

If you want to get ahead you need to look ahead



January 2020

SUMMARY

- **CEOforesight** has been formed to help CEOs change the way they think about the future.
- We live in an age of unprecedented change in the economy and society. These are the future megatrends and sub-megatrends in the external business environment **CEOforesight** calls X-factors. Tumultuous shifts in X-factors are making the business environment more uncertain, complex and chaotic even.
- With regard to future megatrends and sub-megatrends **CEOforesight** poses the question: Will your business catch them before they catch you? We want to help you stress test your strategy.
- A CEO can't 'strategize' without deep thinking, and you can't think deeply about the future without reference to the external business environment. There is a problem though. The CEO is responsible for strategy, and whilst he/she is undoubtedly expert at the micro aspects, the future macro big picture external business environment is not necessarily a CEO skill set.
- **CEO foresight** aims to help CEOs 'own the future' by:
 - (1) Identifying the X-factor megatrends and sub-megatrends likely to impact your business.
 - (2) Enabling you to develop a deep understanding of those X-factors.
 - (3) Deepening your understanding of the link between the X-factors and your business, and whether or not they are likely to undermine or enhance your strategic goals and vision. This service is called '*think and link*'.
- The '*think and link*' service is aimed directly at you, the CEO, because you are directly responsible for developing and implementing strategy. We want to help you 'own the future', by owning the understanding of the relationship between a company and its external environment.

Introduction

The aim of **CEOforesight** is to help CEOs think about the future risks and opportunities for their organisation from changes in the external business environment. These are the future political, economic, social, technological, legal and environmental forces (PESTLE) likely to impact an organisation. We call these external forces the X-factors. X-factors are uncontrollable, but they don't have to be unforeseeable.

Bill Gates famously took a week off twice a year - at his secret waterfront cottage - to reflect on Microsoft and its future. Warren Buffet insists on time spent each day to "*just sit and think*". Buffet says that the number 1 habit of business leaders should be to "*never stop learning*". Finding this sort of time is a real challenge to CEOs, but there is a bigger problem as well.

Strategic risk is the biggest source of risk facing any company or organisation. It divides between micro and macro factors, but the significance of the latter has increased dramatically over the past decade. This is a problem for companies because the CEO is responsible for strategy, but macro strategic risk isn't necessarily a CEO skill set. The CEO is

paid to think about strategy, but will likely only be expert at thinking about micro strategy around their specific market, competitors, suppliers, customers and product innovations etc. Even if the enterprise is large enough to have a strategy team, they too are highly unlikely to have the required skill sets to undertake macro analysis or effectively interpret and use the strategic macro analysis sourced elsewhere

Strategic risk

Micro strategic risk arises from internal market factors such as the future behavior of customers, suppliers, potential substitutes and new entrants.

Macro strategic risk is all about the external big picture and future megatrends in technology, economics, politics and social change. CEO *foresight* calls these the X-factors.

1. The need for macro strategy

In a relatively stable world, the CEO and the Board can focus their attention almost entirely on micro strategic factors. But we don't live in a stable world. Our world is experiencing revolutionary changes in technology, Brexit, extraordinary economic policy, trade wars, rapid social change, demographic shift and a transformation in cultural attitudes and consumer behaviours. As a result, strategic risks and opportunities abound, but the CEO and the Board are often ill-equipped to respond. They're either too busy to monitor the big picture or lack the resources or skills to do so.

It's hard to stay abreast of all the latest foresight that's relevant to macro strategy. But the question CEOs should be asking with regard to future megatrends and sub-megatrends is: Will my business catch them, before they catch it? McKinsey¹ argues that

anticipating the impact of macro forces *"can help companies succeed by riding the current rather than swimming against it"*.

Every day it seems a new political development, economic view, technological megatrend or business model emerges. This is a big problem because the root cause of corporate decline - in public companies - is strategic risk (60%),² rather than operational (30%) or financial risk (10%). Peter Drucker has described how all too often *"the assumptions on which the organisation has been built no longer fit reality"*. The World Economic Forum (WEF) has estimated that new digital models accounted for the disappearance of half of the Fortune 500 since 2000, and John Chambers, former CEO of CISCO, has argued that *"probably 40% of the world's leading companies will not exist in a meaningful way 10 years from now"*.

¹ *Going from global trends to corporate strategy*, WM Becker and VM freeman, The McKinsey Quarterly, 2006 Number 3.

² Source: Institute of Actuaries.

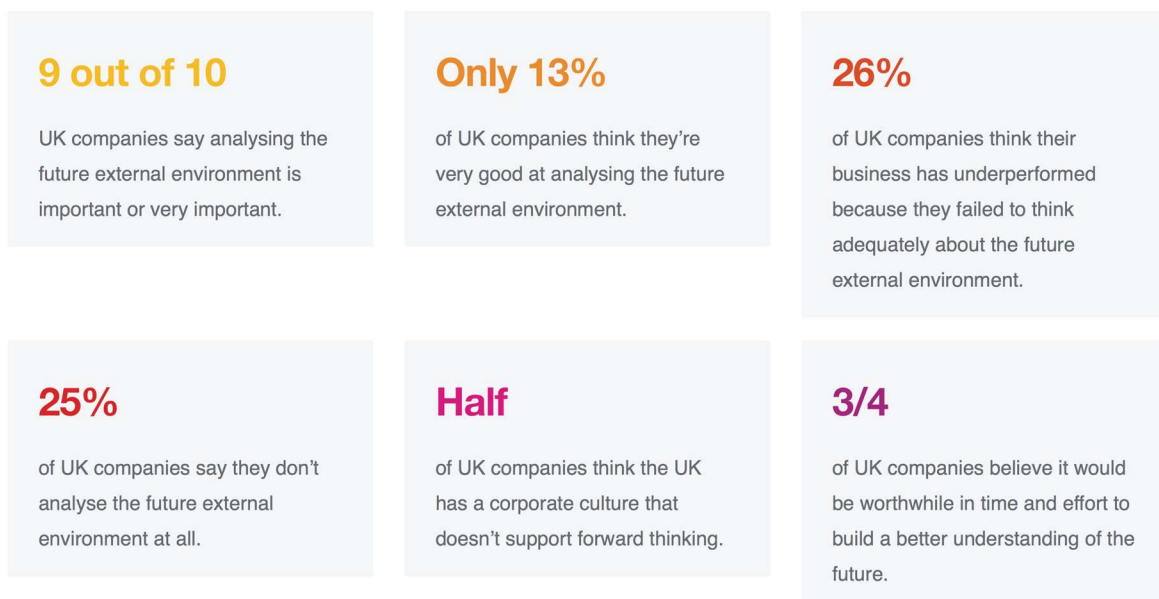
The American management academic, Henry Mintzberg, has argued that much of strategy is “*emergent*” in that it is not the result of a strategic plan being implemented, but instead driven by opportunistic responses to unexpected events. **CEOforesight** helps CEOs anticipate the unexpected in the external business environment, by scanning the horizon and assessing the future business landscape.

This is obviously not to suggest seeking the impossible, of perfect foresight, but rather a deeper understanding of likely future scenarios and how to understand whether or not different outcomes are likely to come to pass, and as a result their potential impact. CEOs need a plan to deal with strategic issues related to the external business environment.

Forward-thinking

Research undertaken by one of the CEO foresight principals for the Institute of Directors (IoD) and Barclays Bank found significant failings by UK companies in thinking about the future external environment (Figure 1). When it comes to the future external environment, far too many companies are flying blind or flying badly.

Figure 1 Thinking about the future external environment



The survey of 2000 company directors in the UK by the Institute of Directors (IoD) and Barclays Bank found that:

- 9 out of 10 companies believe thinking about the future external environment is important or very important.
- 73% of companies believe it would be worthwhile in time and effort to build a better understanding of the future external environment.

But despite this recognition of the importance of the future external environment to business strategy, there is a yawning gap between the rhetoric and practical business reality. The story is not complete without another set of results from the same survey:

- 25% of companies don't think about the future external environment.
- 26% of companies say their business has underperformed because of inadequate thinking about the future external environment.
- Only 13% of companies think they do a good job thinking about the future external environment.

These results strongly suggest there will be a competitive advantage for those companies who are prepared to think more deeply about the future external environment and the impact it might have.

Of course, nobody has perfect foresight, there is no crystal ball. But in order to acquire a competitive advantage you don't have to be perfect at forward thinking, but you do have to be better at forward thinking than your competitors. The aim of **CEOforesight** is to show you how.

2. The current strategic model is broken

CEOforesight argues that the current strategic model regarding the external big picture is broken for 3 reasons:

- WRONG perceptions.
- WRONG people.
- WRONG process.

Wrong perceptions

Where is your company on the forward-thinking curve (see: Chart 3)? Is it before or beyond the optimum point? The forward-thinking curve describes the relationship between the cost of forward-thinking (in terms of the time, skills and resources required) and the competitive advantage gained from doing it. Companies should undertake future external analysis up to the point where the business need for it is outweighed by the difficulty in undertaking it.

Most companies are acting as if they are at C or D in Chart 3, beyond the optimum point. The effectiveness of traditional approaches justifies a C or D perception.

However, **CEOforesight** argues that once its forward-thinking methodology is fully understood, perceptions of the position on the forward-thinking curve shifts leftward, to before and below the optimum point. In other words, companies realise they would gain significant competitive advantage from greater forward-thinking.

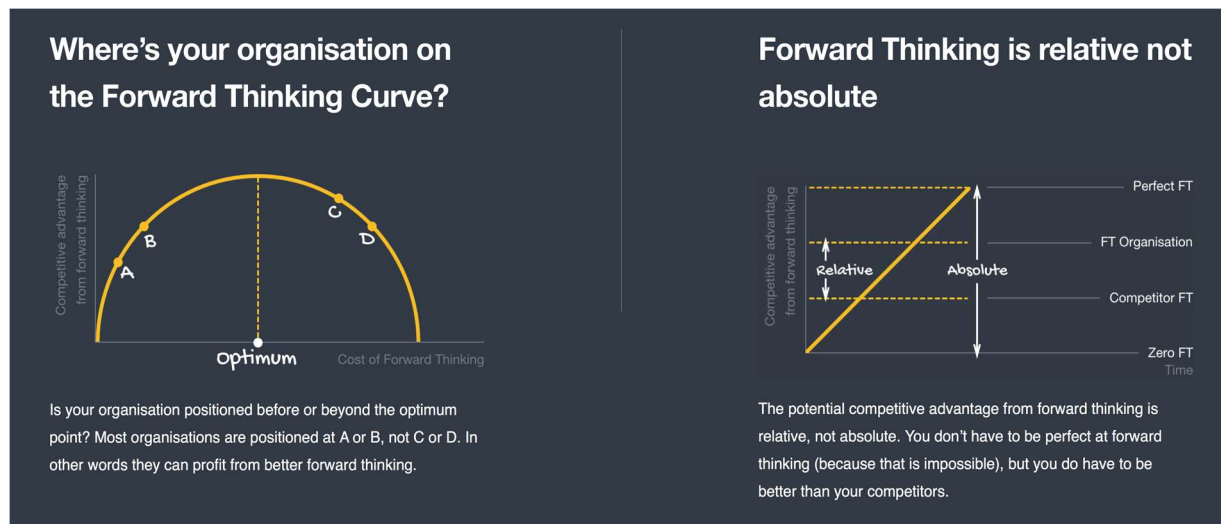
The second perception problem relates to the issue of absolute versus relative thinking (see: Chart 4). The potential competitive advantage from forward thinking is relative, not absolute. As we have seen, you don't have to be perfect at forward-thinking (because that is impossible), but you do have to be better than your competitors. The incorrect perception that thinking about the future external environment has to be absolute (i.e. perfect) to be useable, not relative, holds back many companies.

Related to this is the issue of general to specific. Companies can recognise the general truth that the future external environment is critically important, but that recognition doesn't translate into action because of the formidable hurdles and barriers within companies and organisations – lack of in-house expertise and no dedicated team (cited by 80% of

companies), too busy and lack of time (cited by 67% of companies), sceptical corporate culture and lack of priority (cited by 53% of companies), costs such as external consultants (cited by 49% of companies). In other words, most companies face all of these problems and there are formidable barriers to thinking about the future external environment and how such thinking could be incorporated into strategy.

The general perception of importance is reconciled to the revealed preference of inaction, by the fact that most companies can't see anyone else doing it and so aren't threatened by competitive pressures into action. There is a very limited set of role models for comparison. Most directors cite Shell's scenario planning and leave it there, not really understanding the Shell process or the effectiveness of it. It's just the only high-profile technique and implementation they're aware of.

Chart 3 and 4



Wrong people

The IoD/Barclays Bank research found 33% of companies say the Board has responsibility for future external analysis, with 23% saying responsibility rests with the CEO. However, the process of future external analysis generally rests with a team who undertake the role in conjunction with other duties – in 69% of companies. Only 10% of companies have a team solely dedicated to the role.

But this begs the question of whether or not those responsible or with delegated responsibility, have the skills to do it. 31% of companies say the people responsible for analysing the future external environment do not have the specific skills, which qualify them for the role. This is understandable. Companies are expert on internal not external market dynamics.

In contrast, **CEOforesight** has full spectrum PEST (political, economic, social, technological) capabilities which can be used by clients to dig deep into the future external big picture factors of most relevance to their organisation. **CEOforesight** blends its own futures analysis with those of other leading futurists. We are as comfortable

challenging conventional wisdom as endorsing it. This means that clients gain a comprehensive understanding of who is saying what and why, and whether it is likely to be right or wrong.

Wrong process

One critique of external analysis is to say that it is impossible to predict events or points (such as The Great Recession, Brexit, the rise of President Trump) and so we shouldn't try.

Another critique is to say that the focus should be on flexibility and agility and being able to be highly reactive to change, not proactive in anticipating future change. But both critiques miss the fundamental point that forward-thinking is not a focus on a specific outcome or view of the future, but instead a process by which companies understand the drivers of change in the external environment and the link with their own organisation.

Owning the future

Forward-thinking helps CEOs 'own the future'. By this we mean they understand what the key external drivers are and the manner in which they are likely to impact the organisation under different scenarios. Owning the future means owning the understanding of the relationship between a company and its external environment.

Part of this is having a wider and deeper insight on issues, as a result of the forward-thinking methodology. But having a deeper insight on future trends is only part of the forward-thinking process. Equally important is the emphasis within the forward-thinking methodology to understand the link between a company and its external environment, so that whichever scenario comes to pass, an organisation can predict more accurately its impact and their response.

3. Why CEO foresight?

It's most certainly a challenge staying on top of strategic issues relating to the political, economic, social, cultural and technological environment impacting on business. We recognise that the CEO is

responsible for strategy implementation but needs help when it comes to analysing the future external environment. We want to do the heavy lifting for you, by providing a foresight service specifically designed for the CEO. Simply stated, we do the work, you get the credit. We have unique capabilities and experience, gathered over many decades, to help you translate future megatrends into bottom line success.

We uniquely combine futures and economic thinking and apply the two disciplines to your organisation with the single intention of making you better informed and more insightful when engaging with your Chairman, the Board, other directors, senior management team, staff, analysts, media and of course customers.

CEOforesight methodology is based on what we call 'think & link':

- **Think** helps the CEO identify and understand the external drivers impacting their company. We help you understand the potential impact of these external drivers. We provide fascinating insight and new ways of thinking about the

future, that you won't see elsewhere. And we make thinking about the future energising and exciting. You will understand far more about future external drivers, thereby enabling you to address more effectively, future risks and opportunities.

- **Link** helps the CEO make the link between the insight on external drivers and the company. This is the 'missing link' to external foresight analysis, and all too often the reason why it is not undertaken. We're always asking the question: *"What does this mean for the client?"* We don't believe the link between external foresight and strategy should be put into the too difficult to do box.

4. The CEO foresight service

The **CEOforesight** business model allows us to provide state of the art foresight at an affordable price for mid-sized companies. **CEOforesight** is aimed at all sizes of companies but we think that mid-sized companies who have the desire, but not the in-house skills sets or big strategy

consultancy budgets, could greatly benefit from our service.

The service is twofold, retainer and bespoke.

Retainer service

The retainer service includes:

- An initial **External Futures Audit** (EFA) of the organisation for the CEO. This would establish: (1) What external futures analysis is already undertaken? (2) How the futures analysis is undertaken and the barriers to forward-thinking in the client organisation. (3) Whether or not the client has identified external drivers. (4) Are they the right external drivers, what's missing? (4) Do those involved in the futures analysis have the required skill sets? (5) To what extent futures analysis is effectively incorporated into strategy. (6) What needs to change in order to build a forward-thinking organisation. (7) Where existing strategy needs to be stress tested for potential external futures influences.

- **X-factors** analysis of the key external drivers and disruptors. **CEOforesight** would provide a detailed examination of the external drivers impacting the client organisation, using both qualitative and quantitative techniques. This would include an analysis of the changing impact over time - past, present and future. The aim is to provide the CEO with deep insight on the external influences impacting his/her company, how these drivers are likely to unfold in the future and how to understand how and why different scenarios are coming to pass, in order to anticipate risks and opportunities.
- **Fusion** – Identifying key external drivers is fundamental to the process, but once identified, **CEOforesight** does not treat them individually in isolation. There is no silo mentality. A central feature of the retainer service is the development of futures scenarios which fuse together macroeconomic, geopolitical and future megatrends, such as technology and demography, into

coherent stories of the future. We call this approach narrative forecasting.

- **Outputs** - Practically the CEO would receive:

(1) An external futures audit report.

(2) A 'think and link' report identifying the key X-factors and how these are likely to develop in the future - with alternative scenarios. This report would focus also on the transmission mechanism from X-factors to strategy - how the X-factors work and how to understand them. This report would explain how X-factors could impact and influence the strategic goals and vision of the client.

(3) Twice yearly presentations by the CEO foresight principals, David Smith and Graeme Leach, together with fully referenced presentation packs. These presentations would help the CEO monitor how the key X-factors are unfolding and expected to develop based on latest research. Good strategy is

ongoing strategy, monitoring the business environment and reviewing changes. **CEOforesight** helps to continually adjust strategies to cope with and reflect the business environment in which the company operates. This is because X-factors inevitably lead to market mutations.

- **The forward-thinking organisation**
– This service service helps the CEO maximise the strategic communication benefits of forward thinking and making the case for change and greater corporate agility. Forward-thinking is a process not an outcome.
- **Research team access** – Clients have ongoing access to the CEO foresight principals and senior strategy and futures research analysts, who can answer questions and explore issues the CEO wishes to pursue.

Bespoke services

- Speeches and presentations by David Smith and Graeme Leach, in a unique double-act performance at client conferences or events.
- Foresight retreats with the CEO, Board and senior staff to work through the implications of future change and develop buy-in.
- More detailed research on specific drivers of change as requested by clients.

CEOforesight and contacts

CEOforesight is a joint venture between David Smith, Global Futures and Foresight (GFF), and Graeme Leach, **macronomics**.

David Smith

David is one of the world's leading futurologists and strategic thinkers, having founded GFF (Global Futures & Foresight) in 2006.

Before founding GFF David held numerous strategic roles including strategic marketing director for Unisys \$2 billion global financial services business. Whilst at Unisys he co-created their Global Futures Forum.



He is widely sought after as a professional futurist, author and speaker, having addressed over 450 conferences and events in 42 countries across 5 continents. Peer review by Patrick Dixon, Chairman of Global Change, and perhaps the world's number 1 ranked futurist, says of David that he is: *"One of the world's leading authorities on global trends. He leads a powerful research team and is a fascinating speaker. He has helped some of the largest multinationals identify and respond to significant trends and is much sought after for his advice"*.

David has also helped academic institutions and industry associations to embrace change and prepare innovative strategies to renew themselves and generate new growth. He helps organisations think about key issues of the near future and stimulate out of the box thinking.

In the 2019 Department of Business, Energy & Industrial Strategy (BEIS) Futures Competition, GFF was chosen as a preferred supplier of futures service to the UK government until 2023.

Graeme Leach

Graeme is one of Britain's leading economists and a former Chief Economist and Director of Policy at the Institute of Directors (IoD), where he was also a member of the Board. Graeme represented the IoD in economic discussions with the Chancellor and 10 Downing Street. Graeme founded **macronomics** in 2016, which is a macroeconomic, geopolitical and future megatrends research consultancy.



He has recently finished his new book: *The Great Race - Who will win the battle for economic supremacy in the 21st century*, to be published in 2020.

Graeme is a visiting professor of economic policy and a senior fellow of the Legatum Institute in London. He is also a member of the IEA Shadow Monetary Policy Committee (SMPC).

He has spent a lifetime in economics, futures and foresight, having started his career at The Henley Centre for Forecasting.

Over recent decades Graeme has made 100s of speeches on the future economy and megatrends, in more than 25 countries across the globe.

Graeme has also undertaken 100s of live television and radio interviews on BBC News, Sky News, Radio 4's Today Programme and others. Over the past 5 years he has written a weekly column for the City AM newspaper and numerous articles for the Daily Telegraph.

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