

Are Business Leaders Caught in a Confidence Bubble?



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EXECUTIVE SUMMARY

Key Findings from the 2017 Strategic Readiness Survey

Disruptive change is accelerating, driven by new technologies and rising competition from both traditional and nontraditional players. As a result, Innosight forecasts that half of companies in the S&P 500 will be replaced over the coming decade, due to loss of market value or acquisitions.¹

What are leaders doing about these challenges? And how do they feel about their ability to prepare for and manage them? In May 2017, we surveyed more than 300 executives at major corporations with revenues of \$2 billion and higher about their current attitudes, experiences, and responses to marketplace disruption. (See full methodology on page 17.) The results tell a mixed story. Key findings include:

- **Business leaders may be overconfident in their ability to respond to disruption.** 80% of respondents say they recognize they need to transform, and 82% expressed degrees of confidence that their company is prepared to change in response to disruptive trends. Yet there are multiple warning signs in the data—including perceptions of competition and disruption—that suggest they may be in a “confidence bubble.”
- **Broad understanding about what they need to do to respond to disruption.** Executives see the need for a two-pronged approach to the future. They say they are likely to both transform their core business while also investing in new growth businesses. They also see the need to expand within existing markets and enter into new markets.
- **Talent and leadership are concerns.** Executives say finding and retaining the right talent is considered the biggest obstacle to transformation. Moreover, 81% say that top management is not open to new ideas.
- **Digital and AI may be blind spots.** Despite artificial intelligence and digital technologies rapidly transforming markets around the world, executives are downplaying the threat these forces will play to their own businesses.

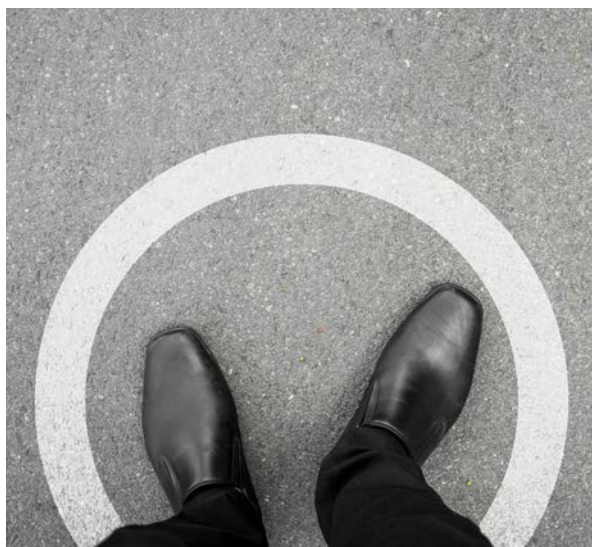


¹ Corporate Longevity: Turbulence Ahead for Large Organizations (Innosight, Spring 2016)

Main Finding: The Confidence Bubble

Perhaps the most striking finding is the disconnect between confidence levels and specific perceptions of threats and competition. 82% of respondents expressed degrees of confidence that their company is prepared to change in response to disruptive trends. Yet their actual activities fall short of what is required to justify their confidence. There are multiple warning signs in the data that suggest they have strategy and organizational blind spots that may undermine their ability to adapt.

- **Underestimating new sources of competition.** When asked about the sources of future competition, fully two-thirds of respondents (67%) think it will be from “mostly existing” competition while fewer than one-in-four (23%) think their companies will be facing “mostly new” sources of competition. In a related question, 55% expect competition to come mostly from within their existing industries, with just 10% saying competition will come from new industries.
- **New thinking gets short shrift.** 81% say new growth products and ideas sometimes or often do not get enough attention from top management.
- **Keeping up, but not ahead.** When it comes to keeping up with the pace of change, only 7% report their companies are moving much faster than the overall market, with only 24% saying somewhat faster.



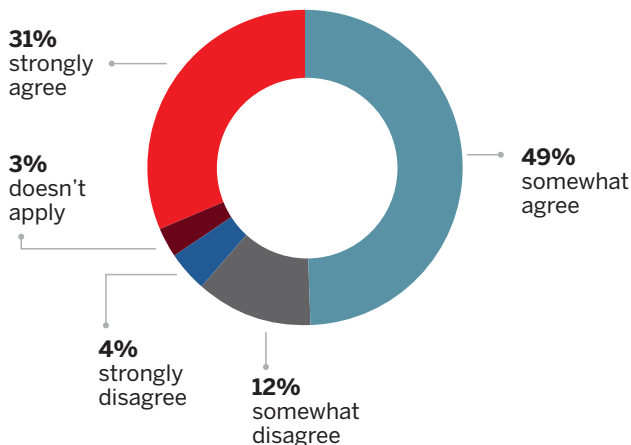
- **Modest investment in digital.** Digital business models and platforms are disrupting industry after industry, but 53% of respondents said that they plan either no increase in digital investment or a less than 25% increase.
- **Underestimating new technology.** Despite rapid advances in the emerging technology of artificial intelligence, fully 65% of executives said AI is not too threatening or not at all a threat to their business.

“One could say that the worrying thing here is that executives aren't more worried,” said Innosight managing partner Scott D. Anthony. “The pace of change continues, and digitalization is accelerating, so leaders should be investing more, expecting to reconfigure their organizations more, and should be paying closer attention to new product ideas and new growth ventures.”

CONFIDENCE BUBBLE

Most executives say they need to transform, and they express confidence in their ability to do so

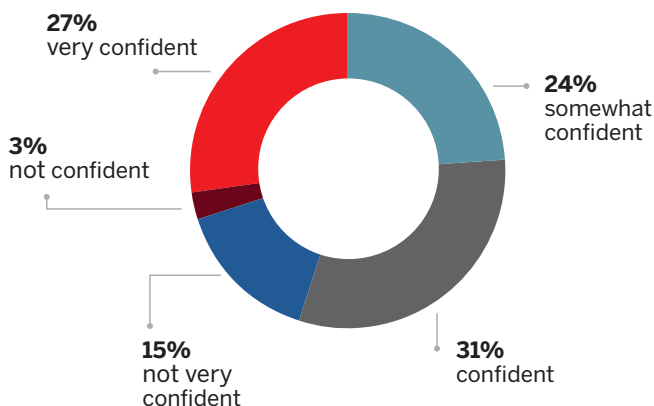
To what degree do you agree or disagree with this statement: “Our company recognizes the need to transform—that is, to change our core offerings or business model—in response to rapidly changing markets and disruption.”



80% of corporate executives and managers believe their companies recognize the need to transform in response to rapidly changing markets and disruption. A third “strongly agree” their companies distinguish the need for transformation when confronted with market disruption.

→ C-suite executives hold even stronger views about the need to transform. Fully 90% of them say their companies are aware of the need for transformation, including 45% who hold this view “strongly.”

How confident are you that your company is prepared to change in response to disruptive trends in the next three to five years?



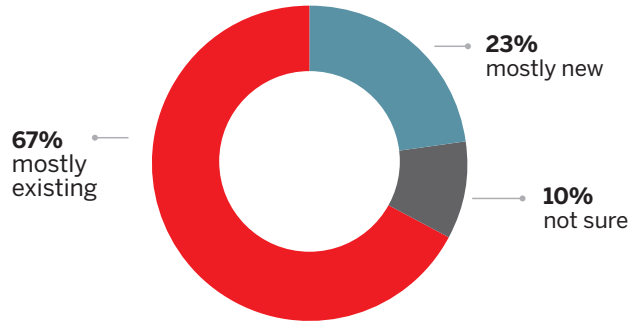
The vast majority of executives and managers (82%) are confident their companies are prepared to change in response to disruptive trends in the next three to five years.

→ An even greater percentage (91%) of C-suite executives express confidence that their firms are prepared for disruptive trends.

CONFIDENCE BUBBLE

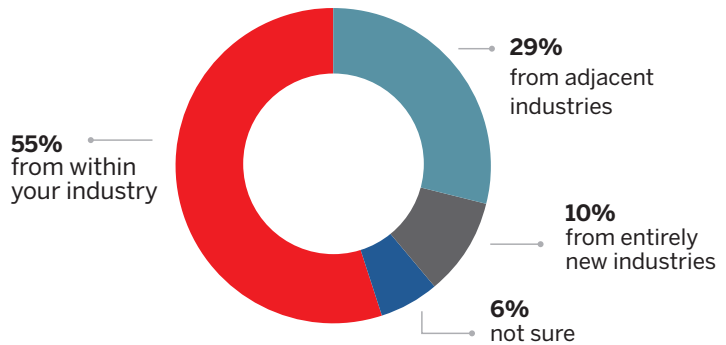
Respondents see most competition coming from within their industry and from existing competitors

Five years from now, do you expect your company will be facing mostly new or mostly existing competition?



When asked about the sources of future competition, two-thirds (67%) think it will be from “mostly existing” competition while 23% think their companies will be facing “mostly new” sources of competition.

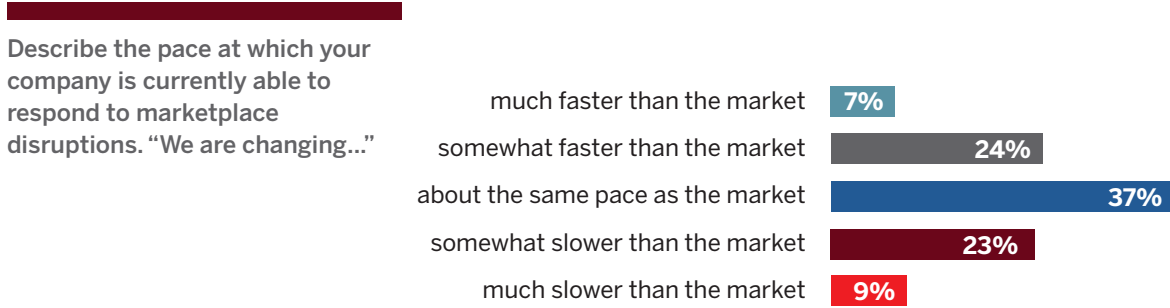
Where do you see the greatest competition coming from in the next five years?



A 55% majority of both executives and managers expect competition to come mostly from within their existing industries. Only 10% think future competitors will come from industries completely outside their current sectors.

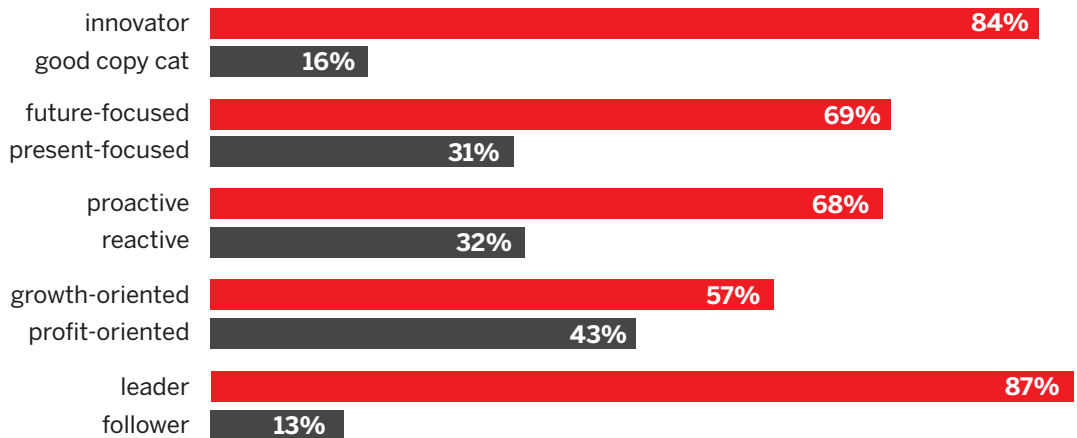
CONFIDENCE BUBBLE

Most respondents don't think their companies are moving faster than the market, even though the majority see themselves as leaders



When it comes to keeping up with the pace of change, only 31% say they can move faster than the market, with only 7% of those saying they are moving much faster. More than one-third (37%) think their companies are currently able to respond to disruptions at "about the same pace as the market" while another third (32%) think the response to disruption will trail the marketplace.

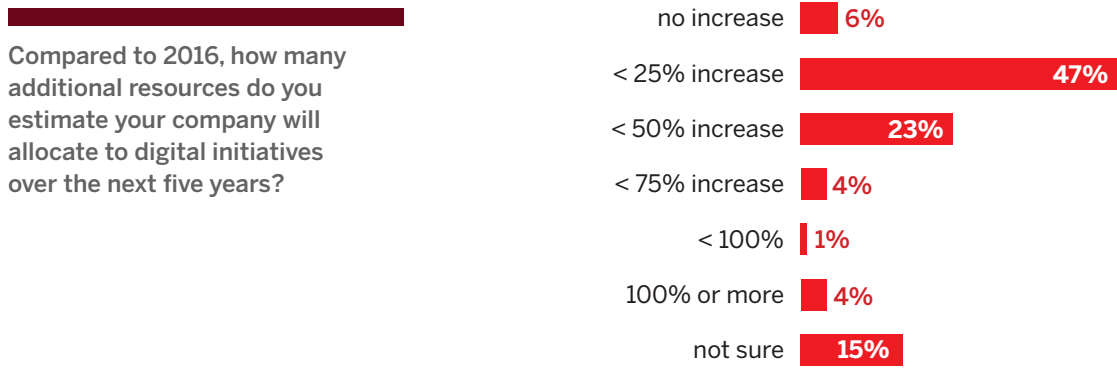
Which of the following pairs of words best describes your company's position in the marketplace?



Executives and managers overwhelmingly think they are working for corporations that can be described as marketplace leaders and innovators. Fully 84% describe their companies as innovators, and 87% say they are leaders. Two-thirds also think their companies retain positions that are more future-focused (69%) and proactive (68%) than present-focused (31%) and reactive (32%) in the marketplace.

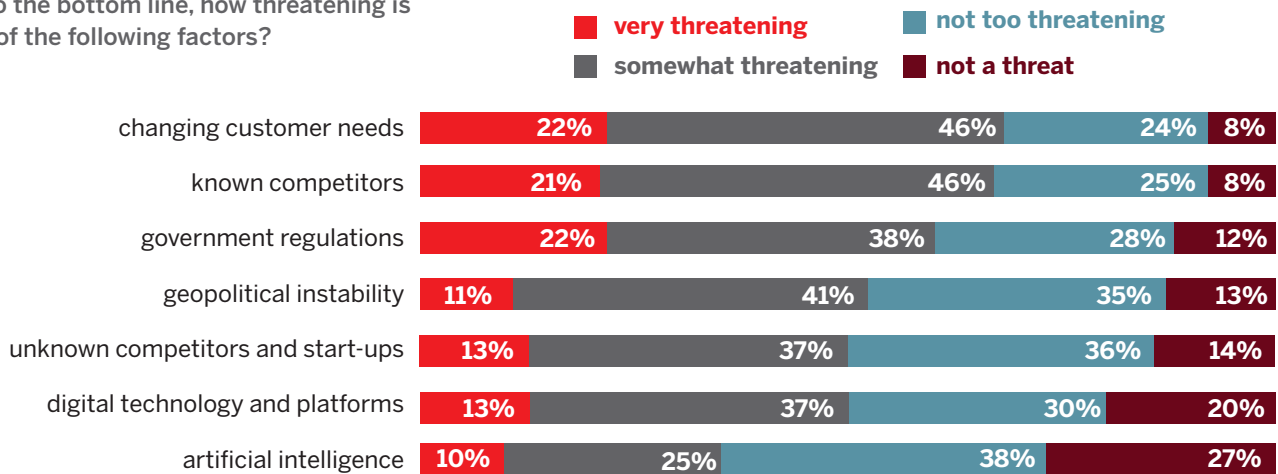
CONFIDENCE BUBBLE

Digital investment is modest, and executives downplay the threat of artificial intelligence



Despite digital technologies rapidly transforming markets around the world, a surprising majority of 53% is planning no increase or less than a 25% increase in digital investments in the coming five years.

In terms of potential disruption to your company's core products and services, and to the bottom line, how threatening is each of the following factors?



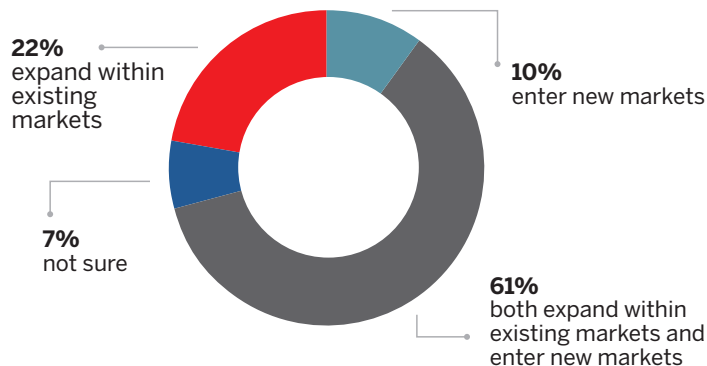
Executives rated changing customer needs, known competitors, and government regulations as the most threatening in terms of their potential to disrupt their core products and services. Two-thirds indicate risks from known competitors (67%) and changing customer needs (68%) are either "very" or "somewhat" threatening factors.

Surprisingly, artificial intelligence and digital technology and platforms seem less worrying to executives, with fully 65% of executives saying AI is not too threatening or not at all a threat to their business.

DUAL TRANSFORMATION

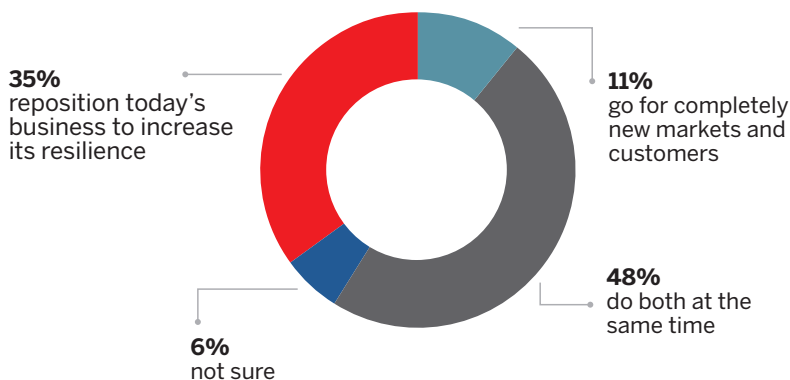
Executives see the importance of focusing on both core and new growth

How does your company plan to grow its top line over the next five years?



To grow the company top line over the next five years, plans are likely to be twofold: a 61% majority of executives and managers report their companies intend to both “expand within existing markets” and “enter into new markets.”

What do you think would be your company’s best response to significant disruption to your marketplace?



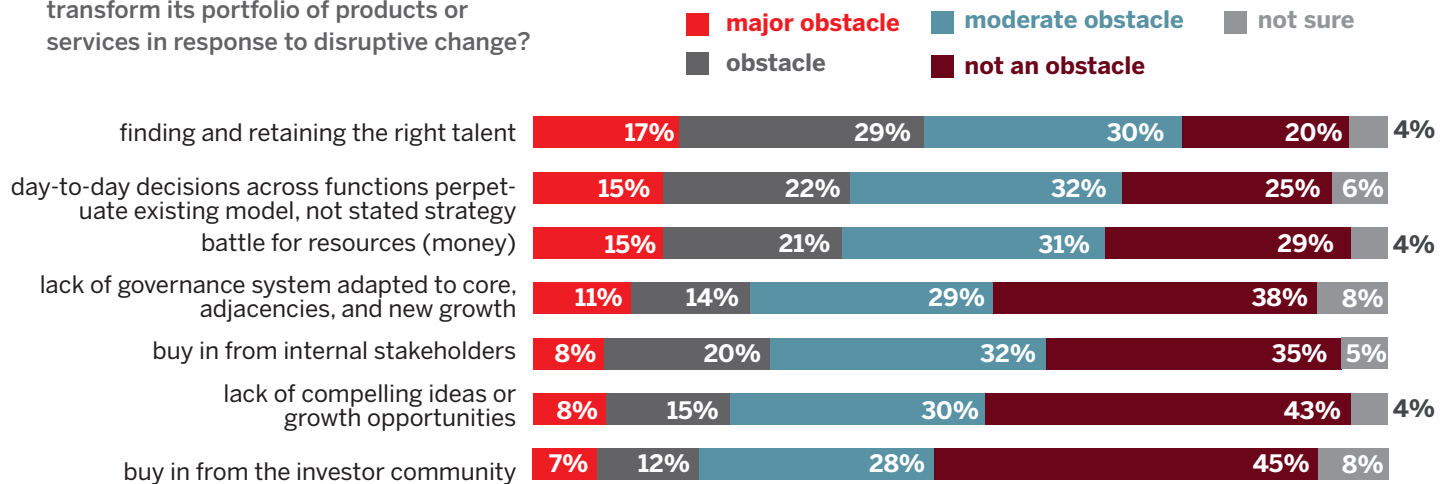
When choosing between two options for a best response to significant marketplace disruption—to “reposition today’s business to increase its resilience” or to “go for completely new markets and customers”—nearly half (48%) think companies should “do both at the same time.”

→ Among C-suite respondents, 55% agree companies need to do both at the same time.

TALENT & LEADERSHIP

Finding talent and top management openness to new ideas are concerns

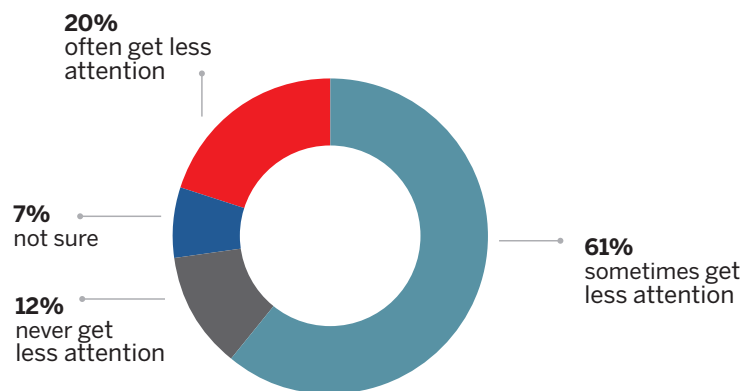
To what degree is each of the following an obstacle to your company's ability to transform its portfolio of products or services in response to disruptive change?



When considering a series of factors that could present an obstacle to a company's ability to transform products and services in response to disruptive change, "finding and retaining the right talent" ranks as the highest concern, with 76% saying it is a moderate to major obstacle.

The next greatest obstacle is what we have called "shadow strategy," that is, day to day decisions perpetuate the existing model, not the stated strategy, with 69% saying it is a moderate to major obstacle.

How often do new business concepts, products and ideas at your company get less attention than they should because top management tends to favor the main or legacy business?



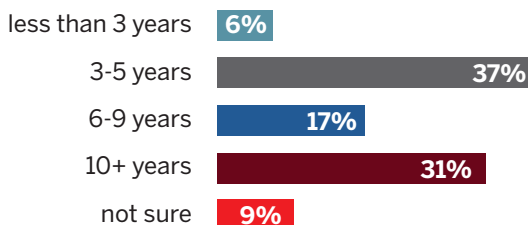
81% of professionals indicate that new business concepts, products, and ideas "often or sometimes get less attention" than they should because top management tends to favor the main or legacy business.

→ The C-suite shared this view, with 82% saying new ideas "often or sometimes get less attention."

ADDITIONAL FINDINGS

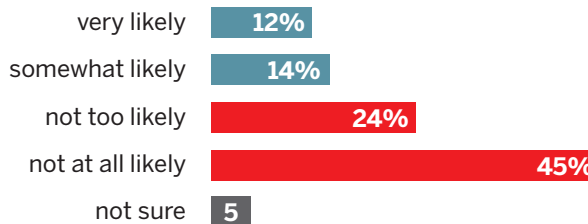
Planning horizons vary and the majority of respondents expect to remain independent

In terms of setting business strategy and planning, how far into the future is your company planning?



In planning strategies for the future, almost half of business professionals (48%) say their companies are looking 6 years or more out. While 3-5 years is the most common planning horizon (37%), a notable 31% are looking out 10 years or longer.

What is the likelihood that your company will merge or be acquired in the next 5 years?



Overall, 69% of business professionals don't believe their companies will merge or be acquired in the next 5 years.

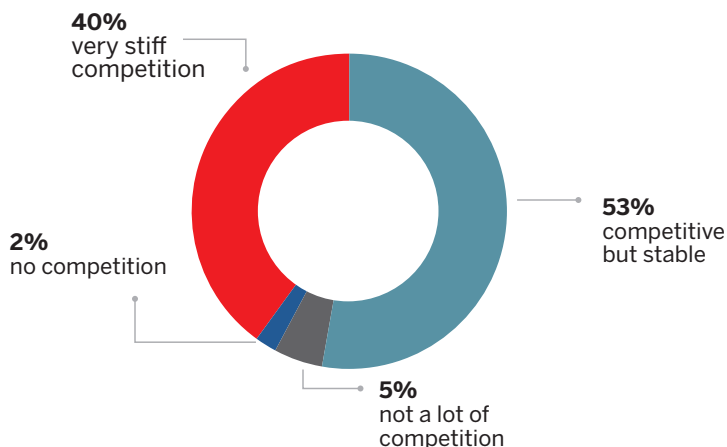
Still, a notable 26% indicate mergers or acquisitions are either "very likely" (12%) or "somewhat likely" (14%) in the next five years.

→ Among C-suite executives, 32% think a merger or acquisition is likely for their companies.

ADDITIONAL FINDINGS

Most executives say today's competitive landscape is stable, but they expect it to intensify

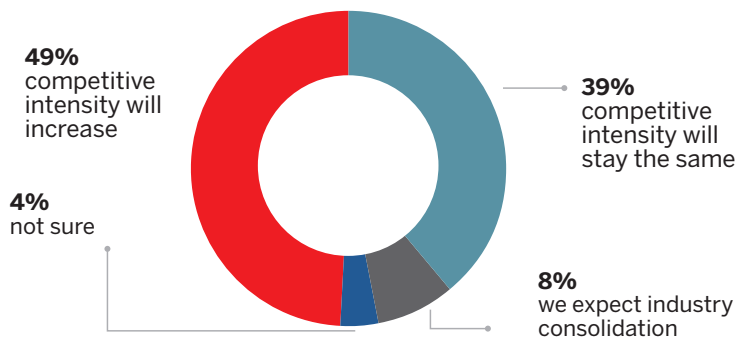
How would you describe the competitive landscape for your company today?



Overall, the majority of executives and managers surveyed describe the contemporary competitive landscape for their companies as “competitive but stable.”

Still, 40% report they are facing “very stiff competition” in the current environment.

Five years from now, how do you expect the competitive landscape for your company to change?



When asked to describe how they expect the competitive landscape to change over the next five years, just under half say they think “competitive intensity will increase” (49%), while another 39% think “competitive intensity will stay the same.”

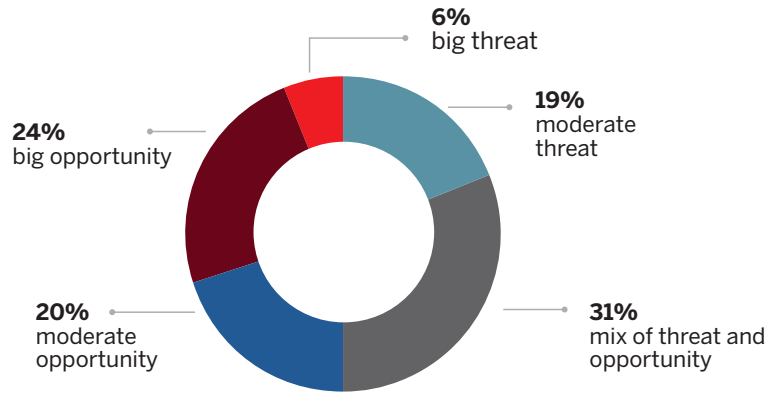
→ C-suite executives are notably more likely than managers to be anticipating more intense competition five years from now, with 57% saying competitive intensity will increase.

Only 8% expect industry consolidations.

ADDITIONAL FINDINGS

Digital is more opportunity than threat, and customers are the main focus of investments

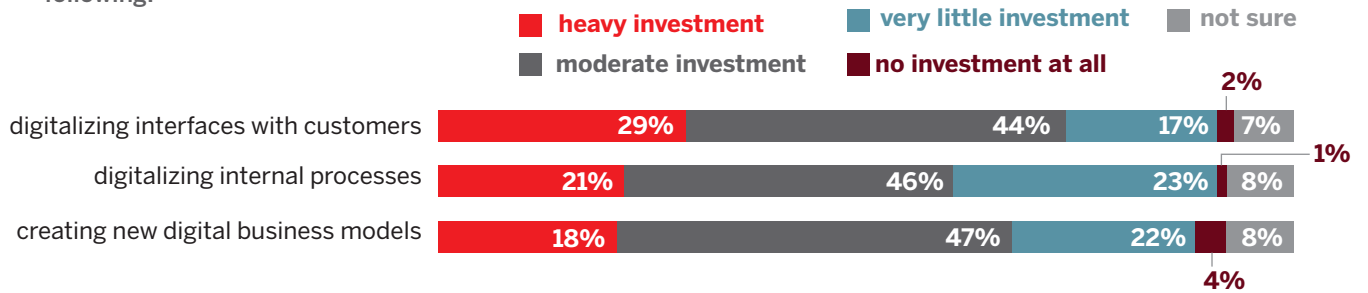
How does your company perceive the threat or opportunity of digital technologies?



Few professionals, only 6%, say their companies consider digital technologies to be “big threat,” although 19% are concerned that digital technologies might pose a “moderate threat.”

In contrast, a greater percentage see digital developments in a positive light, with 44% calling it either a “moderate” (20%) or “big” (24%) opportunity.

To what degree is your company currently investing in each of the following:



According to those surveyed, companies are most likely to be currently investing in programs that digitalize interfaces with customers—29% report “heavy investments” and another 44% indicate “moderate investments” in this area.

Moderate to heavy investments are also planned for digitalizing internal processes and creating new digital models.

Recommendations

Given that the survey results showed that executives have a high degree of confidence yet exposed blind spots in executing a strategy for the future, leaders at incumbent companies should consider the following:

1. Proactively search for new threats to avoid finding yourself on a burning platform.

- Scan the periphery of your business for new technologies, competitors and business models that could impact your business.
- Create a corporate venturing arm or another mechanism to interact with startups to develop greater intuition about tomorrow's disruptors.
- Remember Andy Grove's adage that only the paranoid survive.

2. Create a dual transformation strategy to disarm the threats and seize the opportunities.

- Separate your growth efforts into two categories: Transformation A to make the core more resilient and Transformation B to create tomorrow's growth engine.
- Prioritize 2-4 areas you should target for new growth.
- Carve out time as a leadership team to explore and evaluate the opportunity areas that will be new and different to the organization.

3. Re-wire your organization to become the next version of yourself.

- Shift strategy from data-driven point decisions to a continuous data-informed dialogue.
- Set aside funding to develop and launch those ventures and protect that funding even in the face of demands for diverting it back to the core business.
- Accelerate capabilities development by forming partnerships, pursuing acquisitions, and hiring special purpose talent.

About Innosight and Dual Transformation

Innosight, the strategy and innovation business of global professional services firm Huron, helps organizations design and create the future, instead of being disrupted by it. Acquired by Huron in 2017, Innosight is the leading authority on disruptive innovation and strategic transformation. The company collaborates with clients across a range of industries to identify new growth opportunities, build new ventures and capabilities, and accelerate organizational change. Learn more at www.innosight.com and www.huronconsultinggroup.com. Contact us at inquiries@innosight.com.

Dual Transformation: How to Reposition Today's Business While Creating the Future (Harvard Business Review Press, 2017) highlights a business paradox—though disruption can destroy companies, it ultimately grows markets. Written by Innosight partners Scott D. Anthony and Mark W. Johnson along with BYU-Pathway Worldwide President Clark G. Gilbert, the book explains that the only way to come out ahead of the disruption challenge is a two-track process: transforming the core business to enhance and extend its life, while building a new and different business to power the future. www.dualtransformation.com. For media inquiries, contact Katarina Wenk-Bodenmiller at katarina@sommerfield.com or +1-212-255-8386.

Profile of Respondents

Parent Company

Total Annual Revenue	
\$2B to \$4.99B	27%
\$5B to \$9.99B	20%
\$10B or more	53%

Parent Company Employees

<5,000	10%
5,000 to <50,000	43%
50,000 or more	47%

Parent Company Headquarters

Asia-Pacific	8%
Europe	8%
North America	83%
South America	1%

Respondent Job Title

C-Suite	17%
EVP/SVP/VP/Director	24%
Unit/Department Head	19%
Manager	43%
Other Executive	2%

Functional Role

(multiple responses)	
General Management	21%
Strategy	16%
Operations	21%
Finance	8%
HR	8%
IT	14%
Sales & Marketing	20%
Other	32%

Respondent Employed By

Parent company	70%
Subsidiary	22%
Both	8%

Respondent Industry

(multiple responses)	
Advertising/Marketing	2%
Aerospace and Defense	6%
Auto and Heavy Equipment	3%
Chemicals and Materials	3%
Consumer Goods	5%
Construction	3%
Education	2%
Electronics and Computing	5%
Energy	5%
Food Production	3%
Financials and Insurance	10%
Healthcare	13%
Leisure and Hospitality	1%
Manufacturing	10%
Media and Entertainment	2%
Mining	1%
Professional Services	9%
Retail	14%
Software/Internet	4%
Telecommunications	5%
Transportation	8%
Other	6%

Respondent Age

<40	29%
40-59	57%
60+	14%

Methodology

The analysis in this report is based on online interviews conducted May 11-25, 2017, among a U.S. sample of 346 corporate business executives and managers.

A combination of online samples was used; with the primary sample provided by Survey Sampling International (SSI) and a secondary sample provided by Innosight, the survey sponsor. Interviews were completed online and conducted in English.

The combined sample yielded completed interviews with 301 executives and managers recruited by SSI and 45 executives and managers from the Innosight sample. The SSI sample is drawn from an online B2B panel. The Innosight sample was drawn from a list of corporate contacts maintained by the firm. Both groups were screened to include only business professionals in board, C-suite, executive (EVP, SVP, VP, director, and unit and department heads) and managerial positions in firms with annual revenues \$2 billion and above. The majority of those surveyed are at firms with revenues at \$10 billion and higher.

The data have not been weighted. Results should be considered indicative and not definitive of corporate practices and executive attitudes.

Questionnaire design and data collection were conducted under the direction of Michaels Opinion Research, Inc., a New York-based market and public opinion research firm.