	-	
Equity			
...	-	-	

Levers to be pulled to improve position

Non-exhaustive

- 1 Top-line protection**
 - Quantify exposure and margin risk and assess ability to increase prices
 - Define and execute tactical actions, ...
- 2 Supply chain optimization**
 - Reduce supply chain costs and risks
 - Evaluate optimization ideas jointly with suppliers,
- 3 E2E cost transformation** 🔍 *Deep dive on next slide*
 - Optimize direct and indirect material spending
 - Streamline organization, redesign processes and operating model,
- 4 Labor cost reduction**
 - Implement value-driven shoring and E2E managed and automated processes
 - Create lean structure with integrated services platforms, ...
- 5 Optimization of energy consumption**
 - Explore alternative sources of energy, limit hedging
 - Renegotiate to improve price for energy, ...
- 6 Unleashing of cash reserves**
 - Identify value through top-down targeting
 - Act upon selected levers and monitor across real-time dashboards

The WHAT | The four pathways approach to assessing cost transformation



More on this topic in the following
Executive Perspective

Pathways can go together: in
parallel or sequentially

01

ORG STREAMLINING

Sample levers:

Spans and layers, simplification, consolidation/scale, redundancy elimination

Value discovery sprint

Support labor costs optimization

Direct labor costs optimization

02

DIRECT/INDIRECT MATERIALS OPTIMIZATION

Sample levers:

Demand mgmt., make or repair or buy, variance reduction, contract management (including for tech and digital suppliers)

Value discovery sprint

Support nonlabor costs reduction

Direct nonlabor costs reduction

03

OPERATING MODEL AND PROCESS REDESIGN

Sample levers:

(De)centralization, tech landscape simplification, shared services, lean process, automation, digitization of processes

Value discovery sprint

Support labor costs optimization

Support nonlabor costs reduction

Direct labor costs optimization

04

FULL STRATEGIC OPS TRANSFORMATION

Sample levers:

Strategic sourcing, digital supply chain, production efficiency, design to value

Value discovery sprint

Support nonlabor costs reduction

Direct nonlabor costs reduction

Direct labor costs optimization

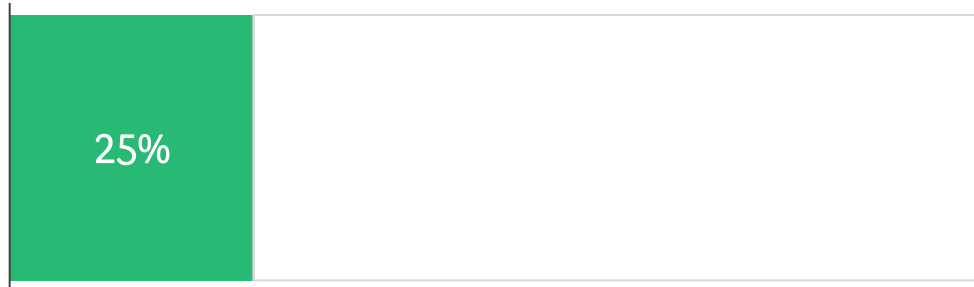
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- ✓ **How to respond and ensure sustained impact**

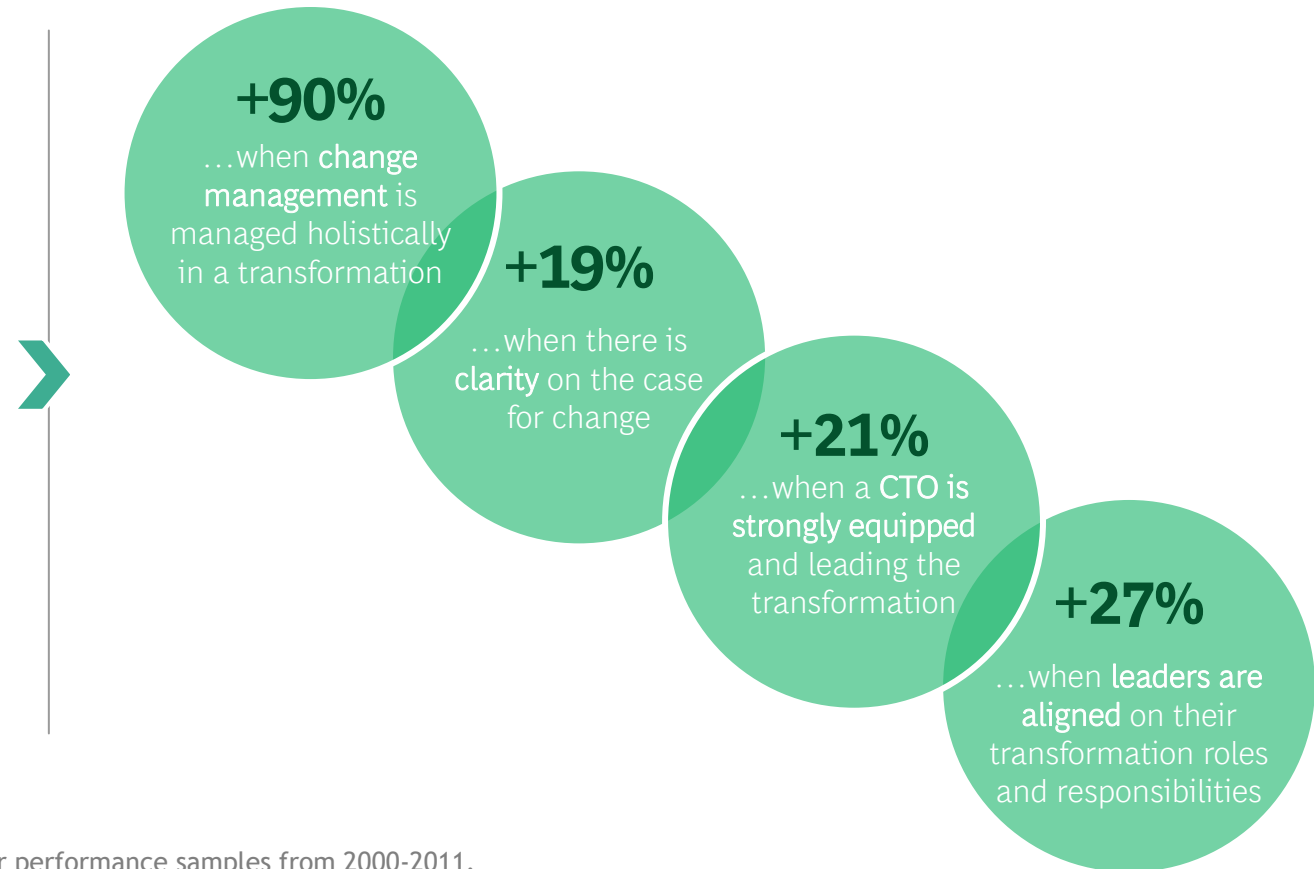
The HOW | The HOW of transformation needs to be prioritized to break the ~75% transformation failure rate

Change is often necessary, but business **transformation success is rare**



Only 1 in 4 companies are successful in the short and long term¹

Transformations where the HOW is prioritized achieve **sustained performance improvement**

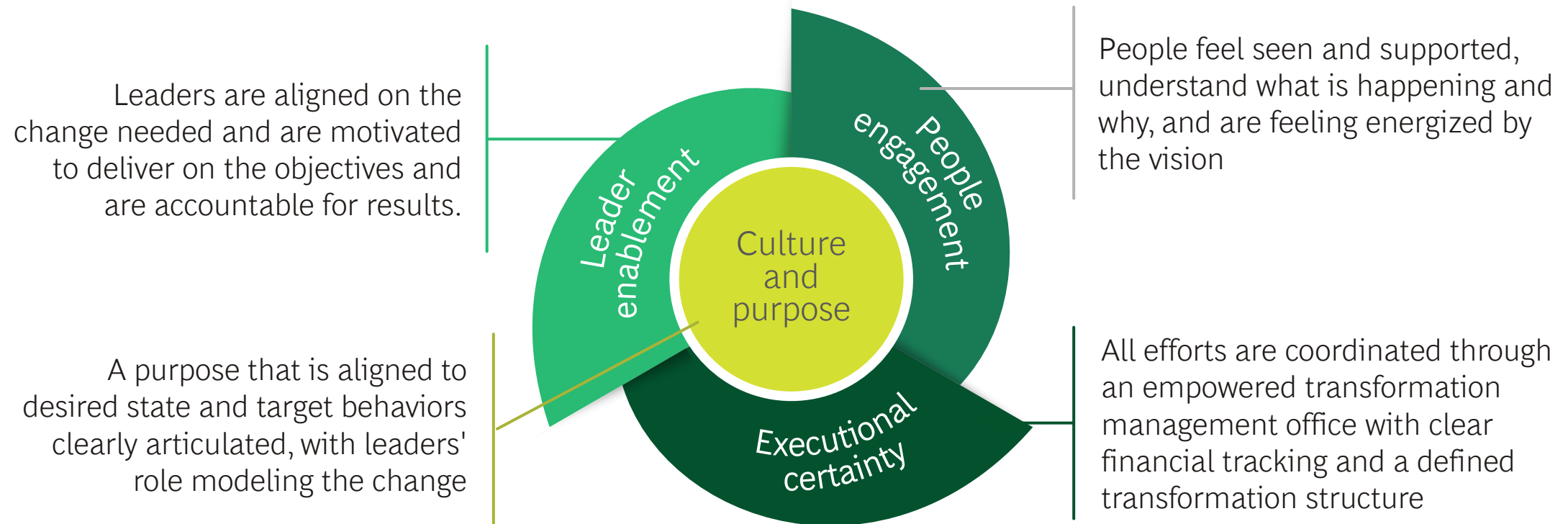


1. TSR outperformance relative to sector over following 1-year & 5-year periods

Note: Includes U.S. public companies ex-energy with \$10B+ market cap; based on 2-year performance samples from 2000-2011.

Source: S&P Capital IQ, BCG Henderson Institute analysis, BCG Global 1000-company research change readiness baseline

Critical building blocks of the successful HOW of transformation



The HOW | Ensure rapid impact and sustained success along the journey

Executorial certainty

ensures that change happens

Leader enablement

equips and unifies leaders

People engagement

motivates and upskills the organization

Culture and purpose

create the environment for sustained change

Rapid assessment

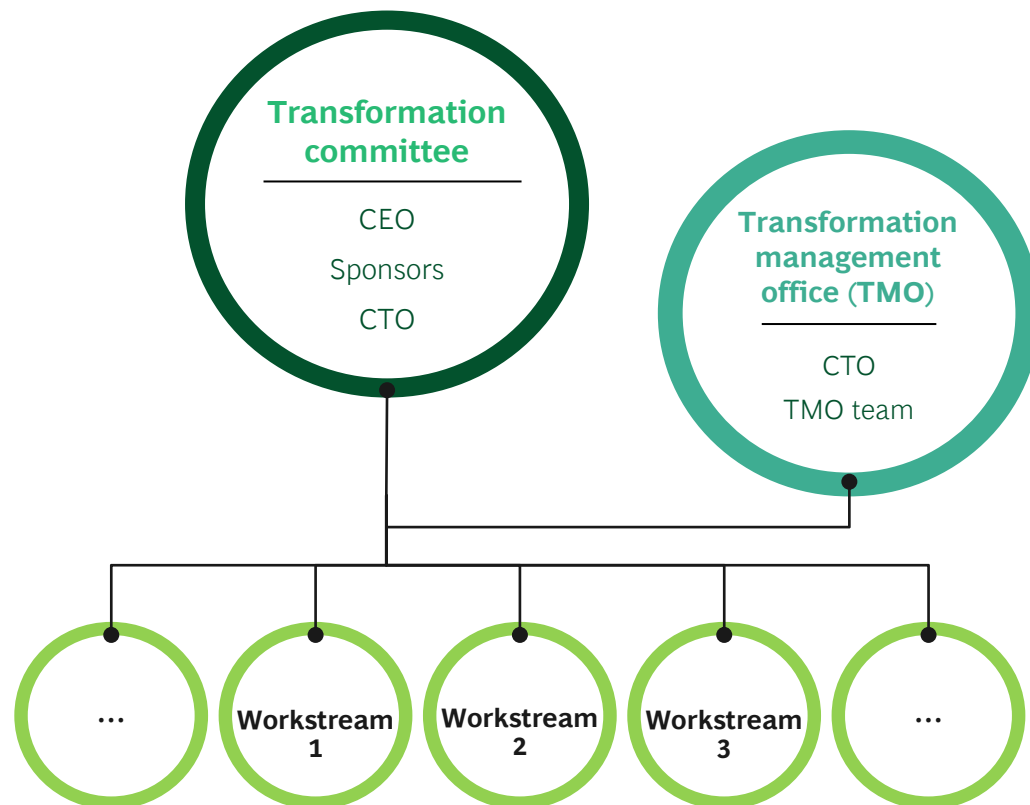
- **Develop & empower transformation mgmt. office**
- Follow agile planning cycles
- Set up initial transformation governance
- **Create 'case for change' for leaders to communicate the value to the broader org.**
- Develop transformational leaders with enhanced skills to support and deliver on change
- **Implement two-way communication channels to engage the organization and create buy-in**
- Identify key talents and create retention plans
- Conduct holistic diagnostic to baseline organizational strengths and opportunities
- Explain the clear purpose of transformation

First 100 days

- **Finance discipline, robust tools and reporting**
- Culture and change initiatives
- Tracking methodology and tools
- Define target picture of the company including clear targets and aligned incentives
- Strengthen leaders to pursue allocated targets individually and in teams
- Allocate targeted change evenly across the firm
- Identify key skills and capabilities gaps in organization and upskill as needed
- Enable and motivate quick decision making
- Embed desired culture into organization

Transformation management office | Effective central steering is essential for sustained results along the full transformation journey

Strong transformation governance centers around 3 transformation roles with complimentary skill sets



Source: BCG analysis



Transformation management office

The TMO is **the heart of the transformation**, ensuring that change happens and the results are delivered

Case example

For years, a global company had struggled to implement cost initiatives across a decentralized organization, resulting in cost levels above peers and a limited ability to fund strategic moves.

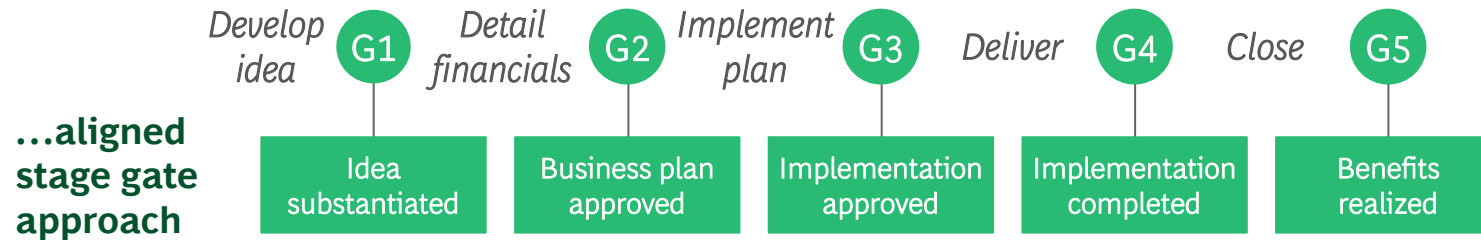
Starting a new cost transformation, leadership decided to strengthen the global TMO and mirror the TMO setup in all regional divisions.

The regional TMOs were responsible for execution using global expertise and local tailoring. A strong collaboration between the TMOs also resulted in increased knowledge sharing across regions.

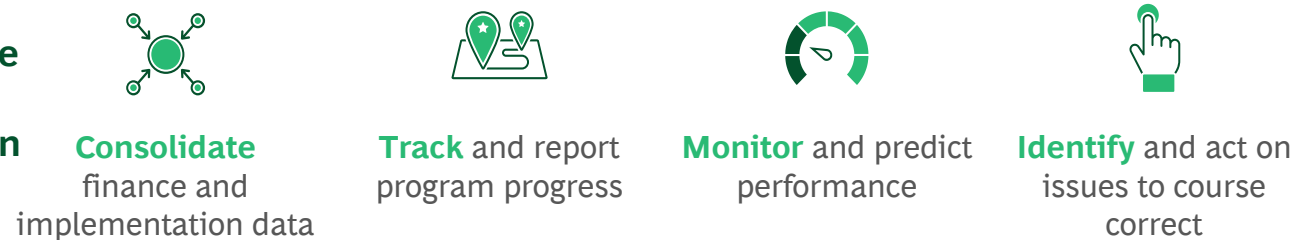
The company executed a very successful cost transformation and decided afterward to keep the setup for future strategic moves.

Financial discipline | Deployed to drive accountability and ensure real impact

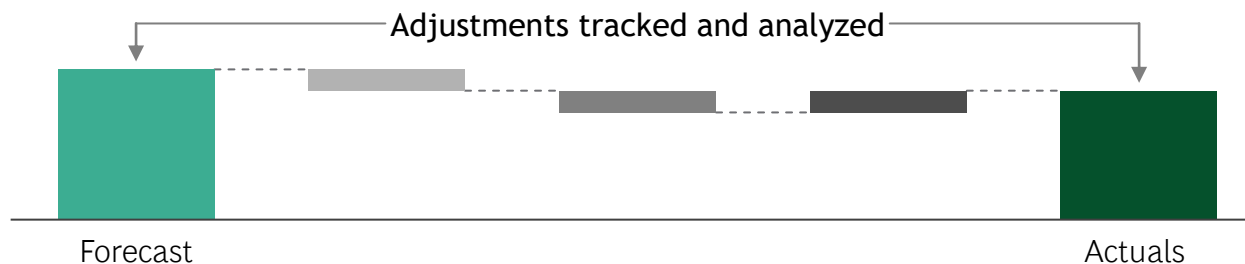
Some of the key building blocks for financial discipline include...



One source of truth captured in a tool



Impact linked to real P&L



Financial discipline is critical for executional certainty, from funding the right initiatives, to tracking, to in the end **ensuring that the impact hits P&L**

Case example

A company experienced vital market disruption and high cost levels, leading to a decreasing market position and a critical need for change.

To regain its position, the company undertook a 3-year E2E cost transformation.

Finance was involved as a key part of the program, implementing financial discipline to ensure ample targets, progress tracking, and validation of impacts.

The company achieved +€500m in P&L impact, with most of it reinvested into the business to accelerate innovation and advance the sustainability agenda.

Case for change | Create a strong narrative with your leadership team

Case for change...

...provides the **WHY**, **WHAT**, and **HOW** that leaders can articulate in a narrative demonstrating value for all

+110%
*likelihood
of successful
transformation*

...when leaders energize & engage the org. with a clearly defined case for change



Sr. leaders aligned behind a single story line

Mgrs. equipped with answers to tough questions

Consistent message in all communications

Engaged org. through compelling message

Strong focus on purpose & vision

WHY

- What is the **purpose** of our transformation?
- Why is it important for us now?

WHAT

- What is **our vision** for the future, and how will this transformation help us achieve it?
- What are the implications for our employees and our customers?

HOW

- How will this transformation **help us win**?
- How is this transformation different from previous transformations?



Case for change is a strong **narrative** of the **vision of where we want to go and why** for the company and all stakeholders

Case example

In the first year of a new strategy, a company faced major unforeseen changes in the environment with vast implications for its business outlook.

Instead of changing the strategy, the company started a transformation program building on the foundations of the strategy.

The leadership team worked together to develop a case for change that linked the success of the transformation to the purpose and vision of the strategy.

The leaders were energized by the narrative and started engaging the broader organization with an aligned and compelling story.

Two-way communications | Engagement relies on strong communication channels

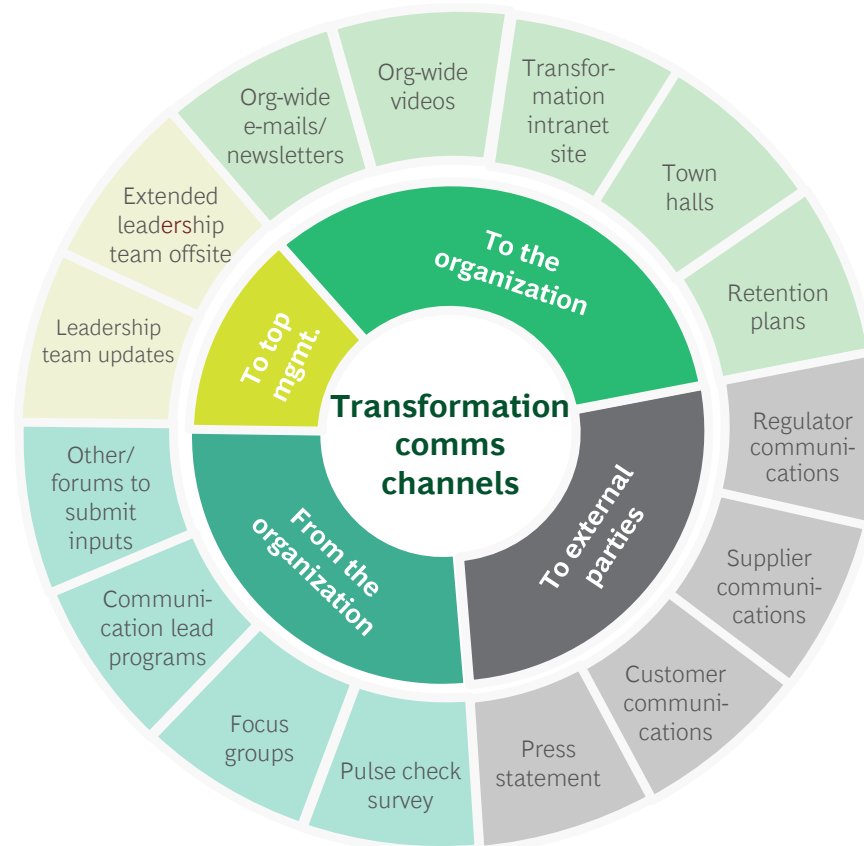
Effective communication combines both top-down and bottom-up channels

Once leaders are aligned on the case for change...



... a comms and engagement plan

should be created using a variety of available two-way communication channels



Effective communication about the transformation is key to ensure **buy-in and engagement** from the wider organization

Case example

A company struggled to effectively communicate across the global organization, relying primarily on the efforts of small local teams.

The leaders utilized the new transformation program to change its comms strategy, starting with a strong engagement plan for the transformation.

A central team created a plan using a wide range of comms channels, built key assets and tools, and used the local teams for tailoring and execution.

The company experienced a sharp increase in engagement and had much more transparency into corrective actions on the people agenda.

Key questions all CEOs should be asking themselves now

Non-exhaustive

Have I identified all possible risks to my business from the uncertain environment?

Do I have the necessary executive and broader leadership support?

How vulnerable is my business to current headwinds and disruptions (e.g., supply chain issues, inflation, labor shortages, interest rate changes)?

Do I have the right resources to fund and execute this transformation (e.g., expertise, operational team, investment funding)?

Have I translated the uncertainties into a scenario view for my business in 2023 & 2024?

Do I have the right processes in place that can drive and track this change (e.g., TMO)?



The time to act is now

3 key actions **to respond to uncertainty and transform for resilience**

1

Understand the need for change based on current economic uncertainty and internal factors

2

Act immediately while starting an assessment to shape the transformation

3

Plan a transformation with a focus on the HOW by addressing enablement, engagement, executional certainty, and culture and purpose

Actions should be based on the **specific business context**

Connect with our Transform and Resilience leadership team with any questions

North America



Kristy Ellmer

Managing Director & Partner
Ellmer.Kristy@bcg.com
Boston



Aviel Marrache

Managing Director & Partner
Marrache.Aviel@bcg.com
New Jersey



Vadim Gouterman

Managing Director & Partner
Gouterman.Vadim@bcg.com
Toronto

Europe, Middle East, South America



Christian Gruss

Managing Director & Partner
Gruss.Christian@bcg.com
Copenhagen



Yahya Daraaoui

Managing Director & Senior Partner
Daraaoui.Yahya@bcg.com
Paris



Asli Kurbay

Managing Director & Partner
Kurbay.Asli@bcg.com
Istanbul

Asia Pacific



Gavin Parker

Managing Director & Senior Partner
Parker.Gavin@bcg.com
Melbourne



Crystal Hao

Managing Director & Partner
Hao.Crystal@bcg.com
Beijing



Edwin Utama

Managing Director & Senior Partner
Utama.Edwin@bcg.com
Jakarta



Mei-Jung Chen

Managing Director & Partner
Chen.Meijung@bcg.com
Taipei

Central Resilience Team



Tuukka Seppä

Managing Director & Senior Partner
Seppa.Tuukka@bcg.com
Helsinki



Ryoji Kimura

Global Leader - Corporate Finance & Strategy
Tokyo



Alexander Roos

Managing Director & Senior Partner
Roos.Alexander@bcg.com
Berlin



Daniel Feldkamp

Managing Director & Partner
Feldkamp.Daniel@bcg.com
Munich



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A young green plant with four leaves is growing out of a crack in a concrete surface. The leaves are bright green and have a prominent vein pattern. The stem is dark and thin. The concrete is light gray and textured. The background is blurred, showing more of the concrete and some greenery.

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