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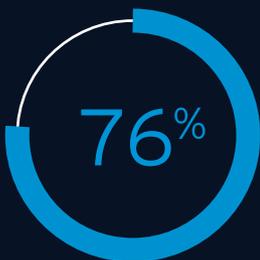
How companies can rewire strategy development to thrive amid change

As businesses look beyond the COVID-19 crisis, yesterday's rules for developing long-term strategy no longer apply. C-suite executives are being forced to adjust strategies more often, and the global pandemic has amplified this need. Businesses want to self-disrupt before competitors disrupt them, and the executive group in charge of implementing strategy is expanding with new roles, such as Chief Growth Officer, Chief Transformation Officer and Chief Sustainability Officer.

At the same time, strategy now needs to focus on all stakeholders – not just shareholders. Competitors also need to be considered as potential partners to thrive in an uncertain future.

All of these forces are changing the way companies formulate and execute strategy. The new EY Realizing Strategy survey of 1,000 CEOs, CFOs and other C-suite executives on the future of strategy formulation shows how.

Among the key findings from the EY Realizing Strategy survey:



indicate that COVID-19 will impact, or even cause them to pivot, their organizations' medium- to long-term strategy, and 12% say it will cause them to look to new sectors to succeed.



believe that the biggest competitive threat in the next three years will come from a company outside their current sector.



indicate that customers are as important as, or more important than, shareholders when formulating strategy, and 69% say the same for employees relative to shareholders.



who added the roles of Chief Growth Officer, Chief Transformation Officer or Chief Sustainability Officer in the last five years say that those positions substantially influence strategy.

Going forward, executives will likely need to understand the broader set of stakeholders that influence strategy, embrace an ecosystem and competitive landscape that is evolving rapidly, incorporate new C-suite roles that are now influencing strategy, and rewire the organization to increase speed and agility to stay in tune with strategy changes.



We recommend four ways companies can rewire strategy development to thrive amid change:

01 Widen your focus from shareholders to stakeholders

Executives in our survey made clear that what was once a laser focus on shareholder returns is widening, with customers, employees, suppliers and society at large – through environmental and social goals – gaining in importance.

Exactly who is more important varies by sector. In consumer products and retail, 58% indicate that customers are more important than shareholders. Regulatory stakeholders are as important as, or more important than, shareholders in financial services, according to 78% of executives. Meanwhile, 70% of energy and natural resources executives

see suppliers as being as important as, or more important than, shareholders. Understanding the different stakeholders in their sector can be key for setting the overall strategy.

This is not to say that shareholder returns are unimportant. In fact, serving the needs of all key stakeholders will likely improve financial performance. If that all-encompassing strategy resonates with your shareholders, the market could respond favorably.

What executives can do: To effectively compete and innovate today, companies may need to understand the totality of their ecosystem, identify the stakeholders on whom to focus and emphasize a total stakeholder return set of metrics to maximize enterprise value.



02 Embrace your changing ecosystem and “co-opetition”

Over the past several years, technology changes have meant that many sectors have seen threats come not from the known group of competitors, but rather from those outside the industry or from startups that have fewer barriers to entry. This includes the impact of a new entrant in the financial services sector offering securities trading at no fees and a technology company creating personalized styling based on algorithms to disrupt the retail clothing industry.

Future competition may come from everywhere, and anywhere. In our survey, 67% indicate that the biggest competitive threat will come from a nontraditional competitor. Understanding who your true competitors are and taking a systematic look at your industry position and at which industry boundaries are under attack can be key ways to identify areas for growth and potential partners or acquisition targets.

After this analysis, it may become clear how a spirit of “co-opetition” – working with traditional competitors in some cases to fill in market, product or technology gaps – can benefit both organizations. Today, 97% of executives indicate that they are likely to partner with competitors: 56% of them indicate that they would be most likely to do so to overcome traditional barriers, such as capital requirements, regulatory requirements and supply chain optimization. Meanwhile, 43% indicate that they would do so to enter new markets.

Top-tier companies can create value beyond their organizational boundaries by developing a trusted brand that entices partners. They evolve from being a company to becoming a central part of an ecosystem; and they actively manage that ecosystem, encouraging collaboration and co-innovation with their partners.

What executives can do: To harness disruption and avoid being disrupted, companies can build real-time, dynamic analytics for strategic planning that better predict disruption; build a repertoire of playbooks to boost ROI from all types of partnerships and transactions; and redesign critical processes to maximize the value from their ecosystem.

03 Widen the decision-making tent

Executing a more effective strategy involves empowering more people with varied expertise to contribute. The CEO and Chief Strategy Officer are traditionally charged with formulating strategy. But executives now indicate that a broader group is joining them, including the Chief Growth Officer, Chief Transformation Officer and Chief Sustainability Officer. This may be a sign of the pace of change and the importance of nonfinancial measures, such as environmental and regulatory factors, in a company's market value.

Meanwhile, with digitization being a key competitive factor in all industries, it's not surprising that the Chief Technology Officer is becoming more involved in developing strategy: 72% of executives indicate that the CTO/Chief Information

Officer has a moderate to substantial role in formulating enterprise strategy.

And 75% of executives indicate that the board has significant influence on strategy formation, a figure that increases to 81% at high-performing companies. According to the survey, many companies prefer board members with experience in adjacent markets as an operator or in regulatory or tax matters.

What executives can do: Today's world requires a wider array of experience; companies may need to not only create new positions at the C-suite level to serve the variety of stakeholders, they also may need to give these executives a real say in how strategy is developed.



04 Move at the speed of thought

Not enough companies can adapt to quickly changing circumstances. Executing strategy going forward entails an organization that can adapt and move at the speed of how strategy evolves. Executives recognize this: about 40% indicate that they plan to implement agile practices, build a culture of innovation and engage in more inorganic transactions in the next three years.

Companies also recognize the need to change core processes to move at the speed of strategy. In fact, 67% of executives indicate that they need to change their entire capital allocation process, and 63% see the need to change how they budget. Companies may need to assess both internal and external opportunities with a consistent and data-based framework that aligns with their strategic goals.

Eight key actions for reimagining and realizing your long-term strategy

- 1 Understand the totality of your ecosystem to effectively compete and innovate
- 2 Focus on total stakeholder return, not just shareholder return, to enhance enterprise value
- 3 Build real-time, dynamic analytics for strategic planning that better preempts disruption
- 4 Inject agility in your organization's DNA to increase adaptability
- 5 Build a repertoire of playbooks to boost ROI from all types of partnerships and transactions
- 6 Redesign key processes, such as risk management, internal controls, legal and compliance, to enhance the value from your ecosystem
- 7 Align the digital strategy with the enterprise strategy to unlock the full potential
- 8 Redesign the capital allocation process to augment swifter capital redeployment



What executives can do: Companies may need to inject agility in the organization's DNA to increase adaptability. At the same time, they can redesign the capital allocation process to enable swifter capital redeployment. This process, enhanced by dynamic analytics, can help enable effective management of the ecosystem.



Conclusion

To maintain a competitive advantage, companies can redefine their objectives with a focus on a broader group of stakeholders; understand where competitive threats will come from; and collaborate, even with competitors, to develop a value enhancing ecosystem. They may also need to adjust core internal processes and bring together a larger set of executives (and the board) to develop strategy and oversee its implementation.

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