

A person in a brown jacket and dark pants stands on the edge of a large, light-colored rock formation. They are looking out over a vast valley with rolling hills and sparse trees under a clear blue sky. The scene is illuminated by the warm, golden light of a low sun, creating long shadows and highlighting the textures of the rock and the landscape. A large, semi-transparent blue circle is overlaid on the right side of the image, containing the main title and author information.

Bendelta Thought Leadership

The Big 5 for 2022: The most critical vectors for business and society in the coming year

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How humanity (and the world) adapts

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All failure is failure to adapt, all success is successful adaptation.

Max McKeown

Regardless of your views on where the universe and humanity came from, **Charles Darwin's 1859 book *On the Origin of the Species*** helped the world realise something: *species are neither immutable, nor do they require divine intervention to evolve*. Rather, survival of the fittest ensures evolution all by itself, in a way that is invisible but inexorable. Adaptation is an intrinsic component of existence, and its velocity changes based on the context: *glacial in normal times, lightning fast in cataclysmic times*.

Over a hundred years later in 1961, **Thomas Kuhn's** landmark tome *The Structure of Scientific Revolutions* showed why paradigm shifts happen in the world of science. He showed that adaptation occurs in two ways: periods where there is cumulative progress, interrupted by periods of revolutionary science because of anomalies. In the same way that species adapt, so do humanity's models for understanding, and leveraging, the world around us.

The last 18 months have demonstrated this accelerated adaptation, of both our world and our ways of thinking about it. Importantly, there have been discontinuities in how businesses are run and what drives superior performance. These sudden changes spell disaster for the business world's dinosaurs and dodos.

How and why our world has changed

We can understand the recent changes through either an economic or psychological lens.

From an **economic perspective**, all of the industrial revolutions of the last 250 years have happened for the same reason: *an opportunity to make a huge leap in productivity*. Usually, these have been triggered by a technological breakthrough in and of itself. This time, the technology opportunity has been catalysed by a pandemic, driving more rapid sociological change than we would normally see. Through necessity, remote working (as one example) has been rapidly facilitated, then exploited.

The **psychological perspective** is just as valuable to understand. Not only have industrial revolutions offered greater productivity (e.g. through steam power, electricity, the automobile, telecommunications, digitisation) but they have simultaneously offered humans more of *our greatest motivating force: autonomy*. These innovations have provided us with unprecedented freedoms in our lives – the ability to roam further, faster, cheaper, whether physically or virtually. We love choice and grab it with alacrity when offered.

It is no coincidence that the fastest revolutions occur when both the economic and psychological appeal is strong. Taking the simple example of remote working:

- **Economic:** a company can employ the best talent wherever they may be, not simply those within commuting distance of an office; they can *reduce office-based overheads*; and they are more likely to use outcome-based performance management
- **Psychological:** a worker can choose where to live, when and how often (if at all) to travel to an office, *reduce/eliminate time spent commuting*, have more freedom about when to start and stop working, or even how to dress

That is a fairly minor (though easily understood) example. Others are more profound. Even more profound are the implications for keeping up. All of the changes of the last 18 months trigger further changes: *as the structure of our environment changes, so does the conduct of businesses, employees and customers*. So, what will we see change most in 2022 and how can we be fore-warned and fore-armed?



The five critical vectors for 2022

It's rather ironic, given Australia's relative success with the pandemic, that the Northern Hemisphere is further into a post-pandemic change of the world order. As a broad generalisation, each of the five vectors we have identified is in full bloom in the Northern Hemisphere and in a more nascent (yet already recognisable) stage of development in the Southern Hemisphere.

Bendelta's research into this has enabled us to identify five major vectors for the year ahead. To be considered a key vector, each must satisfy the following criteria:

- It must be a marked change from the pre-existing conditions
- It must be relevant across the vast majority of businesses and sectors
- It must be mission-critical for organisations to adapt in response to the environmental change
- The adaptation required must include some significant change in organisational form, capability and/or conduct

There is no priority order in our list below and indeed, the inter-connectedness of the vectors means that they must often be considered in combination. For the ease of explication, we set them out individually as follows:

1 The war for talent on steroids

After a security-driven period of high staff retention, the pendulum is swinging hard. The reasons are many: it's partly a *human response* (just as global travel will explode in reaction to inability to travel for so long), it's partly about wanting *different employment conditions*, and it's partly about it being an *employee's market*, with an ability to *command significant salary increases*.

Studies abound, showing the dramatic conditions. SHRM cites a study that shows that "more than half of employees surveyed in North America plan to look for a new job in the next 12 months." Prudential conducted a study that found "one in three American workers would not want to work for an employer that required them to be onsite full time." Surveys by recruitment companies have reported that *employers "are aggressively competing for talent by increasing their compensation"* and "explicitly advertising flexible work schedules".

While this is still unfolding in Australia, employees are already signalling intent. Many say they will change employer in the next 12 months, and a large proportion take it as a given that *they will move for a significant pay increase and demand very flexible working conditions*. The evidence from the Northern Hemisphere suggests that they will be justified in those expectations.

Many industries will find this very difficult, including:

- **Health:** pandemics are known for driving employees out of the sector, as a result of burnout and disillusionment
- **Professional and financial services:** often where the most intense wars for talent occur and where the remuneration-based competition tends to be highest
- **Industries** where it is harder to offer fully-flexible employment conditions

This is an *enormous pressure for employers*, who will have to both meet hygiene requirements for pay and employment conditions, while also *providing a stellar employee value proposition to both retain and attract talent*.

This places employee experience near the top of the tree in terms of organisational priorities for 2022. Every employer will need to work out:

- How to create the performance improvement needed to fund higher remuneration
- How to change policies to maximise work-style flexibility
- How to be a truly compelling place to work

This final point takes us to the second vector...



2 Cultural renewal

After nearly two years of waning spirits, *organisations will need to reconnect the organisation and rebuilding culture and connection*. Why? Because if they don't, they will have nothing to offer other than a generic employment experience and will find that their only levers are mercenary ones. Moreover, without that cultural glue, performance will also suffer.

There are many forms of response to this challenge.

We've seen big investment banks in the Northern Hemisphere offer Peloton Bikes, mental health days off from work, additional vacation days, raises and bonuses to keep their young bankers motivated and happy. Citigroup has banned internal video calls on Fridays and created a new company-wide holiday, called "Citi Reset Day".

Large leading tech companies, such as Amazon, Google, Microsoft and Facebook, as well as others such as Nike, have been building, buying or rehabbing office spaces to make them more attractive and appealing to workers. The office experience now focuses on 'hosting' and 'programming', based on the idea that making the office experience compelling draws people in, like a festival.

However, the reality is that much of the workforce will *come to the office between only 0-60%* of the time, and very seldom all at the same time. Any effective cultural renewal has to deal with this hybrid reality. *Part of the solution in 2022 will be experiences – special offsites and trips that connect and engage*. However, another part of the solution must be *regular connection experiences that occur virtually*.

3 Navigating the new 'new ways of working'

Before the pandemic, there was much talk of new ways of working. These usually emerged from a cocktail of drivers including agile, activity-based working and demand for flexible work practices.

As remote working proliferated in the pandemic, organisations had to solve for performance management where most employee activity was invisible. According to research published in the Harvard Business Review, companies with superior processes for managing time, talent, and energy before the crisis were much more productive during the pandemic than the rest.

Organisations promoting flexibility and empowering employees to find their own work rhythms were the most productive and resilient throughout the pandemic.

These practices will continue to be needed post-pandemic, as one major surprise from the last 18 months has been the amount of areas where *productivity has not suffered (or has even improved)* through remote working.

To determine how extensively remote work might persist after the pandemic, McKinsey analysed its potential across more than 2,000 tasks used in some 800 occupations in the eight focus countries. Considering only remote work that can be done without a loss of productivity, they found that about *20 to 25 percent of the workforces in advanced economies could work from home between three and five days a week*. This represents four to five times more remote work than before the pandemic.

The implication of this is that the key to highly productive work in the new environment will be the management of networks and flows. In particular, organisations will drive performance from empowered teams – not until as units of the organisation, but also in their interaction with other teams inside and outside the organisation.

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4 A new level of intensity around societal and environmental responsibility as a core business process

Concern with societal responsibility is not new and the introduction of ESG measures might simply be seen as a continuation of that.

However, two things have materially changed:

- A greater insistence by employees for this to be part of the EVP – a demand that organisations deliver a strong social dividend
- Even more significantly, the correlation between ‘green practices’ and superior business performance has increased. These are no longer actions that look good, they are in fact delivering results

Nomura recently stated that “ESG is going to become as important as EPS in investors making decisions on public equities and fixed income securities”. Top-performing ESG companies in their sectors are producing superior risk-adjusted returns, and fund managers who screen for top-performing ESG companies in their portfolios are outperforming those who do not.

This takes us back to the back to the pattern of industrial revolutions described at the beginning of this paper.

As Carlota Perez and others have described, *technological revolutions trigger very predictable stages of financial capital*. The first stage is the installation stage, when a new innovation is introduced, erupts and spreads in conflict with old products and technologies. Then the frenzy stage, when financial capital drives the build-up of new technologies but develops tensions within the system, leading to the collapse of a financial bubble. Then comes the deployment (or synergy) stage, where production capital (rather than investment capital) ensures the new technology flourishes.

In the immediate future, it is probable that there will be more moves like that from food group Danone, which last year began publishing its “carbon-adjusted EPS,” based on its estimated cost per share of its emissions subtracted from its standard EPS.

Why is this one of the five critical vectors? Because it means that ESG-related conduct becomes part of core business processes (e.g. circular supply chains) and core to the employee experience.

5 Leadership for growth and a new paradigm

The fifth vector results from the first four. Leaders and leadership must evolve to meet the next context, and it must do so as rapidly as the context itself is changing.

Even before the pandemic, observers had noted the emergence of the ‘permissionless organisation’, where decision-making is pushed out to the farthest edges and where teams of talented people are empowered to design their own experiments and solutions.

As a result of the last 18 months, this concept is no longer avant-garde. Almost all organisations had to become somewhat more permissionless than they had been. The adaptive demands of 2022 will almost certainly mean that they have to stay that way, or go even further. *Only an organisation driven by teamwork, networks, experiments and shared values can evolve far enough and fast enough to deal with cultural renewal, the war for talent, hybrid working, increased societal responsibility - and higher performance*. Consequently, leaders - throughout organisations - must evolve even faster than their environment.



More specifically, leaders in 2022 must simultaneously address the following challenges:

| Challenge | Required adaptations |
|---|--|
| Diffused, deflated and/or distracted workforces | Generate cultural renewal by crafting narratives of purpose, optimism and direction. |
| The hybrid organisation as the new normal | Both embrace and shape further changes to ways of working. |
| The permissionless, networked organisation | Empower and connect networks of teams, and lubricate the flows between them. Develop and apply performance management methods based on outcomes, not observation. |
| Incredible talent volatility | Shape and deliver a compelling employee proposition. |
| Greater societal and environmental responsibility | Hard-wire better societal and environmental actions into core business processes. |
| Additional investment/cost needed for the above | Generate material improvements in business performance, through the above actions (not separate from them). |

The way forward

2022 brings both a remarkable opportunity and a daunting challenge for leaders and leadership. They will need to bind organisations, even while those organisations may be facing significant retention and attraction challenges. They will need to drive higher performance, even as the activities of their people in creating performance become less obviously visible and controllable.

Leaders can start by understanding these five vectors, and more broadly, appreciating the recurring patterns of post-cataclysm adaptation and evolution. Going back to our two authors at the start of this paper, they can understand from **Darwin** that no matter what they may wish, *survival of the fittest is really about responsiveness to change.*

From **Kuhn**, they can appreciate that in the face of discontinuous change, such as the pandemic has provoked and accelerated, *it's critical to update one's paradigms and mental models to reflect the new reality. Only once their mindset has changed, can a leader effectively change their own conduct and that of the organisation.*

