



'The next 10 to 15 years are going to be extraordinary'

DOMINIC BARTON
Global Managing Director, McKinsey & Co.

CEOs are under too much pressure to deliver the next quarter's results when they should be focusing on the value their companies can create in five years' time. That's the view of McKinsey & Co's Global Managing Director, Dominic Barton, as featured in CIMA's member magazine, Financial Management (FM).



Few people are better qualified than Dominic Barton, the Global Managing Director of the world's most influential management consultancy, to comment on the challenges facing chief executives and their boards. So when Barton, who has held the top job at McKinsey & Co. since 2009, expresses his concern about the global mega-trends affecting not only companies, but also the societies they operate in, business leaders would be well advised to take note.

Volatility, uncertainty, complexity, ambiguity – navigating the VUCA world

The London-based Canadian notes that, although all these challenges may appear daunting at first sight, they also present a

number of opportunities. "I have a strong feeling that the next 10 to 15 years are going to be extraordinary," he says. "There are so many forces under way. For one thing, there is a big shift in economic power from the West to the East, where there are 2.2 billion new consumers in China, India and Indonesia – and also in Africa. That's a massive force, which will prove stronger than the industrial revolution."

Barton observes that the challenges facing companies are many and varied. Citing the "technology overload" factor as one example, he says: "Look at big data, the computing power revolution, 3D printing and biotech: these are moving three to five times faster than management is ready to deal

with. Innovation is happening so quickly. Just as you get abreast of one element, it pretty much changes – especially digitisation. Technology is growing at such a phenomenal rate."

With an eye on the macro aspects of the unfolding mega-trends, he acknowledges that businesses are facing a complex and difficult situation. "With lots of technological change, as well as an ageing population and geopolitical shifts, there are major challenges to our system," Barton says. But he is also confident that a world posing multiple known and unknown challenges can be a profitable environment for those leaders who have come to terms with the new normal and the new thinking it requires.

Putting in place frameworks to make best use of resources and talent

"All together, these challenges form valuable opportunities to companies – as long as they understand these shifts are happening in a very volatile world," Barton says. "Opportunities exist for those with a long-term view and a strong proposition of where they want to go. Companies have to consider their resilience factor. They need to employ health metrics and apply the kind of rigour that the Principles provide."

He continues: "Boards need to be asking the relevant questions for today: what is the quality of the talent pool? What is the level of trust? What is the level of innovation? Ultimately, they need to be asking how much resilience they have for shocks, be they financial, operational, human or regulatory. These are just some of the factors that companies are having to think

about. In the long term, it's about staying in power: can you zig when other people zag?"

A long-term and sustainable approach to business

Companies need to make long-term investments to ensure that they can innovate effectively and create sustainable value.

A number of leaders of big publicly owned companies have not only shown that they understand the corrosive effects of short-termism, but have also been prepared to swim against the tide and do things their own way, according to Barton.

Attendees at a recent McKinsey business summit in New York, including 75 board members of leading companies and representatives from bodies such as CIMA, agreed to "push for long-termism, developing health metrics to make that happen". If enough people, especially investors, can be encouraged to focus more on the five- to 10-year time horizon, Barton believes that there is room for CEOs to develop new thinking in this area. "There's been a shift and I do think shifts like that will make a difference," he says.

Integrated reporting – a key component of embedding value creation

When it comes to performance incentives, companies need to move away from short-term measures, he adds. "Not enough organisations have people health metrics, for instance. Integrated Reporting is a great example of an approach we need to see more of. I think integrated reporting's measuring and auditing of results, by looking at areas such as

sustainability performance and how much is invested in people, are key. What's great about integrated reporting is the measurement of the full performance of a company, not just its financial results."

What is crucial in these interconnected areas is that business leaders are allowed to take the lead, says Barton, who believes that thinking more broadly about the behaviour of companies is an important part of a leader's remit. "It's vital to do this," he says. "And I think people are stepping up in this area – including investors, CEOs and their boards."

Working towards a more inclusive form of capitalism for the 21st century

"Greater inclusion is what we need to be thinking about. There are a number of people looking at a more inclusive form of capitalism, working with a broader set of stakeholders."

So how is a successful business likely to be run in 10 years' time? "The model of capitalism is starting to shift amid a recognition that, if it doesn't adapt, it might eat itself," Barton says. "I think there is a movement for change – and more business schools are starting to think along the same lines. Integrated reporting is very important for making this happen."

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