


September | [ey.com/ceoimperative](http://ey.com/ceoimperative)

# EY CEO Imperative Study 2019



Are you a CEO  
that will define  
the future or  
defend the past?

Study findings



The better the question. The better the answer.  
The better the world works.



Building a better  
working world

# Are you a CEO that will define the future or defend the past?

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## Action on global challenges is the new growth imperative for business

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EY's CEO Imperative Study, created by EYQ, EY's think tank, shows that CEOs can no longer rely on the old excuses to remain on the sidelines of global challenges, such as income inequality, the ethics of AI, cybersecurity, and climate change. Nor must they ask permission to be at the forefront of solutions – it's an expectation and a new growth imperative.

A set of increasingly disruptive global challenges pose direct risks to long-term economic and business growth. Widening income inequality, fraying social safety nets and economic insecurity fuel populist movements. Climate

change propels new waves of emigration. Gender inequality drives vulnerability and marginalization. Digital technologies threaten to displace millions of jobs and create new challenges around privacy, ethics and trust.

These global challenges lie beyond the scope of any one country or set of stakeholders to solve. Despite the profound risks, governments have failed to respond effectively to these challenges. At the same time, corporations have grown more powerful, and employees, customers and other stakeholders expect CEOs to lead the way in addressing them.

## A tipping point

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We have arrived at a tipping point in corporate action on global challenges which will have a powerful impact. The world's largest companies are set to undertake a range of meaningful actions to address global challenges as their chief executives, board directors and institutional investors align on the need for corporate action and, most importantly, CEO leadership on these issues.

Contrary to conventional wisdom, our survey of the CEOs, board directors and institutional investors of the world's largest corporations shows:

- ▶ Global CEOs see more growth opportunities than risks in acting on global challenges.

- ▶ Institutional investors are not a brake on corporate action. They endorse the corporate investments needed to make progress on these issues and increasingly focus on companies' response to global challenges in their investing.
- ▶ CEOs, board directors and investors agree that CEOs should be more active in leading on global challenges.
- ▶ Boards and investors will support a CEO who takes a stand on a politically charged issue related to global challenges.
- ▶ Most CEOs believe that today's C-suite model is not well-suited to the demands and opportunities of the next decade.

## Leaders and laggards

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Not all companies are equally engaged, however. A small group of companies lead their peers by a wide margin in terms of key actions taken to transform strategy and operations in response to global challenges and will be

better positioned to seize the upsides. Their mindset, market perception and relationships with key stakeholder differs markedly from the laggards.

## A new growth imperative

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To enable future growth, corporations must be proactive in formulating short- and long-term plans that demonstrably work toward solving the complex global challenges we face. CEOs and the companies that they lead can no longer sit on the sidelines.

Today, businesses must successfully operate under a new set of rules and expectations. As a result, obsolete C-suite structures will be swept aside, with the competitive advantage and upsides going to the companies that transform their leadership model to the imperatives of the 21st century.

## Five imperatives for action on global challenges

- 1** Identify your global challenges and authentic response
- 2** Align the C-suite, board and investors to a point of view and action plan on global challenges
- 3** Embed global challenges in your purpose, strategy, operations and success metrics
- 4** Define how the CEO role will change to lead on global challenges
- 5** Use a future-back process to reshape C-suite structure, governance and capabilities

# Key findings

Leading on global challenges is no longer an option for companies and their CEOs – it's a growth imperative. Tackling the demands and opportunities of the next decade, however, will require C-suites to transform.

## CEOs' top 5 global challenges to business growth and the global economy

to business growth and the global economy

- 1 National and corporate cybersecurity
- 2 Technology-induced job loss
- 3 Income inequality and social safety nets
- 4 Ethics of AI
- 5 Climate change

## The pressure to act

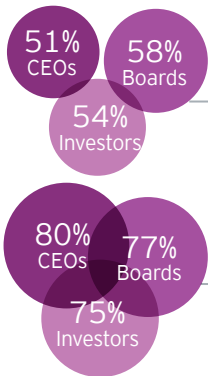
67% CEOs

Feel moderate to extreme stakeholder pressure to address global challenges

## Top three stakeholder groups demanding action



## We're at a tipping point



Believe the world's largest companies should be engaged in addressing global challenges to a great extent.

Believe government, business and the public will reward companies for taking meaningful action over the next 5-10 years

## Institutional investors embrace rather than resist action

60%

Support corporate investment to address global challenges, even at the expense of short-term financial performance

83%

Corporate response to global challenges will become more important in their decision-making over next 5 years

## Upsides in addressing global challenges



See greater opportunity than risk in becoming more active

43% Investors

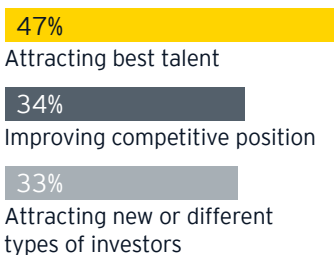
49% Boards

## Leaders and laggards

25% of companies far outpace peers

## Growth opportunities

CEO's top 3 growth opportunities arising from addressing global challenges

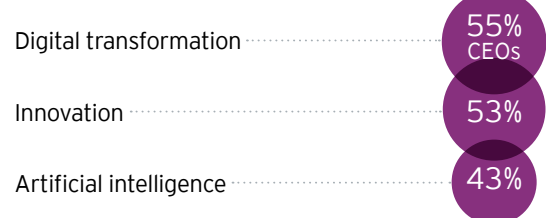


## C-suites need to transform

Only 34% CEOs

Believe the C-suite structure is suited to the challenges of the next decade

## Key new C-suite capabilities, next 5-10 years



Study findings are based on survey interviews of 200 global CEOs and 100 independent directors among the Forbes Global 2000 and Forbes Largest Private Companies, and 100 senior institutional investors globally from firms with at least US\$100b in assets under management. See page 22 for further details.

# 1 CEOs, boards and investors align on the need for corporate action

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Sound risk management focuses on building trust “by-design.” By taking calculated risks, it helps companies gain competitive advantage. By avoiding costly surprises and events, it protects enterprise-value. Companies that are able to balance this duality are more likely to win in the transformative age.

**Amy Brachio**

EY Global Advisory  
Risk and Performance  
Improvement Leader

## A Trust-By-Design approach to global challenges.

Trust is an increasingly important currency for which there is a significant market premium.

Historically, CEOs delegated risk management responsibilities to executives who were focused on preventing things from going wrong in areas such as compliance management, fraud prevention and quality assurance.

Today, leading CEOs are expanding their risk-horizons, going beyond traditional risk management by helping their companies take the risks necessary to future-proof their organizations and enhance stakeholder trust. By embracing risks, they are enabling innovation, speed and new value-creation.

This approach to risk management - which we call Trust-By-Design (TxD) - infuses risk thinking into strategic and operational processes upfront, as opposed to bolt-on initiatives which are usually remedial and reactive in nature. Instead of viewing risk through only a loss-prevention lens, it offers upside, downside and outside perspectives.

With 67% of CEOs reporting stakeholder pressure to address global challenges, applying the TxD framework enables corporations to address their growth imperatives while enhancing stakeholder confidence:

- ▶ **Upside risk:** CEOs see greater upside in addressing global challenges, such as attracting top talent, improving competitive positioning and appealing to new or different investors
- ▶ **Downside risk:** Cybersecurity, with grave business continuity implications, tops the list of risks that can impact business growth. Organizational architectures built for resilience to security, privacy and other critical risks enhance stakeholder trust significantly
- ▶ **Outside risk:** Climate change, job loss and income inequality are beyond the direct control of any one company but create substantial risks – and stakeholders expect CEOs’ leadership in addressing these

## Key steps for activating Trust-By-Design:

- 1 Consider aligning your corporate purpose and strategy to address the top global challenges
- 2 Incorporate Upside, Downside and Outside risks when developing your strategic blueprint. Test your strategy for resilience
- 3 Make your Risk function an intrinsic part of your organization’s strategic planning and decision-making processes. Assess whether you embrace risk effectively to benefit from the upside of disruption
- 4 Leverage risk intelligence to gather foresight, make better decisions, and enhance internal and external agility
- 5 Ensure that trust is infused in the design of your strategy, processes and systems. Include trust-related parameters in your executive-level KPIs and reward mechanism

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Widening income inequality, diminishing social safety nets, and economic insecurity fuel populist movements. Climate change propels new waves of emigration. Gender inequality drives vulnerability and marginalization. Digital technologies threaten to displace millions of jobs and create new challenges around privacy, ethics and trust. Global challenges such as these lie beyond the ability of any one nation or set of stakeholders to address.

Left unaddressed, global challenges will have increasingly negative consequences for economies, societies and corporate growth. If they are addressed, however, there will be measurable upsides. For example, the United Nations reports that countries are leaving US\$160t in wealth on the table globally due to differences in lifetime earnings between women and men.

Historically, most CEOs chose to remain noncommittal with respect to global challenges, particularly ones that are sources of political friction. Now, we have come to a tipping point of change as the CEOs of global companies, their board directors and institutional investors align on the need for corporate action and, most importantly, CEO leadership on these issues.

“Today, we are facing a whole series of global challenges: the fight against climate change and social injustice is at the top of the agenda. The challenges must first be recognized and named openly. This is the central prerequisite for us being able to find the right answers and define long-term goals,” observes Oliver Blume, CEO of Porsche AG.

CEOs, board directors and institutional investors put two global challenges at the top of their lists of issues threatening business growth and the global economy:

- ▶ Job loss due to technology change and the associated issues of education and reskilling
- ▶ National and corporate cybersecurity

These represent immediate disruptions, which influence the future of work, consumer trust and regulation.

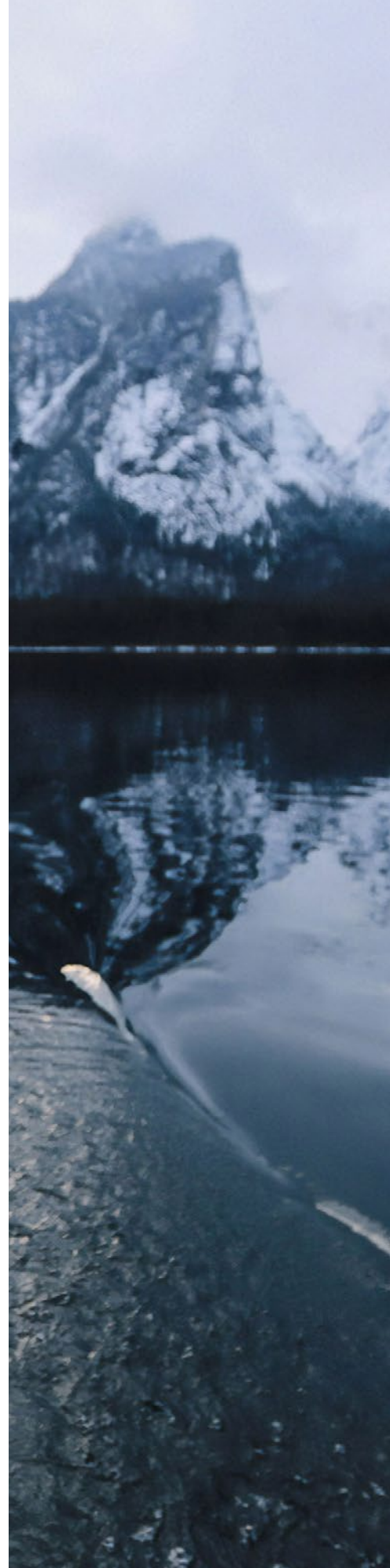
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**41%**

of AsiaPac CEOs cite climate change as a top global challenge.

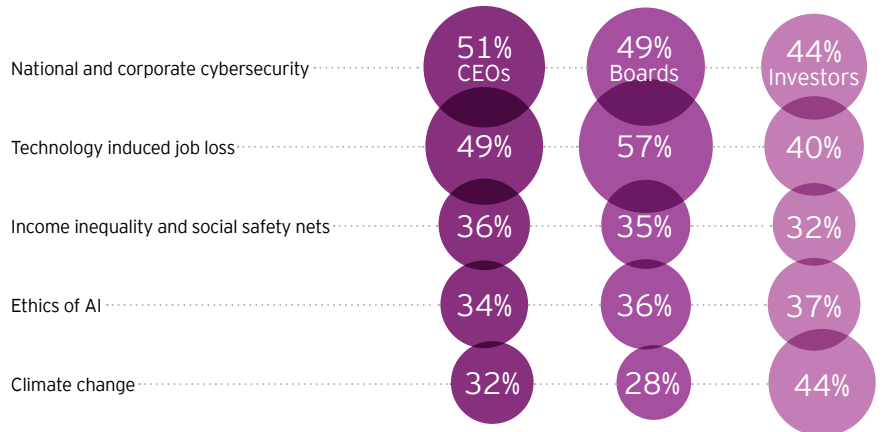
Future corporate growth depends on trust, whether between corporations and customers, people and technology, or management and employees. The increasing risk of cyber-attacks and the failure to find the right balance of digital and human in the workplace damages trust in all these critical dimensions,” says Amy Brachio, EY Global Advisory Leader, Risk and Performance Improvement.

In addition, CEOs emphasize income inequality, likely influenced by the impact of this issue on their customers as well as the political volatility it is driving. Board members prioritize the ethics of AI as they grapple with questions of bias and trust raised by this new technological capability. Investors put climate change at the top of the list. This group has long sounded the alarm about the risk to long-term value from climate disruptions, which are becoming increasingly evident.



## Five key global challenges threaten business growth

**Q** What are the top three global challenges in terms of their potential to harm business growth and the global economy over the next 5-10 years?

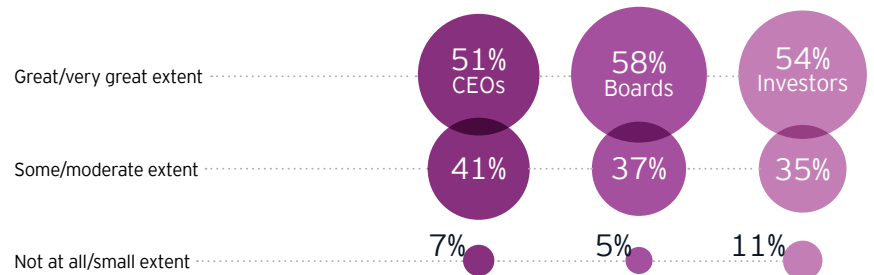


## Investors and boards are bigger champions of corporate engagement than CEOs

**Q** How engaged should the world's largest companies be in addressing the challenges like the ones you just identified?

The majority of respondents in all three survey groups say that that world's largest companies should be engaged to a "great" or "very great" extent in addressing the top global challenges they identified.

What's surprising is that an even greater share of institutional investors (54%) and board directors (58%) than CEOs (51%) say that big companies should be involved in solving global challenges. This demonstrates the strong support CEOs have to act – there are no more excuses for staying on the sidelines.



**56%**

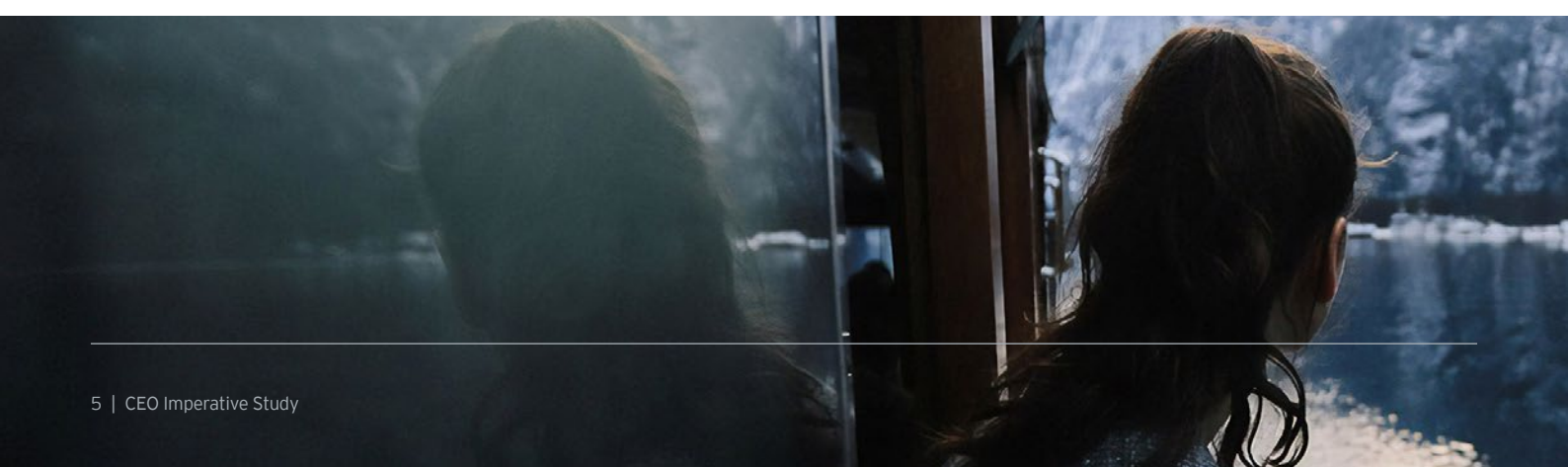
of Americas CEOs

are most likely to say that companies should be highly engaged in addressing global challenges.

**59%**

of investors

"It will increasingly become apparent that companies need to be stewards for future generations, and that boards and senior leadership, C-suite, have the responsibility of thinking hard about those issues, and then framing a set of actions that allow companies as entities and the employees as individuals to engage with them. Corporations are meaningful actors, and they can actually make a difference," says Piyush Gupta, CEO of DBS Group, a leading financial services group headquartered in Singapore.



## CEOs feel stakeholder pressure to act on global challenges – and see upsides

92%

of EMEA board members cite moderate to extreme pressure, the highest rate among stakeholders.

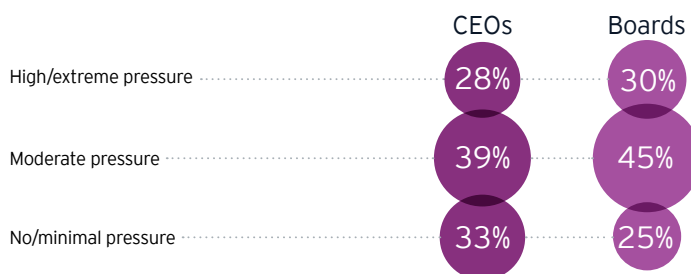
**Q** To what extent do you feel stakeholder pressure to become more active in addressing global challenges?

Today's leaders are being called upon to go further than ever before in demonstrating leadership, taking public positions on politically charged issues, choosing strategies, setting policies, and taking proactive measures to help solve large global challenges.

As corporations have grown more powerful, employees, customers and other stakeholders expect CEOs to lead the way in addressing growing global challenges. 71% of employees globally believe it's critically important for their CEO to respond to global challenges, with 76% of the general population agreeing that they want CEOs to take the lead on change instead of waiting for governments to act.

"The role of companies and corporations is increasingly coming into question. Do we exist only to further the interest of our shareholders? Or do we have an agenda beyond our shareholders, to society at large, to communities, the stakeholder prism? I think that quite clearly, we need to settle down on the side of stakeholders," says Gupta of DBS Group.

"The world's largest companies have to be engaged," says Bala Swaminathan, Asia Advisory Board member for Westpac Banking Corporation. "It's not whether you grow or you don't grow. It's a question of whether you exist or you don't exist."

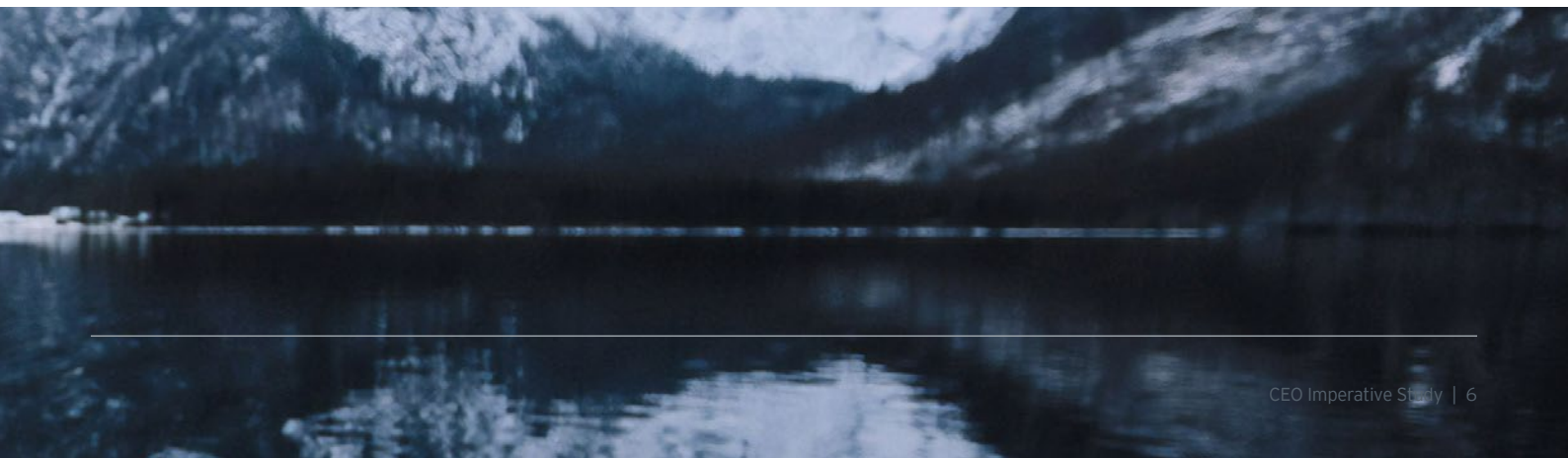


### The bigger the company, the more the stakeholder pressure

The CEOs in the study feel the pressure, with 67% reporting moderate to extreme pressure from stakeholders to engage with global challenges. This figure rises to 77% for the CEOs of the largest companies, ones with US\$20b or more in revenues. The figure for board directors is similarly high, with 75% saying they feel this level of pressure.

"The bigger the company, the larger and more diverse its stakeholder groups, and therefore the greater its responsibility to affect positive social change – while de-risking to ensure its future success," notes Al Sager of the National Bank of Kuwait.

Customers are the number one pressuring stakeholder group, according to the majority of CEOs (52%). The executives also frequently cite shareholders (40%), employees (40%), and the public (39%) among the most pressuring stakeholders.

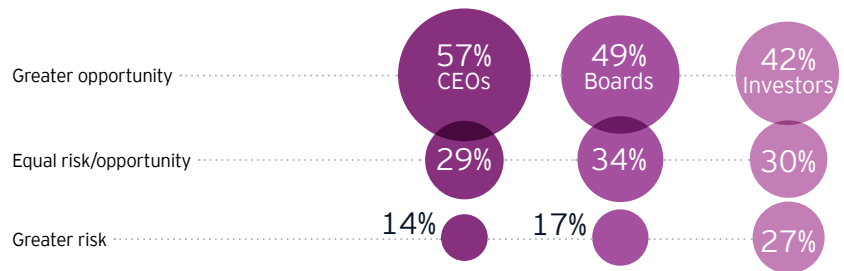


## CEOs, boards and investors see more opportunity than risk in taking action

Corporate action on global challenges brings both opportunities and risks. On the one hand, making progress to solve global challenges helps to lay the foundation for long term sustainable growth and offers the opportunity to deepen relationships with customers, employees and other important stakeholders. On the other hand, not every stakeholder necessarily agrees on the correct actions to take and there are risks in execution.

Looking at the balance of opportunity and risk, most CEOs see greater opportunity. Boards and investors are not far behind, with a plurality of each seeing a greater opportunity. None of the three groups sees greater risk than opportunity in acting.

**Q** As you consider how global challenges relate to the long-term corporate growth, do you see greater risks or opportunity in becoming more active on global challenges?



**61%**

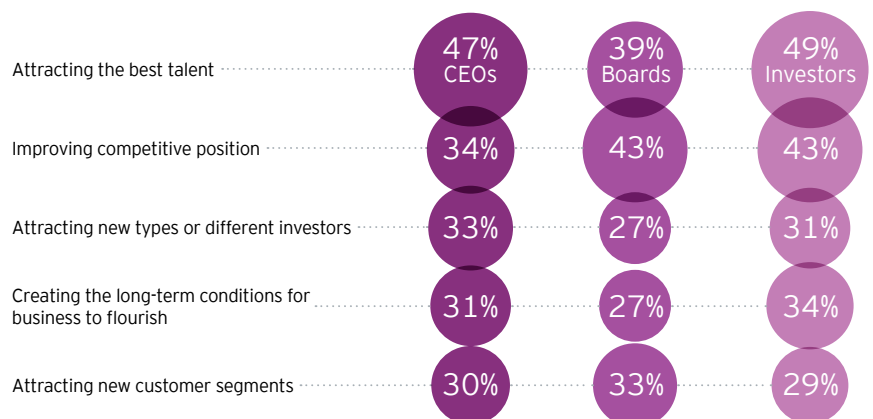
of Americas CEOs are most likely to see more opportunity than risk in addressing global challenges.

CEOs say that attracting the best talent is the biggest growth opportunity that comes from becoming more active on global challenges. Improving competitive position (34%) and attracting new or different types of investors (33%) are also frequently cited.

CEOs of companies with US\$20b or more in revenues bring a distinctive view on growth opportunities. They say that creating new business models and services that help address global challenges is the top growth opportunity (40%), tied with attracting the best talent. Only 18% of smaller companies cite new business models and services as a top growth opportunity.

Angela Rodell, Chief Executive Officer of the Alaska Permanent Fund Corporation offers: "I look at it through a more positive than negative lens. I think about the opportunities for growth. While these challenges are really painful, the change is really painful, out of that [change] comes some really interesting ways of how we can think about where we want growth."

**Q** What do you see as the biggest opportunities for corporate growth in becoming more active on global challenges?





## Investors want long-term value more than short-term returns

60%

of AsiaPac investors frequently considered the corporate response to global challenges in decision-making over the past two years – highest among their global peers.

Institutional investors have long been viewed as a brake on corporate actions that do not yield short term returns. Yet, in recent years the picture has started to change. The Embankment Project to identify and create new metrics to measure and demonstrate long-term value to financial markets has the support of the some of the world's largest asset owners and managers.

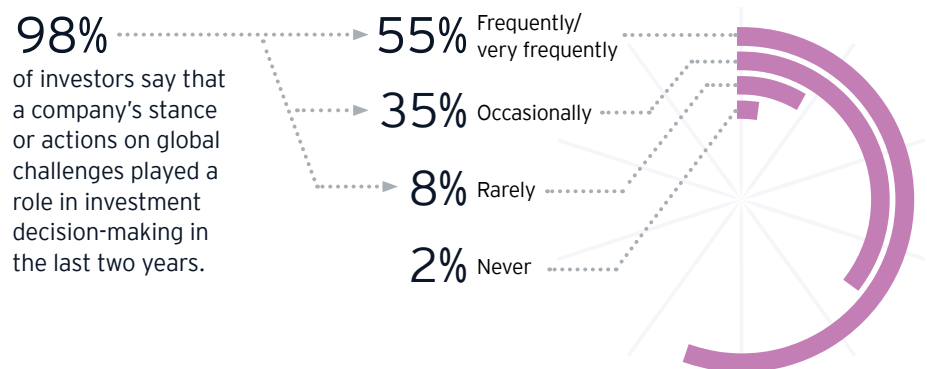
"It is vital that companies are engaged in addressing these global challenges for the simple reason that it is essential to creating long term value. Companies have not been engaged enough in the past on long term issues," says Mark Delaney, Chief Investment Officer of AustralianSuper.

"Companies are one of many stakeholders who operate in a world economy affected by global challenges. In our opinion, any company's activity that contributes to a worsening in the social and/or environmental challenges will, over time, trigger a reaction from an array of different stakeholders such as governments, regulators, employees, customers, etc.," explains Petra Pflaum, Chief Investment Officer for Responsible Investments and EMEA Co-Head of Equities, DWS Group. "This will ultimately have an impact on a company's value creation potential."

The EYQ survey of global institutional investors supports the view that investors increasingly consider issues of long-term value creation, such as the corporate response to global challenges.

Virtually all of the investor respondents report that a company's response to global challenges played a role in investment decision-making with some frequency in the last two years. Over half say that global challenges were frequently or very frequently a factor.

**Q** In the past two years, how frequently has a company's stance and/or actions related to a global challenge played a role in your investment decision-making?



73%

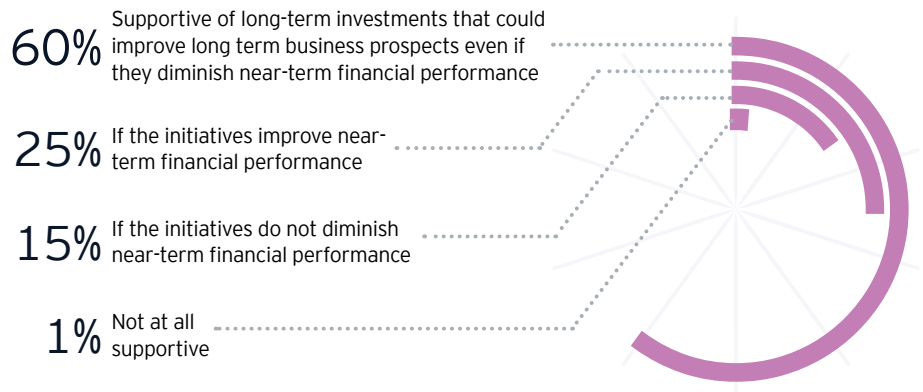
of EMEA investors support long-term corporate investments to address global challenges, a figure far higher than global peers.

The investor focus on global challenges is set to increase. Looking ahead, 83% of institutional investors say that the corporate response to global challenges will become more important to investment decision-making over the next five years.

But will investors "walk the talk" by supporting corporate investment to address global challenges? Responses from institutional investors suggest that it is time to reassess the view that they prioritize short-term performance over long-term growth. The majority of investors (60%) support long-term investments to address global challenges even if near-term performance is diminished.

## Investors put long-term growth ahead of near-term performance

**Q** What best describes your point of view on dedicating company resources, including the CEO's time, to addressing global challenges?



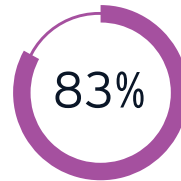
## CEOs, boards and investors foresee significant progress in the next 5-10 years

Global challenges are ones that cannot be solved by any one country or set of stakeholders. CEOs, board directors and investors foresee a world in which significant progress has been made in public-private partnerships, reporting standards and cross-industry collaboration needed to address them successfully.

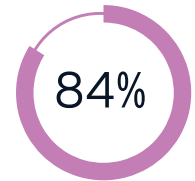
**Q** How will the roles of governments, business and the public will evolve over the next 5-10 years to address global challenges?



of CEOs say that government, business and the public will reward companies for taking meaningful action on global challenges, which means that competitive advantage can be gained through leadership on these issues.



of board directors say that public-private partnerships to address global challenges will become more common, which suggests that the ability to collaborate with different levels of government will become an increasingly important skill set.



of institutional investors believe that corporate reporting will shift to a focus on long-term strategy, growth and sustainability. This underscores the strength of the shift toward a focus on long-term value and movement away from short-term financial reporting.



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Action on global challenges is a new corporate growth imperative. What's your plan?

Large global challenges pose direct risks to corporate growth. It makes economic sense for businesses to be involved in and act on these issues. And the risks to growth from inaction on global challenges are only heightened in an environment where digitally-empowered stakeholders are prepared to reward corporations who lead in solving problems and punish those who do not.

To enable future growth, corporations must be proactive in formulating short- and long-term plans that demonstrably work toward solving the complex global challenges we face. CEOs and the companies that they lead can no longer afford to sit on the sidelines. Nor must CEOs ask permission to be at the forefront of solutions – it's an expectation and a new growth imperative.



# 2 Are you a CEO that will define the future or defend the past?

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## How CEOs can use innovation to address global challenges

With two-thirds of CEOs feeling moderate to extreme stakeholder pressure to address global challenges, finding innovative ways to solve those challenges can create new growth opportunities.

This means looking beyond scale, scope and efficiency within current industry and economic structures. It means seizing the opportunity to develop a disruptive innovation agenda, and to reinvent business models and value ecosystems. Transforming societal and economic systems around the business requires new capabilities and approaches to traditional strategic planning, as well as a leadership and culture shift.

As CEOs chart a new path toward innovation and systemic disruption, there are several actions to consider:

- ▶ **Board and management alignment.** Pressure from stakeholders to act on global challenges creates an opportunity to align the board of directors and executive management on innovating around the entire business value ecosystem.
- ▶ **Future-back analysis.** Companies will want to look forward and explore framing of global challenges as new market opportunities, then work backwards to create a roadmap for funding innovation and new capabilities needed to seize the upside of disruption.
- ▶ **Outside-in design.** Innovators will look at things from the outside-in by understanding megatrends impacting customer expectations, employee desires to work for a purposeful company and stakeholders who can enable a right to operate in new ways.
- ▶ **Inside-out transformation.** While customer-centricity requires an outside-in approach, companies will need to transform from the inside-out, starting with the core business model and business practices, expanding out into the external ecosystem of partners, stakeholders and wider society.
- ▶ **Innovating at scale.** Generating ideas is only 5% of a challenge. At least 95% of innovation success is based on the ability to execute and bring amazing things to customers at full global scale.

To address global challenges and drive revenue growth, companies must disrupt themselves, invent new business models and transform the entire market and value system in which they operate. The CEOs who take a lead in addressing global challenges will help their companies build a better working world for the future.

Stakeholders not only want large companies to create solutions to address global challenges, they want CEOs to lead the way.

And even as the growing urgency of problems worldwide fundamentally reshapes the nature of the CEO's role, leaders often still struggle to step outside their comfort zone. This needs to change. The growth and longevity of organizations requires CEOs become leading actors – in word and deed – on issues once deemed politically charged or non-core to the business.

Success will require new knowledge, skillsets and instincts on the part of the world's top executives. We'll illuminate the attitudes, beliefs and activities that separate leaders from laggards when it comes to strong CEO engagement, defining the DNA of engaged leaders.

## New expectations for CEOs to personally lead on global challenges

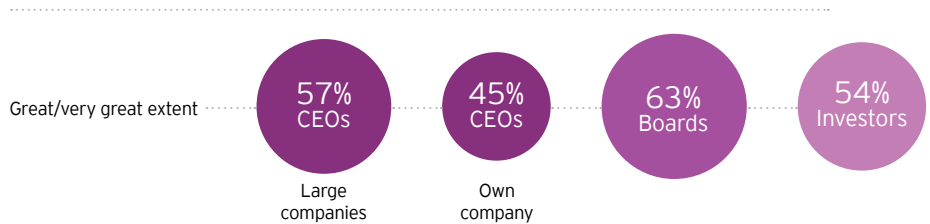
Investors and boards strongly endorse a greater CEO role in the corporate response to global challenges. However, CEOs, considering their personal roles and their perceptions of these stakeholders, are more conservative. Chief executives must engage with their investors and boards to understand the new expectations and come to a consensus with these stakeholders on how to move forward on global challenges.

## CEOs must take a more active role and lead on global challenges

**Q** To what extent is it in the best interest of large companies for their CEOs to take a more activist role on global challenges?

While 57% of chief executives agree with the general proposition that large company CEOs should take a more active role on global challenges, only 45% of respondents say this when it comes to their own company. This difference of 12 percentage points underscores how action on global challenges draws CEOs out of their traditional comfort zone.

Part of the discomfort could stem from concern over investor and board perspectives on CEO involvement in global challenges. Chief executives might be surprised to learn that well over half of board members and investors believe that it is in best interest of large companies for their CEOs to take a more activist role on global challenges.

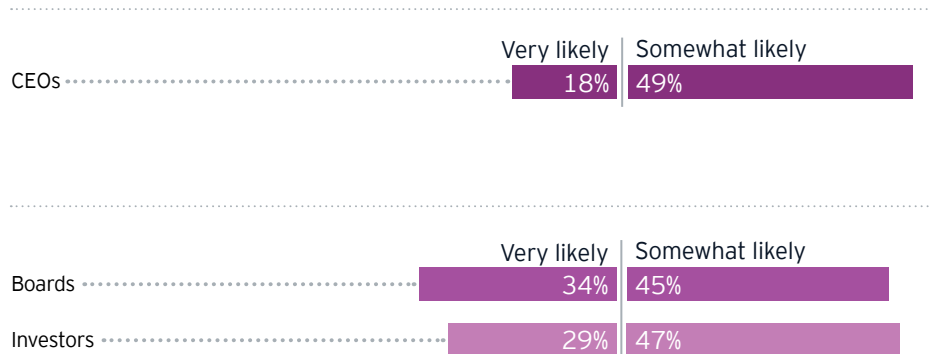


## Investors and boards are more supportive than CEOs think they are

**Q** As your company's CEO, how likely is it that you would take a public stance on a politically charged issue related to a global challenge?

Investors and boards are also more supportive of CEOs taking public stances on big issues than CEOs themselves.

While 67% of CEOs think that they are somewhat or very likely to take a public position on a politically charged issue in the future, boards and investors are even more prepared to support CEOs taking that stance, with over three-quarters of board members (76%) and investors (79%) saying that they will likely be supportive.



**Q** How likely is it that you would be supportive of a CEO among your investee/board companies taking a public stance on a politically charged issue related to a global challenge?

While this suggests that CEOs may no longer need explicit permission from these stakeholder groups to speak out or take an action, it doesn't rule out the importance of alignment and collaboration. Study participants emphasized the importance of a strong CEO and board partnership in promoting enhanced CEO engagement on global issues.

## Now is the tipping point for corporate engagement

### Evaluate your readiness to address global challenges through a benchmark of key actions

Many of the world's largest companies have already undertaken important actions to address global challenges, such as establishing external partnerships, participating in cross-industry coalitions or increasing dedicated spending.

It's perhaps not surprising that 60% of the world's largest companies have linked their corporate purpose to addressing global challenges – such declarations of purpose are relatively easy. Yet fewer than half of all companies have undertaken any of the other nine of 10 key actions to address global issues, and only 6% of CEOs report that their companies have initiated all of them.

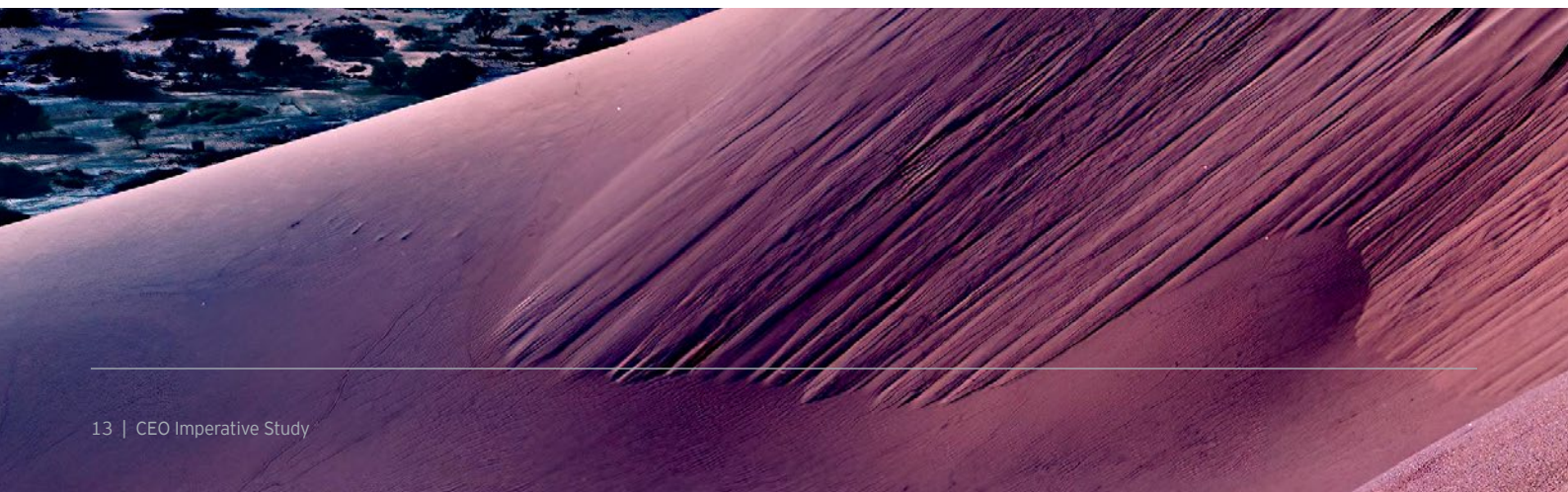
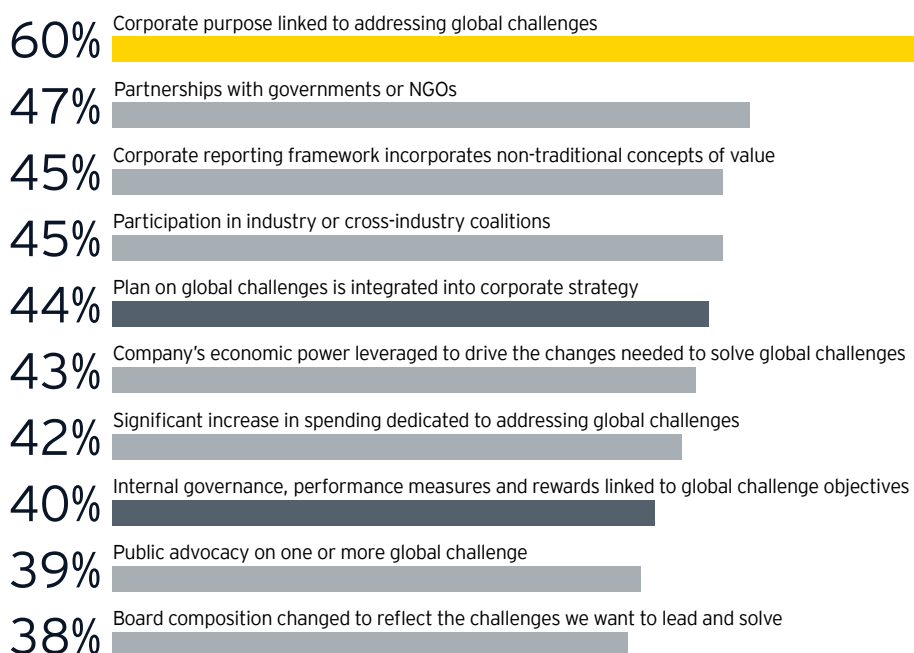
Importantly, a significant percentage of companies are actively planning to take these actions if they haven't already, indicating that we are at tipping point in corporate engagement on global challenges.

Q

Describe your company's status in relation to the following actions to address global challenges

Board directors and investors prioritize two actions that drive internal transformation and align the organization to progress on global challenges.

#### Actions taken



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## Boards and investors prioritize actions that drive internal transformation

The survey data indicates that companies to-date have more frequently taken the easier, external-oriented actions such as declarations of purpose and changes to reporting. However, boards and investors want companies to take steps that will drive internal organization transformation that aligns the organization to action global challenges:

- ▶ Integrating a plan on global challenges into corporate strategy
- ▶ Linking internal governance, performance measures and rewards to global challenge objectives

As Angela Rodell, CEO of the Alaska Permanent Fund Corporation, says: "If you're a large company and you expect to be around for the next 20, 30, 50 years, and you have a long-term business plan, you have to be thinking about how your business is affected and is engaged in these global challenges. The challenge is: what does addressing these global challenges look like? What I want to see as an investor is companies addressing it from a business plan perspective."

"Addressing global challenges will often mean that companies will need to adapt and transform, and as a result they will need to evolve their business strategies and governance structures to do this," says AustralianSuper's Mark Delaney. "The required pace of adaptation and

transformation is likely to continue to accelerate. Businesses need to be agile in meeting the challenges, as acting for the long-term somewhat paradoxically also requires agility."

Michael Kanazawa, EY Global Innovation Realized Leader notes, "Creating a future-back vision of the business where global challenges become opportunity areas ensures companies will lead innovation in their market and not be disrupted by it." He adds that "Not to be confused with corporate social responsibility, this new brand of CEO responsibility for leading through global challenges means innovation around the entire business value including long-term strategy, new products and services, market growth plans and the core operations of the business."

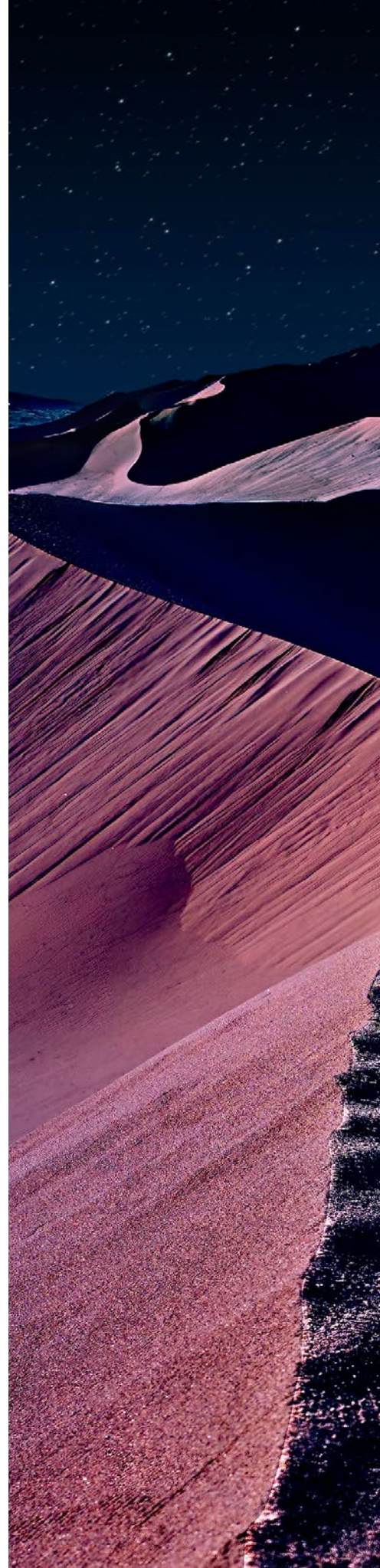
Yet only 44% of CEOs report integrating global challenges into strategy and only 40% have linked governance and metrics to global challenges, despite their prioritization by boards and investors – clearly there is work to be done.

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“

What does addressing these global challenges look like? What I want to see as an investor is companies addressing it from a business plan perspective.

**Angela Rodell**  
CEO of the Alaska Permanent Fund Corporation



## Are you a leader or a laggard?

### Action separates corporate leaders from laggards on global challenges

Some 25% of our sample comprise the leader category, which we define as companies that have already taken at least seven of the ten key actions in our benchmark, while 28% of our sample was made up of laggards, or companies that have taken two or fewer of the defined actions. At each extreme, 12 out of 201 CEOs assert they are undertaking all 10 action steps, while four report taking none of the actions.



When it comes to acting on global challenges, leaders outperform laggards by a significant margin. On each of the 10 specific action measures, at least three-quarters or more of leaders report they are already doing the activity; laggards only exceeded 20% on one action step – linking corporate purpose to global challenges.

Of these ten steps, leaders were far more likely to have implemented the two action steps by investors and boards as important to driving internal transformation and aligning the organization to progress on global challenges:

**86%** have integrated a plan on global challenges into corporate strategy

**78%** have linked internal governance, performance measures and rewards to global challenge objectives

“Action separates corporate leaders from laggards on global challenges,” says Gil Forer, EY Global Markets Digital and Business Disruption Lead Partner, and EYQ leader. “The leaders have transformed strategy, operations and governance in response to global challenges. They have taken public positions, established global action ecosystems and exerted their influence through their value chains. Leaders recognize the global challenge growth imperative and are taking action to seize the upsides,” he adds.



## Profiles of leaders and laggards

### So, what do leaders and laggards look like?

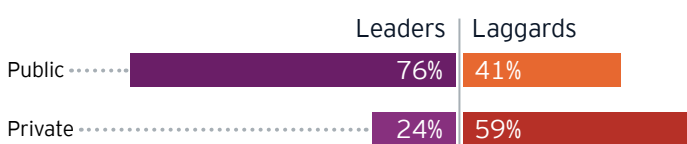
Geographically, they're similar: 68% of leaders and 61% of laggards are headquartered in Europe, the Middle East and Africa, and the Americas. Some 39% of laggards and 32% of leaders are from the Asia Pacific.

### Size matters

Larger companies appear to be held more accountable to help solve global challenges: companies with annual revenue of US\$20b or more are almost five times more likely to be leaders than laggards (34% versus 7%, respectively). Among companies with annual revenue of less than US\$5b, laggards outweigh leaders by 57% to 38%.

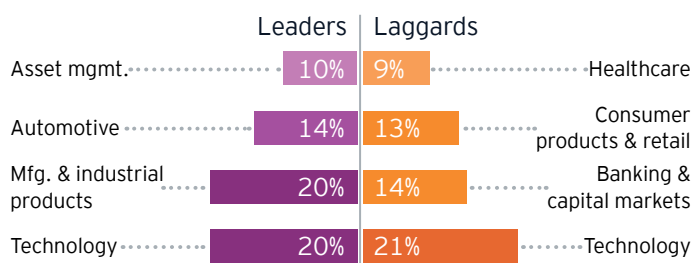
### Public companies lead the way

Similarly, public companies are three times more likely to be leaders than laggards (76% versus 24%, respectively). Laggards (59%) comprise a greater share of privately-held companies than leaders (41%), suggesting that private companies may not feel as much pressure from their external stakeholders as publicly-held entities.



### Leaders are concentrated in asset management, manufacturing, tech and automotive

From an industry perspective, laggards are concentrated in banking and capital markets; consumer products and retail, and healthcare. Leaders are more concentrated in asset management, manufacturing and industrial products and automotive. Both categories have large concentrations in the technology industry. Given recent criticism of technology's role in exacerbating social problems such as inequality and job loss, it's perhaps not surprising that technology firms are divided when it comes to understanding their role and approach to these problems.



## Characteristics of leaders on global challenges

### Leaders believe large companies have a very significant role to play in solving global challenges

How engaged should the world's largest companies be in addressing global challenges?



### Leaders take personal responsibility for assessing the global challenges they will address

CEO is most influential in assessing the risks and opportunities related to global challenges



### Leaders are more attuned to broad stakeholder influences

CEO feels high or extreme stakeholder pressure to become more active in addressing global challenges



### Leaders actively engage with their boards of directors on global challenges

Global challenges are discussed very frequently in the CEO's meetings with the board of directors



### Leaders have secured board and investor support for investments in global challenges to improve long-term business prospects even if they diminish near-term financial performance

Boards are supportive



Investors are supportive



### Leaders expect to take on an even bigger role in the future and have developed the capabilities to do so

Expect to become more active to a great/very great extent in addressing global challenges over the next five to ten years



Company is very/extremely capable of taking on a much greater role in addressing global challenges



# 3 Has your C-suite changed to reflect the changing times?

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## Transforming to a new core

The CEO Imperative research shows us that customers, investors, boards and wider society have an expectation for corporations to engage in solving the world's complex challenges and transformative changes we are facing. It is a massive opportunity for those who lead.

The leading transformative companies are redefining core assumptions of business from relevant purpose and scope of a corporation, to obsolescence of past industry sector definitions and even the basic operating assumption that building a sustainable advantage based on scale, scope and efficiency is possible to maintain. What is emerging is a new type of corporation, led by a different set of core assumptions of how business value is created.

These leading companies are built around a new core that focuses on building a dynamic competitive advantage, allowing the organization to transform itself and entire markets around it on demand and at high speed. The new core value drivers focus beyond scale, scope and efficiency and rather on:

- ▶ **People at the center:** applying human centered design and deep analytics strategically to understanding and delivering breakthrough solutions for customers, partners and employees
- ▶ **Technology at speed:** merging IT and product technology into a blended multi-tier platform that can rapidly adopt new disruptive technology open to others and on top of a secure and stable core
- ▶ **Innovation at scale:** building entrepreneurial capabilities, entirely new ecosystems and business processes to bring innovations to fully realized market and financial scale repeatedly and quickly

This shift to becoming a leader built around this new core requires more than traditional definitions of transformation programs. This is about fixing on your purpose, envisioning and exploring the future scenarios, and working in a future-back way to build your growth strategy. At EY we believe that the solution to any problem starts with how you think about the problem. It is about asking better questions, challenging core assumptions and taking bold steps as part of a transformative mindset.

With disruption raising the stakes of executive decision-making, shouldn't the corporate C-suite be optimally structured to rise to the challenge? The market demands that large companies innovate differently, embrace digital, create ecosystems and transform customer relationships at a breathtaking pace. Now there is the additional imperative for large companies and their CEOs to lead on global challenges, such as cybersecurity and the impact of technology on jobs.

Succeed, and the rewards can be exponential; fail, and irrelevance quickly follows. Most CEOs, board directors and institutional investors from the world's largest companies and institutions believe that the current C-suite model fails the test, according to the results of the CEO Imperative study.

It's time for companies to ask: is it time to rethink the C-suite model? And, more importantly, what will happen if you don't?

Beyond changing the C-suite composition, leading voices in the study call for innovative approaches: less hierarchy and more agility; new kinds of engagement with the board and other stakeholders; and cross-cutting capabilities rather than additional titles.

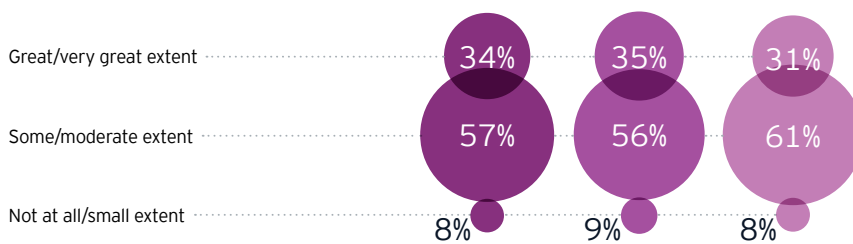
"The heat is on CEOs and their C-level teams," notes Gil Forer, EY Global Markets Digital and Business Disruption Leader, and EYQ leader, EY. "The list of imperatives – from digital, to customer, to global challenges – does not diminish, and responding successfully will require C-suites to undergo substantial change."

## C-suite model not suited to the demands of the next decade

Born of management practices established in the post-War period, the current C-suite model is a legacy of a much different time. In 1964, the average tenure of a company on the S&P 500 was 33 years\*; today, it is 22 years and forecast to decline to 12 years by 2027.\*

As global CEOs, board directors and institutional investors consider the imperatives of the next decade, they reach remarkably similar conclusions: the legacy C-suite model is not well-suited address them. Two-thirds of study participants say that the current C-suite is at best only moderately suited to the challenges and opportunities they anticipate.

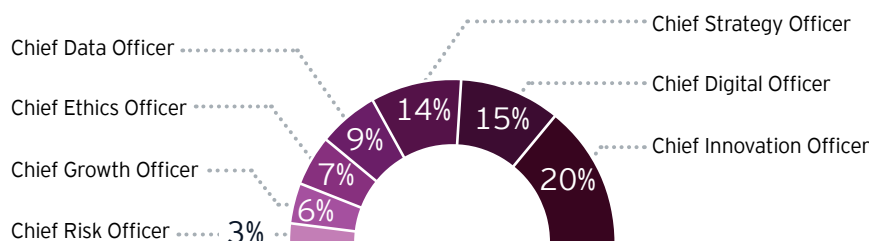
**Q** Is the C-suite model that has developed over the past decades well-suited to the demands and opportunities of the next decade?



## Rapid change in the C-suite

Over the years, C-suite change came mainly in the form of companies adding new roles to address new market challenges. As the study shows, this practice continues apace – 82% of CEOs report adding a C-level position in the last five years. The reported additions indicate the business issues which have become C-suite priorities, with chief innovation officer, chief digital officer and chief strategy officer in the top spots.

### CEOs – C-suite positions added in the last five years



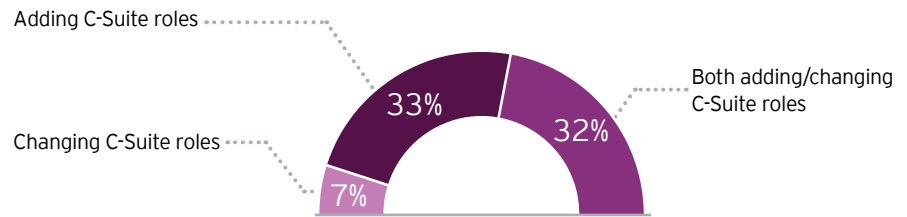
\* Source: [Innosight, Corporate Longevity forecast and report 2018.](#)



## More C-suite change is on the way

**Q** Are you currently considering changing or adding C-Suites roles?

More change to the composition of the C-suite is on the way as companies grapple with fast-emerging new imperatives – almost three quarters (72%) of CEOs in the study say they are currently considering changing or adding C-suite roles.

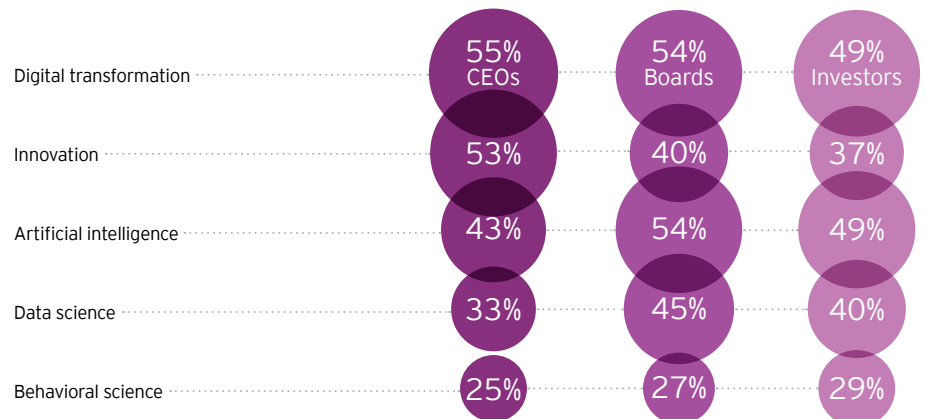


Looking ahead to the next five to 10 years, survey participants identified a set of new C-suite capabilities that will be critical to continued growth. Chief among these are digital transformation, artificial intelligence, innovation, data science and behavioral science.

CEOs emphasize innovation more than board directors and investors, who in turn have a greater focus on capabilities in data science.

Behavioral science is increasingly recognized as an important capability needed to improve customer experience and product adoption.

### Key new C-suite capabilities, next 5-10 years



## New challenges for the CEO

Participants noted that these new capability requirements make the CEOs job even harder. Chief executives must have expertise in many areas that were not formerly in the realm of their expected competencies. They also must be able to develop and access a broader ecosystem – bring the outside in – to fill knowledge and capability gaps. And they must surround themselves with people who bring all kinds of diversity to ensure more innovative outcomes.

“Gone are the days of Peter Drucker and the belief that anybody can be a CEO of any company,” says Surya N. Mohapatra, former CEO of Quest Diagnostics, and independent director at Xylem Inc. and Leidos. “In the time of the Fourth Industrial Revolution, where technology and expertise matter, you have to have industry experts or sector experts to move really quickly. The next CEO, apart from having the qualities like integrity and high values, has to be a subject matter expert,” he adds.

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## New approaches to C-suite transformation

The question is, is remixing the C-suite composition the best way to respond to fast-changing markets? The study participants suggest that other kinds of changes to the C-suite model are needed to thrive in the next decade.

### Less hierarchy; multi-stakeholders

"It can no longer be just about the CEO," says Mohapatra. "Boards are going to get more and more involved in talking to investors, and with the CEO and the management. As a result, the C-suite is going to become at a minimum a hybrid C-and-B-suite. But eventually it will become a multi-stakeholder suite where the investor has a say, the customer has a say, along with the board and CEO. You may have a rotational CEO."

Ute Gerbault, partner at Bankhaus Lampe, and independent board member of RWE, also sees change coming. "The very hierarchical C-suite is going away, even in traditional family-owned companies. Management is becoming more transparent, more in communication with people. It is more about a shared purpose."

### Greater agility; breaking silos

"In some cases, I'm not sure that the traditional structure of the C-suite is best suited for the future," says Jim Kavanaugh, CEO, World Wide Technology. "If the decision-making process is too slow and cumbersome, that could be problematic for organizations. As the market continues to move, organizations need to make sure that they have the right level of governance and structure in place that's tied to a more agile, nimble and creative organization."

Abdul Aziz Al Ghurair, CEO of Mashreq Bank, says "the way organizations are run should change dramatically because we are still driven on silo. Being agile means that you put the product, the sales, the marketing, the operation, the risk and the technology as one group."

Al Ghurair warns that "there will be a lot of resistance from within the organization because it just destroys all the organization's structure that you have, and you rebuild it all over again. And in this process, you may even need a different caliber of people, because some people may not be fit to run that new role. People are scared of these changes."

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## How well suited is your C-suite?

Given the increasingly high stakes of executive decision-making, now is the time for business leaders to assess their C-suite in light of the challenges and opportunities likely to present themselves over the next decade, whether digital transformation, addressing global challenges or the disruptive effects of emerging technologies.

"Amidst the upheavals rewriting the rules of business strategy, yesterday's leadership model isn't likely to work tomorrow," observes Michael Kanazawa, EY Global Innovation Realized Leader. "CEOs and their C-level teams must broaden their horizons, looking beyond current market drivers to capture a fuller, more dynamic picture of what a less obvious future may hold. C-suites must develop the governance and agility to innovate nimbly against this intentional view of the future."

C-suites must become less hierarchical, more agile and considerate of a broader set of stakeholders to deliver growth in the face of new business imperatives, whether to embrace digital, innovate differently or lead on a growing set of global challenges that threaten business growth and the global economy. The stakes for executive decision-making have never been higher: succeed, and the rewards can be exponential; fail, and irrelevance quickly follows.



# Five imperatives for action on global challenges

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Corporate and CEO leadership on global challenges is the new growth imperative. An action agenda must drive toward organizational transformation, including a new CEO role and a C-suite structure responsive to the demands of the future. Here are five imperatives for action on global challenges:

## 1 Identify your global challenges and authentic response

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- ▶ Identify the global challenges most important to the long-term success of your organization and to the stakeholders in the markets you serve.
- ▶ Assess how you are exacerbating global challenges, whether directly or indirectly. Ask: Do we own our externalities?
- ▶ Determine where you can make the most impact with your resources and through your broader business ecosystem. How can you embed your commitment to addressing global challenges throughout your larger value chain (e.g., customers, suppliers and partners)?
- ▶ Benchmark yourself – are you a leader or a laggard? Measure and address your capability gaps.

## 2 Align the C-suite, board and investors to a point of view and action plan on global challenges

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- ▶ Develop a view on the level of stakeholder pressure on your company and which stakeholders are most pressuring. Do the C-suite, board and investors perceive stakeholder pressure differently?
- ▶ Take stock of the balance of opportunity and risk in action or inaction on global challenges. What are the opportunities to deepen customer, employee and prospective talent relationships?
- ▶ Explore the opportunity to attract new and different kinds of investors through a focus on global challenges.

## 3 Make a transformational change: Embed global challenges in your purpose, strategy, operations and success metrics

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- ▶ Link corporate purpose to global challenges. Activate purpose so that the company's culture and operations reflect its stance and objectives on global challenges – i.e., move from “doing” to “being”.
- ▶ Integrate into corporate strategy a short- and long-term view on the risks, opportunities and organizational response related to global challenges.
- ▶ Incorporate future-back planning into your corporate strategy process that embeds global challenges, megatrends and disruptive innovation potential into the approach.
- ▶ Determine how you will you express commitment to solving global challenges from an operational standpoint (e.g., innovation investments, products and services, brand positions, supply chain, workforce practices and composition, etc.).
- ▶ Select and develop metrics and narrative to express the long-term value of corporate actions to address global challenges.

## 4 Define how the CEO role will change to lead on global challenges

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- ▶ Envision what new types of activities and responsibilities will you have to undertake in your CEO role. What skills and attributes are required to succeed?
- ▶ Cultivate board, investor and other stakeholder support for the global challenges on which you want to make a difference. What are the “rules of engagement” for addressing potentially politically-sensitive issues?
- ▶ Consider whether your succession planning needs to change, given the new requirements of the CEO role.

## 5 Use a future-back process to reshape C-suite structure, governance and capabilities

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Reassessing the C-suite must go beyond roles and responsibilities and consider more fundamental issues of hierarchy, agility and organizational silos. The C-suite structure must reflect a point of view on possible futures, including global challenges, megatrends and disruptive innovation. Key questions to consider include:

- ▶ What new C-suite capabilities must be acquired to ensure continued growth? Does adding new C-level roles represent the best way to acquire them?
- ▶ How well does the size, structure and governance of your C-level team support agile decision-making that keeps pace with market change?
- ▶ Do your C-level roles break silos or contribute to them?
- ▶ How will we embrace the demands of a broader set of stakeholders to have visibility and input into corporate decision-making?
- ▶ What expertise will be critical for the CEO to possess? How can we bolster the CEO role with diverse, outside-in perspectives?

# Population: Forbes Global 2000 and Forbes Largest Private Companies

## 200 global CEOs

CEO geography

37% Asia-Pacific

35% Americas

28% EMEA

72% Male

28% Female

66% Public

34% Private

Company revenues

\$20b or more ..... 21% 37% ..... \$5b to \$9.99b

\$10b to \$19.9b ..... 34% 8% ..... \$1b to \$4.99b

## 100 independent directors

Board HQ geography

40% Asia-Pacific

35% Americas

25% EMEA

83% Male

17% Female

67% Public

33% Private

Company revenues

\$20b or more ..... 19% 28% ..... \$5b to \$9.99b

\$10b to \$19.9b ..... 23% 30% ..... \$1b to \$4.99b

## 100 senior institutional investors

Investor HQ geography

42% Asia-Pacific

36% Americas

22% EMEA

75% Male

25% Female

Investor AUM

\$500b or more ..... 20%

\$200b to \$499b ..... 40% 40% ..... \$100b to \$199b

Forbes Insight conducted the fieldwork between January and April 2019.

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## For more information, please contact:

### Gil Forer

EY Global Markets Digital and  
Business Disruption Lead Partner,  
and EYQ Leader  
gil.forer@ey.com

### John de Yonge

Director, EYQ  
john.de\_yonge@ey.com

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