A transformed world of business

Leaders need new approaches to navigate the new challenges they face

When many economists reflect on the recession that sent shockwaves through the global economy in 2008, they view the near-catastrophic event as a global recalibration. Specifically, they see it as a rebalancing of a system shaken by everything from greed to excessive deregulation. For them, the most significant recession since the Great Depression was a particularly devastating moment in time.

But in Dezsö Horváth's view, the recession was more. It represented a tectonic shift in the way we think about business; a catalyst for change that will be felt for decades to come. He calls it a classic Black Swan event, the phrase coined by academic and risk analyst Nassim Taleb to describe a rare anomaly that defies analysis or prediction and has the potential to overturn traditional systems.

"The way the corporate landscape looked before 2008 has transformed dramatically and it's still undergoing a transformation," Dr. Horváth, Dean of the Schulich School of Business at York University, explains. "I don't think what happened then prepared anyone to realize just how interconnected the world is today."

The economic effects of that recession are still being felt around the world. That macroeconomic reality alone would be enough to challenge even the savviest of CEOs. But in addition to rapid and relentless globalization, throw in other complexities such as increased government regulation, the emergence of disruptive technologies from big data and "big design" to the digital revolution – not to mention sudden and unexpected mini Black Swans – and the challenges facing business leaders seem immense. "Effective management is far more difficult in a world that's highly competitive and experiencing major disruptions on an ongoing basis," Dr. Horváth says. "You need to use very different methods to survive and do well."

The other major change that has ensued, according to Dr. Horváth, is an emerging focus on what he calls responsible or long-term capitalism. In the place of so-called quarterly capitalism – which prioritizes quarterly profit maximization and shareholder returns above all else – an increasing number of organizations such as consumer products giant Unilever are beginning to embrace a longer-term focus in regard to investment and value creation and a much broader stakeholder orientation.

"The countries that are relying on long-term capitalism over quarterly capitalism, like Switzerland, Sweden, Finland and even Germany, are becoming more competitive," he explains, adding that Canadian CEOs are paying close attention to the trend.

Dominic Barton, global managing director for management-consulting firm McKinsey and Company, says longer-term capital investments will deliver benefits both for innovation and society. He adds that the existing emphasis on short-term shareholder returns has encouraged some organizations to forego investments that might yield breakthrough research or benefit their employees and communities more broadly. Transitioning the focus away from quarterly financial performance, in other words, is simply good business, stresses Dr. Horváth.

"Companies that orient themselves towards a triple bottom line will generate opportunities to differentiate themselves among consumers and improve employee retention," Barton explains. "Millennials are entering their prime spending years – in 2015 they became the largest generation in the Canadian workforce. They care more about sustainability than any other generation, and have a greater willingness to pay a premium for 'green' products. This extends to the labour market, too, where, according to the Pew Research Center, 80 per cent of millennials want to work for companies that care about their impact on the world.

How can executives develop the right strategies to capitalize on the new opportunities as they pivot towards a long-term model of success? One way is to place a greater emphasis on strategic management using advanced predictive analytics, according to Dr. Horváth. Making decisions based on gut instincts or last year's performance will no longer suffice.

Achieving success also becomes an issue of strategic management and asset allocation. "In order to spur change, business leaders must be willing to substantially reallocate people and capital across their business over time," says Barton.

But enacting real change starts by transforming corporate cultures, adds Dr. Horváth. From implementing policies that encourage innovative risk-taking to making the triple bottom line a fundamental aspect of the company's business practices, it's a process that must be driven by the C-suite.

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