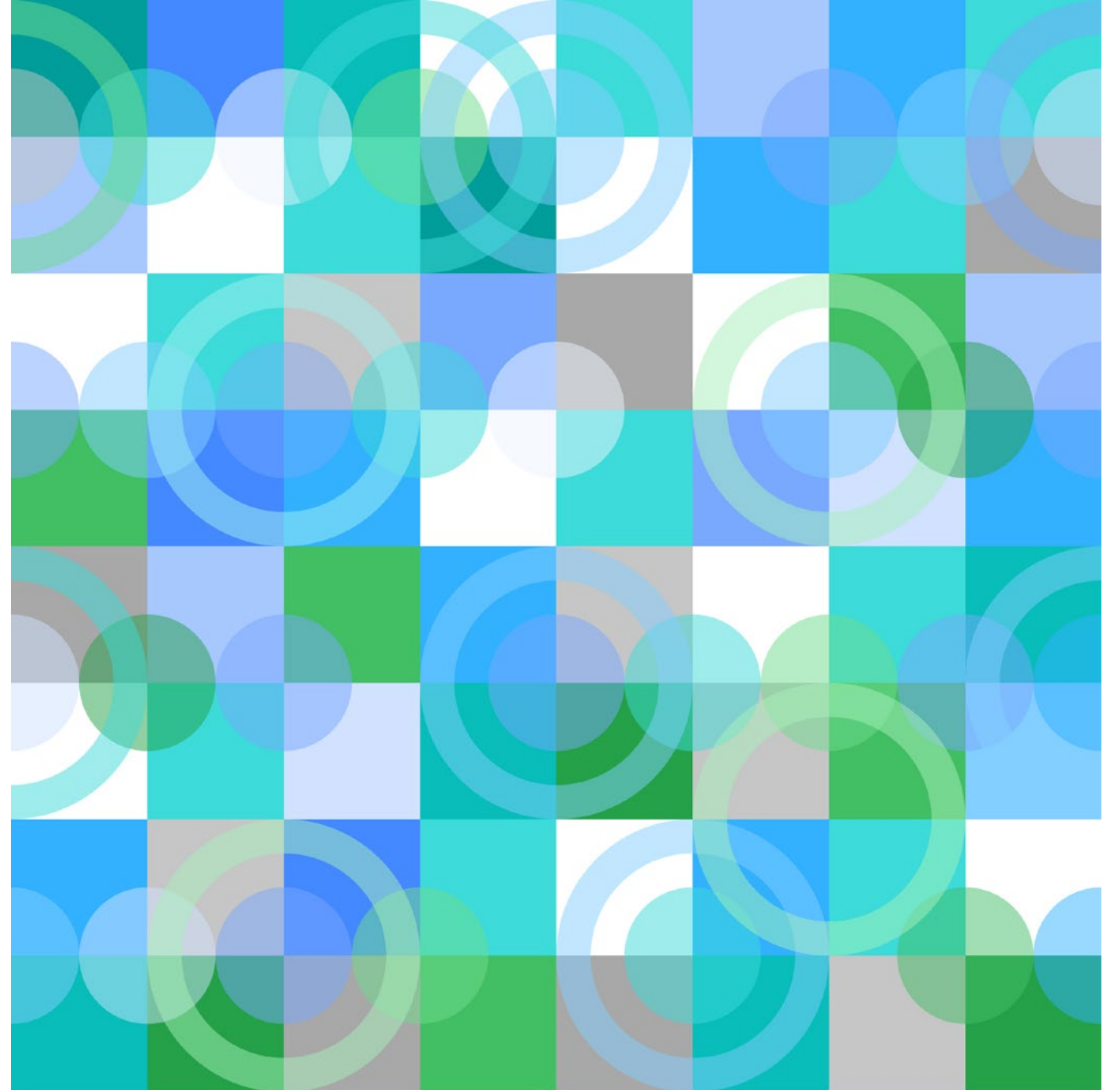


# The post-pandemic overconfidence trap

*Five myths business leaders need to debunk*



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# Introduction


The pandemic era began as a frantic period for businesses. But today, for many leaders, that fervor seems to have given way to complacency and overconfidence.

IBM Institute for Business Value (IBV) data shows that most organizations have settled back into comfortable operating patterns. Whether expressed or subliminal, we find that business leaders are taking pride in the resilience and achievement of their systems and teams during the trials of COVID-19. The challenges of a global health crisis revealed strength that hadn't been appreciated. Looking ahead, we have heard top executives say their organizations are more agile, more tech-supported, and more prepared for whatever might come next.

While there may be truth in this prevailing perspective, overconfidence can also be unhelpful and misleading. Achievements of the past do not guarantee success in the future. And relying on them can be a trap.

Have organizations learned the right lessons from COVID-19? The post-pandemic environment promises to be more complicated and more disruptive, as evidenced by the radical shifts the world has experienced in 2022. Change is accelerating on many fronts. In this hyper-dynamic environment, true competitive advantage may be grasped by those business leaders who are not leaning back but moving ever more boldly forward. The truism that “there is no new normal” has itself been normalized. So a different, dramatic reset is required, in mindset and in practice.

Here are five myths that define this moment for business, and what leaders can do now to prepare for what's next.



*Business leaders say the COVID-19 pandemic made their organizations more agile, more tech-supported, and more prepared for what might come next—but are they really?*



**Myth #1**

## Businesses, and business leaders, are ready for the future

Before COVID-19, many of the world's biggest organizations were struggling to transform. They were fitfully embracing new technology and operating processes, stymied by investment costs, the agony of swapping out legacy systems, and encountering bureaucratic resistance.

Middle management was lamenting unnecessary changes. Unease loomed in C-suites and board rooms about whether incumbent businesses could maintain competitiveness against newer, fast-growing, digital-native disruptors.

But in the face of a worldwide crisis, something unexpected occurred: businesses, including the very biggest players, responded with strength and agility. They demonstrated new nimbleness, adopted new practices almost overnight, and integrated new technologies with what seemed to be lightning speed. Crisis revealed vitality far more often than it exposed weakness, particularly among organizations of scale. Even the giants pivoted, danced, and redesigned themselves: from airlines to retailers, logistics firms to healthcare providers, manufacturers to governments. However shaky initial shifts may have seemed, the global economy creaked, sputtered, and then crackled back to life.

This capability for agile action surprised even those who were leading, the same ones who quietly worried whether their infrastructure, their teams, and their brands could withstand the barrage of unanticipated challenges. And, when years of tech investment suddenly paid immediate dividends, when cloud computing and mobile remote access, software tracking, and AI all meshed to enable not just recovery but growth, a swagger coursed through the economy. Business wasn't bowed. Rather, it found its backbone.

A metaphorical cheer went up around the globe, as evidenced by record-high stock prices and valuations, booming job markets, and seemingly unlimited opportunity. Despite the pains and losses of the pandemic, the future seemed very bright indeed for those who knew, now, that they had capability and potential that had not been appreciated before. If businesses could handle that, the implication seemed to be, they were ready for anything.

*Crisis revealed vitality more often than it exposed weakness, but executives are now resisting the kinds of transformation efforts that propelled and secured them early in the pandemic.*

The problem with that unwarranted optimism is that it can reinforce the tendency of organizations to maintain the status quo, even as the next “black swan” event could be just around the corner. As new research from the IBV reveals, CEOs and their executive teams are now resisting the kinds of transformation efforts that secured and propelled them during the pandemic. Instead, they’re looking to optimize what they already have and turning their attention to growth.

While 63% of CEOs say that continuous, ongoing transformation is essential, budget trajectories reveal that transformation spending is trending downward as a percentage of IT spending (see Figure 1).

The next waves of organizational digitization are expected to be even more challenging than the phases already achieved. New AI tools, new data, and new ecosystems require different operating procedures and systems, plus investment and lead time, to produce results.

While leaders may think they’ve already won, that they’ve survived so much turmoil and have shown what they can do, they will still need to face this next wave of transformation. Instead of focusing solely on harvesting the fruits of past labor, now is the time to continue embracing digital transformation.

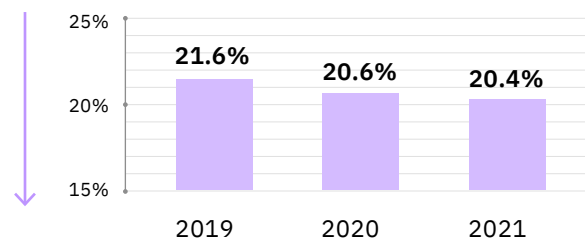
**FIGURE 1**

## Spend on transformation has stalled in the wake of the pandemic

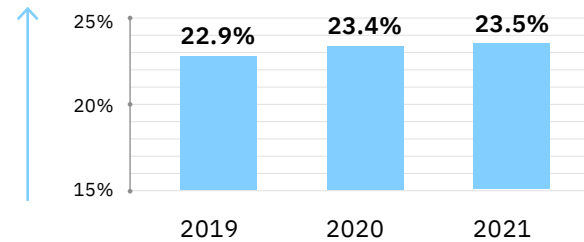
63% of CEOs

say continuous transformation is essential, but...

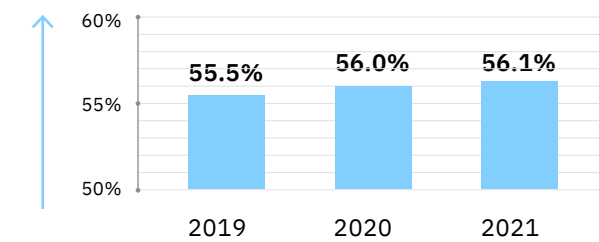
Transform spend is down



Grow spend is up



Run spend is up



Source: IBM Institute for Business Value Executive Pulse Survey of 85 executives. 2021.

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**Myth #2**

## Business leaders know how to manage change

The first two decades of this century saw business remade by new technology and the rise of new mega-platforms. Adjusting to that dislocation playbook, it might seem, is now comfortably in leaders' wheelhouses.

Yet, the technologies emerging and advancing now, from AI to blockchain to quantum, have more exponential potential to deliver unseen opportunities. At the same time, the distributed, global nature of tech is propelling the rise of unicorns in new industries and broader global locations. Opportunity has rarely been as great or as democratized. The competitive landscape is not just heightened but refracting.

One recent IBV study showed that leaders do not agree on what activities will comprise organizational change. About half see people-oriented initiatives as part of a change program; about 40% identify process improvements, technology integration, and structural optimization as key components of organizational change; and about a third mention assessing employee sentiment around environmental sustainability and technology modernization as important aspects of organizational change.<sup>1</sup>

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4%

of annual revenue/budget is invested in organizational change activities.

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And executives expect a

15.2%

return on that investment.

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Yet,

92%

say they have no formal, dedicated function to manage organizational change.

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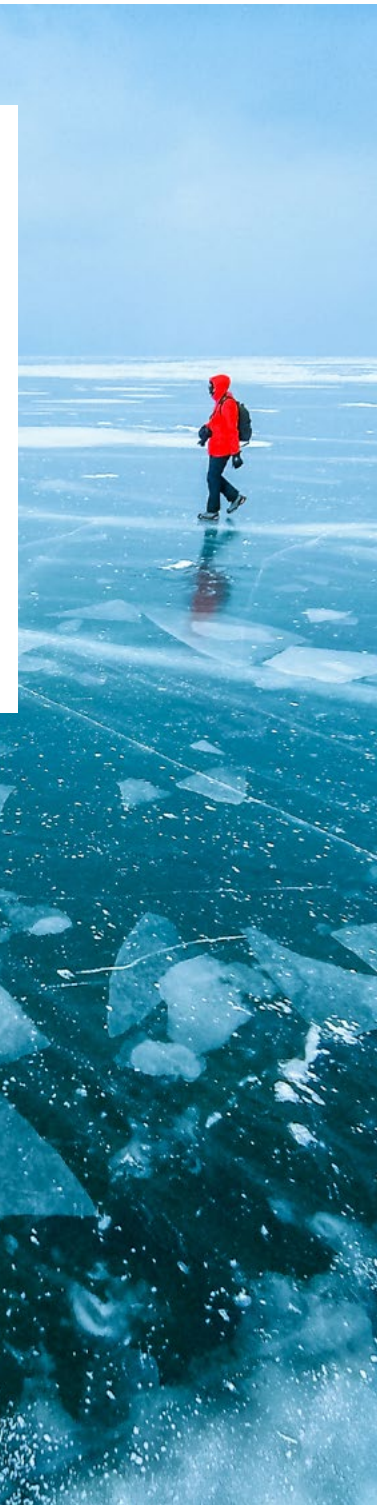
Myth #5

With this wide-ranging set of initiatives under the change umbrella, leaders run the risk, despite good intentions, of pursuing overlapping objectives or working at odds with each other. And they may end up disappointed with their outcomes. On average, across all respondents, 4% of annual revenue/budget is invested in organizational change activities, and executives expect a 15.2% return on that investment. Yet, even with expectations of this high return, 92% of organizations say they have no formal, dedicated function to manage organizational change.<sup>2</sup>

Meanwhile, the disruption of a global pandemic has given way to a succession of other unexpected challenges: geopolitical conflict, radical dislocation of the supply chain across industries, ongoing racial unrest in the US and other parts of the world, and increased attention to the climate crisis. Add in the macro-impacts of inflation, unseen for a generation, a widening rift in how the internet itself operates, and the nearly universal change fatigue experienced by employees in workplaces around the world, and the risks of today's situation become more complex and ambiguous than many organizations have been built to manage.

Navigating change is difficult in any type of environment; in this post-pandemic period of massive upheaval, unstructured approaches become next to impossible. Leaders should recognize this and begin treating change management as a formal program that is supported and led by the C-suite so that it spreads through the entire organization and becomes part of the culture.<sup>3</sup>

*Leaders that view organizational change management as a program that is supported and led by the C-suite can avoid the chaos.*



**Myth #3**

## Business leaders have embraced remote work and figured out how to manage a hybrid workforce

The virtual office sprung to life when the pandemic hit, seemingly full-grown, as Athena emerged from Zeus’s head. Internet-based video platforms enabled and accelerated new ways of working. Geographic walls came tumbling down and productivity rose as flexibility in the workplace became accepted and expected.<sup>4</sup>

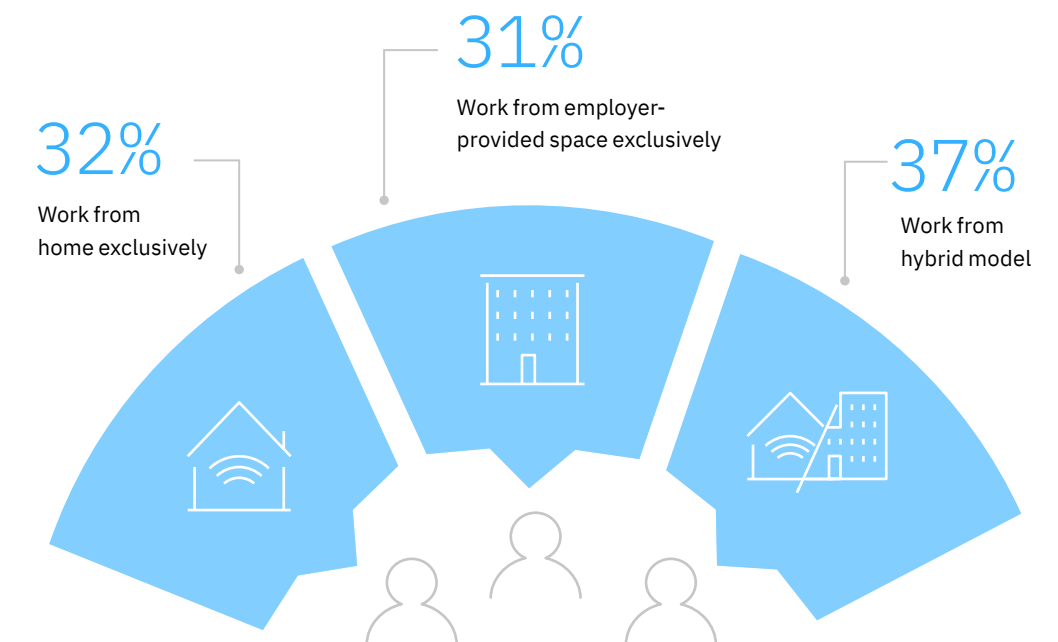
Yet, this transition to remote work, so quickly embraced in crisis, has unleashed more questions than answers. This issue generates much confusion and uncertainty for business leaders, and there don’t appear to be clear paths forward yet. How much freedom and choice can an employer offer to be competitive? What are the long-term costs and the implications for employee tenure, corporate culture, technology, and innovation?

Even employees themselves remain almost completely, and symmetrically, divided about what working arrangements they want (see Figure 2).

Workplaces are undergoing a radical, generational shift, and no one knows where things will land. The much-discussed Great Resignation is increasingly described as the Great Re-evaluation, a remaking of the relationship between businesses and talent. This radical shift can be seen in renewed interest in unionizing in industries and functions previously untouched by organized labor, and the promulgation of work-from-anywhere policies at high-profile companies that were until recently office-bound.<sup>5</sup> When even a traditional Big Four accounting firm announces multi-billion dollar investments in new technology and systems to support do-it-yourself work weeks, assignments, and training, it’s clear that traditional expectations of what we mean by “work” are now up in the air.<sup>6</sup>

**FIGURE 2**

For employees, one size does not fit all

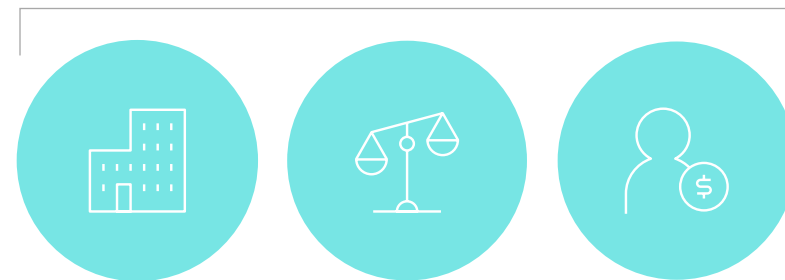


Source: IBM Institute for Business Value Employee Expectations and Motivations Survey of 16,258 consumers. March 2022. Previously unpublished analysis.

FIGURE 3

## Employees care about working arrangements and values

### Working arrangements



77%

Working conditions

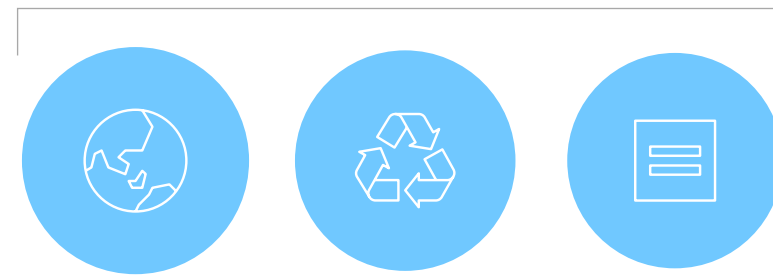
76%

Work-life balance and flexibility

75%

Competitive compensation

### Values



68%

Promote social responsibility

64%

Environmental sustainability

61%

Culture of diversity and inclusion

Source: IBM Institute for Business Value Employee Expectations and Motivations Survey of 16,258 consumers. March 2022. Previously unpublished analysis.

Recent data from the IBV show that more than three-quarters of employees consider working conditions (77%), work-life balance and flexibility (76%), and competitive compensation and benefits (75%) as the three most important factors at work today. That is, employees first consider how and where their work gets done and how it fits their daily lives, followed immediately by compensation.

Employees are also saying they want their work to align with their values; about two-thirds want their organization to promote social responsibility (68%), environmental sustainability (64%), and a culture of diversity and inclusion (61%). The right combination of pay and purpose can position an organization for success in the war for talent (see Figure 3).

These reactions to a new environment portend a future of even greater differentiation among organizations on employer/employee expectations, compensation, and commitment.

The goal of “reducing turnover” is being reconsidered in some places, while the definition of a “career track” is increasingly fungible, individualized, and not necessarily tied to a single employer or industry.

Business leaders may want to believe they’re on steady ground when it comes to talent, but the ground is still shaking. They would do well to listen to the voices of their employees and understand that the path forward may not be a straight line.



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**Myth #4**

## Business leaders understand risk

COVID-19 was a shock to civil society, to governments, and to economies. Scenario planning turned from an annual task to a daily one, with new information and new mandates arriving at a frantic pace.

Some CEOs found themselves taking on aspects of different roles, including the chief health officer, chief supply chain officer, and chief risk officer, among others. When the impossible becomes reality, preparation for other unlikely situations takes on more urgency, as no one wants to be caught unaware again. And while many organizations may try to get ahead of the next big risk, they likely cannot be fully prepared.

With that in mind, business leaders have accelerated their adoption of technologies that help them both better understand their environment and make better decisions in relation to it. IBV data shows that 55% of executives now say they are using AI to help them identify the likelihood of specific risks occurring, as well as the potential consequences and implications. And 60% say they are using AI to do scenario modeling and opportunity/cost analysis, along with identifying potential remediations.<sup>7</sup> Yet, the risks businesses anchor on are the risks they know and have experienced. Though some executives are taking steps to prepare for future risks, without knowledge of the future businesses, many remain exposed.



*Overconfidence isn't just about missing risks. It's also about missing the opportunities posed by what might be.*

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Further, it is not just the downside of risks that business leaders might miss. It is also the positive side; the opportunities posed by what might be. Consider climate change and sustainability, which has emerged as the top challenge for CEOs worldwide.<sup>8</sup> The downside risks are potentially catastrophic. For coastal and more impoverished regions, the impacts are already being felt, and businesses that operate in these areas cannot insulate themselves.<sup>9</sup>

Yet, even with these looming risks, the transition to a more sustainable world economy also unlocks massive opportunity, with new technologies potentially addressing new problems in new ways.

But businesses still have a long way to go. While more than 80% of CEOs expect sustainability investments to deliver improved business results in the next 5 years, only 13% are approaching sustainability with a transformation mindset, and

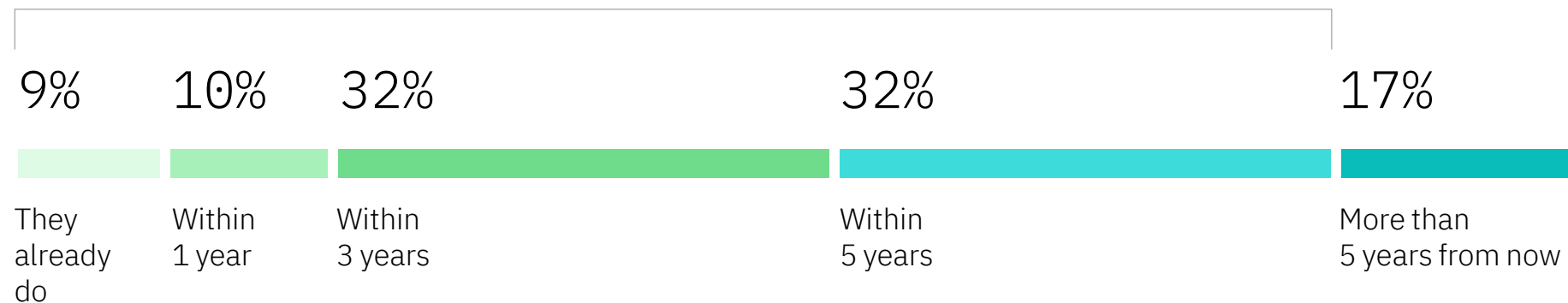
they cannot have it both ways. To yield significant returns, sustainability needs to become as central to strategy as technology is today for the most successful organizations (see Figure 4).<sup>10</sup>

Business leaders are making a valiant effort to prepare for risks that they can see and project. However, they will need to remain vigilant and agile to protect themselves against the unforeseeable, and seek out new opportunities as they transform.

FIGURE 4

## CEOs expect sustainability investments to provide business results

**More than 80% of CEOs say sustainability investments will drive better business results in the next 5 years.**



Source: "The 2022 CEO Study. Own your impact: Practical pathways to transformational sustainability." IBM Institute for Business Value. May 2022.

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## Businesses can't handle perpetual transformation

Right after the early, perhaps most traumatic, phase of the pandemic, companies were jolted into extraordinary, unexpected pivots. 59% of executives in our 2020 survey, "COVID-19 and the future of business," said their organizations accelerated digital transformation, and 66% said they completed initiatives during COVID that had previously stalled due to organizational resistance.<sup>11</sup>

Some CEOs found themselves wondering: *Why couldn't my business have moved this fast before? And how do I keep it moving at this pace in the future?*

Transformation efforts pre-pandemic could be compared to bridge building: you have a goal to cross a divide, and you set out schedules and marshal resources to construct the bridge. It's a major project, difficult, and requires a significant investment, but you have a clear and specific desired outcome: a speedy path to the other side. So the commitment is tangible, worthwhile, and you know you will be done when you reach the other side. After arguing over the details of schedule and budget, everyone can agree it's worthwhile to build the bridge.

But is it a bridge to nowhere? What happens when relentless disruption and uncertainty means you need to build a bridge from where you are to another side that is completely obscured by fog? When the outcomes and ROI aren't easily projected?



*Why couldn't my business have moved this fast before?  
And how do I keep it moving at this pace in the future?*

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## The post-pandemic overconfidence trap

For most organizations, that has been a bridge too far. Their systems and culture just don't support it. It seems too risky, too hard, and too uncertain. They think it is better to let someone else venture into that fog first and send a signal back from the other side when it's safe. While they perceive that they are strong and resilient, they prefer to stay put and wait until the path ahead is clearer. This perspective, however rational, is at the core of the post-pandemic "overconfidence trap."

Human ingenuity has created technological tools that are advancing faster than organizations are. To keep up and stay competitive, and to enable future success, business leaders need to rethink and reconstruct their approach to bridge building. Right now, the prospect of a continuously transforming organization is scary and daunting. But it is not really a choice. It is a dictate of the environment.

This is a world where vaccines to address a global pandemic can be designed in months, where regular people can become astronauts with the right resume or bank balance, and where messages and images can spread planet-wide instantly. It is time that the old station-to-station approach for operating organizations gives way to more fluid, faster, and more dynamic systems and digital approaches.

Those business leaders that intentionally embrace this reality, instead of deluding themselves with myths of the moment, could find themselves in the lead, building humanity's most important bridge: the bridge to tomorrow.

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