

## CEO Imperative Series

Critical answers and actions to reframe your future



# How can today's CEO bridge the gaps to realize tomorrow's opportunities?

CEO Imperative Study 2021, part 2 | EYQ third edition | [ey.com/ceo](https://ey.com/ceo)



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# CEO Imperative Series

How can today's CEO bridge the gaps to realize tomorrow's opportunities?

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## 2021 *CEO Imperative Study* part two

This report presents the second part of the findings of EY's third *CEO Imperative Study*, which is based on a global survey of over 300 chief executives of Forbes Global 2000 companies to understand their perspectives on the DNA of the future enterprise.

In this part, we focus on the “how” of transformation: how to overcome organizational gaps to realize transformation objectives while laying the foundation for long-term value creation.

Part one of the report focuses on the “what” of transformation: the CEOs' views of what's driving change in their organizations; their transformation objectives and capability gaps; the likelihood of different business scenarios; and what will comprise the DNA of the future enterprise.

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The CEO Imperative Series provides critical answers and actions to help business leaders reframe the future of their organizations. For more insights for CEOs, visit [ey.com/ceo](https://ey.com/ceo).

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The full-force arrival of long-standing trends in the wake of the global pandemic demands a new enterprise DNA for business success. Leaders have no choice but to quicken the pace of organizational change, seizing this moment to not only become market leaders but market makers, creating exponential long-term value for all stakeholders.

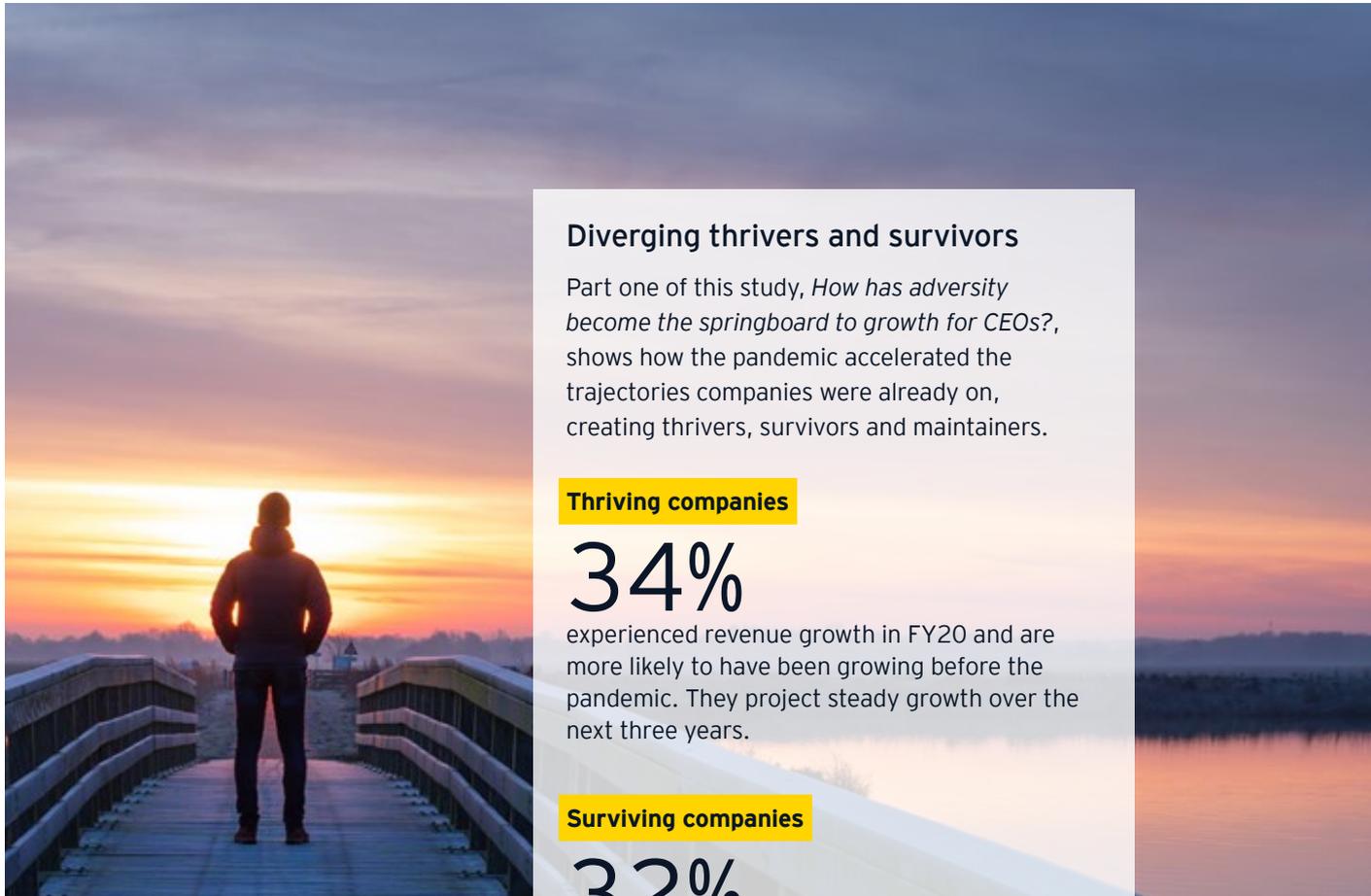
The 2021 EY *CEO Imperative Study*, a survey of 305 chief executives of Forbes Global 2000 companies, reveals while leaders intend to transform their organizations, they face key capability and execution gaps. These range from incomplete digital transformation efforts to actions not meeting intentions when it comes to generating long-term value; data and data trust shortfalls threatening transformation objectives and investments; culture and organizational structures inhibiting agility; and sluggish investment in ecosystems hampering agility and resilience.

Closing these gaps and achieving their growth ambitions requires CEOs to fundamentally shift. They must reorient their organizations for continuous transformation to generate sustainable growth and deliver long-term value for all stakeholders, from customers to employees, society and investors. We believe market makers can realize exponential value and competitive advantage through three interconnected value drivers:

- ▶ **Human @center:** Radical customer-centricity – as well as a purposeful, nurturing company culture – embeds the agility to move at the speed of market and customer changes
- ▶ **Technology @speed:** Advanced technologies are increasingly impacting how companies advance business models, and customer and employee experiences. Leveraging technology for creativity and deploying it faster are critical.
- ▶ **Innovation @scale:** Companies must cultivate an agile innovation competency and collaborate with an ever-evolving ecosystem, commercialize and move quickly into new markets.

Embracing these three value drivers, along with an agile organizational culture, can help enterprises deliver superior long-term stakeholder value, maximize their growth potential and position them to capitalize on emerging opportunities.

We are keenly aware that the challenge confronting CEOs is monumental and a stern test of leadership mettle. That's why the EY *CEO Imperative Series* is designed to help leaders reframe the future of their organizations by equipping them with insights that will help them arrive at critical answers and define tangible actions.



## Diverging thrivers and survivors

Part one of this study, *How has adversity become the springboard to growth for CEOs?*, shows how the pandemic accelerated the trajectories companies were already on, creating thrivers, survivors and maintainers.

### Thriving companies

34%

experienced revenue growth in FY20 and are more likely to have been growing before the pandemic. They project steady growth over the next three years.

### Surviving companies

32%

saw revenues decline in FY20 and are more likely to have had declining growth prior to the pandemic. They expect flat or declining growth over the next three years.



### Maintaining companies

34%

had flat revenues in FY20 and were more likely to have low or flat growth pre-pandemic. They are set to have flat or moderate growth over the next three years.

This increasing thriving-surviving growth gap highlights the urgency to transform in this pivotal moment, either to “level up” or leap ahead.



# The future enterprise is coming into focus

Where have you traditionally focused your transformation initiatives? Most companies target isolated areas of the business, aiming for efficiency, optimization or remaking a specific function. Yet the transformation being demanded now is different, and of greater urgency, compelling leaders to shift gears and effect meaningful change for the opportunities that lie ahead.

The *CEO Imperative Study* suggests best-in-class CEOs are already pivoting toward new investments and poised to extend the lead over their peers. We also found enterprise transformation is poised to accelerate as we exit the pandemic, with businesses becoming more confident as they're buoyed by greater economic tail winds. If history is a guide, investments in growth now will pay outsize returns in the post-pandemic recovery.



**Figure 1**

Companies are spending more to accelerate their transformations than in the past



But the starting point is different for each company. Some, “thrivers,” entered the pandemic with stronger growth are poised to extend the lead over their peers. Others, “survivors,” were already on a weaker footing and lost ground as the pandemic unfolded. Where thrivers are accelerating transformation and investing in new growth initiatives, survivors have tended to slow organizational change and focus more on cost reduction.

Now as the “thrivers” look to extend their lead and others look to improve their position, they must adopt a continuous transformation mindset, constantly evolving new capabilities that will underpin the DNA of the future enterprise. So, how can CEOs steward their organizations through the

wave of converging forces reshaping the business landscape and build the capabilities to deliver long-term stakeholder value?

The purpose, structure and role of the enterprise have been coming into focus over the last decade. From the need to self-disrupt and reimagine business models to digitalization and changing customer expectations, companies are being compelled to evolve how they operate and deliver value. These forces have now arrived in full force, bringing the nature and characteristics of the future successful enterprise into finer resolution.

The following five attributes stand out as essential elements of the new DNA for business success.

**Figure 2**

## Customer scenarios: effective use of data will be critical

Q: How likely are the following customer scenarios in your markets in the next five years?

# 88%

Using data science to anticipate and fulfill individual customer needs will be a key differentiator.

# 87%

The most competitive companies will be defined by delivering data-driven experiences.

Percentages show combined very likely and somewhat likely results

## 1. Data as strategic and operational enabler

The role of data as a competitive advantage and strategic enabler in customer engagement, innovation and agility has surged to prominence. Indeed, data-powered, intelligent technology-enabled products and services are creating new ways of living and working, reshaping markets and connecting growing ecosystems.

Business leaders are becoming keenly aware of the role data-centricity will play in the future successful enterprise. However, only 34% of the study's respondents say customers trust them with their data, illustrating the trust gaps appearing between what intelligent technologies and data can do and what people are willing to let it do. If left unaddressed, this trust gap will limit growth, slow innovation and stall transformation efforts.

A majority of respondents (88%) said it is likely that using data science to anticipate and fulfill individual customer needs will be a key differentiator in the next five years. Additionally, 87% of respondents say it is likely that the most competitive companies in the next five years will be defined by delivering data-driven experiences.

CEOs and C-suite executives need to not only understand the importance of data, but reframe how they obtain, manage, use and scale it. Taking a value-first approach and embedding trust into data, business models and advanced technologies, will power the intelligence running through the enterprise and ultimately provide targeted, sustainable value creation.



## 2. New talent models and structures for continuous transformation

Embracing and operationalizing an ethos of continuous transformation hinges on instilling a culture of agility, innovation and diversity. Attracting diverse talent, while also upskilling and reskilling existing talent, requires new metrics and organizational structures. Galvanizing and inspiring the workforce while enabling employees to be nimble in the face of relentless change will be essential to delivering growth.

A strong majority of CEOs (75%) see empathy and soft skills coming to the fore as key management capabilities in the next five years. Additionally, 76% believe it is likely new performance metrics and rewards will be needed for onboarding, promotion, succession planning and leadership. And 70% say small autonomous teams working in a flat organization structure will deliver the best outcomes.

The way we work is changing dramatically, and CEOs as well as chief human resource officers will need to refresh their talent strategy to earn the loyalty and commitment of employees, ultimately delivering agility and continuous transformation being demanded.

**Figure 3**

### Talent scenarios: divided views on distributed talent and remote workforce

Q: How likely are the following talent model scenarios in your markets in the next five years?

**75%**

Empathy and soft skills will come to the fore as key management capabilities.

**76%**

New performance metrics and rewards will be needed for onboarding, promotion, succession planning and leadership.

**70%**

Small autonomous teams working within a flat organization will deliver the best outcomes.

Percentages show combined very likely and somewhat likely results





One of the ways we'll see value created is by being able to go over the boundaries of the firm to work really fluidly and co-create with an ecosystem of partners and sometimes even with uncommon partners. These are the kind of firms you never even think about working with, they might actually have best-in-class solutions for you and are likely the most innovative organizations.

Nathan Furr  
Professor, INSEAD

Figure 4

## Ecosystems

Statements about leadership

# 88%

Of CEOs strongly/somewhat agree that the ability to form, lead and manage ecosystems will define successful leadership teams.

# HOWEVER

Q: Ecosystems – Which of the following statements apply to your company?

# 31%

Of CEOs say they have an an external ecosystem of business partnerships as part of our strategy.

# 17%

Of CEOs say one person has clear ownership of cultivating and managing our ecosystem business partnerships.

### 3. Ecosystems becoming vital

Integrating into ecosystems will be a defining feature of the future successful enterprise. Over the past several years, we have seen industry boundaries erode and threats emerge from nontraditional competitors. Increasingly companies are shifting to “coopetition,” cooperation between competing companies, as well as adopting ecosystem business models in an effort to deliver superior customer value and achieve market leadership.

Nathan Furr, Professor at INSEAD, observes: “One of the ways we'll see value created is by being able to go over the boundaries of the firm to work really fluidly and co-create with an ecosystem of partners and sometimes even with uncommon partners. These are the kind of firms you never even think about working with, they might actually have best-in-class solutions for you and are likely the most innovative organizations.”

The CEO respondents in the survey largely affirm the growing importance of ecosystems, with 88% agreeing the ability to lead and manage ecosystems will define successful leadership teams. And being embedded in ecosystems emerged as the second-most-important characteristic of the successful future enterprise.

To fully integrate with and realize the value from ecosystems, companies will need to make it an essential part of their enterprise strategy, build the skills to orchestrate within ecosystems and may even need a chief ecosystem officer to take ownership and drive the desired outcomes.

#### 4. Focused on long-term stakeholder value

We have seen growing demand for organizations to take greater responsibility and operate in the best interest of employees, customers, suppliers and society at large. The views of the CEOs in the study indicate the shift to long-term stakeholder value creation is gaining momentum and importance. Long-term value surfaced as a cross-cutting priority across the study and emerged as the most important characteristic of the future successful enterprise.

Over the next five years, 91% of respondents expect business models will increasingly incorporate circular economy dimensions, while 87% agree long-term value creation across stakeholders will be rewarded by the market. And 80% agree there is likely to be a global standard for measuring and reporting long-term value creation. Although CEOs espouse this vision and show the intention of reorienting toward long-term value, there remains a “say-do” gap. As we explored in our first article, this gap may indicate a lack of clarity around the definition of long-term stakeholder value and how to progress this objective.

At EY, we view long-term stakeholder value across four pillars or dimensions: financial, customer, people and societal. Creating, measuring and communicating enterprise value across these dimensions is becoming a strategic and management priority. CEOs need to embrace this new governance model, using the fundamentals of long-term stakeholder value to vault their companies toward growth and resilience.

Falling behind further risks deteriorating stakeholder trust. To catch up, CEOs must embed purpose objectives into all aspects of their business, from finance and operations to sales and marketing, to drive value creation for all stakeholders (see “4 ways to put your purpose to work”). They should embrace stronger governance supporting stakeholder objectives, including better aligning incentives by tying remuneration packages to a wider range of metrics beyond the share price, such as Paris Agreement targets and measures of employee satisfaction.

Identifying and responding to stakeholder needs requires new capabilities alongside mechanisms to deepen engagement, strengthening feedback loops between stakeholders and management.

Figure 5

Long-term value scenarios: CEOs anticipate a long-term value shift over the next five years.

Q: How likely are the following scenarios related to long-term value in your markets in the next five years?



**Figure 6**

Humans at center seen as a core leadership value driver

Statements about leadership

**80%**

Of CEOs believe putting humans (employees, customers, other stakeholders) at the center of decision making will be a core value driver.

**HOWEVER**

Q: Given the challenges and opportunities over the next five years and beyond, what will be the characteristics of the most effective CEOs? (Top three)

**46%**

Leads with compassion

**46%**

Sets example of experimentation and risk-taking

**44%**

Drives a transformative mindset across the company

## 5. Leadership anchored in the human imperative

The challenge of delivering value to a widening range of stakeholders requires strong, decisive, empathetic and human-centered leadership, with a focus on innovation, fostering trust and modeling desired traits. Increasing digitalization, the prominence of data and analytics in decision-making and the ongoing shift to remote work is making the human qualities of leadership rise to the forefront.

Leading with compassion, setting an example of experimentation and risk-taking, and driving a transformative mindset across the company emerged as the top three characteristics of the most effective CEOs to manage the challenges and opportunities over the next five years and beyond. In addition, 89% of respondents agree the CEO must lead disruptive innovation and business reimagination, while 80% agree establishing stakeholder trust will become an increasingly important part of the CEO's job.

Although CEOs show willingness to transform for these new imperatives, gaps remain in their organizations' capabilities, focus areas and translating intent into action (for a detailed discussion of these gaps, see "How has adversity become the springboard to growth for CEOs?").

From the long-term value "say-do" gap to the continuing challenge of digital transformation, and from underinvestment in ecosystems, the data trust chasm and the climate blind spot, leaders face significant barriers to evolve and acquire the characteristics of the future successful enterprise.



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# Three value drivers of transformation



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By grounding in three critical value drivers — putting humans at the center, leveraging technology at speed and driving innovation at scale — organizations can ensure that transformation efforts connect across the enterprise, which is what thrivers always do.

Bill Kanarick  
EY Global Consulting Transformation Leader

So, how do CEOs and C-suite leaders formulate, orchestrate and reframe their organizations for the future? We recommend CEOs and their teams work backward and plan their future strategy by embedding three core interconnected value drivers: putting humans at the center, leveraging technology at speed and driving innovation at scale.

Embracing these value drivers while building agility into the ethos of organizational culture allows companies to create exponential value, equipping them to pivot and respond quickly to future existential risks and drive long-term stakeholder value. “By grounding in these critical value drivers, organizations can ensure that transformation efforts connect across the enterprise, which is what thrivers always do,” said EY Global Consulting Transformation Leader Bill Kanarick.



Future creators are impatient. They're dissatisfied, not in a negative way but always looking to make it better. The C-suites that are very engaged with the front lines, very engaged with their product, actually walked the customer journey frequently with their own product, they are very dialed in. And it makes an incredible difference when you have a very fast feedback loop that doesn't come through layers internally, but actually comes directly from the market. The speed and agility within the organization takes on a very different pace.

Jon McNeill  
CEO and Co-Founder, DVx Ventures

### Human centricity

At its core, successful transformation must be driven by the desire to improve the human experience. The best-laid strategies can come to nothing without the right talent and mindset to execute on them. The most advanced innovations or cutting-edge technologies can fail if they lose sight of human values. As leaders advance their strategies, they must view every decision, every technology implementation, every product or service innovation through the human lens.

Companies need to focus on how they make or deliver the products and services to delight customers and offer them compelling value propositions. Inherent in this is the understanding that personalized experiences have now become far bigger drivers of consumption, requiring a different approach to innovation and customer engagement.

Jon McNeill, CEO and cofounder at DVx Ventures, says "Future creators are impatient. They're dissatisfied, not in a negative way but always looking to make it better. The C-suites that are very engaged with the front lines, very engaged with their product, actually walked the customer journey frequently with their own product, they are very dialed in. And it makes an incredible difference when you have a very fast feedback loop that doesn't come through layers internally, but actually comes directly from the market. The speed and agility within the organization takes on a very different pace."

Driving this type of human-centered personalized innovation requires diversity at all levels of the organization. It has been proved that more diverse teams drive better innovation. This includes diversity not just in age, gender and ethnicity but also background and skills. Companies need to acquire talent beyond their industry boundaries, reaching to adjacent markets and competencies to bring fresh thinking and new ideas into the organization.

Yet diversity remains elusive. Only 28% of respondents to the study said they create diverse and inclusive teams at all levels. The gap is more pronounced at the very top: when asked about the most important changes that could be made to the C-suite, only 8% cited greater diversity and 7% said talent from outside the company.

As companies race to adopt cutting-edge technologies and drive breakthrough innovations, they must carefully consider the human impact to mitigate risks and create trusted relationships with customers, employees and ecosystem partners. Consistently and persistently putting humans at the center of every decision helped CEOs galvanize and motivate employees as well as attract customers, giving them a competitive edge and ultimately leading to growth and a stronger market position.



## Responsibly accelerate technology adoption

The pandemic has catapulted us into digital-first era literally overnight. Unsurprisingly, the results of the study bear out technology acceleration as one of the most significant drivers of transformation. A majority of respondents (68%) anticipate significant investment in data and technology over the next year, while 63% said accelerating technology and digital innovation is having the greatest impact on their company.

With new technologies emerging and maturing more quickly, companies that can leverage them as instruments of creativity will inherently perform better. Apart from leveraging these technologies, companies will need to deploy technology faster as well to serve the ever-evolving needs of customers, employees and ecosystem partners. Perhaps unsurprisingly, digital-driven business transformation (56%) and AI/data science (41%) emerged as top competencies requiring new or increased C-suite attention.

However, companies need to carefully consider the human impact of every technology before widescale deployment, as public awareness of the security, privacy and ethical risks grows. CEOs need to pay particular attention to building trust with stakeholders to reap the full benefit afforded by AI and data science.

Successfully leveraging and implementing technology at speed requires upskilling and reskilling employees as well as diffusing a transformative mindset across the entire organization at all levels. Forward-looking risk management practices and strong cybersecurity capabilities will be linchpins in fully realizing the value of technology to improve the human experience in our increasingly virtual world.

### Thoughtfully scaling innovation

The pandemic is forcing companies to reimagine every aspect of their business – product and service design, business models, operating model and more – re-engineering each for innovation and agility. While all companies need to protect and reinforce their core business, they also need to get into the habit of continuous and rapid innovation.

Leaders must begin with a “future-back” approach. Start by asking whether your company will be relevant in 5, 10 or 15 years and how you might expand your competitive advantage through bold risk-taking. With this in mind, you can then explore the future and potential scenarios to adapt your innovation agenda and enterprise strategy.

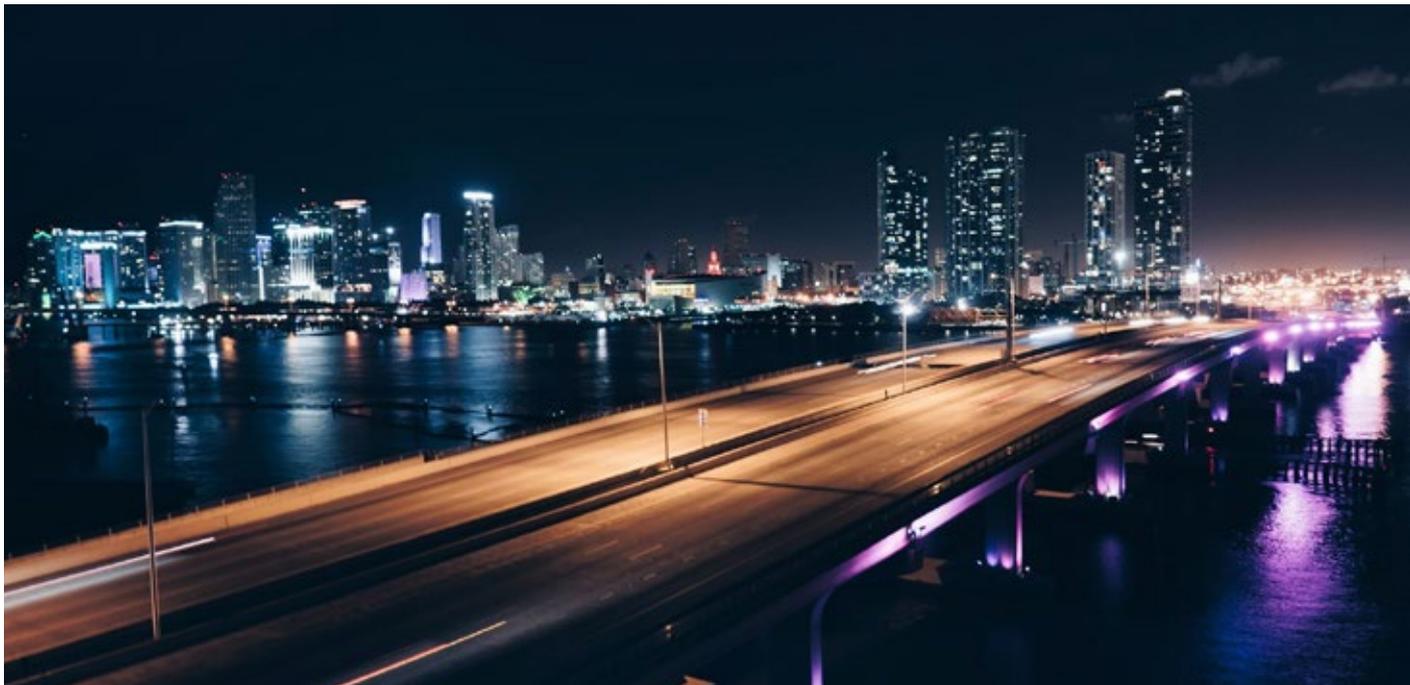
Companies must also look outside themselves to enrich their innovation potential. Collaboration with ecosystem partners and cultivating a deep understanding of pain points can help unearth ideas that will be embraced by customers, employees, markets and societies. They must also leverage data, cutting-edge intelligent technologies and cloud infrastructure to scale innovation more rapidly.

But perhaps most important of all is ensuring the engine of innovation – human talent – is front and center. The study shows 38% of respondents expect

to implement change in their innovation processes over the next three years. These respondents are focused on faster idea generation and trialing as well as reorienting their organizations toward greater risk-taking. Humans are intrinsic to these objectives, and achieving them requires embedding innovation as part of the transformative mindset and equipping employees with the tools and permission to appropriately take risk.

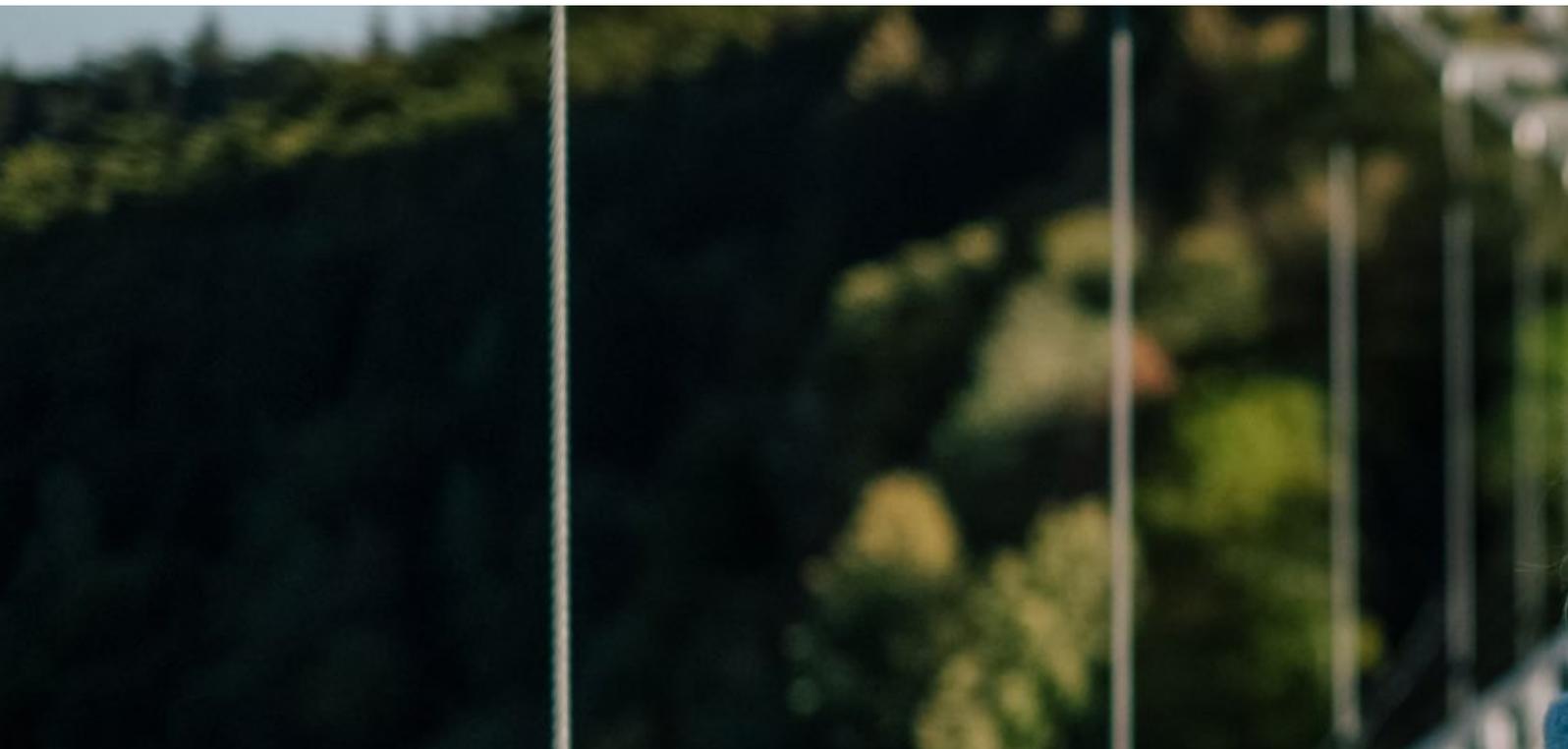
Moreover, as companies look to leverage large volumes of data and cutting-edge technologies as part of their innovation engines, they must ensure they safeguard human privacy and security. To truly unlock the value of innovative products, services and solutions, stakeholders must trust them. Demonstrating a commitment to improving the human condition through innovation will be critical for success.

Interweaving and embedding these three value drivers into every aspect of the cross-functional, continuous transformation being demanded enhances your company's ability to adapt. That makes your operating model more agile, which married to the fundamentals of long-term stakeholder value creation, ultimately maximizes growth potential.



# Four ways to build the future enterprise

It's become a cliché to say COVID-19 upended the status quo. The more accurate description is it compounded and magnified forces already reshaping business and operating models, in the process recasting the very purpose of organizations. What lies beyond the pandemic is a more dynamic future requiring companies to continuously innovate, mobilize and scale new business models, operating models and capabilities. Organizations will need to embody agility in all aspects of their enterprise while adopting a continuous transformation mindset rooted in and motivated by the desire to improve the human experience.



If that sounds ambitious, it is. CEOs must boldly and decisively take steps to rewire, retool and reorient their organizations for this new working world. They must tolerate ambiguity, become nimbler, increase their appetite for risk-taking and cultivate agility to pivot quickly toward new opportunities. Embracing the three interconnected value drivers of humans at the center, technology at speed and innovation at scale allows companies to acquire the DNA of the future successful enterprise, helping them realize their growth potential and driving the creation of long-term stakeholder value.

Here are key considerations as you reboot and rebalance your organization to realize transformation:

1. Embark on a future-back approach using your corporate purpose to guide exploration and begin laying the strategic groundwork to build the capabilities necessary to ensure long-term relevance and resilience.
2. Adopt a mindset of impatience and dissatisfaction, seeking constant improvement in every aspect of your organization. Walk in the shoes of customers, employees and ecosystem partners, getting direct feedback to inform decision-making across every aspect of the enterprise.
3. Drive a human-centered mindset into innovation processes, technology adoption and deployment as well as every aspect of your culture. Ground your decision-making in asking how it will impact your employees, customers, partners and community.
4. Reframe how you obtain, manage, use and scale data by embedding trust at the core to make the intelligence being delivered trusted by customers, employees, ecosystems and regulators.



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