Is the rebound your opportunity to reimagine?

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Is the rebound your opportunity to reimagine?

Planning to rebound to an “old normal” is not an option. CEOs must reimagine their strategies for long-term value creation. Here’s how.

Executive summary

- CEOs should initiate a purpose-led strategic reset to capitalize on the upcoming economic rebound.
- While sector-specific issues vary, a purpose-led growth strategy can address critical issues of trust, trade, technology, sustainability while putting people at the center of every decision.

CEOs have a major question to address: how can you put your company back on track to growth, and at the same time create long-term, sustainable value for a broader set of stakeholders?

To tackle that question, you must first acknowledge that your new growth strategy cannot be built on the same assumptions and principles that drove results in the pre-pandemic era. Success will no longer be measured with profit and operational metrics alone. To rebound to sustainable growth, you need to reframe your strategic agenda not as a return to business as it once was, but as a new platform from which to create and protect value.

The EY CEO Imperative Series, part of the Imperative Collection, addresses critical issues and actions to help CEOs reframe the future of their organizations. Here, we’ll outline why you need to initiate a purpose-led reimagination of your strategy to navigate a path to growth in the post COVID-19 business environment. We’ll also identify the four cornerstones on which such a purpose-led strategy should be built: trust, trade, technology, sustainability, with a fifth connecting element that stabilizes these foundations – people at the center of it all.

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.
Now is the time to lead your purpose-led transformation

Current disruption in geopolitics, trade, the environment, technology and consumer preferences is increasing the urgency to transform.

More than a year since the pandemic began, many countries are still affected by restrictions that are significantly curtailing business activity. But even in those countries and industries where economies are beginning to rebound, the pandemic has left an indelibly changed business environment. COVID-19 has shifted how businesses are viewed by their customers, employees, investors, and regulators, as well as wider society.

Over the past year, several transformative forces have intensified and converged to ignite a burning platform that’s forcing businesses to redefine how they create, deliver, and communicate value. These include:

- **Geopolitics.** A rapidly changing geopolitical, trade and regulatory landscape, with many governments moving to a more interventionist policy position.

- **Environmental concerns.** The increased focus on the climate emergency and environmental impact wrought by businesses themselves, has led many institutional investors to change their portfolio inclusion criteria. Assets under management with a focus on ESG impact (environmental, social and governance) are projected to climb to US$53tn by 2025. The figure already stands at US$37.8tn, up from US$22.8tn in 2016.

- **Changing customers.** A growing consumer trust deficit has also surfaced, driven by rising customer expectations around business transparency and sustainability.

- **Talent.** Companies are facing increased competition to attract and retain a skilled workforce, exacerbated by employees campaigning on issues such as health and safety, and issues of diversity and inclusiveness.

- **Technology.** Continuous technological disruption and convergence, which cuts across industries, is here to stay.

The accelerated impact of these trends has dramatically altered the landscape in which businesses operate. This has created a strategic imperative for you to re-evaluate your organization’s purpose and drive value in the long-term by addressing the expectations of a broader range of stakeholders.

In this environment, understanding your stakeholders’ demands and delivering value across your employees, customers, shareholders, and broader society will ultimately position your company to better adapt to changing market dynamics and drive greater financial value.

EY’s *Global Capital Confidence Barometer* found evidence that a strategic reset is currently underway. The vast majority of executives surveyed – 86% – had conducted comprehensive strategy and portfolio reviews during the pandemic. As companies move from recasting their strategic vision to activation, leaders want to fundamentally pivot their businesses so that they can capitalize on long-term, sustainable growth in a new environment – a strategy that can be defined as “reset, realign, restart.”
Reimagine, with purpose

There is a growing body of evidence that becoming a purpose-led organization — one that puts a purpose beyond financial profit and at the center of its decision-making — helps attract and retain customers, and empowers employees to be more engaged and innovative. Companies that score highly on ESG metrics can lower their cost of capital, as well as encourage longer-term investment.

Cornerstones of purposeful, sustainable growth and transformation

Laying the foundation of a purpose-led growth strategy

While sector impact varies, from our conversations with many decision-makers, five industry-wide themes emerge as critical constituents of a purpose-led growth strategy. Focusing on these five themes will help leaders overcome the current challenges they face and propel their companies to the forefront of the economic rebound and onwards to long-term, sustained value creation. These themes are trust, trade, technology, and sustainability — with people firmly at the center of every aspect of the business and your decision making.

To seize those competitive advantages, you will need a robust, consistent, and clearly articulated purpose-led strategy for sustainable growth. Laying the right foundations for that strategy to succeed will be crucial.
Trust
The fundamental currency of business

Trust has long been a key asset for any transaction or relationship. In a hyper-connected, increasingly virtual environment, trust matters more than ever. People want to have trust in the organizations they buy from, work for, and invest in. A recent study\(^5\) highlighted that intangible assets now make up over 90% of the market capitalization of the S&P 500, a five-fold increase from 17% in 1975.

According to Edelman’s 2020 Trust Barometer, 80% of people expect brands to “solve society’s problems.” Meanwhile, in the United States, JUST Capital\(^6\) found that 89% of Americans agreed that the COVID-19 crisis “is an opportunity for large companies to hit reset and focus on doing right by their workers, customers, communities and the environment.” In response, CEOs have been under increasing pressure to spearhead a re-evaluation of the point and purpose of business.

According to research by EY\(^7\), 66% of European C-suite leaders and board members believe that COVID-19 has increased stakeholders’ expectations that companies will drive societal impact, environmental sustainability, and inclusive growth and the need to measure and report on these issues.

The importance of trust highlights the need for CEOs and CFOs to reconsider corporate reporting: greater transparency now goes to the heart of how companies can build and strengthen trust with their stakeholders. While the nature of corporate reporting has not fundamentally changed for decades, the world has changed considerably in that time. Today, businesses are under pressure from their stakeholders to be more transparent about what they do and how they do it. Yet, stakeholders do not necessarily trust that corporate reporting provides them with all the information they require. This is forcing a shift in focus from short-term profit to a positive long-term impact on people, planet, and prosperity – measured by a wider set of standardized nonfinancial metrics, not just bottom-line figures.

It should be said, an organization’s ability to create long-term value cannot be solely disclosed by its balance sheet. Long-term value also emerges from its culture, intellectual assets, technology, and infrastructure – all nonfinancial assets. Nonfinancial data that is clearly tied to the organization’s strategic priorities, and communicated cohesively, can help you to address the trust gap that exists between current financial reporting and your stakeholders’ expectations.

Companies need to find a more strategic way to measure their performance to meet the changing demands of a broader set of stakeholders. Currently, CEOs are under significant pressure from regulators, investors, and other stakeholders to increase disclosure around stakeholder impact and ESG issues. Yet, you also need to consider how this reporting can be integrated into your strategy, how it affects operations, and what transformation projects might be required to reset the focus on a broad range of measures for success – financial and nonfinancial – while remaining agile and adaptive. It is crucial to be robust about measuring...
performance against targets that are connected to your strategy, while using a range of metrics that encompass environmental, social, fairness and sustainability targets, as well as peer benchmarking.

By ensuring that those targets are defined with a purpose-led strategy in mind, CEOs can cohesively articulate the value they are creating or protecting for stakeholders – including customers, employees, and investors – and elevate the business above mere adherence to minimum regulatory compliance. It also provides the mechanism for scrutinizing internal behaviors and holding yourself and your leadership team to account. This creates an iterative cycle of strategy, transformation, reporting and communication that leads to value creation or protection, while allowing you to be attuned to changing stakeholder behaviors and preferences that serve as inputs for the next round of strategy execution. By using purpose as the lens through which to view all decisions, all assessments of value creation, and all reporting, you will help grow that most fragile and valuable commodity for your organization – trust.

**CEO imperatives to foster greater trust in your business:**

- Be ambitious – integrate reporting on a wider range of nonfinancial metrics into strategy, just meeting compliance reporting alone will not be enough.

- Listen – understanding the changing needs and expectations is crucial, to re-frame the strategic foundation.

- Be transparent – articulate purpose-led near- and longer-term targets to stakeholders, linking them to strategy and performance, assigning clear lines of responsibility and accountability.
Trade
Trade flows and patterns are changing

While turbulent geopolitics are creating increased pressures to develop ever more strategic approaches to managing risk, CEOs still have an inescapable need to operate globally. The challenge is to navigate complexities that are not in your immediate control.

Geopolitical tensions — and the uncertainty they create — put pressure on CEOs and their leadership teams to constantly re-evaluate supply chains, talent decisions and approaches to building enterprise resilience.

Much has been written about the rolling back of globalization. But it is not ending, just changing. New trade flows are developing on a regional basis all the time, and many companies are reconfiguring their supply chains based on their experience of the pandemic.

Similarly, countries are encouraging reshoring or investment in certain activities, for example, in semiconductor manufacturing. There is also an emerging desire for self-sufficiency and localized capabilities in other critical industries, such as basic pharmaceuticals, vaccines, steel and industrial materials, and renewables infrastructure manufacturing. Many countries are also adopting more restrictive foreign direct investment (FDI) rules due to national security reasons, with governments imposing tighter review processes for potential foreign investors.

Some notable examples of current geopolitical tensions include the relationship between the US and China and the post-Brexit disagreements between the UK and the EU. The tension between the US and China is manifesting itself in an acrimonious trade relationship, technological competition, and rival industrial policies. Meanwhile, the UK and the EU have clashed over Northern Ireland, the implementation of new trading arrangements and the distribution of vaccines. The EU is also asserting its position as a global regulatory leader through its ambition to shape global norms and standards while moving toward strategic autonomy.
growth strategies will adapt both their organic and inorganic strategies to capture emerging opportunities. At the same time, many sectors are undergoing a major transformation. Asset bases have to become lighter, which may lead to consolidation opportunities for others. There are sectors which are thriving in the crisis and present investment opportunities. Changing consumer expectations also lead to interesting new potential avenues to growth. But you still need to make a fine judgment call on whether it’s better to invest in existing operations with a view to moving into new markets or to acquire assets to achieve fast-track market entry.

You should prioritize the management of supplier risk, both operationally and from an ethical point of view. Many companies are looking to increase near-shoring or on-shoring to reduce the length of their supply chains. Barriers around trade and FDI may also encourage the development of fragmented and geographically dispersed supply chains, rather than globally integrated ones. Companies are also looking at the need for smart adaptation of their supply chains to enhance resilience to shocks and changes applying the lessons from the early days of the pandemic.

As economies reopen, and take off at different rates, companies focused on their purpose-led growth strategies will adapt both their organic and inorganic strategies to capture emerging opportunities. At the same time, many sectors are undergoing a major transformation. Asset bases have to become lighter, which may lead to consolidation opportunities for others. There are sectors which are thriving in the crisis and present investment opportunities. Changing consumer expectations also lead to interesting new potential avenues to growth. But you still need to make a fine judgment call on whether it’s better to invest in existing operations with a view to moving into new markets or to acquire assets to achieve fast-track market entry.

CEO imperatives to help navigate today’s trade issues:

- Understand the trends – globalization, technology, demographics, and environment, and monitor how these forces will impact across the organization.

- Define risk more holistically – understand the impact on different areas of the organization (finance, operations, strategy, reputational, etc.).

- Test the geostrategy – develop a strategy to mitigate risks – and revisit it dynamically, the days of yearly updates are over.
Moving to a virtual, socially distanced existence in 2020 forced many companies into a live, real-time resiliency test: would their existing digital infrastructure be robust enough to enable business continuity? While many thrived, others struggled to operate effectively. The experience of a sudden shift to mass remote working has led many companies to renew their focus on agility and resilience, especially in relation to technology and workforce.

Many millions of the global workforce suddenly found themselves unexpectedly working from home during the pandemic, and the majority no longer sees the need to go back to the old way of working, now that the technology infrastructure has been built up to enable virtual work. The workplace of the future will most likely be a hybrid model involving both office and remote working, with subsidiarity the basis for fast, flexible, and effective decision-making. A clearly defined corporate purpose, which reinforces and builds upon a strong corporate culture, will allow employees based both at home and in the office to make decisions that align with the organization’s long-term goals and boost agility and resilience; while providing the flexibility needed to retain a skilled workforce.

The pandemic catapulted us into the “digital first” era overnight. Many studies show that the desire for technological acceleration is one of the most significant drivers of transformation. A majority of CEOs (68%) surveyed for the global EY 2021 CEO Imperative Study are planning a major investment in data and technology over the next year. Furthermore, 63% revealed that accelerating technology and digital innovation is having the greatest impact on their company.
Another result of the pandemic is that traditional B2B businesses are looking at B2C models – often with a focus on customization and personalization. The number one issue for many B2B companies is creating better customer experiences. But significant investment is required to build the technology infrastructure that supports this level of digitalization.

Whatever the motivation for technology investment, you should carefully consider one issue above all others before widescale implementation: the human impact of every technology you deploy. The human-technology interface will be decisive for future success in light of growing public awareness around the ethical, privacy and security risks of technology. Only 34% of CEOs say customers trust them with their data. This lack of trust stands in the way of many priorities, from business model reimagination to supply chain visibility and new customer propositions. In particular, you should focus on building trust with stakeholders to enable your businesses to reap the full benefits of deploying AI and data science.

If you are to successfully harness technology at speed, you need to upskill and reskill your people. You must also embed a transformative mindset across the entire organization – at all levels. To fully realize the value of technology and improve human experiences in an increasingly virtual world, you will also need your risk management practices to be more forward-looking and strengthen cybersecurity capabilities.

**CEOs imperatives for harnessing technology to accelerate purpose-led growth:**

- Imagine a full digital enterprise – production, back-office, customer experience and a tech enabled workforce.

- Understand tech and people transformation – provide employees with the resources and training required to utilize new technologies to enhance productivity, spur innovation and boost role satisfaction, fostering continuous learning as technologies evolve.

- Look beyond efficiency – reassess the potential social impact of adopted technologies, including ensuring the deployment of artificial intelligence (AI) is fair and unbiased.
Sustainability
Important in all its meanings

There is no doubt that companies can be a driving force in addressing global societal and environmental challenges. To do so, they must continue to make profit and optimize their operations. But doing just that is not enough.

Companies’ stakeholders are paying increasing attention to environmental, social and governance (ESG) issues, and CEOs are listening. According to EY’s 2021 CEO Imperative Study, 80% of CEOs believe it’s likely “companies will take significant new steps to take responsibility for the social and environmental impacts of their operations” over the next five years.

Sustainability is one of the defining challenges of our lifetime. It is also the innovation opportunity of a generation — a chance to create long-term financial, consumer, human and societal value for all stakeholders. CEOs are increasingly embracing the business case for sustainability, where they protect and create value by accelerating their business toward a more sustainable future. The initiatives you choose to prioritize must closely align with the purpose of your business, the context in which it operates and your ambition for competitive advantage for the long-term.

Becoming a purpose-driven business can require you to make difficult trade-offs. These can be around prioritizing long-term investments over short-term returns, or moving from a focus on the bottom line to creating long-term value measured by other means. Yet purpose also brings some important payoffs:

- **Engagement** — purpose-driven companies have employees who are engaged, committed and intrinsically motivated.
- **Lower risk** — by purposefully working with partners and suppliers that have similar values, businesses are less exposed to reputational risk that can destroy company value.
- **Better performance** — companies that both define and act with a sense of purpose outperform the market by 5%-7% per year.\(^1\)
- **Market differentiation** — consumers are four times more likely to buy from companies with a strong purpose.

But what does long-term, sustainable value really mean? As a term, sustainability is often used in the context of a company’s compliance with environmental regulations and its policies on decarbonization; but companies need to think about sustainability more broadly.

A sustainable business embraces long-term value and growth in the widest sense. To do this, it usually has a long-term strategy with a broad range of objectives, including both financial and nonfinancial goals. It also measures its progress against those goals.
Looking at value creation beyond the financial aspect is difficult, but necessary if you are serious about achieving sustainable, long-term value creation for all of your stakeholders. Critically, you must be willing to transform aspects of your business and potentially take bold action in areas of your operations that are not currently aligned with your purpose-led strategy — before you get pushed to do so by investors. To instill change, you need to ensure that all stakeholder groups — including customers, employees, investors, partners, and suppliers — understand the reasons why change is necessary, the benefits of doing so and how their actions are aligned to the purpose of the business.

The buy-in of employees is particularly important since, without their commitment, the organization’s purpose risks remaining in the realms of rhetoric, rather than reality. Unfortunately, employees can quickly become disengaged if they do not genuinely experience their organization’s purpose. Research by EY\textsuperscript{13} found that more than a third of employees (35%) observed a “say/do” disconnect between their organization’s stated purpose and its day-to-day actions.

There are a number of metrics and frameworks for measuring sustainable value creation, including the World Economic Forum’s Stakeholder Capitalism Metrics\textsuperscript{12}.

Such metrics and disclosures oriented around ESG are becoming a necessary consideration for every CEO’s overall long-term strategy — the question is how it can be integrated. The WEF-IBC project has called on the participation of experts from different functions within organizations — including the CEO, Chief Sustainability Officer, Chief Financial Officer, Chief Risk Officer and Chief Strategy Officer to contribute in development of the framework, a sign that ESG disclosure is core to overall strategy, not marginal. Importantly, even if the disclosures are the correct first step, each function should spend some time taking a fresh look at how the company delivers value across their workforce, customers, society, and shareholders.

Each CxO in your organization has an important role to play, and the integration of ESG into corporate strategy presents an opportunity to drive differentiation in how your company delivers long-term value to all stakeholders.
There are many ways to embed sustainability within your operations. You can actively seek out partners and suppliers that share your organization’s purpose and values around sustainability. You can also implement responsive supply chain risk management procedures based on your business purpose. Once the immediate audit has been completed, you can review ongoing third-party risk through monitoring and testing, and adapt your business integrity controls to ensure compliance.

Leading, purpose-driven companies communicate their purpose and its connection to their sustainability strategies clearly, candidly, and consistently to their customers and make it a central part of the overall customer experience. As a result, they are able to attract and retain customers – and not only customers who prioritize sustainability.

While ethical shopping was on the rise prior to the outbreak of COVID-19, the experience of the pandemic has shifted consumer expectations further. EY surveyed over 14,000 respondents for our Future Consumer Index and found that 33% of consumers believe that the way they shop will change in the long-term as a result of the COVID-19 pandemic. More than a quarter (29%) of respondents indicated that they would pay more for local products, 26% for trusted brands and 20% for ethical products.

The journey toward sustainability is not always smooth – particularly when there is a gap between your stakeholder’s expectations and the reality of your plans. This gap is most likely to occur in the early phase of activating such a strategy when expectations have been raised but the process of embedding the pursuit of purpose in all the company’s activities has only just started. To make progress, and prevent pressure rising from activist shareholders still focused on quick returns, you should ensure you understand evolving stakeholder expectations and pivot as those expectations change. Some demands will be easier and quicker to reconcile than others, but all must be understood.

It is important to remember that the purpose-led approach is not intended to replace a focus on profit. Rather it is a complementary addition to the company’s value-measurement framework – one which should increase the likelihood of higher levels of profitability in the long-term. A well-balanced strategy recognizes that companies create long-term value for shareholders by creating value for stakeholders – it is an “and”, not an “or”.

CEO imperatives for embedding sustainability at the heart of your decision making:

• Strengthen governance around stakeholder capitalism commitments – prioritize strategic goals with a stakeholder assessment while accounting for the business and sociopolitical context.

• Make it real – link executive and firmwide compensation packages to a broader set of metrics, with clear targets and behavioral standards aligned to a purpose-led strategy’ reinforcing commitments to all stakeholders so that risks and rewards are distributed more equitably.

• Excel at it – build a more robust approach to analyzing the risks and opportunities from social and environmental change and instill discipline into nonfinancial performance management and reporting processes as a basis for continued adaptation.
People
At the center of everything

A key lesson from the pandemic is that businesses and markets cannot be disassociated from the individuals that are their employees, customers, partners, consumers, and other stakeholders.

The four cornerstones of sustainable, purpose-led growth trust, trade, technology, and sustainability are connected by a theme, which runs like a stabilizing steel cable through each: the importance of viewing every decision and action in relation to its impact on people. There is no such thing as a virtual business. Even companies born in the digital space, with few physical assets, rely on the ingenuity and custom of real people.

The best-laid strategies will come to nothing without the right talent and mindset to execute them. The disruption caused by the pandemic seems to have dispelled long-held myths about productivity and collaboration, and it showed how quickly companies can adapt.

The challenge of establishing a path to creating sustainable, long-term value requires decisive yet empathetic leadership. You should lead with emotional intelligence, based on shared values, and encourage continuous development for leaders and workers alike.

You should also focus on how your company can make or deliver products and services that differentially engage customers. This involves understanding that personalized experiences are major drivers of consumption, requiring a different approach to innovation and customer engagement compared with more generic alternatives.

So, when you advance your strategy for the economic rebound, you must reframe every decision, every technology implementation, and every product or service innovation, through the human-focused lens.

The most advanced innovations, or cutting-edge technologies, can fail if they lose sight of human values.
Conclusion

Your mandate and imperative for change

Business and society are preparing to rebound into a world beyond COVID-19, one that has gone and is going through dramatic hardship, but also offers a wealth of opportunities as governments and companies look to rebuild a more sustainable future. As you look to reframe the future of your organization, you have a mandate from investors, customers, employees and wider society to become a more purpose-led organization that creates long-term value for a broader set of stakeholders.

This transformation will require you to build trust, adjust trade strategies, invest in technology, and prioritize sustainability – while putting humans firmly at the center of decision-making. This difficult journey will be worth the effort, for the destination is a stronger market position, accelerated yet sustainable growth, and a better working world for all stakeholders.
End notes


7. Will there be a ‘next’ if corporate governance is focused on the ‘now’? EY Long-Term Value and Corporate Governance Survey, EY, 2021.


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