



Corporate Resiliency 2021

The election is over – now it gets interesting.

The Challenge

- America's historic 2020 election is (mostly) over. The contours of the 2020s are taking shape.
- The coming months will be dominated by hot take predictions of what the future holds for U.S. society and economy. Most will not stand the test of time.
- Despite the uncertainty, many corporate leaders will still latch on to a single view of the emerging business environment, usually the facile planning assumption that *the future will look more or less like the present only more so....*
- **The failure to imagine and prepare for scenarios that deviate substantially from that linear projection, puts organizations at risk of failing to capture the opportunities and meet the challenges that disruptions create.**
- In some cases, the risk is existential.

The Critical Uncertainties

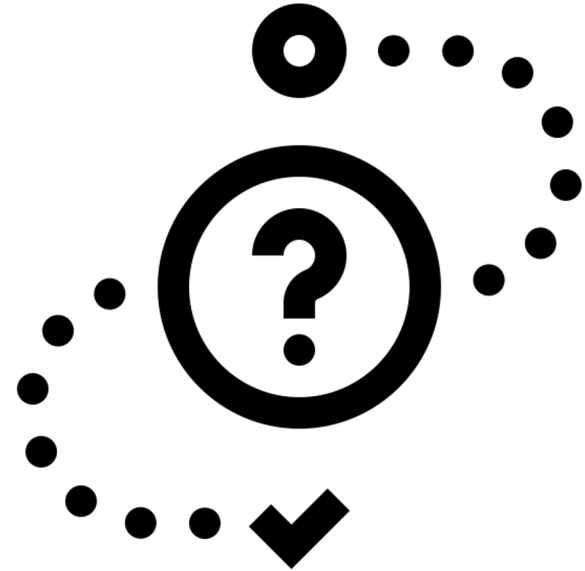
- The fact is no one can consistently predict the future accurately.
- But that doesn't mean the future is entirely unknowable. It simply means that there are critical uncertainties – variables that are at once *most important* and *most uncertain* - that can reasonably play out in different directions.
- The broad contours of the future business environment will be defined by how those processes emerge and *how critical uncertainties intersect*.
- Naming and describing in detail those critical uncertainties is the first step toward gaining insight – and agency – about the future.
- From our perspective, the following 5 critical uncertainties are the ones that will matter most:
 - **Economic volatility** - how quickly will recovery progress, or regress, or flip back and forth between the two?
 - **Political stability** - with likely divided government and a yet more polarized electorate built around tribalism, what if any progress will be made on finding common ground – in legislation, regulation, and even cognition?
 - **Digital transformation** - how fast and how far can digital technology advance, and how robust and coherent will tech-lash emotions and politics stand in the way?
 - **U.S.-China relations** - what shape will the next stage of the most important geopolitical and geo-economic relationship in the world start to take?
 - **Personal safety** - will people feel safe enough – from COVID-19, from racial and political tension and violence, from economic insecurity – to move past this period of intense anxiety and rebuild more settled lives?

The High Level Scenarios

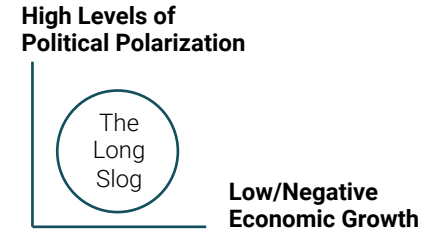
- BWS has developed numerous scenarios that test different combinations of these critical uncertainties. From that process, we identified **5 core scenarios for the first half of the 2020s** that impact almost all organizations at a strategic level.
- Each of these scenarios is plausible. They are sharply distinct from one another. Four of them deviate substantially from what we believe most leaders are right now anticipating, explicitly or implicitly.
- Resilient businesses will invest in disciplined foresight, continuous learning, and an experimental mindset that places clearly thought-out bets, evaluates success and failure, and improves over time – so that when disruptions emerge **the firm is positioned to not only survive, but become stronger on the other side.**

5 Scenarios

1. The Long Slog
2. The Roaring 20s
3. Tech-tonic Shift
4. Failing State
5. Warm War



The Long Slog



- This scenario appears to be many people's 'official future' (baseline assumption).
- It is defined by 1) A prolonged period of economic stagnation caused by the downside shock of the pandemic and the longer trend struggle to improve productivity and 2) Continued fracturing of political systems and civil society as polarization along partisan, racial and socio-economic lines hardens.
- The twin forces of economic weakness and political dysfunction/tribalism block meaningful progress on emerging and urgent issues like public health, climate change, and racial justice. That failure contributes to the ongoing corrosion of ambient trust that affects just about all organizations in the private and public sectors, though unequally.
- While the core strength of U.S. institutions seems just sufficient to stave off collapse, the first half of the 2020s are defined by little positive accomplishment, diminished hope for the future particularly in younger people, and a constant gnawing sense of impending crisis that at times becomes a self-fulfilling prophecy.
- **Questions for businesses:** Are you prepared to continue dealing with hyper-politicization even post-Trump? Are you prepared for deepening distrust – and do you have ideas for how to stand-out as a trustworthy brand? Does your forecasting assume a return to pre-pandemic growth rates - and do you have a Plan B is that doesn't materialize?

The Roaring 20s



- This scenario is defined by 1) A surprisingly smooth transfer of power; and 2) The rapid subsiding of the pandemic thanks to a vaccine and/or other interventions.
- The failure of our worst fears of civil unrest to materialize and the happy surprise of the faster-than-expected defeat of COVID unleashes a 'relief rally' not just in equity markets but more importantly in the human spirit.
- The good feeling unleashes a frenzy of consumer spending and business investment and it's more than just pent-up demand - it's a nearly global feeling of "carpe diem" as a new way of life after having faced the abyss.
- The result is a decade of strong economic growth and optimism, but at the cost of insufficient attention being paid to complex underlying social, political and cultural instabilities, as well as accelerating environmental degradation.
- Government will make some progress forward, but it will be limited in scope and underlying tribalism and political tensions will persist in the background. Washington D.C. may feel even more disconnected from mainstream America.
- The 21st century Roaring 20s will feel upbeat, exciting, and sometimes a little frantic. But the historical memory of how the last version of this ended will be a shadow over us. People may 'party like it's 1999' on the surface, and 'worry like it's 1939' when they stop and think.
- **Questions for businesses:** Are you prepared for resurgent economic growth that goes well beyond current forecasts as early as 1H 21? What will your customers, employees and investors want/expect from you in an era of surprising optimism? What responsibilities will you have to addressing deep-rooted issues like climate and racial disparities if public pressure to deal with them diminishes? What internal brakes do you have in place to prevent over-extending yourself in a short-term rally?

Tech-tonic Shift

Accelerating Digital
Transformation



Strong Economic
Growth

- COVID-19 drove 10 years of digital transformation in something like 10 months. In this scenario, that dynamic only accelerates even after the pandemic subsides, while strong economic growth serves to validate and reinforce this trend.
- While anti-tech feelings remain, the overwhelming evidence that Big Tech (including bio-tech) “saved us all” proves a sufficiently compelling argument to blunt efforts to break up any firms through antitrust action or to impose any meaningful new regulations related to privacy, data security or liability for third-party content.
- The result is a series of surprisingly rapid changes in how (and whether) human beings work, eat, consume entertainment, educate their children, police their communities, organize and run their governments, defend their nations and care for their bodies. Life becomes longer, safer, and more secure – but it also becomes less free, even less equal and possibly less fulfilling in some respects, which prompts some nostalgia for a vision of the ‘good old days’ even if they weren’t all that.
- Society has given (or at least tech has taken) a green-light to move from the world of atoms and heavy objects, to the world of bits and information. Many come to believe in machine learning and artificial intelligence as much or more than they believe in human learning and biologic intelligence, and decisions made by machines increasingly are trusted more than decisions made by people.
- This situation could lead to increased political unrest as jobs that involve routine work – at any level of skill – disappear more quickly than new jobs are created, and income inequality worsens even as aggregate wealth increases.
- **Questions for businesses:** To what extent does your current planning assume tech will be increasingly reigned in by regulators and legislators? Is your business part of the digital transformation and, if so, what would you push toward if you weren’t concerned about political backlash? How is your business helping address the wealth gap that will be exacerbated under this scenario?

Failing State



- This is a scenario in which the core institutions of American government, business and civil society prove simply inadequate to stem the chaos unleashed by COVID-19, economic crisis, social unrest, political polarization and social media-driven disinformation.
- There will be deep rooted anger from many Americans who feel unheard, left behind, and don't see a path forward for themselves. That anger will lead to sustained unrest.
- As a result, the defining dynamic of the era is fear for personal safety caused by politically motivated civil unrest, rising crime rates, deep-seated economic uncertainty and growing conviction that climate change, racial injustice and income inequality are driving the world toward an ominous tipping point.
- The U.S. begins to look and act very much like a failing (albeit still rich) state, as public sector institutions fall further behind the problem horizon. State and city governments try to fill the gap but their efforts don't scale sufficiently to make a real difference. In the absence of a functioning state, markets become the sole organizing principle of life that works. This sets off a dual insurgency: the wealthy withdraw from the system to arrange for their own services and security, while the masses reject the system in an episodic flip between disenchanted apathy and violence in the streets.
- **Questions for businesses:** Even in this grimmest of scenarios, some businesses will thrive – will yours?

Warm War



- In this scenario, conflict between the U.S. and China becomes the defining dynamic of the 2020s.
- The fight plays out on numerous fronts: technology standards, military might, intellectual property, espionage, energy and climate, FDI and trade, news (fake and real), influence in Europe, Asia, Africa and the Middle East and more. Ultimately, it is a battle between two socio-political systems vying for greatest-power status and global dominance.
- The Biden administration's China policy is more predictable and systematic, but no less confrontational – and domestic politics puts a heavy premium on not being seen as “weak on China.”
- The conflict impacts culture, politics, and security inside the U.S. in ways that are more disruptive than the U.S.-Soviet Cold War because the ties of interdependence run deeper, the conflict runs continuously in the digital environment, and kinetic conflict is an ever-present risk in the South China Sea and elsewhere.
- The world is gradually carved up into spheres of influence defined by infrastructural and technological frameworks that put countries on the “operating system” of one side or the other.
- **Questions for businesses:** How disruptive to your business would it be to lose access to the Chinese market for sales and supply chain? What opportunities would emerge in a world where America is on a “war footing” similar to the 1980s?

Anticipating Future Directions

- Obviously, these 5 scenarios do not capture the entire spectrum of what might take place in the coming years.
- But they point to the key uncertainties about which businesses cannot afford to wait and see.
- There is no simple 'worst-case' and 'best-case' story. Upside and downside risk, opportunity and challenge reside within each.
- Nobody can offer a crystal ball. But to simply sit back and wait to see what happens is to cede the playing field to others. The opposite — trying to prepare for every conceivable eventuality — is infeasible.
- What's needed is the ability to assess the signals in real-time, make data-informed probabilistic assessments about the direction events are heading, and execute on a strategic plan that is aligned to those assessments.