On pace to effectively compete?
Canon Business Process Services, in association with Hanover Research, reviews today’s hyper-competitive business environment and its future trajectory. The culmination of digital business, disruptive technologies, cultural, and demographic forces puts unprecedented demands on business leaders to navigate the opportunities and threats.
Leading Continuous Change

Accelerating technological innovation is disrupting established business principles within companies and across industries, and moving businesses towards a radically different future environment.

This unprecedented pace of change creates a mandate for businesses to reinvent their operations, restructure their product offering, and rethink the way they create value. To survive long term, they are forced to adapt and find new emerging opportunities.

With this backdrop, Canon Business Process Services (Canon), in association with Hanover Research, a leading market research firm, surveyed the environment to better understand the forces that are driving change in business and how they may shape business towards 2025. The findings are presented here:

Leading Continuous Change

1 / Leading Continuous Change
2 / Leading the New Generation
3 / From Chain to Ecosystem
4 / The Business Landscape in 2025
5 / Leadership for the Future-Ready Business

The reports can be accessed at: https://cbps.canon.com/insights/leading-a-future-ready-business-the-digital-business-transformation
EXECUTIVE SUMMARY

In today’s era of demographic and cultural change and technological transformation, the role, style, and behavior of leadership will certainly change in ways never before tested. This report, titled Leading a Future-Ready Business: Vision 2025, provides an overview of what it will take to lead in the new normal.

It is vital that leaders design strategies to deal with changes to the operational environment. A necessary requirement for rapid decision making will be data visibility: a facet that today is dramatically underutilized. In addition, approaching large-scale process redesign and simplification will involve re-imagining desired employee behaviors from the bottom up. Amid the complexities, decisive change management and clear communication on a regular basis will build support for initiatives by keeping employees involved in the task of building a future-ready business.

The forces of change will radically transform the business environment. Growing capacity to observe and control large-scale operations will increase the potential scale of digital businesses at the same time that falling transaction costs reshape traditional boundaries. Firms will re-focus on core capabilities and leverage new technological innovations to pass ancillary functions to expert service providers. Automation will creep up the spectrum of knowledge work, altering workforce dynamics and the skills required of managers. Younger generations raised in the digital age will have different expectations of companies, leaders, and career paths, which will combine with data analytics, cloud computing, and social networks to heighten competition in the market for talent. Business leaders will be tested as never before.

Key Findings
• Leaders will learn how to leverage new technologies to build organizations that react more quickly to serve customers, simplify bureaucratic process, and work with more partners.
• Boundaries between firms are the result of tradeoffs between unavoidable organizational inefficiencies and the cost of transacting with outside parties. Modern business trends both allow greater internal efficiency and lower the cost of integrating operations with other firms. The first effect will give firms greater capacity to expand; the second will enmesh them ever more closely with the organizations around them. What was once a distinct business activity known as “outsourcing” will be incorporated into the very nature of business.
• Employees from age 20 to 60 prefer to work for “digitally enabled organizations.” As a result business leaders will see increased challenges to retain and attract employees.
• Leaders employing autocratic approaches or focusing excessively on financial results will risk losing the support of the Millennial generation.
• Executives of 2025 will not be lone decision-makers. They will be collaborators who will learn to blend the capabilities of their organization with that of many more external parties, such as business process outsourcing (BPO) partners, and will cooperate via contractual relationships rather than hierarchical control. BPO providers will no longer be viewed as partners of convenience, but partners of necessity.
LEADING CONTINUOUS CHANGE

Implementation of new technologies, changing demographics, and emerging business models will force business leaders to adapt their approach to leadership.

Employee engagement will be a key factor in the future workplace and leaders must learn to incorporate a generation of employees with different attitudes toward work. As the confluence of technological, demographic, and cultural shifts accelerates the pace of change in the modern economy, continuous change management will be seen as a key role of business leaders. They must bring together new ways of doing business, new attitudes toward work, and new customer expectations into a vision for corporate success.

Change management is about far more than inspirational leadership. It is about company politics, strategic communication, and business process re-engineering. Expectations of future leaders will grow in scale and complexity as the impact of individual decisions is magnified many times over by the power of more efficient organizational and technological machinery and by automated processes with fewer opportunities for human intuition to catch errors. Impact of the digitization of business will vary across industries, but the reality of its accelerating pace and complexity will affect everyone. Successful leaders will develop strategies now to meet the challenges of the future.

Leadership strategies for meeting the challenges of the digital business environment include bringing together new technologies and the people to run them, and managing increasingly unclear corporate boundaries. They include adapting to new employee attitudes and managing the balance between personal and work lives. They include managing a supply chain that will come to resemble an ecosystem rather than a linear series of interlocking links.

Above all, digital business will bring enormous opportunity too. Leaders can build organizations that react more quickly to customers, serve a broader base, and even simplify bureaucratic processes left over from decades past.
As businesses adopt technological advances, they must simultaneously integrate them with legions of eager workers who are ready to learn but have different expectations for interpersonal interaction.

The new generation of employees is accustomed to sharing their lives on social media, which increases the convergence between employees’ private and working lives. This may be evident through the desire of individuals to integrate personal and professional goals and with work commitments subtly merging to an increasing degree with everyday life.¹

According to MIT Sloan Management Review and Deloitte’s 2015 global study of digital business, employees prefer to work for digital leaders. The study found that the vast majority of respondents across age groups from 22–60 “want to work for digitally enabled organizations.”² As a result, “businesses will have to continually up their digital game to retain and attract [employees].”³

Employees will expect equal levels of satisfaction and fulfillment from their professional and personal lives. Increasing mobility and decreasing levels of commitment will heighten the dynamism of the labor market, presenting both opportunities and challenges for leaders in acquiring and maintaining their workforce. Demographic shifts and the attendant skills gap will increase competition for top talent. Automation driving smaller numbers of high-paying

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³ Ibid.
LEADING THE NEW GENERATION

jobs for highly skilled workers will further exacerbate the trend. Consequently, leaders must shift their focus to individual employee characteristics to ensure full engagement, with factors such as recognition and personal development carrying as much importance as salary and job title. Leaders employing autocratic approaches or focusing excessively on financial results will risk losing the support of the Millennial generation. Instead, workers will demand a leader that is a strategic thinker, provides inspiration, and is focused on the future.

Employees will demand greater flexibility, and will expect freedom of choice in their work lives just as mobile technology provides it to them outside the workplace. Given that tools will be available to perform tasks in radically new ways, employees will no longer accept that work has to involve a set of rigid hours at a particular location. Furthermore, workers will be more likely to choose jobs based on employer attitudes to social media, flexible work arrangements, and community. Employers will need to change their attitude to worker flexibility, no longer viewing it as an employee reward, but rather embracing it as part of a business strategy to attract and retain top talent.

Figure 1: Most Important Characteristics of a True Leader, According to Millennials

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic thinker</td>
<td>39%</td>
</tr>
<tr>
<td>Inspirational</td>
<td>37%</td>
</tr>
<tr>
<td>Interpersonal skills</td>
<td>34%</td>
</tr>
<tr>
<td>Visionary</td>
<td>31%</td>
</tr>
<tr>
<td>Passionate</td>
<td>30%</td>
</tr>
<tr>
<td>Decisive</td>
<td>30%</td>
</tr>
<tr>
<td>Driven by financial results</td>
<td>10%</td>
</tr>
<tr>
<td>Autocratic</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Deloitte survey of 7,806 millennials

6 Ibid.
7 Ibid.
9 Ibid.
Human factors interacting with technological change mean that surviving to 2025 is about more than buying the right software package. It will require orchestrating complex interactions between those systems and the people who run them.

To meet this need, business leaders will reconsider how they engage with strategic partners and business process outsourcing over the coming decade. The range of services and value these provide will expand, while some services offered today will gain increased importance. The adoption of automation technology will see increased demand for higher-value onshore (as opposed to traditional low-cost offshore) outsourcing, which will be viewed as a critical way to obtain sophisticated products and services and refocus efforts on core competencies. Business process service providers will be not partners of convenience, but partners of necessity.

By 2025, it will be more common for business leaders to implement an outcome-based pricing model for services as competition in the industry increases and lower-value services are automated. Outsourced processes residing higher in the value chain will involve increasing levels of knowledge work for which outcomes are more difficult to quantify on a full-time equivalent basis. Initially, outcome-based pricing opportunities are likely to present themselves in more mature client-outsourcer relationships, and will provide a sliding scale of rewards for destined outcomes, rather than an all-or-nothing scenario. The early stages of this trend may also see “hybrid” models wherein only a proportion of costs are initially outcome-based. However, this will form the basis of a transitional stage from which a total outcome-based pricing model is the most likely long-term scenario.
Digital businesses of 2025 will not only benefit from outsourced services, they will be increasingly faced with the option of providing their own services through similar operational models. As Figure 3 illustrates, the vast majority of business leaders believe their core enterprise processes will be offered as a service within the decade. This trend will shift business models in fundamental ways, requiring long-range, orchestrated planning that begins now. The organization of 2025 will be less linear as it incorporates an ecosystem of interacting companies that bring new levels of specialization and expertise to the value proposition.

While reshaping the organization’s relationships is a constant process for business leaders, the rate of evolution will move at an increasing pace over the next decade. The technologies highlighted above, including the Internet of Things, cloud computing, and mobile Internet, will all play a key role. A survey of 400 supply chain professionals found that “Inventory and Network Optimization Tools”, “Sensors and Automatic Identification,” “Robotics and Automation,” and “Predictive Analytics” are the most likely sources of disruption or competitive advantage over the next decade as illustrated in Figure 4.\(^\text{15}\)

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15 Ibid.
THE BUSINESS LANDSCAPE IN 2025

Forces in technology, demographics, and organizational management suggest a continuing trend toward growing empowerment of business leaders.

They will have opportunities as never before to see and affect the operations of their organization. Nevertheless, the role of the leader will change in important ways. Executives of 2025 will not be lone decision-makers with expansive and automated means of carrying out orders. They will be collaborators who must learn to blend the capabilities of their firms with a multitude of external parties who cooperate via contractual relationships rather than hierarchical control. Hyper-specialization means that leaders cannot be experts in everything their business must do to succeed. Focus on the key value proposition will be their most important role as they shape the organization to create maximum efficiency and productivity while managing external relationships with suppliers and customers.

Perhaps paradoxically, the empowerment of business leaders will lead to an ever-greater need for collaboration. Not only will younger generations of employees demand less autocratic work environments, but the very structure of the business environment will demand leaders who can bring together groups of like-minded people who perform based on personal motivation rather than obedience. Automation of knowledge work does not simply mean fewer employees; it means that whoever manages those processes, employee or otherwise, will possess greater levels of skill and greater power to affect outcomes. Leaders will deal on a day-to-day basis with people whose levels of education, training, and personal ability are closer to their own. Businesses will look less like hierarchies and more like peer groups.
LEADING CONTINUOUS CHANGE

LEADERSHIP FOR THE FUTURE-READY BUSINESS

The rise of digital business and the shift in workforce demographics will reshape the landscape of 2025 in ways no one can perfectly anticipate.

The global economy is an extraordinarily complex system, and the simplest interactions and nonlinearities quickly drive the complexity of the problem to intractable levels. Nevertheless, the broad outlines are clear. Innovation in the form of cloud computing, mobile Internet, data analytics, robotic process automation, and other technologies yet to be invented will increase the speed of businesses and lower the walls between them. These tools will provide visibility that empowers leaders while dramatically increasing the demands on their time and energy. They will increase the competitiveness of markets in which customers already have unprecedented means to search, learn, and identify the best quality at the lowest price.

In cataloguing a wide range of technological and socioeconomic forces affecting the modern digital business environment, this analysis highlighted two key trends emerging from the chaos. Building a future-ready business requires understanding these trends and how they are driven by underlying factors.

First, the insight of Ronald Coase’s seminal *The Nature of the Firm* is being tested at a global scale. Boundaries between firms are the result of tradeoffs between unavoidable organizational inefficiencies and the cost of transacting with outside parties. Technology both allows greater internal efficiency and lowers the cost of integrating operations with other firms. The first effect will give firms greater capacity to expand; the second will enmesh them ever more closely with the organizations around them. Outsourcing will be incorporated into the very nature of digital business. Complex relationships between buyers and sellers will involve not just a linear supply chain, but a full ecosystem of supporting relationships. Increasing complexity of business-to-business relationships will become one of the defining forces in 2025.

Second, technology will interact with demographic and social trends to affect not only the tools at hand, but the workforce that uses them. Aging societies will have new demands of businesses even as younger generations instigate change from within. Customers will expect new levels of customized products and services, and providers will provide them through sophisticated operating models that will be simply inadequate if they stop at the corporate boundary. Accelerating competition in product and service markets will be accompanied by accelerating competition in the market for talent, as the productivity of knowledge workers is magnified by automation creeping its way up the organizational pyramid.

Like the lever of Archimedes, these trends will empower leaders as never before. Paradoxically, leaders will in the end have more control, not less, and the repercussions of their decisions will rise inexorably with the power of the technological tools they incorporate into their organizations. If they are to survive in the 2025 world of digital business, it will be even more crucial that the decisions they make are good ones.
LEADING CONTINUOUS CHANGE

SUMMARY

Leadership that takes advantage of change will be flexible and strategic across multiple areas.

Successful business leaders will adjust to a new generation that expects satisfaction and fulfillment from work-life. Rather than simply focusing on profits, leaders will be multifaceted, inspirational individuals who embrace flexible workplaces, personal development, and individual recognition. Successful business leaders will adjust to new realities in managing their business operations. The emergence of outcome-based pricing models where automation of low-value services allows employers to focus on higher value processes will force business leaders to change their approaches to management. Finally, business leaders will embrace analytics technology that allows them to optimize operations across formerly distinct systems and reduce costs to remain competitive in a global business climate. Analytics will enable them to anticipate problems and adjust their approach in near real time. These recommendations present a mere starting point in preparing for 2025. Business leaders who embrace them—and their underlying principles—will be ready to take advantage of opportunities that cannot be foreseen.
ABOUT THE CONTRIBUTORS

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Hanover Research is a global research and analytics firm that provides high-quality, custom research through a cost-effective model.

We deliver customized, timely and authoritative insights to clients in the corporate, education, and healthcare sectors, enabling them to make informed decisions, identify and seize opportunities, and heighten their effectiveness.
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