

Chief Executive

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FUTURE FOCUS

Envisioning the possibilities ahead

A TTEMPTING TO PLAN FOR THE FUTURE can feel futile in an era characterized by tremendous change. Yet, today's leaders are charged with doing just that. Political, economic, societal and business forces are converging to disrupt accepted norms and upend traditional ways of working and operating. Against that backdrop, companies must find ways to embrace technological advancements, adapt to market volatility and handle challenges like supply chain upheavals and the rebalancing of the relationship between labor and management—all at an unprecedented pace.

"We're dealing with unpredictable change, but also rapid change, or what I'll call high-torque change," Fred Hassan, a partner at Warburg Pincus and former CEO of Schering-Plough and Bausch & Lomb, told CEOs gathered for a recent roundtable discussion sponsored by Tata Consultancy Services and *Chief Executive Magazine*. "When it happens it's very lurching, very quick, and that creates a lot of stress and anxiety."

That characterization resonated with Chris Oberbeck, CEO of Saratoga Investment. "I feel like the economy is a tractor trailer that's slid one way and then the other, and the idea that it's going to slide back to normal is probably far-fetched. Whatever you think the trend is will not be the trend for very long, so we're all constantly trying to figure out what to expect."

Aiming for Agility

Some leaders are beginning to view being perennially surrounded by uncertainty as a new reality to which companies and their employees must adapt. At the retail chain Build-A-Bear Workshop, CEO Sharon John recounted seeking to shift her team's mindset from attempting to predict the future and then planning for it to embracing the concept of constant adaptation and making that part of their comfort zone. "One of the bigger changes that we had to make, oddly, was to get our people to understand that change is not a destination," she explained. "It's a way of life. That's the big paradigm shift for everyone right now, to learn to be comfortable being uncomfortable and to operate in an ever-evolving environment, knowing that you're not trying to just become something and stop again—that the process is ongoing."

"As CEOs, we're never going to be able to predict the future," agreed Maggie Wilderotter, CEO of Grand Reserve Inn. "So we need to have strategies and agility in terms of what we do and how we do it." One of her tactics is to stay on top of developments at the ground level through "lion hunts," two-hour blocks of time that she schedules to "prowl around the offices, talk to people and get a sense of what's going on. Because

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—Frank Diana, Managing Partner and Futurist, Tata Consultancy Services



your frontline people actually know where all the bodies are buried, and what works and what doesn't."

While acknowledging the need for agility in today's business environment, some participants expressed concern that too narrow of a focus on spotting and adapting to market forces is detrimental in the long term. "It makes sense, and seems required, that we optimize the business to be reactive and flexible, but what about foresight?" asked Dave Jordan, vice president of Tata Consultancy Services. "What happened to vision? If you optimize your model to be reactive, where is the room for proactivity? It's as if agility and efficiency have overtaken the need to get ahead."

In fact, U.S. businesses are already suffering the consequences of a lack of foresight as they struggle with issues stemming from past decisions made in the pursuit of efficiencies. "As you think about what's going on today—and, yes, hindsight is 20/20—but if you took the time, a lot of this was predictable," pointed out Jeffrey Paraschac, CFO of PURE Insurance. "When you look at the supply chain issues with China, that's a country that we should have stopped trusting a long time ago, if you consider their record with intellectual property and technology over the years. We essentially trusted them to the point where they became an essential supplier for products and services in [the name of] short-term profit gathering."

Foresight Failures

The fallout of offshoring decisions made in pursuit of lower costs is now being felt across industries. It's been a particular pain point in pharmaceuticals, noted Jonathan Javitt, founder of NRx Pharmaceuticals, who says sourcing issues have by far eclipsed the lengthy and cost-prohibitive FDA approval process generally viewed as the industry's biggest issue. "The biggest problem is that the entire supply chain is standing on a banana peel," he explained. "One very specific example is the 12-month backlog to buy gelatin capsules. People take pills for granted, but the fact that China took over that whole supply





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chain and the country is in shambles means it now takes 12 months to get a gelatin capsule.”

Furthermore, a significant percentage of active pharmaceutical ingredients are made in China, leaving the U.S. vulnerable to drug shortages should the trade war with China heat up in a measurable way. But while cost did drive those sourcing decisions, the policies of U.S. regulatory bodies like the FDA and EPA played a significant role in creating price discrepancies in the first place, noted Hassan, who pointed out that American facilities operate at a disadvantage. More vigorous oversight of manufacturing practices in the U.S. mean that a domestic active pharmaceutical ingredient plant will be subjected to far more frequent unannounced inspections than one based in China, he explained. “That’s a huge advantage right there.”

“It’s interesting that we criticize the German politicians for what they did to the oil and gas supply,” said Hassan. “I think our politicians gave away the strategic outsourcing of APIs to China a long time ago, and now it’s just very hard to bring it back. From ordinary things like ibuprofen to an antibiotic like cephalosporin, it’s all made there. And there’s nothing wrong with that if things are okay, but when there are geopolitical tensions, it can be tough.”

Several roundtable participants expressed frustration about the systemic failure to create contingency plans for potentially devastating issues that now seem glaringly obvious, if not inevitable. “Some of these things are predictable,” said Jordan. “Why weren’t we focused on them? Why weren’t we paying attention so that we had no choice but to react?”

To Javitt, the answer is a form of myopia. “Our biggest problem as a country is that until we have a crisis that affects the average person on the street, it’s just not a problem worth talking about,” he said. “So with the pharmaceutical supply chain, until it gets to the point where an emergency room doctor says, ‘Your five-year-old has an ear infection and ampicillin would fix it in six hours, but there isn’t any,’ we’re not going to start doing the right thing. But somehow we need to start doing the right thing.”

Lessons in Adversity

Oberbeck posited that a lengthy period of relative stability and economic growth lulled businesses into complacency about the prospect of crises. “Anyone who lived through the ‘70s knows a lot about adversity, but there really hasn’t been a lot of adversity other than short-term things for a long stretch of time,” he said. “Most people in the workforce today have never experienced proper, true adversity, and it’s coming. Up until now, the Fed has been able to monetize our way out of most adversities, but we’re probably going to get a downturn sooner than we all think.”

Should a lasting shift to a recessionary economy take place, some

leaders expect the fallout to be a wake-up call for generations that have enjoyed a job market where employees held more leverage than employers. “We have two or three generations in the workforce who have never seen adversity, and who have been focused on activities and not results and not being held accountable for what they should be doing because they could always quit, go someplace else and get a job in 10 minutes,” said Wilderotter. “But that’s not going to be the case in the next few years. There won’t be that freedom to just get up and go.”

At the same time, there is broad recognition that employees increasingly look for companies that can offer them more than simply a job—and even in a tighter economy, that’s not likely to change. “This generation and the generations that follow will want to work for companies that do more than just make something or achieve a financial goal,” said John. “It has to be something that’s bigger than the company, bigger than themselves.”

“Giving people purpose is very effective,” agreed Hassan. “It’s been very helpful that we’re working on a model that’s going to [prevent] suicides. People want to have that sense of being part of something.”



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Pressure for innovation and toward flatter organizational structures are other trends expected to continue to build over the next decade, said Frank Diana, a futurist and managing partner of Tata Consultancy Services. “Optimization is always key, but innovation is increasingly important,” he said. “And a secondary phenomenon is that horizontal value-creation platforms are the mechanism for that innovation to manifest itself. Those are the hot topics that we’re seeing emerge.”

Many of the workplace changes that employees have come to value and/or expect—leadership development opportunities and flatter organizations that foster empowerment, for example—can be an asset in navigating those challenges. “It’s organizations that are still vertically oriented, top-down oriented, that will suffer, because if you can’t break the silos in your own business, you can’t possibly operate in a cross-industry sort of scenario,” explained Diana. “You’ve got to think more horizontally.”

Ultimately, companies with a decentralized work environment where team members are empowered and engaged will be best equipped to adapt and succeed in the coming decade, added Wilderotter. “When we think about innovation, we think about products, something transformational, but innovation takes place with people as well,” she said. “People innovate in their jobs, innovate throughout companies in working together. That’s a secret sauce that many U.S. companies have had based on leadership having the foresight to look at people as the most important asset, as they still are, and using that to power innovation.”

Chief Executive

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