

Are you ready to  
reframe operations  
for resilience and  
sustainability?



The better the question. The better the answer.  
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Building a better  
working world

# COOs navigating the complexities of a changed and volatile world are rebuilding their operations from the ground up to thrive in the future.

Until recently chief operating officers (COOs) have focused primarily on fine-tuning the value chain for speed to market, efficiency and profitability. But the world has changed – at first gradually and now suddenly.

Over the last several years, empowered consumers, employees and investors; climate change; geopolitics; and technology innovations have disrupted organizations, pushing them to change how they operate. Over the last 18 months, the COVID-19 pandemic turned that slow push into a giant, forceful shove. And COOs have had to figure out on the fly how to operate in this changed environment.

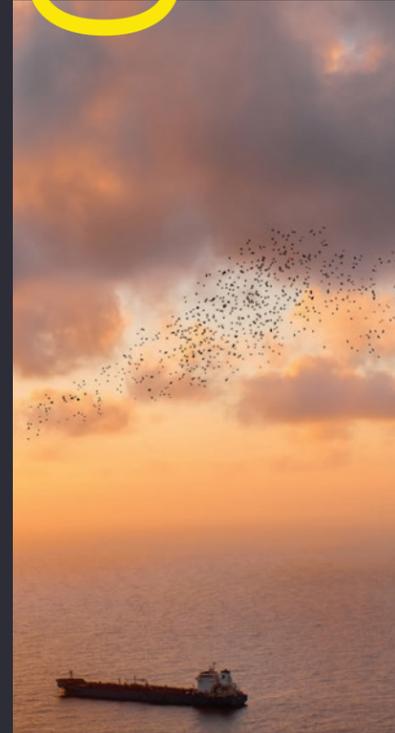
Organizations may still be making similar products and services, but everything about how these products and services are designed, manufactured and delivered to customers is different. This shift is forcing COOs to reimagine their supply chains for agility and sustainability as much as optimization.

Across the enterprise, technology innovations are helping COOs transform how the business operates to meet multiple, simultaneous demands from a range of stakeholders – and increasing the chances of cyber infection. Reskilling and upskilling the workforce can help accelerate digital transformations and address cyber risks. All of this is happening in the context of economic and techno nationalism.

To help COOs determine where to start and how best to navigate operational resilience and sustainability, we break these action items down in three e-books.



# 01



### E-book 1

#### Setting a course for sustainable and resilient operations

As COOs navigate this increasingly complex and volatile world, they need to cast their gaze across the entire value chain as they seek to reframe their future for operational resilience and sustainability.

Current book

# 02



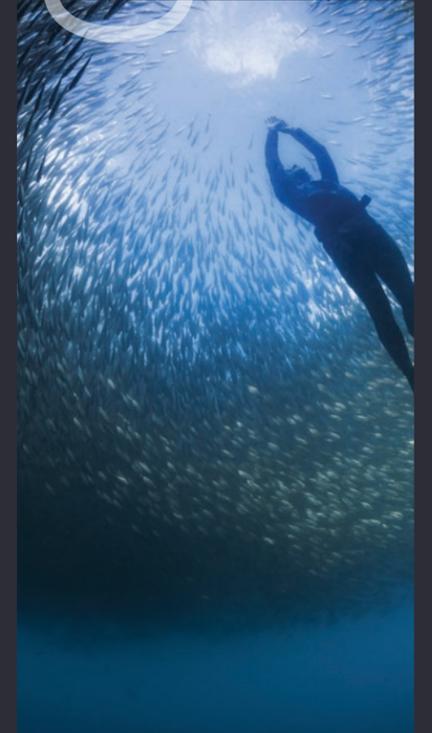
### E-book 2

#### Mapping a sustainable future

Increasing pressure from consumers, employees, investors, governments and regulators is pushing COOs to consider the future of their operations in the dual context of what's best for the business, society and the planet.

Request document

# 03



### E-book 3

#### Building resilience to move full speed ahead

After a year of disruption, organizations need to transform to build resilience for themselves, for their teams and across the enterprise to improve agility and the ability to pivot at speed.

Request document

Setting a course for sustainable and resilient operations

# The COVID-19 pandemic continues to upend the world of the COO.

Supply chains remain fractured, at times production lines have frozen, customer demand has plunged and soared, workers have gone remote, and technology has sped ahead.

COOs - perhaps more than any other executives - are taking the lead in rebuilding their enterprises. But the best are not just building back. Some of the most forward-thinking COOs are learning from the crisis to forge more resilient, sustainable, agile and purpose-driven companies than those that existed before.

# 2%

of senior supply chain executives say they were prepared for disruptions due to COVID-19.<sup>1</sup>

As COOs set their course for sustainable and resilient operations, here are six ways they should reframe their future.



<sup>1</sup> [How COVID-19 impacted supply chains and what comes next](#), EY, February 2021

# 01

## Resiliency begins with visibility

Leading COOs are making the leap from linear supply chains to agile networked ecosystems.

Operational resilience begins with the value chain. As a leading COO, you are likely already on a journey to transform your organization's rigid, linear value chain into an agile, networked ecosystem.



We suggest three areas to prioritize for measurable results:

# 1

## Create real-time, broad visibility

Today's technology allows you to cost-effectively build a virtual model of your physical end-to-end supply chain. Known as a digital twin, this virtual model gathers and connects data from various sources and systems across the supply chain network to create a virtual replica, containing the same supply entities, parameters and financial targets. Leveraging digital twins paired with simulation capability, you can then use control towers to make data-driven decisions using real-time data, improving agility in both sensing and responding to disruptions. With the accelerated speed of disruption today, simulations need to be repeated and acted upon continuously to manage the risks.



of executives say increased visibility is the top priority over the next 12-36 months and a top-three priority in the next year.<sup>2</sup>

<sup>2</sup> [How COVID-19 impacted supply chains and what comes next](#), EY, February 2021

# 2

## Develop resilient and sustainable sourcing

Resilient and sustainable decision-making relies on constantly finding the right sourcing balance. Diversity of sources can help maintain competitiveness. However, over-diversification can limit your ability to develop trusted relationships with suppliers. At the same time, vendor and geographic concentration could leave you vulnerable to disruptions such as vendor insolvency or civil unrest. Today's volatile and environmental, social and governance (ESG) focused environment demands prioritizing trusted partnerships and ecosystems to mitigate risk, improve operational assurance, and support sustainable strategies.

To know who to trust and where the risks are, you need a sourcing strategy that maps and tracks suppliers, facilities and products down to raw materials. This approach will help to improve operational transparency and traceability and allow analysis of supplier compliance, KPIs and supply chain risks.



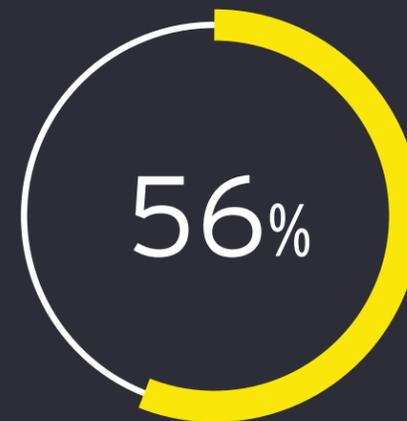
of consumers now consider sustainability important when making purchase decisions.<sup>3</sup>

<sup>3</sup> [The CEO Imperative: Make sustainability accessible to the consumer](#), EY, June 2021

# 3

## Build omni-capable networks

Providing products and services when, where and how customers expect them requires agility and the right capabilities.<sup>4</sup> This may mean fulfilling a customer's need faster and more cost-effectively from a store rather than a distribution center if it's closer and has the inventory. Building the right distributed order management (DOM) capabilities coupled with digital control towers for Tier N visibility can help maximize the value of inventory through accuracy and visibility, positioning it where it's most needed.



of companies expect the supply chain to be the part of their business that changes the most over the next three years.<sup>4</sup>

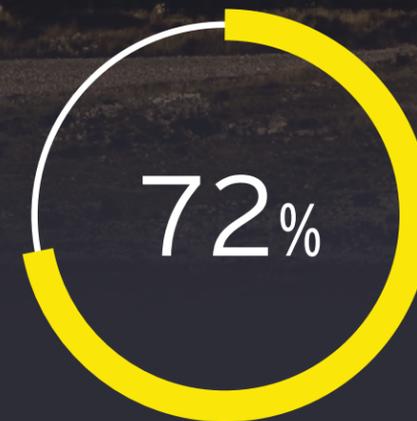
<sup>4</sup> [Why omni-capable supply chains are needed in a changing customer world](#), EY, September 2021

# 02

## Net-zero operations can provide net positive business benefits

Leading COOs see stakeholder demands for improved ESG performance as more than a compliance exercise.

Value chains also hold the key to sustainable operations. Many organizations have committed to or have ambitions to decarbonize their operations through net-zero targets.



of institutional investors say they conduct a structured, methodical evaluation of nonfinancial disclosures.<sup>5</sup>

Up from 32% two years prior.

<sup>5</sup> [How will ESG performance shape your future?, EY, July 2021](#)

# 1

Leading COOs have three ways to turn what is often seen as a compliance exercise into a new source of competitive advantage and an important driver of transformation.

## Decarbonize the value chain

Efforts to decarbonize the value chain begin by assessing your organization's carbon footprint – as well as the carbon footprint of every partner and supplier in your ecosystem. In doing so, you can identify ways to reduce greenhouse gas emissions, set emissions reduction goals, prepare reporting and improve rating scores against global guidelines. Real-time visibility, quantification and traceability of data throughout your extended operations are prerequisites for this kind of assessment and action – as is a clear business case to support it. However, the benefits of improving ESG performance across the entire value chain are clear: enhanced processes, lower costs, increased productivity, innovation, differentiation and improved societal outcomes.

# 2

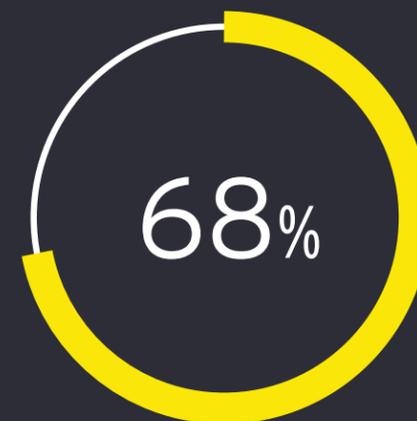
## Build circular product life cycles

In addition to your decarbonization efforts, as the COO, you'll want to take the lead in working with other business units to design products for a second life, or that can be recycled or repurposed. To engage in the circular economy, you'll need to implement circular operating models with closed material loops. As always, gathering data along the value chain and conducting analyses are critical to identify circular market opportunities.

# 3

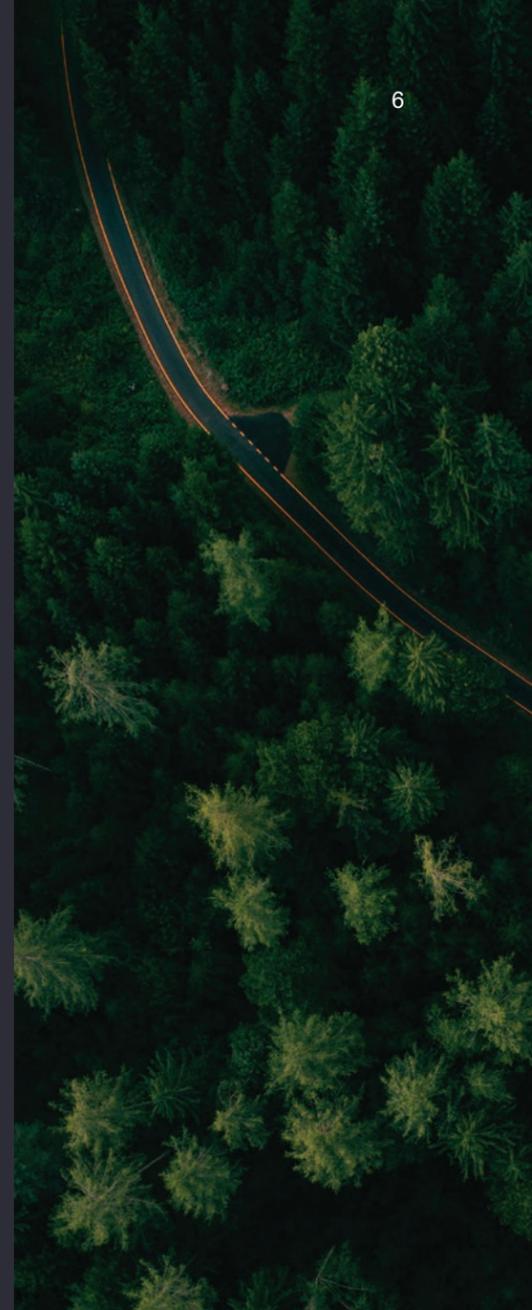
## Embrace tax planning

Tax penalties and incentives are playing a key role in driving sustainability initiatives globally. Work closely with the tax leader to align the organization's tax profile with your operational footprint. You may decide, for example, based on tax implications, to relocate heavy-emitting operations to jurisdictions where tax penalties are lower or incentives are higher. However, in doing so, you will need to balance the benefit of relocating with potential downside implications, such as transfer pricing adjustments that may not be favorable, or the reputational risk of moving emissions rather than reducing them. By teaming with tax, you can help to reduce the impact of carbon taxes, while taking full advantage of sustainability incentives – with a particular focus on circular supply chains.



of tax executives say that ESG and sustainability policies in their organization would have a medium or high impact on their approach to transfer pricing.<sup>6</sup>

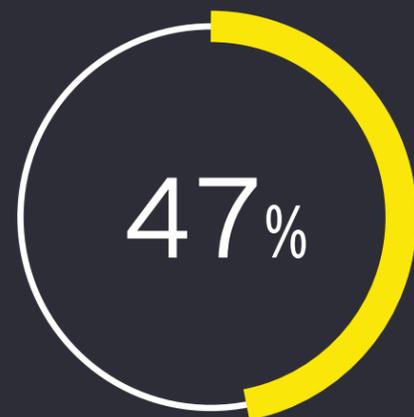
<sup>6</sup> *How leaning into transfer pricing transformation helps manage tax risk*, EY, October 2021



# 03

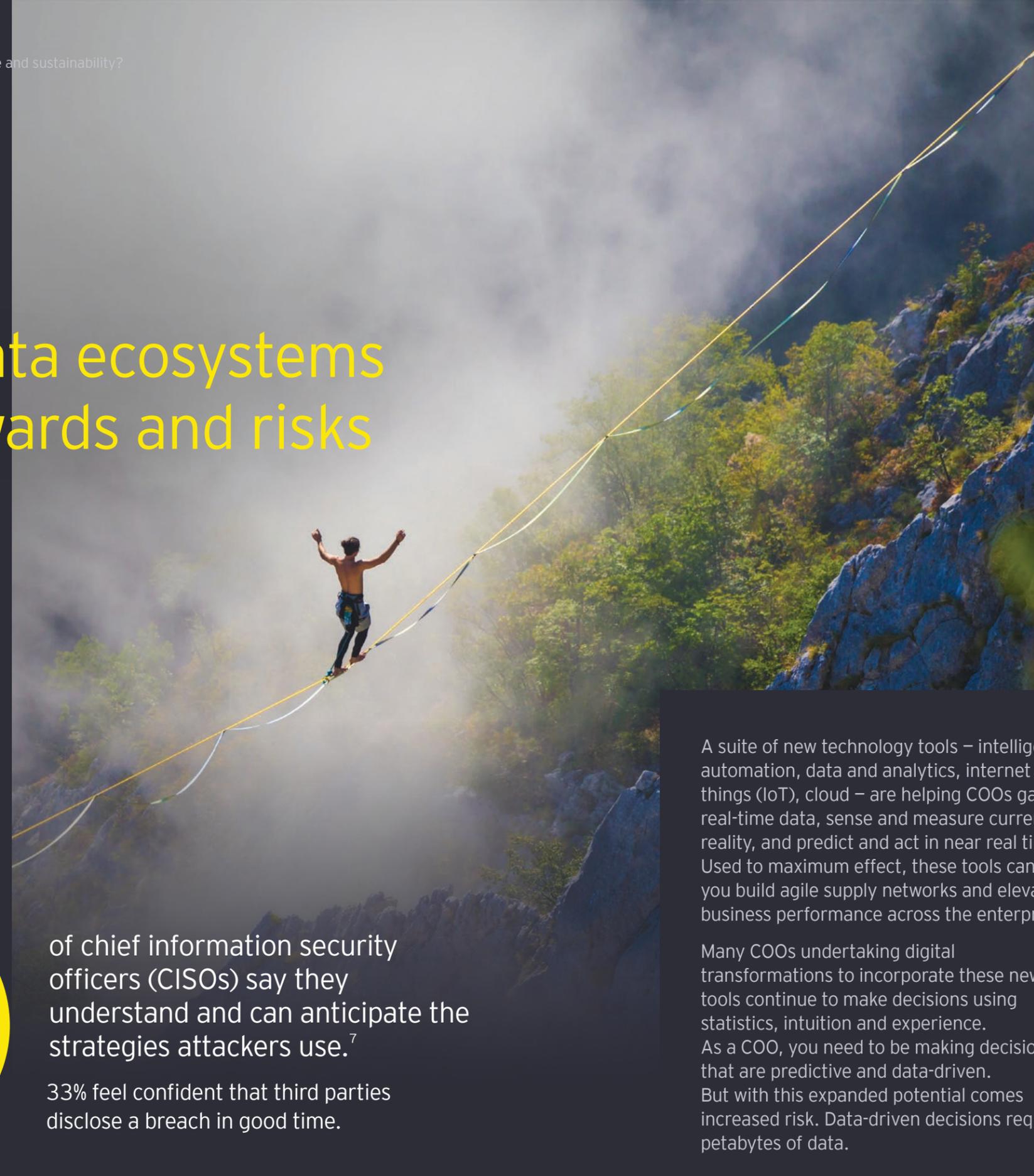
## Tech and data ecosystems balance rewards and risks

Opening operations to better, faster decision-making also increases third-party risks and cyber attacks.



of chief information security officers (CISOs) say they understand and can anticipate the strategies attackers use.<sup>7</sup>

33% feel confident that third parties disclose a breach in good time.



As a result, you may be integrating third-party technologies and acquiring third-party data to better anticipate customer needs, build networked supply chains that can manufacture personalized products, and innovate a new generation of logistics that can deliver products faster and more cost-effectively.

In the quest to gather as much first-party data as possible, you may also be more willing to open operations, networks and systems to wide-ranging connectivity, including areas that have never before been connected to the internet. The more connections an organization has – to systems, networks, suppliers, partners and ecosystems – the greater the risk of infection and attacks such as ransomware.

According to the EY Global Information Security Survey 2021<sup>8</sup>, many organizations are still accustomed to a reactive cybersecurity mindset. As a COO, you must adopt a mindset of security by design. Security by design requires integrity analyses when the technology is acquired and then testing of the technology as it's introduced into the organization. Cybersecurity is also easier to manage in a cloud environment than in a legacy environment. But the integrity of data in the cloud is only as good as the integrity of the third parties that supply it. Developing trust among third-party suppliers requires a change in governance and management operations.<sup>9</sup>

You'll also need to rethink the definition of workforce. It's harder today to distinguish between a third-party provider, customer, employee and contractor. In this context, the workforce acts as a mechanism for propagating malicious code and a vulnerable point of attack by threat actors.

A suite of new technology tools – intelligent automation, data and analytics, internet of things (IoT), cloud – are helping COOs gather real-time data, sense and measure current reality, and predict and act in near real time. Used to maximum effect, these tools can help you build agile supply networks and elevate business performance across the enterprise.

Many COOs undertaking digital transformations to incorporate these new tools continue to make decisions using statistics, intuition and experience. As a COO, you need to be making decisions that are predictive and data-driven. But with this expanded potential comes increased risk. Data-driven decisions require petabytes of data.

<sup>7</sup> *Cybersecurity: How do you rise above the waves of a perfect storm?*, EY, July 2021

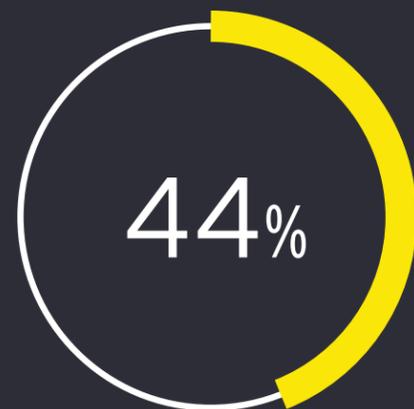
<sup>8</sup> *EY Global Information Security Survey*, EY, 2021

<sup>9</sup> *Five ways to help you build trust with your third parties*, EY, May 2020

# 04

## Resilient operations require a resilient workforce

Employees need to feel good about where they work and confident in their contribution.



44% of executives say their employees are prepared for digital innovation in the supply chain.<sup>10</sup>



40% of workers will require reskilling in the next six months or less.<sup>11</sup>

94% of organizations say that they expect employees to learn these new skills on the job.

Today's supply chain and operations workforce needs to analyze data, identify outcomes and offer recommendations. This requires a digital fluency and familiarity with information and processes that may not come naturally to traditionally trained workers. In a recent survey by EY teams, How reinventing the supply chain can lead to an autonomous future<sup>10</sup>, only 44% of respondents said their employees were prepared for digital innovation in the supply chain.

As a COO, knowing your people are at the center of any successful rebound strategy, you'll want to work with the Chief Human Resources Officer (CHRO) to mix recruiting with upskilling, retooling and continuous improvement.

Additionally, consider a redesign of your workforce to access capabilities across people, process, technology, analytics and metrics. This may include working with both the CHRO and the CISO to upskill employees to become "citizen developers." This approach will have the advantage of gaining a combined skillset that blends IT skills with knowledge of the business. By working directly with the CISO and the cybersecurity team to nurture "citizen developers," you also improve your function's ability to better manage the rising torrent of cyber risks.

In addition to assisting in skills development, you'll want to motivate your people by creating a purpose-led vision of the future. This includes a clear development path with performance incentives. You'll want to work with the CHRO to design individual programs that support the health and well-being of each of your employees. These efforts provide employees with more confidence in what they do and more satisfaction about where they work.

<sup>10</sup> *How reinventing the supply chain can lead to an autonomous future*, EY, June 2019

<sup>11</sup> *How to keep your people continuously ready for what is next*, EY, February 2021

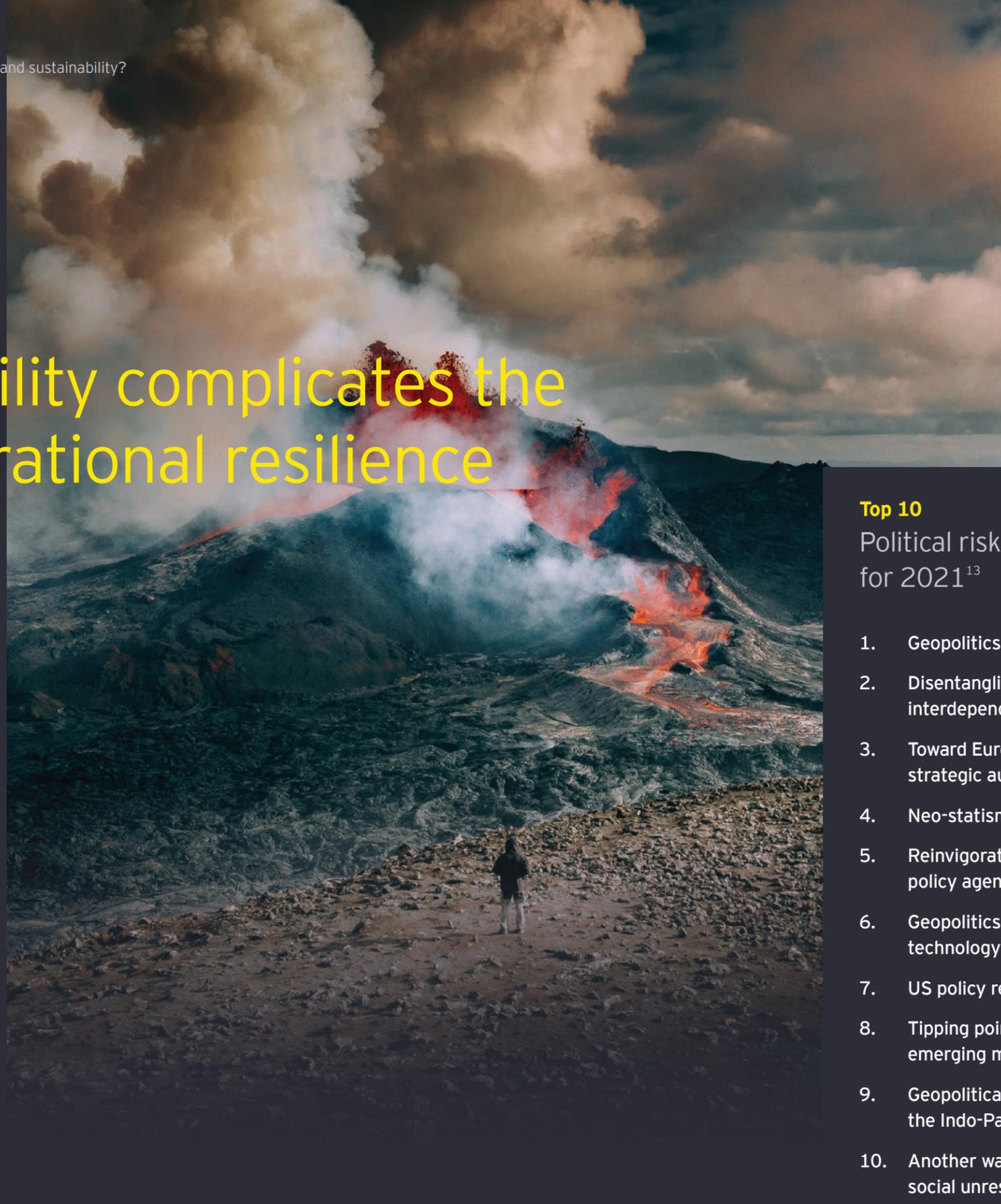
# 05

## Global volatility complicates the road to operational resilience

Increasing nation-state competition and rising nationalism makes operational resilience hard to achieve.

As you build a transformation roadmap to sustainable and resilient operations, there is a complication that supply chain reinvention and technology can't easily solve.

The world economic order for free trade is evolving from a unipolar model, one that created stability and growth, and that global business and operating models relied on, to a multipolar order. Volatility and economic nationalism are superseding globalization. The EY Geostrategic Business Group<sup>12</sup> identified the rise of neo-statism as one of the top 10 political risks of 2021.



As the next generation of nation-state superpowers competes for economic, military and cultural supremacy, shifting alliances are creating geopolitical flashpoints, supply chain chokepoints and cybersecurity risks that threaten operational resilience.

Moreover, government competition is pushing regulatory bodies further apart at a time when organizations need regulators to pull together to provide a global response to the threats that compromise globalization, corporate resilience and sustainability.

This challenge is thrown into sharp relief as it relates to cybersecurity. In the fight to address technology vulnerabilities, global organizations face the increasing challenge of techno nationalism. As one example, individual countries are adopting country-specific cybersecurity and data protection standards, which could make cyber threat monitoring and cybersecurity response either overly complex or effectively impossible.

This isn't just a problem for the cybersecurity function to solve. In an open, globally connected, always-on operating environment, COOs playing a leading role in guiding their business toward a future of more sustainable and purpose-driven growth must help navigate these neo-statist and techno nationalistic risks. Beyond collaborating within their boardrooms and even their industries, it requires rallying regulators around the world, bringing them together to develop standards that simplify and streamline global trade and cybersecurity regulations for organizations, and that ultimately benefit all nations rather than giving advantage to one nation over another.

### Top 10 Political risks for 2021<sup>13</sup>

1. Geopolitics of COVID-19
2. Disentangling US-China interdependence
3. Toward European strategic autonomy
4. Neo-statism on the rise
5. Reinvigorated climate policy agendas
6. Geopolitics of technology and data
7. US policy realignment
8. Tipping point for emerging market debt
9. Geopolitical dynamics in the Indo-Pacific
10. Another wave of social unrest

12 Geostrategic Business Group

13 *What elevated levels of political risk mean for business in 2021*, EY, December 2020

# 06

## As COO, will you define transformation or be defined by it?

COOs must now be pivotal in accelerating a purpose-driven economic rebound.



Disruptive forces, all accelerated in a post-pandemic world, have put the role of the COO at the intersection of functions essential to strategy definition.

You should use your unique insights - in data, operations control and risk management - to step up and take a seat at the corporate strategy table.

This is your opportunity. In many companies, the COO is the heir apparent to the CEO. The COVID-19 crisis may have accelerated that succession process - COOs are now better positioned to take on responsibility for strategy, vision, market response and people. In other words, if you're a COO in this rebound era, you need to act more like a CEO. That starts with strategic leadership in guiding your business toward a successful rebound, not back to where you were, but to a future of more resilient, sustainable and purpose-driven growth.



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