

Is your strategy set for take-off?

Four keys to broader, bolder thinking for leading your organization's post-pandemic recovery.

Strategy realized



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Do you have a visionary strategy, or just strategic vision?



The emergence from the COVID-19 pandemic presents an opportunity for leaders to push their organizations toward capturing emerging growth opportunities and strengthening their competitive position. But it takes more than just a clearly defined strategy; it requires the courage to reframe the whole enterprise to look beyond the pandemic with clear ambitions to drive long-term value.

Sometimes the best way out of a short-term crisis is to plan for the long-term.

While the pandemic has had impact across the board, not all companies have been hit in the same way or at the same time.

Companies in certain sectors have experienced an existential crisis during COVID-19 and have been unable to do anything other than focus on survival – CEOs in the airline industry, for example, can only mitigate the impact of travel restrictions. However, CEOs in many other sectors have not only been able to mitigate threats but also manage the next phase of their transformation.

The most forward-thinking of these CEOs are looking beyond the scrutiny of quarter-to-quarter performance reporting.

Using a technique called latent class regression, an analysis of more than 1,000 CEO respondents to the latest EY *Global*

Capital Confidence Barometer finds a small group of CEOs embracing new practices to redefine forward-thinking corporate strategies. This “value visionaries” cohort makes up 13% of CEOs: a group viewing the COVID-19 pandemic as a wake-up call, fueling their bold growth ambitions. Most surprisingly this is not driven simply by the industry the companies operate in. There are value visionaries in each industry and across geographies.

The remaining 87% are what are categorized as “pragmatists” – leaders who recognize the need to re-orient for a post-COVID-19 business landscape but have not yet fully committed to bolder action plans.

Respondents were assessed based on three dimensions of their focus on long-term value creation: CEOs’ intentions to invest in the near- and long-term; their wider stakeholder engagement strategy; and the company’s experience of the pandemic.



This analysis identified four attributes shared by high-performing CEOs when it comes to building sustainable growth:

- 1** A transformation imperative, which is crucial to positioning for growth in a post-pandemic world
- 2** A deal-making mindset, to accelerate strategic transformation
- 3** A vision of the future, to bridge the gap between short-term financial pressures and long-term value creation; building robust and resilient value chains that view globalization as more than just a short-term cost reduction opportunity
- 4** A desire to convene minds, engaging multiple stakeholder groups to accelerate transformation, and securing support from key shareholders on that journey

Add to all of this the need to continue building resilience across the company's operations, and it's easy to see why the CEO role is only becoming more complex – and consequential. This article, as part of our *CEO Imperative* series, seeks to provide critical answers and actions to help your organization reframe its future.

Visionary attribute 1: embrace transformation as a strategic differentiator

The vast majority of CEOs (89%) in the survey undertook a strategy and portfolio review in 2020, most triggered by the pandemic. Yet for the two types of emerging leaders identified via three differentiating factors – investment intentions, commitment to long-term value creation and stakeholder engagement – the scale of ambition and speed to react differed greatly, despite consensus on the imperative for transformation.

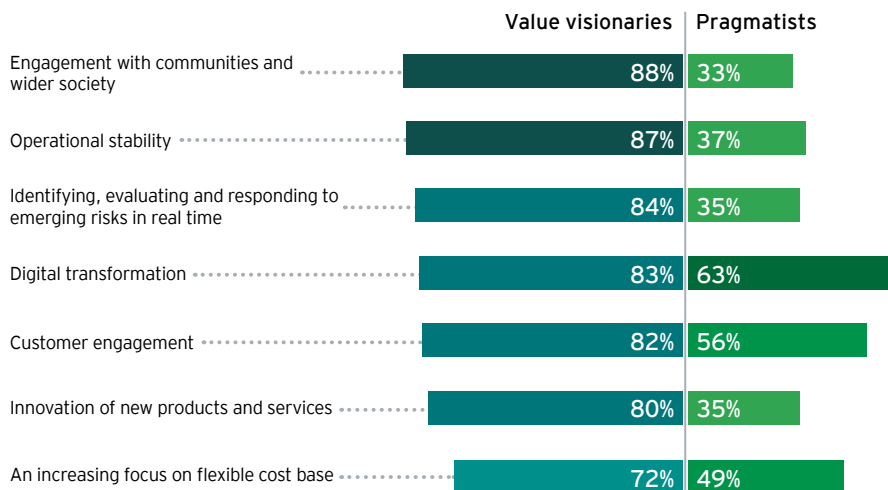
Almost three-quarters of the relatively small number of value visionaries intend to make significant investments in technology, while more than 80% plan for a big change in products or services. Almost half are looking to transform through transactions and plan an acquisition. There's also a heightened focus on investment strategies centered around innovation, customer engagement and a broader societal view.

Most of the pragmatist cohort have a desire to transform. But there's a degree of inertia and a more reactive focus on costs, which may limit their ability to realize their strategic vision. However, not all companies and sectors are in a position to look beyond controlling costs as their primary consideration.

And for some other CEOs and companies, the pandemic has created such an existential threat to their business and operating model that their focus is on purely surviving. Their transformation is critical but will take a different path as they completely re-engineer their strategic, operational and financial bases.

Value visionaries are using the pandemic as a growth accelerant.

Q How has the COVID-19 pandemic impacted your strategic focus and investment in the following areas?

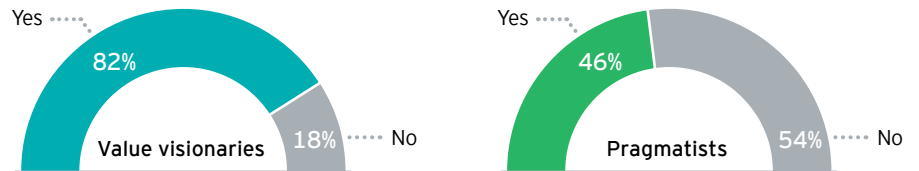


Visionary attribute 2: enhance transformation through M&A

The second half of 2020 was the strongest on record for M&A, with total deal value more than doubling between the first and second half of the year. Conditions for dealmaking remain supportive, with low interest rates, accommodative capital markets and abundant private capital. More than half of all CEOs surveyed (51%) expect to pursue acquisitions in the next 12 months, but the M&A imperative is even stronger among value visionaries – the vast majority of whom see M&A as the fastest route to transformation.

Value visionaries are more focused on M&A as the fastest route to transformation.

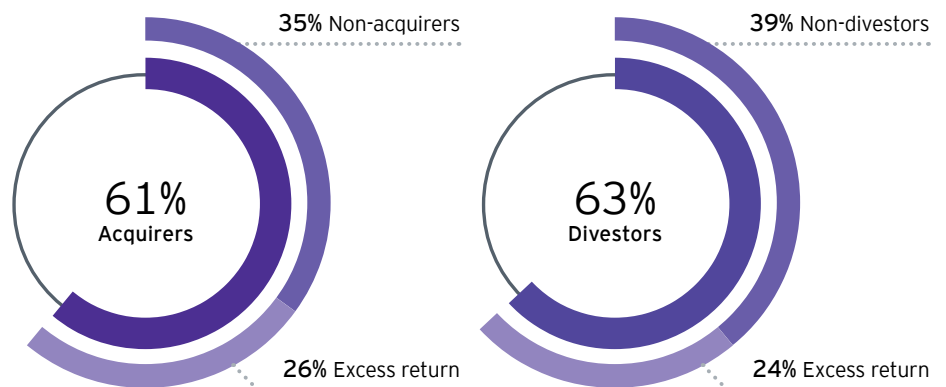
Q Do you expect your company to actively pursue M&A in the next 12 months?



The recovery period after the global financial crisis (GFC) clearly demonstrated M&A's role as a catalyst for faster growth. The deal market stalled, but companies that invested their way out of that crisis reaped demonstrably stronger performance rewards. Our value visionaries have learned from the past while planning for their future.

Post-GFC transactors (acquirers and divestors) had a ~25% increase in total shareholder return (TSR) over non-transactors.¹

Median change in TSR (2010-18) of transactors vs. non-transactors (deals in 2008-10)*



CEOs need to weigh the speed at which transformation is required. In many cases, buying capabilities is quicker, but the speed at which acquired assets, employees, technology and IP are integrated needs to be finely balanced.

*Company TSR adjusted for currency and benchmarked against global sector indices to calculate excess returns. Source: EY analysis and S&P Capital IQ

1. 354 companies with a market capitalization greater than US\$1b located in Europe and North America from the life sciences, consumer and industrials sectors. Company TSR adjusted for currency and benchmarked against global sector indices to calculate excess returns.

Visionary attribute 3: look further forward to create sustainable value

The debate about prioritizing short-term financial performance or long-term value creation has been raging for over a century. More recently, it has intensified, driven by the challenge of several short-term financial pressures.

In 1919, the Michigan Supreme Court held that Henry Ford had to operate Ford Motor Company in the interests of its shareholders, rather than for the benefit of his employees or other stakeholder groups. This case has been often cited as the main support for the idea of “shareholder supremacy” in the US and elsewhere. Milton Friedman’s work on shareholder theory in the 1970s cemented the idea that shareholders should be considered more important than other stakeholder groups.

However, this created the potential conflict between generating short-term financial returns for shareholders and creating longer-term value for all stakeholder groups.

First, the growing base of investors with a limited length of share ownership creates pressure on boards to focus on the short-term share price. Second, the continued emphasis on short-term disclosures within listed companies, including quarterly returns and earnings guidance, tends to reinforce the focus on the near-term. Third, how CEO success is measured, by linking executive remuneration to short-term financial or market metrics, reinforces a focus on quarter-by-quarter or year-by-year performance.

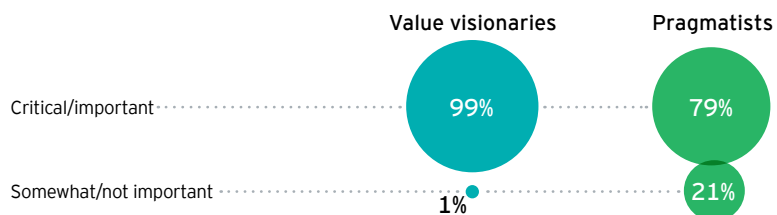
But times are changing.

The debate about the role of business in society has progressed, as has the realization that some transformation programs, especially the shift to become net-carbon neutral, have a longer horizon than the next fiscal quarter or year. Leaders almost universally recognize the need to have a broader story to tell stakeholders around long-term value creation: among value visionaries, 99% regard it as critical or important; among pragmatists 79%.

Value visionaries have managed to square this circle. Focusing on the longer-term does not need to be at the expense of short-term gains. Continually assessing relative performance, the evolving competitive landscape, and being aware of changes in the wider business environment are enabling these CEOs to more successfully navigate the impact of the pandemic. They now look to emerge from it faster and stronger.

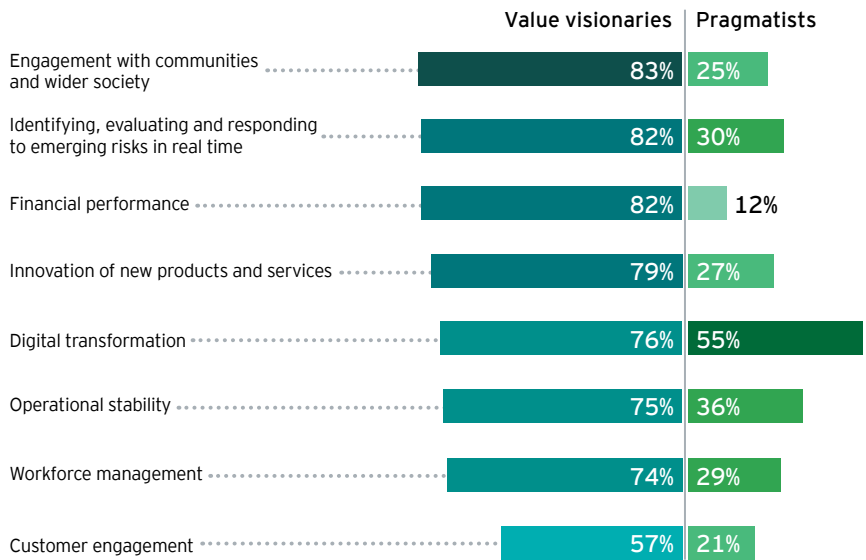
Value visionaries understand the need to articulate a broader narrative about long-term value creation to all stakeholder groups.

Q How important is it that companies have a broader narrative to articulate to all stakeholders around long-term value creation?



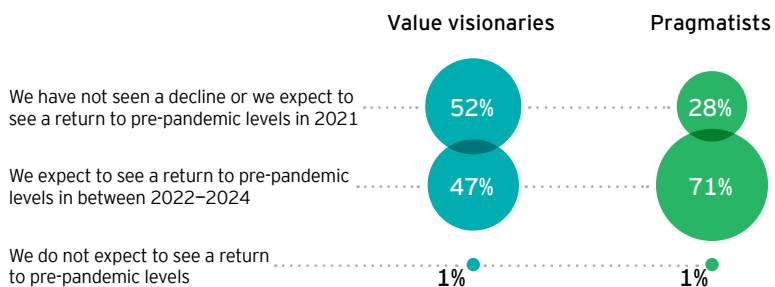
Q How do you believe your company has performed during the COVID-19 pandemic relative to your competitors?

Value visionaries have outperformed their competitors during the pandemic.



Q If your company has seen a significant decline in revenue or profitability due to the COVID-19 pandemic, when do you expect to see a return to pre-pandemic levels?

Pragmatists anticipate a slower return to pre-pandemic profitability.



This desire to continually transform, or be ready to, is often referred to as being agile. But this relative overperformance is more about taking a more holistic view of the business: engaging with customers, suppliers and ecosystem partners in a more collaborative manner.

This area of comprehensive stakeholder engagement is one where pragmatists significantly underperform value visionaries on the journey toward creating sustainable long-term value, despite understanding many of the same issues (see also attribute 4).

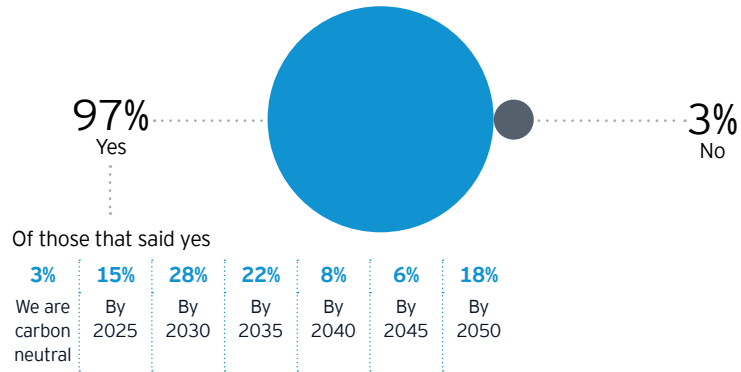
One area where there is a growing consensus of agreement between CEOs across the board is the need to embrace the climate emergency and move toward becoming net-carbon neutral organizations. The pandemic has created a near-term crisis, but there is a growing recognition that issues related to climate could be even more of a threat in the long-term.

For some time, a key issue facing corporate leaders has been pressure from stakeholders to set strict carbon-neutral targets. Major investors have highlighted the shift to investment focus on environmental, social and corporate governance (ESG). Employees have been increasingly pressing corporate leaders to set more ambitious targets. Perhaps most importantly, customers were saying they prefer to buy from companies aligned with their own environmental agendas.

Most countries have declared a target date for achieving net carbon neutrality by 2050. Some are more ambitious, such as Finland (2035²) and Austria (2040³), but the consensus is it will be the middle of this century before the objective is achieved.

Companies are looking to lead the way to net-carbon neutrality.

Q Does your company have a target to become carbon neutral?



However, many CEOs are setting even more ambitious targets. They are looking to beat national government ambitions to be net-carbon neutral before that mid-century cutoff.

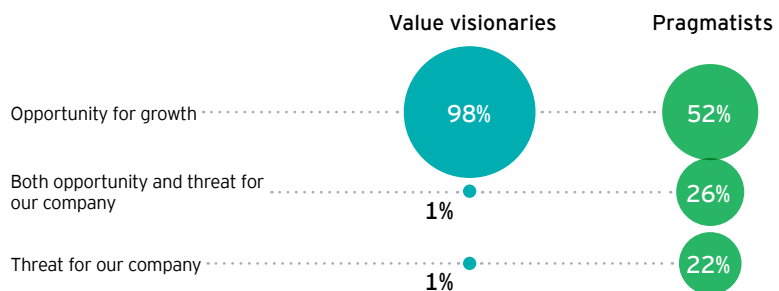
Companies are also looking to anchor their values toward creating long-term sustainable value. Today, societies demand greater responsibility from the organizations they work for, buy from and invest in. The pandemic shines an even brighter spotlight on how organizations behave.

Capital and talent will shift from organizations only creating value for shareholders to those creating value in the long term, across a broader group of stakeholders including employees, consumers, society and shareholders.

The past year has shown that agile companies are able to pivot quicker as circumstances change. As the demands of stakeholders in combating climate change accelerate, leading CEOs could become powerful advocates. They will accelerate their own actions, build even deeper coalitions for change and involve all partners in their ecosystems.

Value visionaries see growth opportunities from the transition to new ways of operating as a business.

Q Do you agree that societal and environmental changes may critically impact your company and, if so, do you see these changes more as an opportunity for growth or as a threat?



Value visionaries are also much more positive about the opportunities that societal and environmental changes may bring to their company, seeing the chance to engage externally and position for growth. Pragmatists view the perceived impact of these changes in a more nuanced manner, with some perceiving it as a threat to growth.

2. Finland will achieve carbon neutrality by 2035; <https://sustainabledevelopment.un.org/partnership/?p=33186>.

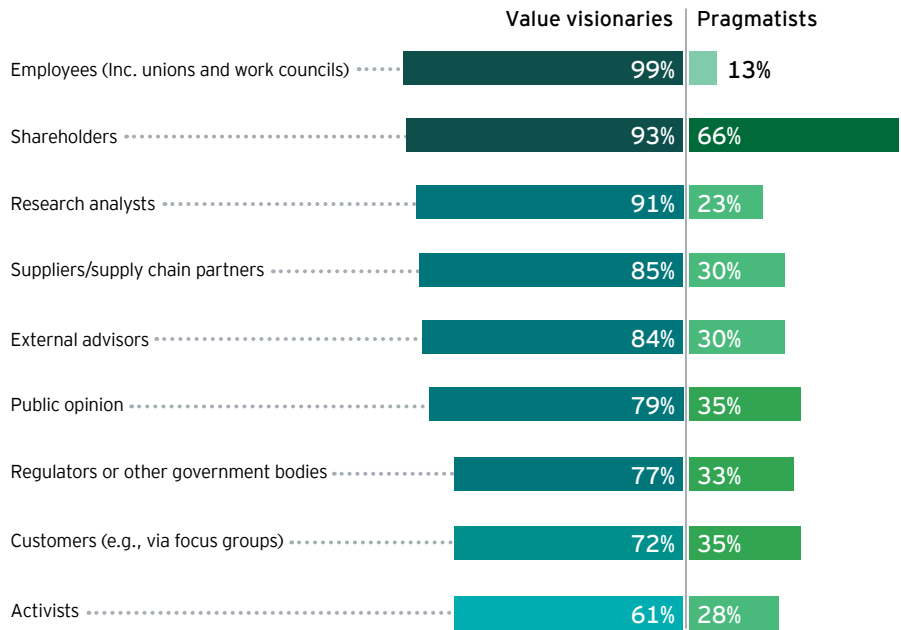
3. Austria's new government sets goal to be carbon neutral by 2040; <https://www.dw.com/en/austrias-new-government-sets-goal-to-be-carbon-neutral-by-2040/a-51870072>.

Visionary attribute 4: be open to ideas from all angles

Leading value visionary CEOs ensure all stakeholder groups are considered with the development of and alignment to the company's strategy and purpose. With employees and partners in the ecosystem, there is an element of permanence, compared with the more temporary or transactional relationship with shareholders and customers. As with building any coalition, the idea is to make it as cohesive, comprehensive and durable as possible.

Value visionaries are influenced by a broader range of stakeholder groups.

Q Which groups outside of the C-suite have influence on your strategy reviews?



As business and society look to the world beyond the COVID-19 pandemic, CEOs need to have the mandate from all stakeholder groups to activate their company's journey toward long-term sustainable growth.

This is not replacing the focus on profit – it is shifting the attention to broader definitions of value.

As a new set of demands from employees, customers, regulators, governments, wider society and shareholders continues to emerge, CEOs need to understand the changing influences on their sector and company and respond by making their operations more resilient, agile and digital.

Value visionary CEOs understand that they also need the right partners at the board level to help them activate this change. Companies are likely to need to actively refresh and change the skills profile of board members to deliver on their long-term value strategies.

Ultimately, the broader demands upon CEOs are not going away – they will only intensify. Anticipating those requirements and aligning business objectives accordingly will enable companies to mitigate challenges and maximize opportunities.

1 Embrace transformation as a strategic differentiator

As industry landscapes shift and customer demands change driven by technology, digital and stakeholder pressures, CEOs will look to become comfortable with continuous transformation and reward innovation and positive behavioral changes within the business.

2 Enhance transformation through dealmaking

With the pace of change accelerating, acquiring the capabilities to position for growth may be the best and quickest route to becoming the business best suited for the changed landscape beyond the pandemic.

3 Look further forward to create sustainable value

CEOs who are looking through a variety of lenses short-, medium- and long-term will unlock a path to creating a sustainable business and being able to deliver value to all stakeholders.

4 Be open to ideas from all angles

CEOs who are engaging all stakeholder groups in strategic discussions and decision-making will not only surface a wider range of options, it also ensures that all vested parties are on board and pulling in the same direction.

What kind of CEO are you?

Our *CEO Imperative* and *Capital Confidence Barometer* studies look at now, next and beyond the pandemic to how leaders can reframe the future of their organizations.

Where was your company when COVID-19 struck? It's tempting to assume strategy, in the broadest sense, mattered little in the past 12 months. After all, extraordinarily well-run organizations overnight found markets had disappeared, while a rising tide in other sectors lifted all boats. Yet our research into how companies weathered the short-term impact of the pandemic, are now navigating the medium-term, and where that leaves them in the long-term reveals a universal truth: leadership matters.

Our *CEO Imperative* study finds the performance of companies is highly correlated with their trajectory before the pandemic. Thrivers (34% of organizations surveyed) were growing before the crisis and are leaning into this pivotal moment, accelerating their existing transformation agenda. Survivors (32%) were already experiencing declining revenue, will keep seeing flat or declining growth over the next three years, and are slowing their transformation priorities. Between them are maintainers (34%), which are companies more likely to have had low or flat growth before the pandemic and whose growth will remain flat or grow moderately over the next three years.

So, where's your company? And which kind of CEO are you? Where you are today isn't necessarily where you'll be tomorrow. But our research shows the importance of moving from intention to execution, and closing the key capability gaps to acquire the DNA of the future enterprise: one built around human-centered transformations that increase ability and innovation while driving long-term value.



About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

- ▶ From November 2020 until January 2021, Thought Leadership Consulting surveyed on behalf of the global EY organization a panel of more than 2,400 executives in 52 countries; 82% were CEOs, CFOs and other C-suite-level executives. Using a technique called “latent class regression,” an analysis of the more than 1,000 CEO respondents found two groups of CEO leaders: “value visionaries” (13%) and “pragmatists” (87%) – seeking to balance short-term financial performance with long-term value creation.
- ▶ Global respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.
- ▶ Surveyed companies' annual global revenues were as follows: less than US\$500m (25%), US\$500m-US\$999.9m (26%), US\$1b-US\$4.9b (25%) and greater than US\$5b (24%).
- ▶ Global company ownership was as follows: publicly listed (60%), privately held (40%).

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