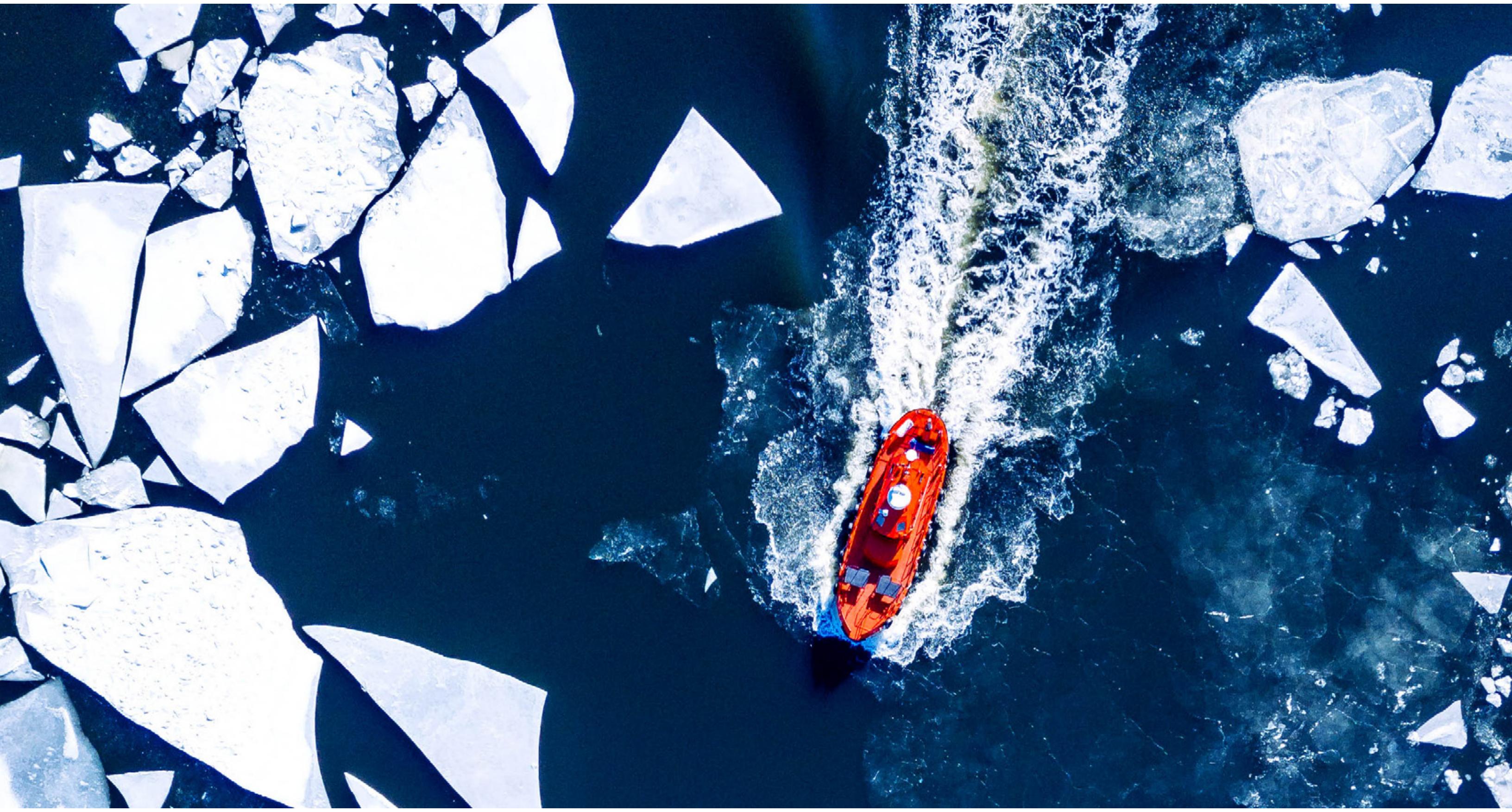
Strategy & Corporate Finance Practice

Actions the best CEOs are taking in 2023

Corporate leaders are addressing the risks while finding the opportunities in digital disruption, the economy, and geopolitical uncertainties.

by Carolyn Dewar, Scott Keller, Vikram Malhotra, and Kurt Strovink



March 2023

"Anyone can hold the helm when the sea is calm."— Publilius Syrus

In his 2017 book, *Hit Refresh*, Microsoft CEO Satya Nadella writes that great leaders "recognize the true signal within a lot of noise" and act accordingly. Fast forward to 2023, and the torrent of trends, ideas, and information that leaders now face makes knowing what matters more difficult than ever.

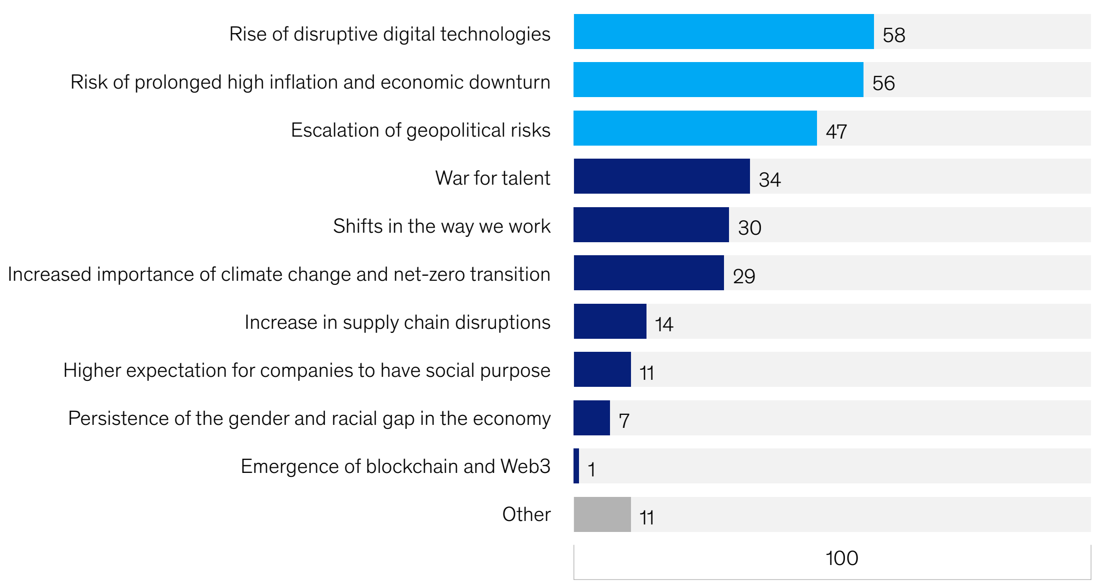
It's against this backdrop that McKinsey conducted its latest CEO Excellence Survey, to take the pulse of leading CEOs' evolving priorities and the actions they're taking in response. We started by asking a group of the world's top-performing CEOs (see sidebar, "Survey methodology") which trends will have the biggest impact on how they lead their business in 2023 compared with past years. Their answers suggest that three "true signals" matter most: digital disruption, the economy, and geopolitics (exhibit).

Second, we asked about the specific and pragmatic actions they are taking as a result of these signals. Here we found that a consistent mix of defensive (protecting against risks) and offensive (capturing new opportunities) maneuvers create a powerful playbook for leaders in 2023, the details of which we discuss in this article.

Exhibit

Top CEOs identify disruptive technology, the economy, and geopolitics as the most important trends to act on in 2023.

Trends that have the biggest impact on how CEOs are leading their organizations in 2023,[1]
% of respondents (n = 73)



[1]Question: From your perspective as a current or former CEO, which of the following trends will have the biggest impact on how you lead/would lead your organization in 2023 and beyond, compared with past years? Respondents selected their three most important trends.
Source: McKinsey CEO Excellence Survey

McKinsey & Company

Survey methodology

To conduct this survey, we first determined analytically 200 of the best corporate CEOs of the past 15 years.[1] To do so, we started with the list of all current and former CEOs of the 1,000 largest public companies during that time frame.[2] We then filtered this list based on tenure, including only those who had completed at least six years in the role, demonstrating a consistent track record of success. Next, we applied a performance filter to only include CEOs who, in their tenure, delivered results in the top two quintiles of excess TSR.[3] From there, we further filtered for those who had been recognized by one or more "best CEO" lists,[4] which take into account factors such as the individual's societal, environmental, and ethical conduct, as well as employee sentiment. Finally, to better reflect the diversity of today's business landscape, we included additional CEOs from outside the 1,000 largest public companies in underrepresented segments who met a high bar of performance and reputation. This methodology is consistent with the approach used in the *New York Times* bestseller *CEO Excellence* (Scribner, 2022).

In the survey itself, each CEO was asked to identify the top three trends that will have the biggest impact on how they lead/would lead their organization in 2023 and beyond. (For retired CEOs, we asked them to share the advice they are giving sitting CEOs.) Based on the trends selected, the CEOs were then asked to select the top three changes (from a list of seven to ten, of which "other" was also a choice) that they will drive across their organization in 2023 to address the trend. This survey was fielded from December 9, 2022, to February 15, 2023.

[1] As individual CEO Excellence Survey responses are confidential, all company data and attributed CEO quotes in this article are from publicly available information, primarily earnings transcripts, letters to shareholders, and press statements.
[2] Top 1,000 companies in the global Forbes 2000 list as of April 2022 that ranks largest companies in the world based on a composite of revenue, profits, assets, and market capitalization.
[3] TSR over tenure in excess of the return their industry peers delivered, adjusted for geographical variations in growth.
[4] *Fortune*'s Most Powerful Women in Business, *Harvard Business Review*'s Best-Performing CEOs, *Barron*'s Top CEOs, *CEOWORLD*'s Most Influential CEOs, and *Forbes*'s America's 100 Most Innovative Leaders.

1. Actions to deal with digital disruption

The mindset with which CEOs are approaching digital trends was well summarized by one CEO's written survey comment: "A CEO also has to be the chief technology architect. Think of the executive team—not just the chief digital officer—as owning the technology strategy of the company. There is too much at stake."

This focus on digital disruption is being put into practice in three ways:

— *Developing advanced analytics (62 percent of CEOs[1]):* OpenAI's introduction of ChatGPT in late 2022 put gasoline on the already well-lit fire of companies looking to leverage advanced analytics for competitive advantage. Companies such as the beverage maker Diageo are already seeing the value of applying advanced analytics: its use of geolocation data to personalize and target content for consumers has led to a 17 percent increase in media spend ROI. And at the financial services giant Sun Life, the use of predictive analytics now allows it

[1] Percentage of CEOs who selected this trend as important and who report this as among the top three actions they are taking.

> **‘Act early to lower costs and protect the balance sheet so that you are stronger and leaner when the economy begins to turn more favorably.’**
>
> –CEO Excellence Survey respondent

to process 60 percent of its life insurance policies without lab testing, creating a dramatically improved experience for its customers.

— *Enhancing cybersecurity (48 percent):* JPMorgan Chase has been one of the most outspoken firms on why spending billions on cyber-related changes—ranging from modernizing infrastructure and developer tools, to embedding cybersecurity controls into the business, to training employees to be vigilant—is vital. “Cyberthreats pose extreme hazards to our company and our country,” CEO Jamie Dimon asserts in a letter to shareholders. “This has become even more evident as the cost of ransomware has increased dramatically. . . . And it is evident to everyone, with the war in Ukraine, that grave damage could be inflicted if cyber is used as a tool of war.”

— *Automating work (45 percent):* As Morgan Stanley CEO James Gorman explained when speaking to analysts, “Tech spend is going up . . . but that’s good because it’s displacing things we would otherwise be doing manually, which we shouldn’t be doing manually.” Healthcare provider Humana, for example, has reduced nursing turnover by leveraging technology to reduce administrative tasks. Walmart has used automation to cut in half the number of steps needed to ship products at some of its e-commerce distribution centers.

2. Actions to deal with the risk of high inflation and economic downturn

As one CEO worried about economic uncertainty put it in the survey response: “Act early to lower costs and protect the balance sheet so that you are stronger and leaner when the economy begins to turn more favorably.” McKinsey research supports this view. Companies that outperformed peers during the 2008 crisis cut operating costs by 1 percent before the downturn, while the others expanded costs by the same percentage. The best performers also reduced their debt by $1 for every $1 of book capital before the downturn.

— *Reduce operating expenses (76 percent):* The technology sector has already shed more than 100,000 jobs in 2023. However, at General Motors, CEO Mary Barra has taken a more modest approach to workforce reductions, focusing cuts on 500 executive-level and salaried positions and looking deeply into other, non-personnel-related expense areas. Examples of this broader set of levers the best CEOs are using include supply chain renegotiations, tax optimization, deferring capital spending, tightening expense policies, and increasing employee productivity. Amgen CEO Robert Bradway told investors that by using a combination of such methods, he believes his company's 2023 operating expenses will stay flat despite increasing sales volumes and inflationary pressures on costs.

— *Redesign products and services (61 percent):* The aforementioned cost discipline frees up cash that CEOs can use to improve products and services to better attract and retain customers. At the beauty products company Shiseido, for example, Masahiko Uotani has undertaken "a shift from defense to offense," making proactive investment for top-line growth. Shantanu Narayen, CEO of software maker Adobe, is doing likewise with his push to find ways to give customers more value through existing products.

— *Reassess strategic and economic assumptions (54 percent):* CEOs are revisiting their strategies on an ongoing basis. Said one survey respondent, "Stay nimble. Creating agility and adaptability is critical." Many, including E. Scott Santi, CEO at Illinois Tool Works, have acted quickly on their pricing strategies, adjusting prices around the world to offset cost increases during the most significant inflationary cycle of the last 40 years.

3. Actions to deal with the escalation of geopolitical risks

One CEO's survey comment summed up the consensus on this trend: "Globalization is changing, but it's not disappearing. We're entering an era with new dynamics around China and Russia, and Africa will also play a bigger role. We need to plan for multiple scenarios and have a game plan for each contingency."

— *Build robust compliance capabilities (65 percent):* Many companies are building up their trade compliance organizations and improving how they screen different customers and companies. While a defensive posture for most, it's an opportunity for others. Rob Fauber, CEO of the integrated risk assessment firm Moody's, confirmed, "There's an intense demand right now for tools that help not only with sanctions compliance but also with better understanding the risk of who you're connecting to, who you're doing business with … and so we're really leaning into that."

— *Create resilience in supplier networks (62 percent):* The best CEOs have already addressed potential points of failure in their supply chains. Now they are working to continuously improve resilience in this area. As Tim Cook, CEO of Apple, has stated, "We build our products everywhere. There are component parts coming from many different countries in the world, and the final assembly coming from three countries on just the iPhone. … We'll continue to optimize it over time and change it to improve."

— *Invest in monitoring and response capabilities (56 percent):* Successful leaders know that having good early-warning indicators and the ability to act quickly during a crisis can turn a threat into an opportunity. Being properly prepared can also have implications for society as well. Norway's biggest energy company, Equinor, for example, has increased its state of alert based on its assessment of threats given that energy production from the Norwegian continental shelf is crucial to Europe's energy security.

Beyond the top three trends

The three trends discussed above are clearly ranked as the highest “signal within the noise” by the best CEOs. There is, however, a second block of three trends that a meaningful number of CEOs also flagged as important: talent, ways of working, and climate change. Here is how numerous successful CEOs are approaching these areas:

— *Talent:* While the talent market remains tight, our survey respondents indicated they feel the time has come to refocus on employee performance, after several years of focusing more on helping employees weather the pandemic and other challenges. As Meta CEO Mark Zuckerberg has told his company’s employees, workers should prepare to have their “performances graded more intensely.” While this will be uncomfortable for some, the best CEOs believe that talented employees are by and large welcoming of such a stance.

— *Ways of working:* In line with the topic of talent, on balance the best CEOs are also expecting employees to spend more time in the office or with customers in 2023. The rationale is that doing so is ultimately good for both employees and customers: it increases mentorship, builds community, sparks innovation, and creates a stronger sense of meaning in the workplace. Many firms, including JPMorgan Chase, Starbucks, and Apple, have already made their intentions public.

— *Climate change:* CEOs remain committed to thoughtfully making the net-zero transition. They are not interested, however, in getting caught up in “check the box” exercises related to ESG rankings and ratings. As BlackRock’s CEO Larry Fink has said in a letter to shareholders, “We focus on sustainability not because we’re environmentalists, but because we are capitalists and fiduciaries to our clients.” Leaders are paying particular attention to areas where revenue can be generated by focusing on sustainability. Russia’s invasion of Ukraine has also reinforced that being a socially responsible company means ensuring reliable, affordable traditional products can be provided during the transition.

As United States President Franklin D. Roosevelt put it, “A smooth sea never made a skilled sailor.” The CEOs we surveyed are veterans who have experience steering their organizations through challenging environments. We hope that by sharing their perceptions of the true signals amid the noise, and the actions they are taking as a result, we can help all leaders navigate the turbulent waters of 2023 and beyond.

Carolyn Dewar is a senior partner in McKinsey’s Bay Area office, **Scott Keller** is a senior partner in the Southern California office, and **Vik Malhotra** and **Kurt Strovink** are senior partners in the New York office.

The authors would like to thank Blair Epstein, Selin Neseliler, Tanmay Tapase, Jen Whitaker, and Jessica Zehren for their contributions to this article.

Designed by McKinsey Global Publishing