

# Crises as Catalysts

This article captures the highlights of the discussion from Blair Sheppard's presentation to members of CNEXT's Generate Program.

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### Blair Sheppard:

Blair Sheppard is director of global strategy, leadership, and culture at PwC and Professor Emeritus and Dean Emeritus of Duke University's Fuqua School of Business.

He is also the founding CEO and Chairman of Duke Corporate Education.

Blair has advised more than 100 companies and governments and has published more than 50 books and articles. His publications include *"Adapting to a New World"*, *"The Urgent Need for Sophisticated Leadership"*, and, *"Ten Years to Midnight: Four urgent global crises and their strategic solutions."*

The pace and scale of change are stripping value from any business that fails to evolve. Leaders have a responsibility to understand how today's turbulent global market affects their company and where the opportunities lie within overlapping disruptions. It requires cultivating a new approach to change.

## Think differently about change

1. **Appreciate the power of trends:** Understand the impact of the trends that underlie every crisis affecting your business.
2. **Don't do it alone:** Single companies aren't large enough to make the systemic changes needed to favor their business.
3. **Reinvent your business through real things:** Most problems will be solved with physical products. The supporting services will follow.
4. **Change rapidly:** Be prepared to invest in ways you never have before.
5. **Never let a crisis go to waste:** Your company will either lead change or lose value.

## NEW WORLD ORDER

Four assumptions underpinned the design of the post-WWII global order:

- Globalization is only good.
- Technology is generally good.
- GDP and shareholder value are the primary economic objectives.
- The US can be both the market and the policing force for the world.

While these assumptions may have been necessary to stabilize global tensions at the time, their flaws and drawbacks make it clear that they cannot be sustained.

## Understand crises

A crisis should be an anomaly that requires a rapid, isolated response. But when crises begin to interlink and overlap, creating a constant state of uncertainty, crisis management requires a different approach.

What appear to be diverse and concurrent crises likely share a common cause. Leaders must learn to distinguish between when they are facing a core problem and one of its many symptoms or manifestations.

Every crisis stems from one of the following four trends. They are so powerful that they overwhelm any short-term uncertainty:

1. **Demography:** Countries with aging workforces lack professionals for key industries. Countries with younger workforces lack the education and skills development to fill the gap.
2. **Climate:** Key tipping points—such as forests becoming net carbon emitters due to wildfires, or methane release from melting permafrost—are accelerating climate change faster than institutions have prepared for.
3. **Technology:** Advancements in AI, synthetic biology, and climate technology are driving disruption and new opportunities that span multiple industries.
4. **Restructured World Order:** Polarization within nations is destabilizing the geopolitical frameworks that have been in place since World War II.

## INSURER'S ASSUMPTIONS

What does it mean to be an auto insurer if transport is predominantly autonomous?

What does it mean to insure property when 68% of the value sits on a coastline likely to flood within the next 10 to 15 years?

What does it mean to offer life insurance when you can't calculate how long people will live?

## Analyze assumptions

Most investments and business models are built on key assumptions. You risk underestimating the value destruction of change if you miss the point at which the assumptions underpinning your business model become less relevant.

As a quick test, how many of the assumptions affecting your business are influenced by the four key trends above?

For example, portfolio management assumes uncorrelated risk, passive investment, and comparative advantage.

- Yet, there's no such thing as uncorrelated risk anymore. The trends are so large that eventually everything will be affected.
- There are far fewer opportunities for passive investment. Value is lost unless investments are actively managed and updated.
- There's less reliance on comparative advantage. You don't know who you can depend on.

Find ways to create value. Technologies now exist that can redefine entire ecosystems. Seek those that are relevant to your business and use them. Your company must choose to lead change, as it will only become harder to adjust later on.

## Identify opportunity

To plan a path through apparent chaos, focus on certainties. The danger with scenario analysis is that you place disproportionate attention on uncertainties rather than on what is already known. Manage in the moment on uncertainties, but plan your business around what you know to be true.

Thinking ahead adds structure to a complex problem, rather than introducing chaos. Unpack how changes in the four major trends (demographics, climate, technology, and the world order), all certain to occur, create opportunities for your business. By mapping out where you can capitalize on change, you'll be ready to act when others are not.

## Take small steps, fast

Don't tackle the whole problem at once. You will hinder investment and alarm the workforce. Anchor yourself in the short term. Focus on actions you can take now that build capabilities you didn't have before, and how those capabilities will allow you to take the next step. New opportunities will emerge at each stage.

Solve contained problems first. Even in chaos, there are opportunities where you can take action that will yield visible progress.





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