

CEO Imperative Series

Critical answers and actions to reframe your future



How has adversity become the springboard to growth for CEOs?

CEO Imperative Study 2021 | EYQ third edition | ey.com/ceo



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CEO Imperative Series

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The *CEO Imperative Series* provides critical answers and actions to help business leaders reframe the future of their organizations. For more insights for CEOs, visit ey.com/ceo.

Before the pandemic, many companies delayed responding decisively to new value drivers and imperatives. That's no longer an option. COVID-19 hastened the full-force arrival of trends already on the CEO agenda – from digital transformation to changes in consumer behavior to a growing focus on long-term value. The stakes are now existential: the pandemic has accelerated the trajectory of organizations, and CEOs must seize this opportunity to transform and leap ahead or risk being left behind.

That's because companies are quickly being divided into what we call thrivers, survivors and maintainers. Thrivers, 34% of the surveyed organizations in the EY *CEO Imperative Study*, were growing before the pandemic and are leaning into this pivotal moment, accelerating their existing transformation agenda. Survivors (32%) were experiencing declining revenue before the pandemic, will keep seeing flat or declining growth over the next three years and are slowing their transformation priorities. And between them are companies that are maintaining (34%), 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 (see Figure 1 on page 7).

2021 CEO Imperative Study part one

This report presents the first part of the findings of EY's third *CEO Imperative Study*, created by EYQ, EY's think tank. The study is based on a global survey of over 300 chief executives of Forbes Global 2000 companies to understand their perspectives on the DNA of the future enterprise.

In this part, we focus on the "what" of transformation: the CEOs' views of what's driving change in their organizations; their transformation objectives and capability gaps; the likelihood of different business scenarios; and what will comprise the DNA of the future enterprise.

Part two of the CEO Imperative report focuses on the "how" of transformation: how to overcome organizational gaps to realize transformation objectives while laying the foundation for long-term value creation.

So, how do you become a thriver or get even stronger? We believe a new DNA for successful enterprises is emerging, built around transformations that break down silos, increase agility, improve innovation and leverage data to become closer to the customer. That requires CEOs to embed four critical characteristics in their organizations:

- ▶ Committed to human-centered leadership. Leading with compassion, setting an example of experimentation and risk-taking, and fostering stakeholder trust will drive core value.
- ▶ Organized for long-term value. The future enterprise will be organized and rewarded for generating long-term value and rewarded by the market.
- ▶ Embedded in ecosystems. The future enterprise will be embedded in external ecosystems and consist of internal ones, making ecosystem orchestration a key leadership capability.
- ▶ Designed for agility. Both leadership and the organization will be structured to act more nimbly.

While CEOs have this transformative intention, our study shows they face key capability and execution gaps:

- ▶ Digital transformation remains unfinished business, and CEOs struggle with the legacy of insufficient, one-off initiatives undertaken in recent years.
- ▶ There is a long-term value “say-do” gap – actions don’t match intentions.
- ▶ Data and data trust shortfalls threaten transformation objectives and investments.
- ▶ Culture and organizational structures drag on agility.
- ▶ Ecosystem investments lag, impacting agility and resilience.



We're not suggesting this is easy, and the EY *CEO Imperative Series* is designed to help leaders reframe the future of their organizations by providing critical answers and actions. In this case, closing the gap between intention and execution in moving to the future enterprise requires pursuing three interconnected value drivers: putting humans at the center, adopting technology at speed and driving innovation at scale. Embracing these while building agility into organizational culture will deliver companies that outperform, able to pivot and respond quickly to emerging opportunities.

Converging waves of change

The past decade saw rising waves of change that eroded the status quo and began to reshape business and operating models, and the very purpose of organizations.

Large companies began to recognize the need to acquire the capabilities of self-disruption and business reimagination rather than rely on business model protection. Data competency and digitalization moved up the C-suite agenda as markets became superfluid.

Digitally empowered consumers demanded new relationships with companies that put their individual preferences front and center. The need for agility and innovation spurred companies to start giving up their enterprise islands in favor of ecosystem collaboration. And attention has turned away from delivering short-term shareholder returns toward driving long-term stakeholder value, with the recognition human talent is the key value driver at all levels.

These waves, years in coming, have long pointed to a new DNA for the successful future enterprise. Now that they have arrived, together, in force, ad hoc adaptation is no longer sustainable. CEOs must make the investments in growth and transformation as part of an intentional project to realize the future enterprise faster – and some are.

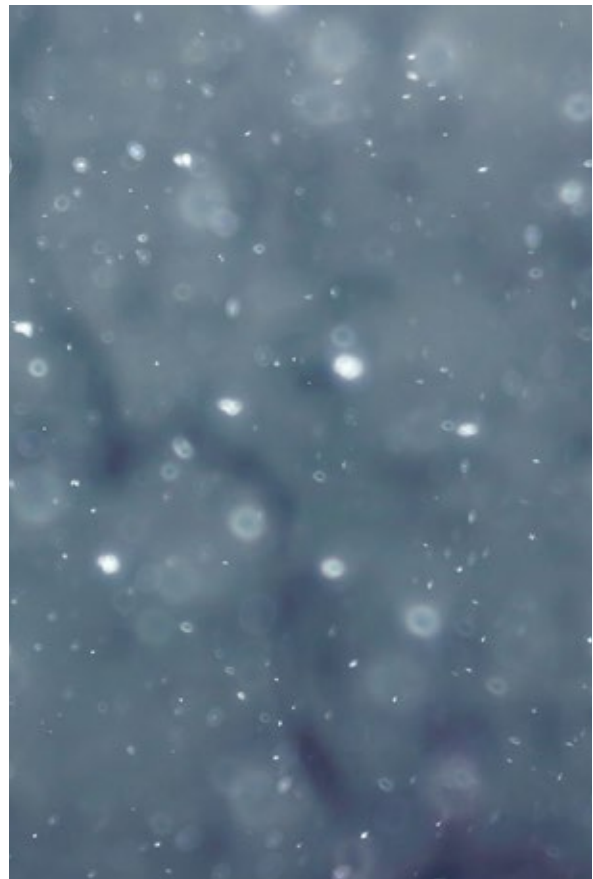


Diverging thrivers and survivors

The imperatives of the pandemic acted as the great divider, accentuating the upward or downward trajectories companies were already on. This created distinct groups of “thrivers” and “survivors” whose paths are set to diverge even further.

Most thrivers accelerated their existing transformation in response to the pandemic. They likely benefited from the right strategy going into the pandemic, experienced less disruption and are able to access the capital needed to continue pursuing their transformation agenda. A high percentage (42%) of thrivers believe to a very great extent that they have the optimal C-suite structure, experience and capabilities. As a result, thrivers are already pursuing a growth agenda.

In contrast, most survivors have slowed their existing transformation priorities. While they’re more likely to be undertaking a new transformation initiative, this is accompanied by a greater focus on cost reduction. And only 13% of survivors say they have an optimal C-suite. Where thrivers are moving ahead quickly, survivors are still retooling.



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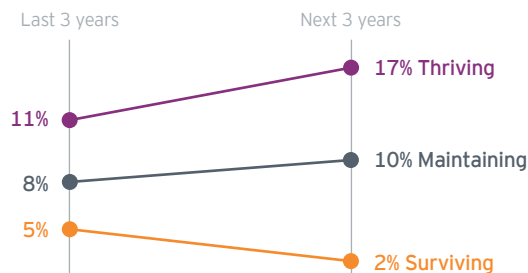
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Figure 1

The growth gap between thriving and surviving companies is increasing.

Average annual revenue growth



Company definitions: thriving (FY20 revenue grew); maintaining (FY20 revenue flat); surviving (FY20 revenue fell). "Next 3 year growth" reflects respondents' estimated incremental revenue growth over the prior three-year period.

Figure 2

Thriving companies accelerated their existing transformation agenda in response to the pandemic.

"Thriving" companies are those whose revenue grew in FY20, while "surviving" companies are those whose revenue fell.

Thriving companies

Accelerated



No change



Slowed

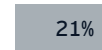


Surviving companies

Accelerated



No change



Slowed

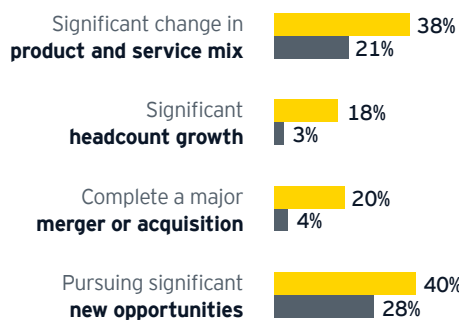


Figure 3

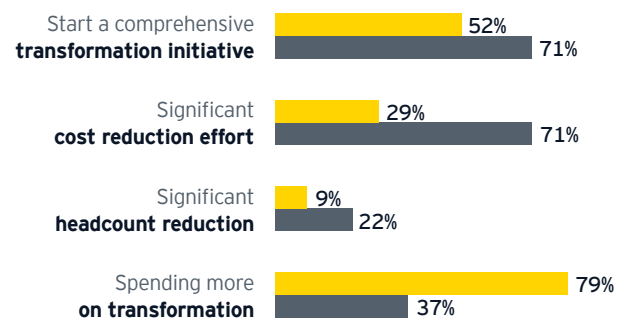
Thriving companies are building for the future, while surviving companies are protecting what they have.

"Thriving" companies are those whose revenue grew in FY20, while "surviving" companies are those whose revenue fell.

Thriving are more focused on pursuing growth



Surviving are more focused on reducing spend



CEOs are ready to pivot to new risk-taking and growth



It's time to get great growth again.

Ashok Vaswani

CEO, Consumer Banking and Payments, Barclays PLC

68%

of CEOs plan a major investment in data and technology.

61%

of CEOs plan to undertake a major new transformation initiative.

Looking across the broader study population, it's evident CEOs have become "risk on," ready to pivot from stabilization to new investments in growth and transformation. The majority of CEOs anticipate actions in the next 12 months to progress transformation:

- ▶ Sixty-eight percent plan a major investment in data and technology
- ▶ Sixty-one percent plan to undertake a major new transformation initiative.

Ashok Vaswani, CEO of Consumer Banking and Payments for Barclays Plc, says "It's time to get great growth again." Like many companies, the bank's journey in the pandemic began with resilience, keeping the business running as it went from 2,000 to 70,000 remote workers. Then focus shifted to managing the board, regulators and other stakeholders while reducing costs and finding efficiencies. "Now it's time to go back to basics and ask, who is the customer, what are we doing for



that customer, and how are we doing it, given what the customer wants to do now? That lays out the agenda,” Vaswani adds.

CEOs also expect higher levels of transformation spending over the next three years. For the most part, these investments in transformation are not going to be offset by cost reductions, with nearly half saying they have investor support to invest in these initiatives even if it diminishes near-term financial performance:

- ▶ Sixty-five percent expect to spend more on transformation over the next three years as compared to the last three years.
- ▶ Only 22% of CEOs say investments in transformation will be paid for by cost reductions.
- ▶ Forty-six percent have investor support to make strategic investments even if they reduce near-term earnings per share and dividends.

65%

of CEOs expect to spend more on transformation over the next three years as compared to the last three years.

22%

of CEOs say investments in transformation will be paid for by cost reductions.

46%

of CEOs have investor support to make strategic investments even if they reduce near-term earnings per share and dividends.

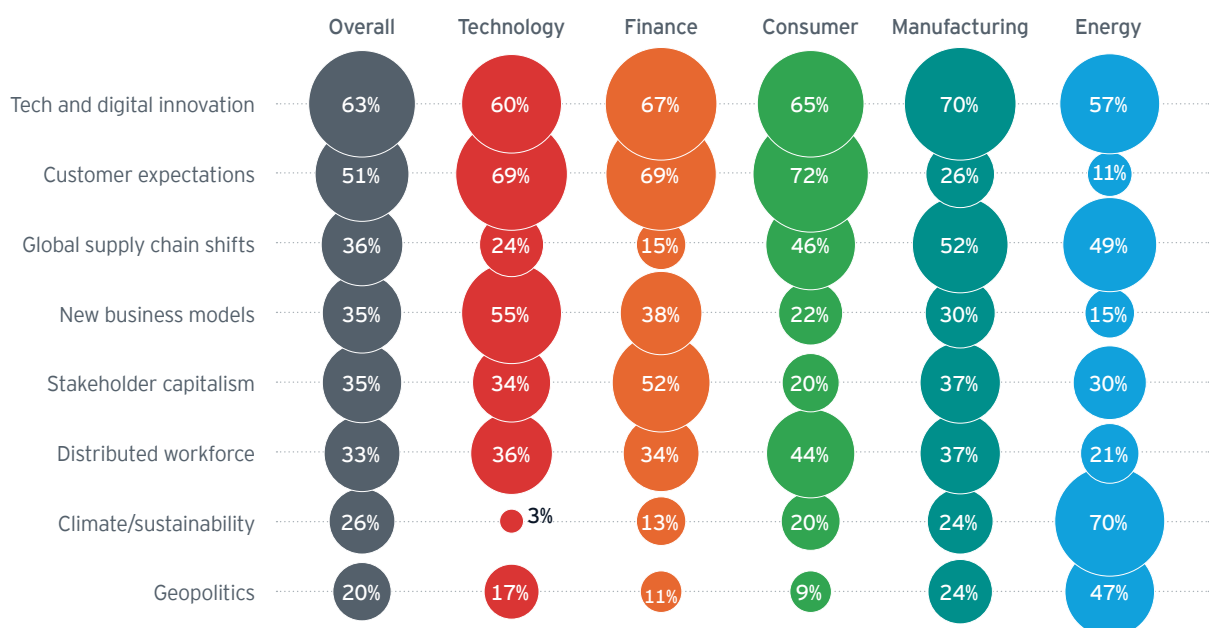
Newly urgent technology, digital and customer trends drive transformation

The trends driving company transformation are not new, but they are newly urgent. “Accelerating technology and digital innovation” (63%) and “changing customer experiences and expectations” (51%) top CEOs’ ranking of trends having the greatest company impact. These two also topped

the list in the same order in the 2017 *CEO Imperative Study*. The market shear caused by the pandemic, as business shifted to digital and virtual, and consumer preferences shifted nearly instantly, underscores the peril of delaying action on long-standing trends as well as the benefits of a proactive strategy.

Figure 4

Company transformation drivers by industry



Respondents could select up to three transformation drivers choices.



Malaysia-based RHB Bank found its ongoing transformation paid dividends when the pandemic hit. Dato' Khairussaleh, the bank's CEO, says: "Several years earlier we had launched a strategy to invest for the future and transform around changing customer behavior and digitalization. A key part of this strategy was the creation of small, agile teams focused on the customer journey and empowered to respond to change nimbly. This allowed us to respond quickly when our customers moved massively online during the pandemic. Then, rather than cutting costs, we went to the board and secured approval to invest in accelerating our existing digital and technology transformation strategy."

Supply chain shifts, new business models, stakeholder capitalism and remote workforce are ranked nearly identically, effectively tied for third. These mid-ranked transformation drivers are interlinked with the digital and customer trends, and indicate the wide-ranging imperatives CEOs must contend with.

Smaller companies have fewer resources to respond to customer shifts

Smaller companies are more vulnerable to customer shifts than the largest ones, with 56% of respondents in the \$1b-\$20b revenue range indicating "changing customer expectations and

experiences" as one of the top three trends, compared with 35% companies with \$20b or more in revenue. This likely reflects the greater financial resources the bigger companies could devote to responding quickly to customer changes in the pandemic: 53% of the \$20b plus revenue group accelerated their previous transformation agenda in response to the pandemic, compared with 37% of the smaller companies.

Sector differences at play

While CEOs across sectors place "accelerating technology and digital innovation" among the top trends having company impact, there is significant variation related to other trends. For example, advanced manufacturing and mobility CEOs are the most likely to point to global supply chain shifts. The growing climate and sustainability imperative, and geopolitics, are much bigger factors in energy and resources. New business models are more important to technology companies. A significantly higher percentage of financial services leaders cite responsible business/stakeholder capitalism, a focus that will have spillover effects in other sectors as these considerations increasingly inform financing decisions.

Transformation priorities: agility, customer connections, long-term value



We are driving a cultural transformation based on our purpose — to bond people, ideas and elements to reinvent progress.

Ilham Kadri
CEO, Solvay

To respond to these trends, CEOs are focused on transforming the human dimensions of the enterprise, such as talent, leadership, organizational structure, and culture and purpose. Objectives of upskilling/reskilling, better collaboration, agile decisions and transformative mindset indicate the important role of human factors in catalyzing transformation. Sixty-eight percent of CEOs have at least one people-related transformation priority, and 15% have two or more people priorities.

Ilham Kadri, CEO of the global chemicals company Solvay, emphasizes the centrality of culture in transformation. Charged by the company's board of directors to unleash Solvay's full potential, Kadri is pursuing a transformation focused on the organization's structure, strategy and culture.

"I firmly believe that culture matters," says Kadri, who promotes purpose-driven leadership and a common set of values, best behaviors, across the company. "In our passion for performance, we are training athletes in an industrial world. Our employees are training every day and when they win they train for the next challenge. This is what champions do! We are driving a cultural transformation based on our purpose – to bond people, ideas and elements to reinvent progress. Our demonstrated resilience during the COVID-19 crisis and positive results including a record free cash flow, for example, are the result of our culture. Not

a culture that is established and fixed, but that is dynamic, allowing to learn, unlearn and relearn and purpose-driven, around values and a shared vision."

As a single category, risk management (42%) tops the list of transformation priorities. Reflecting the shock of the pandemic, CEOs seek more data-driven risk management, greater focus on existential risks and more attention to environmental, social and environmental risk factors.

A middle group of transformation priorities each garnered selection by about a third of respondents. This included objectives related to innovation (38%), capital allocation processes (37%), supply chain (34%), business model (34%) and product and service portfolio (31%). Desire for agility, better customer connections and long-term-value creation underly these transformation objectives.

These multiple objectives are at play in the transformation pursued by ICICI Lombard General Insurance, one of India's largest insurers. Bhargav Dasgupta, the company's CEO, says: "Our response to the pandemic was initially reactive and then adaptive, but then we recognized that this was a transformative moment, which we embraced. We took the opportunity to expand inorganically via an acquisition and accelerate our ongoing shift to digital at scale. Internally, we are becoming a paperless organization. For our customers, we dramatically scaled contactless, video-based claims submissions. Now we're looking at extending our business model into telehealth."

Figure 5

Areas of the enterprise where CEOs expect to make the most changes in the next three years



Human factors underlie transformation objectives. Sixty-eight percent of CEOs have at least one people-related transformation priority, and 15% have two or more people priorities.

Close the gaps between intention and execution



While CEOs have the appetite for transformation, they face significant execution gaps, whether in capabilities, focus areas or in the distance between saying something is a priority and actually doing something about it. Closing these gaps will be essential to moving from intention to successful execution.

Long-term-value “say-do” gap

Creating long-term value emerged as an important cross-cutting priority, but with a pronounced “say-do” gap. We scored respondents on survey responses related to long-term value that indicate intention (say) and those indicating action (do). With few exceptions, even the high scores are not high in absolute terms and represent a significant gap between intention and action (see Figure 6).

This indicates that significant work remains to be done to reorient companies toward long-term value. It also suggests CEOs are unclear about the definition of long-term value and how to progress this objective.

EY’s long-term-value model takes a holistic view of how a business creates value across stakeholders, not simply shareholders, encompassing people, customer, society and financial value. Creating superior, sustainable value today requires driving value across these four long-term-value dimensions. A key aspect of this approach is shifting sustainability from a reporting-led conversation to a value-based narrative, turning sustainability into a business opportunity and helping companies create and protect value.

“CEOs need to seize this moment and make the shift to creating value for all stakeholders, not just shareholders,” says Global EY-Parthenon Strategy Leader Jim Hsu. “Some CEOs are clearly focused on pursuing sustainable growth in the long-term, but many are still trying to find their path.”

Unfinished digital-led transformation

Digital-led transformation has been high on the CEO agenda for years, but this challenge is far from solved. CEOs identified digital transformation as the No. 1 area requiring C-suite attention in the 2019 *CEO Imperative Study* and again in this most

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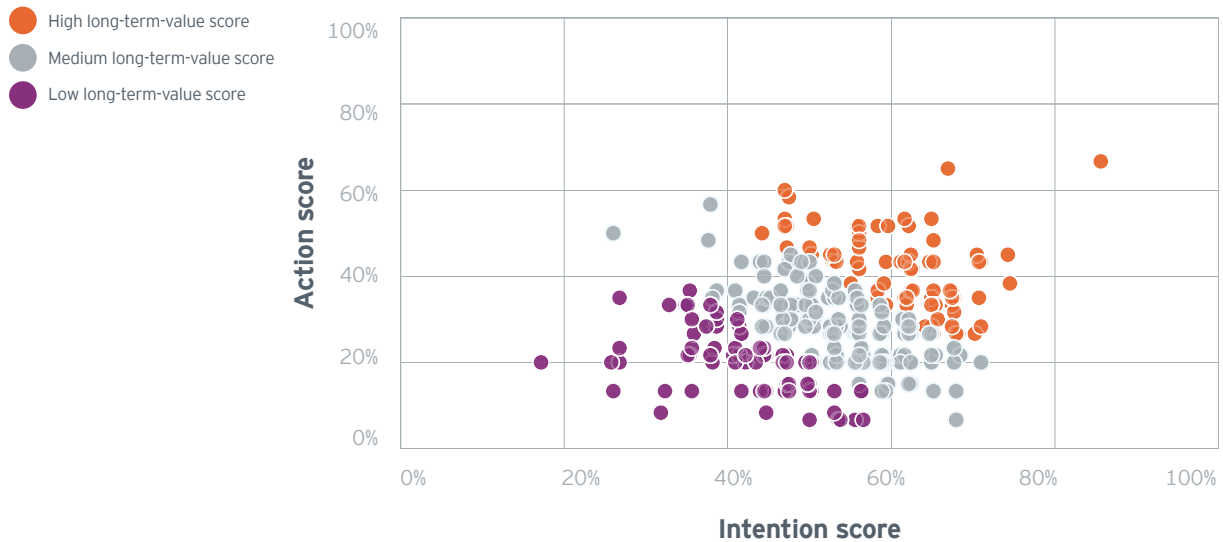
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Figure 6

Intention vs. action on long-term value: a “say-do” gap

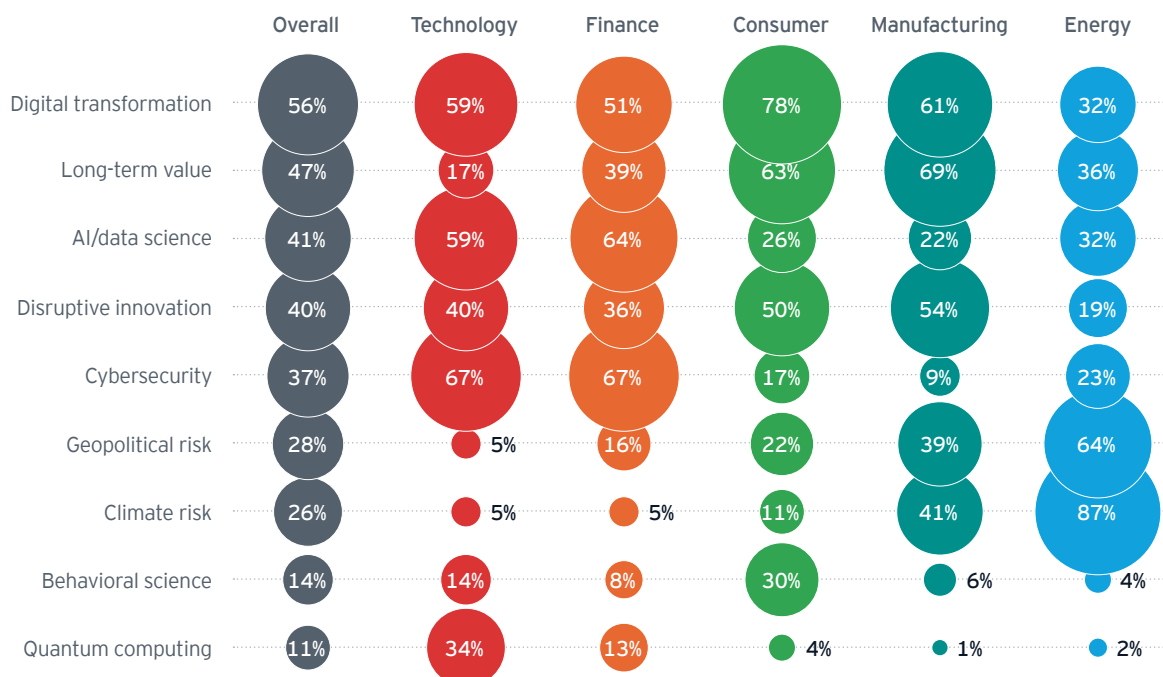
Each point on the graph is a respondent



Respondent’s long-term value creation “intentions” (what they say) and “actions” (what they do) were scored using responses to 39 statements aligned to three key value dimensions: societal, human and financial/customer. Those with a combined “intention” and “action” score in the top quartile have a “high LTV score” while those in the bottom quartile have a “low LTV score”.

Figure 7

Areas of increased C-suite focus to drive growth



Respondents could select up to three areas.

recent edition of the research. The percentages are remarkably similar: 55% of CEOs in 2019, and 56% of CEOs in 2021.

Digital transformation remains a challenge because many efforts in recent years were insufficient, implementing narrow functional solutions rather than undertaking enterprise-wide change to the operating model or business model. Additionally, the rapid pace of technology change intertwined with customer change means there can be no such thing as a single transformation – to keep up, transformation must be continuous.

Customer experiences and expectations drive the continuous technology transformation of Palace Resorts, a family-owned enterprise operating luxury resorts in Mexico and the Caribbean. “We have to respond nimbly to fast-changing customer expectations. At Palace Resorts, we are making significant investments in back-end and customer-facing technology to deliver the experience they expect throughout their journey with us,” says

Gibran Chapur, the company’s executive vice president. “We are consistently innovating the future customer experience even as we deliver on our current customer promise.”

Data chasm

Relatedly, CEOs indicate significant gaps in their organizations’ ability to generate value from data. Only 51% of respondents affirm being able to deliver timely data-driven insights.

Fewer still (41%) report being able to combine machine and human data effectively to inform decisions. The most pronounced gap – call it a chasm – is found related to data and trust: only 34% of CEOs say customers trust them with their data. This data chasm stands in the way of many priorities, everything from business model reimagination to supply chain visibility and new customer propositions. It’s perhaps no surprise then that AI/data science appeared in the top three areas requiring increased C-suite focus.



“

While one of the challenges is the data itself and how to manage it, another equally important challenge is how to create the right culture in the company to realize the full potential of data.

Piyush Gupta
CEO, DBS Bank

Piyush Gupta, CEO of Singapore-based DBS Bank, is among the chief executives prioritizing AI and data science for increased focus. For Gupta, creating value from data is not just a technical challenge, but a cultural one: “The big technology companies have taken the art of using data to the nth degree, creating all kinds of new opportunities and solutions. Most companies are nowhere near them in data capabilities. While one of the challenges is the data itself and how to manage it, another equally important challenge is how to create the right culture in the company to realize the full potential of data. You can create a data analytics center, and you can hire engineers and data scientists, but finally it’s the people at the front line, the business managers, who have to embrace the change.”

Figure 8

Data is a key challenge, especially data trust

We deliver timely data insights for better internal and customer outcomes

51%

Our risk assessment is adequately data-driven

49%

We have seamless data access enterprise-wide

41%

We combine machine and human data effectively

41%

Customers trust us with their data

34%





Culture shortcomings

While agility, innovation and diversity are critical to thriving, culture shortcomings are key barriers to these objectives. A slim majority of CEOs, 55%, say their organizations make decisions with agility, while 44% affirm having an innovation mindset across the organization. Only 32% say mid-level leadership personally models shared purpose and vision, and a meager 28% say they create diverse and inclusive teams at all levels.

These shortcomings are pronounced when it comes to C-suite change: CEOs prioritize more efficient decision-making over diversity or bringing in outside perspectives. Only 8% of respondents say that increasing diversity is the most important change that needs to be made to their C-suite, and only 7% believe that bringing talent from outside the company is the most important change. (See Figure 9)

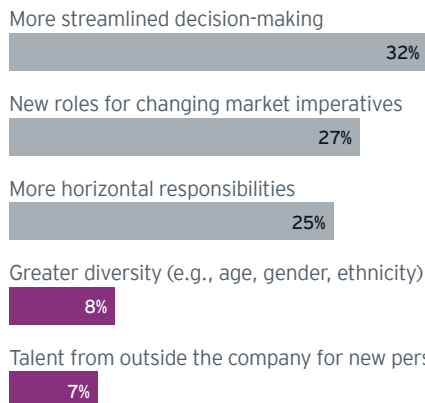
For Pravina Ladva, Chief Digital Transformation Officer for Swiss Re, these kinds of culture shortcomings can imperil broader transformation objectives. “Deploying technology, that’s the easiest part. The real challenge lies in the softer dimensions. First, you have to ensure that you’re building the right thing, using design thinking to focus on the customer’s need vs. what you think is exciting. Internally, you need to have the right culture to harness and quickly develop what works, and just as quickly stop what doesn’t. And you have to have the right skill sets working in the right way, collaborating to successful outcomes. Yes, you need the best experts, but you can’t have teams of superheroes.”

Given the crucial role culture plays in catalyzing transformation, is it time to appoint a chief culture officer?



Figure 9

Most important change to the C-suite: CEOs prioritize streamlined decisions, not more diversity or outside talent



Respondents could select one option.

Ecosystem underinvestment

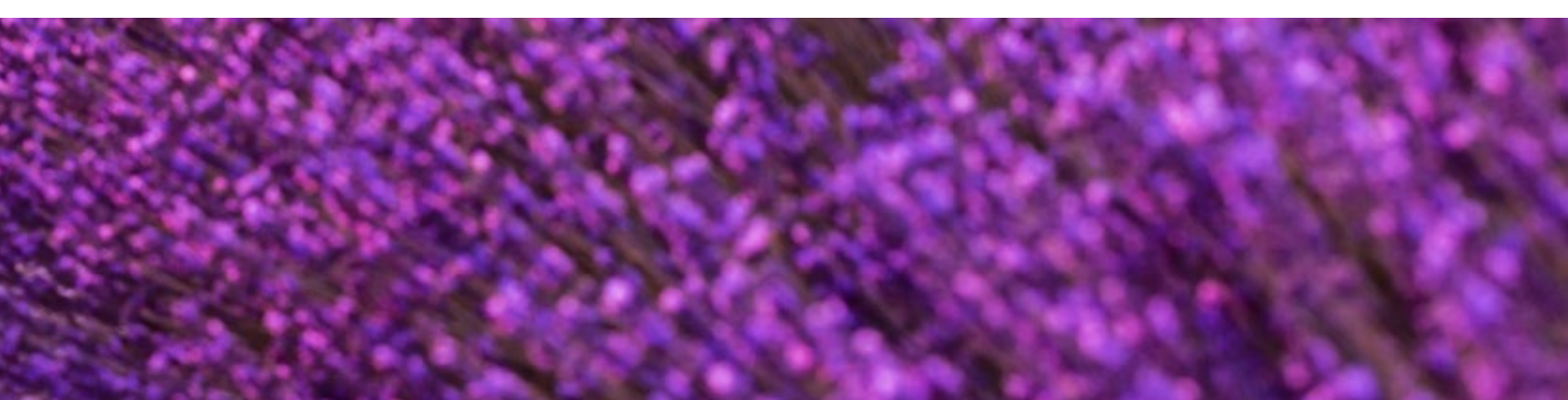
Companies increasingly say they are focused on developing and orchestrating ecosystems, but only a minority (47%) of CEOs affirm making significant investments to do so. And ecosystems are still driven from the bottom up: only 31% of chief executives say external ecosystem partnerships are a part of business strategy. Moreover, only 17% of respondents affirm that one person in their organization has clear ownership of cultivating and managing ecosystem business partnerships. Yet, these findings can be seen as a sign of progress in that these figures likely would have been much lower only a few years ago.

Climate blind spot

CEOs' perspectives on climate risk is not a gap but a massive blind spot. While climate is a leading concern for manufacturing, mobility and energy/resource companies, it hardly impinges on the priorities of the broader population. Only 26% of CEOs identify the growing climate imperative as one of the trends having the most impact on their companies. The same small percentage of respondents say climate risk is one of the top competencies requiring more C-suite attention over the next five years. CEOs are not aware enough of the broad-based risks posed by climate change, which likely contributes to the long-term-value "say-do" gap we analyze above.

A case of overconfidence?

In light of these deficits, it might be surprising to learn that 82% of CEOs say that their C-suites have the optimal structure, experience and capabilities to a great or very great extent. This compares with 34% in the 2019 *CEO Imperative Study*. These new high scores may be due to the significant changes CEOs have been making to their C-suites over the past few years. In 2019, 85% of CEOs were planning to add or change C-suite roles, a process that might now be complete. The high C-suite ratings could also be attributable to the feeling of solidarity that arose among senior company executives as they worked together to respond to the crisis of the pandemic. However, given the lack of CEO emphasis on diversity and outside perspectives in the C-suite (see Figure 9), it could reflect executive teams at risk of too much like-thinking and being out-of-step with their broader organizations.



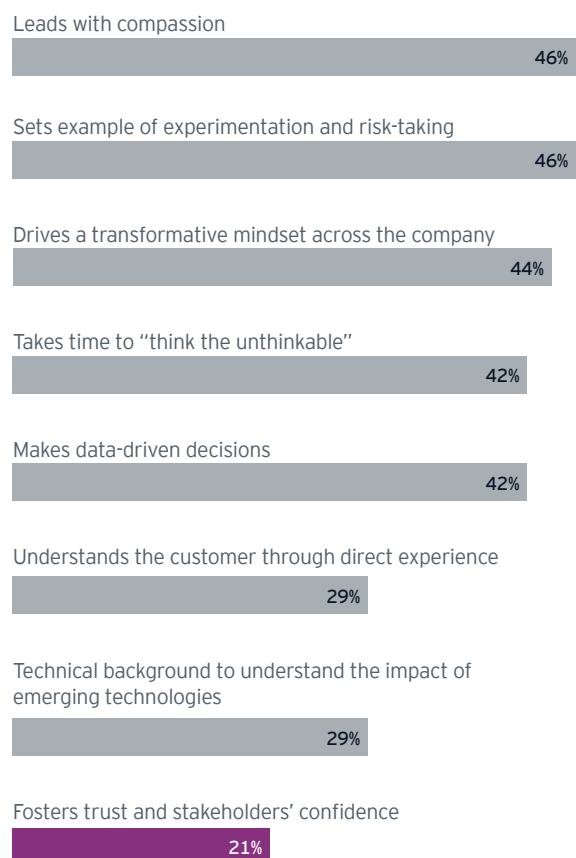
DNA of the future enterprise



The “great reset” hasn’t yet arrived, but the CEOs of some of the world’s largest companies are accelerating its arrival through transformations designed to break down silos, increase agility, improve innovation and leverage data to become closer to the customer in a post-pandemic world oriented to long-term value. To thrive, organizations must acquire or evolve a new DNA for this future.

Figure 10

Characteristics of effective leaders: CEOs emphasize compassion and innovation but undervalue trust



Respondents could select up to three characteristics.

Human-centered

CEOs believe human-centered leadership will be essential to the success of the future enterprise. Respondents identified “leads with compassion” and “sets example of experimentation and risk taking” as the two most important characteristics of the successful future CEO. Eighty percent agree that “putting humans (employees, customers, other stakeholders) at the center of decision-making” will be a core leadership value driver, while 75% say it’s likely that empathy and soft skills will come to the fore as key management capabilities.

90% agree that “long-term-value creation across stakeholders will be rewarded by the market.” Yet, to achieve this, leaders will have to foster trust and stakeholder confidence, a characteristic they undervalue today.

Embedded in ecosystems

The future enterprise will be embedded in ecosystems, and made up of them. Eighty-eight percent of CEOs agree that “the ability to form, lead and manage ecosystems will define successful leadership teams.” The top organizational transformation priority is to enable business functions to operate as internal ecosystems.

Organized for long-term value

CEOs also believe the future enterprise will be organized and rewarded for generating long-term value. Ninety-one percent of CEOs foresee that “business models will increasingly incorporate circular economy dimensions” over the next five years, and 80% believe it’s likely “companies will take significant new steps to take responsibility for the social and environmental impacts of their operations” in the same time period. Nearly

Designed for agility

Both leadership and the organization will be structured to act more nimbly. More streamlined decision-making is the No. 1 CEO priority for change to the C-suite, and the No. 2 priority for change to the organizational structure. Longer term, 70% of CEOs believe that small, autonomous teams will deliver the best outcomes.

Figure 11

Most important characteristic of the successful future enterprise



Reframing the future enterprise

Closing the gap between intention and execution in moving to the future enterprise will require pursuing three interconnected value drivers: putting humans at the center, adopting technology at speed and driving innovation at scale. Embracing these value drivers while building agility into organizational culture will allow companies to outperform as we move into a post-pandemic recovery. Nimbler companies, ones that deal with ambiguity better and embrace risk-taking, will be able to pivot and respond quickly to emerging opportunities.

Weaving these three value drivers into every aspect of the continuous cross-functional transformation demanded will also allow CEOs to drive long-term stakeholder value creation and ultimately to maximize their growth potential. Long-term-value creation operates along four fundamental axes – financial, customers, people and stakeholders.

Concrete steps to bridge the gap between intention and execution include:

- ▶ Determining whether you are a thriver or survivor, and what is the opportunity to “level up” or leap ahead.
- ▶ Asking the uncomfortable questions across the organization to challenge the status quo.
- ▶ Developing a leadership action plan and an enterprise transformation plan that address your key strategic, operational, financial and cultural gaps.
- ▶ Considering whether culture’s role in catalyzing transformation merits appointing a chief culture officer.
- ▶ Securing board and investor buy-in on transformation investments now, which will only pay off in the future.
- ▶ Identifying ways to take advantage of new and emerging opportunities in the market.
- ▶ Determining how your business model will change and how you will fund your transformation.
- ▶ Enabling a successful transformation by putting humans (e.g., customers, employees) at the center of innovation and decision-making.

Further perspectives on how to close the gaps between intention and execution to progress transformation to the future enterprise will be shared in part two of the 2021 *CEO Imperative Study* report.

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About the survey

Survey fieldwork was conducted by Forbes Insights between October and December 2020.

Population: Forbes Global 2000 companies

305 global CEOs

CEO headquarters

36% Americas

34% EMEA

30% Asia-Pacific

Company ownership

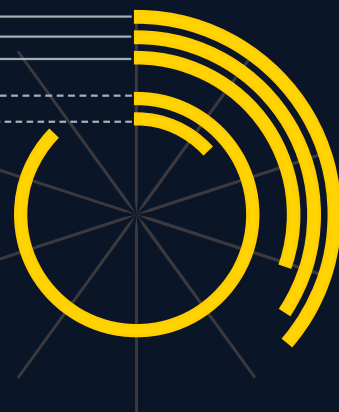
87% Public

13% Private

Company revenues

\$50b or more 3% 34% \$10b to \$19.9b

\$20b to \$49.9b 22% 41% \$1b to \$9.9b



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EYQ, EY's global think tank, generates new insights by bringing together business, the public sector and academia to challenge entrenched thinking, shift perceptions and catalyze change. We want to sense new trends early, and understand and communicate the implications quickly and powerfully. By seeking the answer to "What's after what's next?", we help leaders anticipate the forces shaping our future - empowering them to seize the upside of disruption and build a better working world.

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CEO Imperative Series

Critical answers and actions to reframe your future



How can today's CEO bridge the gaps to realize tomorrow's opportunities?

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



CEO Imperative Series

How can today's CEO bridge the gaps to realize tomorrow's opportunities?

2021 CEO Imperative Study part two

This report presents the second part of the findings of EY's third *CEO Imperative Study*, which is based on a global survey of over 300 chief executives of Forbes Global 2000 companies to understand their perspectives on the DNA of the future enterprise.

In this part, we focus on the “how” of transformation: how to overcome organizational gaps to realize transformation objectives while laying the foundation for long-term value creation.

Part one of the report focuses on the “what” of transformation: the CEOs' views of what's driving change in their organizations; their transformation objectives and capability gaps; the likelihood of different business scenarios; and what will comprise the DNA of the future enterprise.

The CEO Imperative Series provides critical answers and actions to help business leaders reframe the future of their organizations. For more insights for CEOs, visit ey.com/ceo.

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The full-force arrival of long-standing trends in the wake of the global pandemic demands a new enterprise DNA for business success. Leaders have no choice but to quicken the pace of organizational change, seizing this moment to not only become market leaders but market makers, creating exponential long-term value for all stakeholders.

The 2021 EY *CEO Imperative Study*, a survey of 305 chief executives of Forbes Global 2000 companies, reveals while leaders intend to transform their organizations, they face key capability and execution gaps. These range from incomplete digital transformation efforts to actions not meeting intentions when it comes to generating long-term value; data and data trust shortfalls threatening transformation objectives and investments; culture and organizational structures inhibiting agility; and sluggish investment in ecosystems hampering agility and resilience.

Closing these gaps and achieving their growth ambitions requires CEOs to fundamentally shift. They must reorient their organizations for continuous transformation to generate sustainable growth and deliver long-term value for all stakeholders, from customers to employees, society and investors. We believe market makers can realize exponential value and competitive advantage through three interconnected value drivers:

- ▶ **Human @center:** Radical customer-centricity – as well as a purposeful, nurturing company culture – embeds the agility to move at the speed of market and customer changes
- ▶ **Technology @speed:** Advanced technologies are increasingly impacting how companies advance business models, and customer and employee experiences. Leveraging technology for creativity and deploying it faster are critical.
- ▶ **Innovation @scale:** Companies must cultivate an agile innovation competency and collaborate with an ever-evolving ecosystem, commercialize and move quickly into new markets.

Embracing these three value drivers, along with an agile organizational culture, can help enterprises deliver superior long-term stakeholder value, maximize their growth potential and position them to capitalize on emerging opportunities.

We are keenly aware that the challenge confronting CEOs is monumental and a stern test of leadership mettle. That's why the EY *CEO Imperative Series* is designed to help leaders reframe the future of their organizations by equipping them with insights that will help them arrive at critical answers and define tangible actions.

Diverging thrivers and survivors

Part one of this study, *How has adversity become the springboard to growth for CEOs?*, shows how the pandemic accelerated the trajectories companies were already on, creating thrivers, survivors and maintainers.

Thriving companies

34%

experienced revenue growth in FY20 and are more likely to have been growing before the pandemic. They project steady growth over the next three years.

Surviving companies

32%

saw revenues decline in FY20 and are more likely to have had declining growth prior to the pandemic. They expect flat or declining growth over the next three years.

Maintaining companies

34%

had flat revenues in FY20 and were more likely to have low or flat growth pre-pandemic. They are set to have flat or moderate growth over the next three years.

This increasing thriving-surviving growth gap highlights the urgency to transform in this pivotal moment, either to “level up” or leap ahead.



The future enterprise is coming into focus

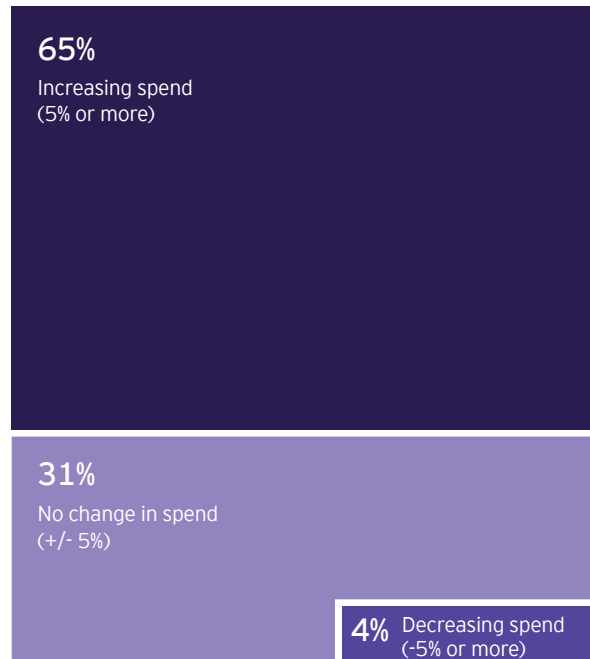
Where have you traditionally focused your transformation initiatives? Most companies target isolated areas of the business, aiming for efficiency, optimization or remaking a specific function. Yet the transformation being demanded now is different, and of greater urgency, compelling leaders to shift gears and effect meaningful change for the opportunities that lie ahead.

The *CEO Imperative Study* suggests best-in-class CEOs are already pivoting toward new investments and poised to extend the lead over their peers. We also found enterprise transformation is poised to accelerate as we exit the pandemic, with businesses becoming more confident as they're buoyed by greater economic tail winds. If history is a guide, investments in growth now will pay outsize returns in the post-pandemic recovery.



Figure 1

Companies are spending more to accelerate their transformations than in the past



But the starting point is different for each company. Some, “thrivers,” entered the pandemic with stronger growth and are poised to extend the lead over their peers. Others, “survivors,” were already on a weaker footing and lost ground as the pandemic unfolded. Where thrivers are accelerating transformation and investing in new growth initiatives, survivors have tended to slow organizational change and focus more on cost reduction.

Now as the “thrivers” look to extend their lead and others look to improve their position, they must adopt a continuous transformation mindset, constantly evolving new capabilities that will underpin the DNA of the future enterprise. So, how can CEOs steward their organizations through the

wave of converging forces reshaping the business landscape and build the capabilities to deliver long-term stakeholder value?

The purpose, structure and role of the enterprise have been coming into focus over the last decade. From the need to self-disrupt and reimagine business models to digitalization and changing customer expectations, companies are being compelled to evolve how they operate and deliver value. These forces have now arrived in full force, bringing the nature and characteristics of the future successful enterprise into finer resolution.

The following five attributes stand out as essential elements of the new DNA for business success.

Figure 2

Customer scenarios: effective use of data will be critical

Q: How likely are the following customer scenarios in your markets in the next five years?

88%

Using data science to anticipate and fulfill individual customer needs will be a key differentiator.

87%

The most competitive companies will be defined by delivering data-driven experiences.

Percentages show combined very likely and somewhat likely results

1. Data as strategic and operational enabler

The role of data as a competitive advantage and strategic enabler in customer engagement, innovation and agility has surged to prominence. Indeed, data-powered, intelligent technology-enabled products and services are creating new ways of living and working, reshaping markets and connecting growing ecosystems.

Business leaders are becoming keenly aware of the role data-centricity will play in the future successful enterprise. However, only 34% of the study's respondents say customers trust them with their data, illustrating the trust gaps appearing between what intelligent technologies and data can do and what people are willing to let it do. If left unaddressed, this trust gap will limit growth, slow innovation and stall transformation efforts.

A majority of respondents (88%) said it is likely that using data science to anticipate and fulfill individual customer needs will be a key differentiator in the next five years. Additionally, 87% of respondents say it is likely that the most competitive companies in the next five years will be defined by delivering data-driven experiences.

CEOs and C-suite executives need to not only understand the importance of data, but reframe how they obtain, manage, use and scale it. Taking a value-first approach and embedding trust into data, business models and advanced technologies, will power the intelligence running through the enterprise and ultimately provide targeted, sustainable value creation.



2. New talent models and structures for continuous transformation

Embracing and operationalizing an ethos of continuous transformation hinges on instilling a culture of agility, innovation and diversity. Attracting diverse talent, while also upskilling and reskilling existing talent, requires new metrics and organizational structures. Galvanizing and inspiring the workforce while enabling employees to be nimble in the face of relentless change will be essential to delivering growth.

A strong majority of CEOs (75%) see empathy and soft skills coming to the fore as key management capabilities in the next five years. Additionally, 76% believe it is likely new performance metrics and rewards will be needed for onboarding, promotion, succession planning and leadership. And 70% say small autonomous teams working in a flat organization structure will deliver the best outcomes.

The way we work is changing dramatically, and CEOs as well as chief human resource officers will need to refresh their talent strategy to earn the loyalty and commitment of employees, ultimately delivering agility and continuous transformation being demanded.

Figure 3

Talent scenarios: divided views on distributed talent and remote workforce

Q: How likely are the following talent model scenarios in your markets in the next five years?

75%

Empathy and soft skills will come to the fore as key management capabilities.

76%

New performance metrics and rewards will be needed for onboarding, promotion, succession planning and leadership.

70%

Small autonomous teams working within a flat organization will deliver the best outcomes.

Percentages show combined very likely and somewhat likely results



“

One of the ways we'll see value created is by being able to go over the boundaries of the firm to work really fluidly and co-create with an ecosystem of partners and sometimes even with uncommon partners. These are the kind of firms you never even think about working with, they might actually have best-in-class solutions for you and are likely the most innovative organizations.

Nathan Furr
Professor, INSEAD

Figure 4

Ecosystems

Statements about leadership

88%

Of CEOs strongly/somewhat agree that the ability to form, lead and manage ecosystems will define successful leadership teams.

HOWEVER

Q: Ecosystems – Which of the following statements apply to your company?

31%

Of CEOs say they have an an external ecosystem of business partnerships as part of our strategy.

17%

Of CEOs say one person has clear ownership of cultivating and managing our ecosystem business partnerships.

3. Ecosystems becoming vital

Integrating into ecosystems will be a defining feature of the future successful enterprise. Over the past several years, we have seen industry boundaries erode and threats emerge from nontraditional competitors. Increasingly companies are shifting to “coopetition,” cooperation between competing companies, as well as adopting ecosystem business models in an effort to deliver superior customer value and achieve market leadership.

Nathan Furr, Professor at INSEAD, observes: “One of the ways we'll see value created is by being able to go over the boundaries of the firm to work really fluidly and co-create with an ecosystem of partners and sometimes even with uncommon partners. These are the kind of firms you never even think about working with, they might actually have best-in-class solutions for you and are likely the most innovative organizations.”

The CEO respondents in the survey largely affirm the growing importance of ecosystems, with 88% agreeing the ability to lead and manage ecosystems will define successful leadership teams. And being embedded in ecosystems emerged as the second-most-important characteristic of the successful future enterprise.

To fully integrate with and realize the value from ecosystems, companies will need to make it an essential part of their enterprise strategy, build the skills to orchestrate within ecosystems and may even need a chief ecosystem officer to take ownership and drive the desired outcomes.

4. Focused on long-term stakeholder value

We have seen growing demand for organizations to take greater responsibility and operate in the best interest of employees, customers, suppliers and society at large. The views of the CEOs in the study indicate the shift to long-term stakeholder value creation is gaining momentum and importance. Long-term value surfaced as a cross-cutting priority across the study and emerged as the most important characteristic of the future successful enterprise.

Over the next five years, 91% of respondents expect business models will increasingly incorporate circular economy dimensions, while 87% agree long-term value creation across stakeholders will be rewarded by the market. And 80% agree there is likely to be a global standard for measuring and reporting long-term value creation. Although CEOs espouse this vision and show the intention of reorienting toward long-term value, there remains a "say-do" gap. As we explored in our first article, this gap may indicate a lack of clarity around the definition of long-term stakeholder value and how to progress this objective.

At EY, we view long-term stakeholder value across four pillars or dimensions: financial, customer, people and societal. Creating, measuring and communicating enterprise value across these dimensions is becoming a strategic and management priority. CEOs need to embrace this new governance model, using the fundamentals of long-term stakeholder value to vault their companies toward growth and resilience.

Falling behind further risks deteriorating stakeholder trust. To catch up, CEOs must embed purpose objectives into all aspects of their business, from finance and operations to sales and marketing, to drive value creation for all stakeholders (see "4 ways to put your purpose to work"). They should embrace stronger governance supporting stakeholder objectives, including better aligning incentives by tying remuneration packages to a wider range of metrics beyond the share price, such as Paris Agreement targets and measures of employee satisfaction.

Identifying and responding to stakeholder needs requires new capabilities alongside mechanisms to deepen engagement, strengthening feedback loops between stakeholders and management.

Figure 5

Long-term value scenarios: CEOs anticipate a long-term value shift over the next five years.

Q: How likely are the following scenarios related to long-term value in your markets in the next five years?

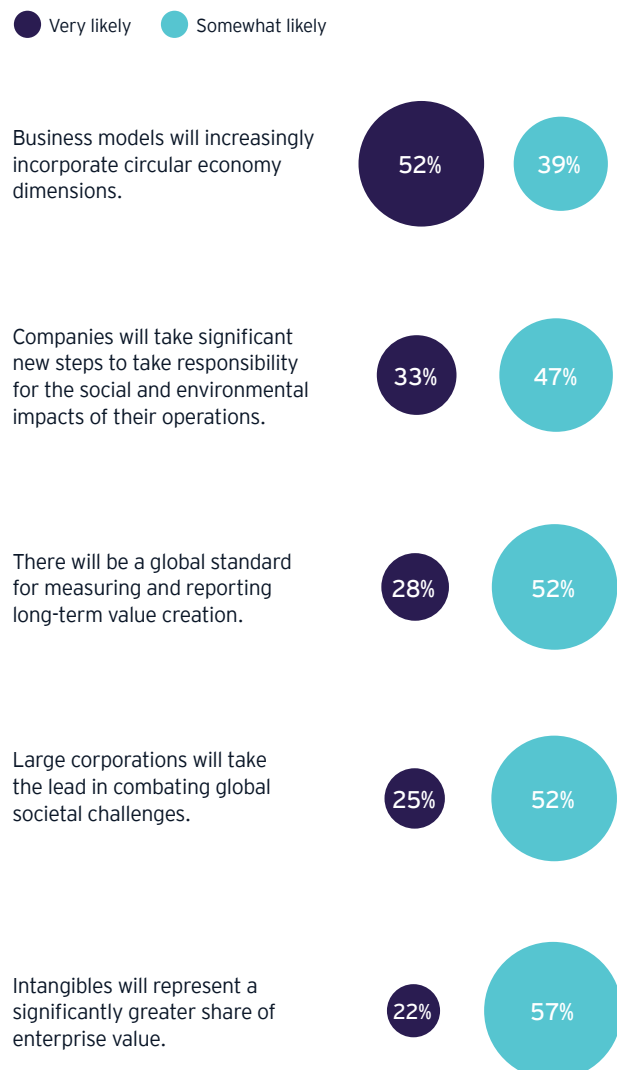


Figure 6

Humans at center seen as a core leadership value driver

Statements about leadership

80%

Of CEOs believe putting humans (employees, customers, other stakeholders) at the center of decision making will be a core value driver.

HOWEVER

Q: Given the challenges and opportunities over the next five years and beyond, what will be the characteristics of the most effective CEOs? (Top three)

46%

Leads with compassion

46%

Sets example of experimentation and risk-taking

44%

Drives a transformative mindset across the company

5. Leadership anchored in the human imperative

The challenge of delivering value to a widening range of stakeholders requires strong, decisive, empathetic and human-centered leadership, with a focus on innovation, fostering trust and modeling desired traits. Increasing digitalization, the prominence of data and analytics in decision-making and the ongoing shift to remote work is making the human qualities of leadership rise to the forefront.

Leading with compassion, setting an example of experimentation and risk-taking, and driving a transformative mindset across the company emerged as the top three characteristics of the most effective CEOs to manage the challenges and opportunities over the next five years and beyond. In addition, 89% of respondents agree the CEO must lead disruptive innovation and business reimagination, while 80% agree establishing stakeholder trust will become an increasingly important part of the CEO's job.

Although CEOs show willingness to transform for these new imperatives, gaps remain in their organizations' capabilities, focus areas and translating intent into action (for a detailed discussion of these gaps, see "How has adversity become the springboard to growth for CEOs?").

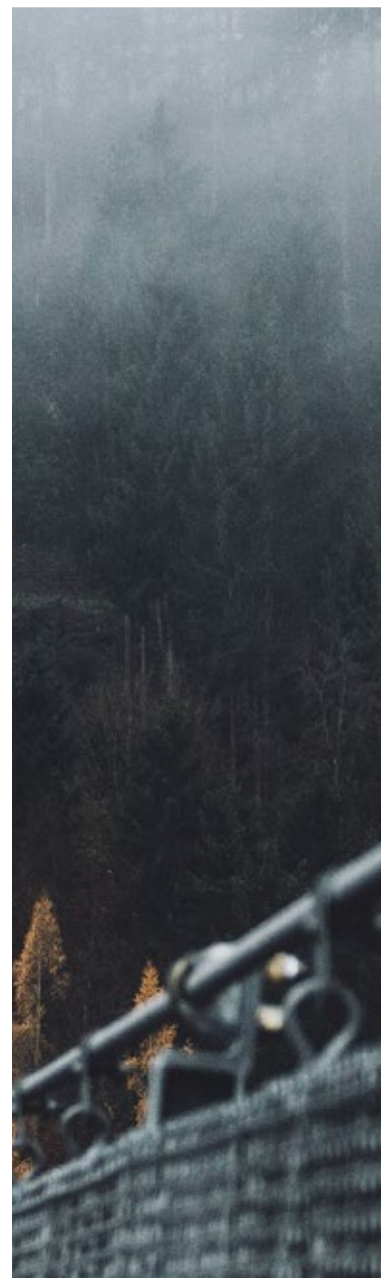
From the long-term value "say-do" gap to the continuing challenge of digital transformation, and from underinvestment in ecosystems, the data trust chasm and the climate blind spot, leaders face significant barriers to evolve and acquire the characteristics of the future successful enterprise.



CEO Imperative Series

How can today's CEO bridge the gaps to realize tomorrow's opportunities?

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Three value drivers of transformation



“

By grounding in three critical value drivers — putting humans at the center, leveraging technology at speed and driving innovation at scale — organizations can ensure that transformation efforts connect across the enterprise, which is what thrivers always do.

Bill Kanarick
EY Global Consulting Transformation Leader

So, how do CEOs and C-suite leaders formulate, orchestrate and reframe their organizations for the future? We recommend CEOs and their teams work backward and plan their future strategy by embedding three core interconnected value drivers: putting humans at the center, leveraging technology at speed and driving innovation at scale.

Embracing these value drivers while building agility into the ethos of organizational culture allows companies to create exponential value, equipping them to pivot and respond quickly to future existential risks and drive long-term stakeholder value. “By grounding in these critical value drivers, organizations can ensure that transformation efforts connect across the enterprise, which is what thrivers always do,” said EY Global Consulting Transformation Leader Bill Kanarick.



Future creators are impatient. They're dissatisfied, not in a negative way but always looking to make it better. The C-suites that are very engaged with the front lines, very engaged with their product, actually walked the customer journey frequently with their own product, they are very dialed in. And it makes an incredible difference when you have a very fast feedback loop that doesn't come through layers internally, but actually comes directly from the market. The speed and agility within the organization takes on a very different pace.

Jon McNeill

CEO and Co-Founder, DVx Ventures

Human centrality

At its core, successful transformation must be driven by the desire to improve the human experience. The best-laid strategies can come to nothing without the right talent and mindset to execute on them. The most advanced innovations or cutting-edge technologies can fail if they lose sight of human values. As leaders advance their strategies, they must view every decision, every technology implementation, every product or service innovation through the human lens.

Companies need to focus on how they make or deliver the products and services to delight customers and offer them compelling value propositions. Inherent in this is the understanding that personalized experiences have now become far bigger drivers of consumption, requiring a different approach to innovation and customer engagement.

Jon McNeill, CEO and cofounder at DVx Ventures, says "Future creators are impatient. They're dissatisfied, not in a negative way but always looking to make it better. The C-suites that are very engaged with the front lines, very engaged with their product, actually walked the customer journey frequently with their own product, they are very dialed in. And it makes an incredible difference when you have a very fast feedback loop that doesn't come through layers internally, but actually comes directly from the market. The speed and agility within the organization takes on a very different pace."

Driving this type of human-centered personalized innovation requires diversity at all levels of the organization. It has been proved that more diverse teams drive better innovation. This includes diversity not just in age, gender and ethnicity but also background and skills. Companies need to acquire talent beyond their industry boundaries, reaching to adjacent markets and competencies to bring fresh thinking and new ideas into the organization.

Yet diversity remains elusive. Only 28% of respondents to the study said they create diverse and inclusive teams at all levels. The gap is more pronounced at the very top: when asked about the most important changes that could be made to the C-suite, only 8% cited greater diversity and 7% said talent from outside the company.

As companies race to adopt cutting-edge technologies and drive breakthrough innovations, they must carefully consider the human impact to mitigate risks and create trusted relationships with customers, employees and ecosystem partners. Consistently and persistently putting humans at the center of every decision helped CEOs galvanize and motivate employees as well as attract customers, giving them a competitive edge and ultimately leading to growth and a stronger market position.



Responsibly accelerate technology adoption

The pandemic has catapulted us into digital-first era literally overnight. Unsurprisingly, the results of the study bear out technology acceleration as one of the most significant drivers of transformation. A majority of respondents (68%) anticipate significant investment in data and technology over the next year, while 63% said accelerating technology and digital innovation is having the greatest impact on their company.

With new technologies emerging and maturing more quickly, companies that can leverage them as instruments of creativity will inherently perform better. Apart from leveraging these technologies, companies will need to deploy technology faster as well to serve the ever-evolving needs of customers, employees and ecosystem partners. Perhaps unsurprisingly, digital-driven business transformation (56%) and AI/data science (41%) emerged as top competencies requiring new or increased C-suite attention.

However, companies need to carefully consider the human impact of every technology before widescale deployment, as public awareness of the security, privacy and ethical risks grows. CEOs need to pay particular attention to building trust with stakeholders to reap the full benefit afforded by AI and data science.

Successfully leveraging and implementing technology at speed requires upskilling and reskilling employees as well as diffusing a transformative mindset across the entire organization at all levels. Forward-looking risk management practices and strong cybersecurity capabilities will be linchpins in fully realizing the value of technology to improve the human experience in our increasingly virtual world.



Thoughtfully scaling innovation

The pandemic is forcing companies to reimagine every aspect of their business – product and service design, business models, operating model and more – re-engineering each for innovation and agility. While all companies need to protect and reinforce their core business, they also need to get into the habit of continuous and rapid innovation.

Leaders must begin with a “future-back” approach. Start by asking whether your company will be relevant in 5, 10 or 15 years and how you might expand your competitive advantage through bold risk-taking. With this in mind, you can then explore the future and potential scenarios to adapt your innovation agenda and enterprise strategy.

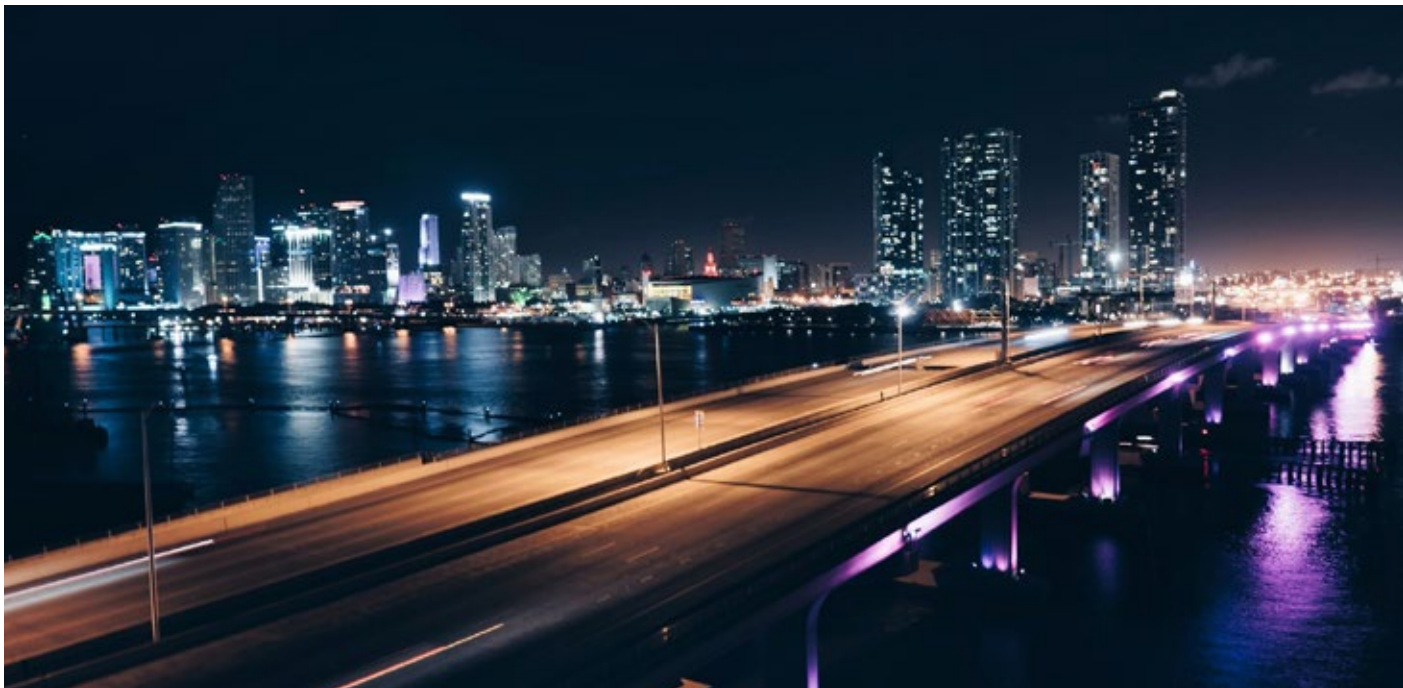
Companies must also look outside themselves to enrich their innovation potential. Collaboration with ecosystem partners and cultivating a deep understanding of pain points can help unearth ideas that will be embraced by customers, employees, markets and societies. They must also leverage data, cutting-edge intelligent technologies and cloud infrastructure to scale innovation more rapidly.

But perhaps most important of all is ensuring the engine of innovation – human talent – is front and center. The study shows 38% of respondents expect

to implement change in their innovation processes over the next three years. These respondents are focused on faster idea generation and trialing as well as reorienting their organizations toward greater risk-taking. Humans are intrinsic to these objectives, and achieving them requires embedding innovation as part of the transformative mindset and equipping employees with the tools and permission to appropriately take risk.

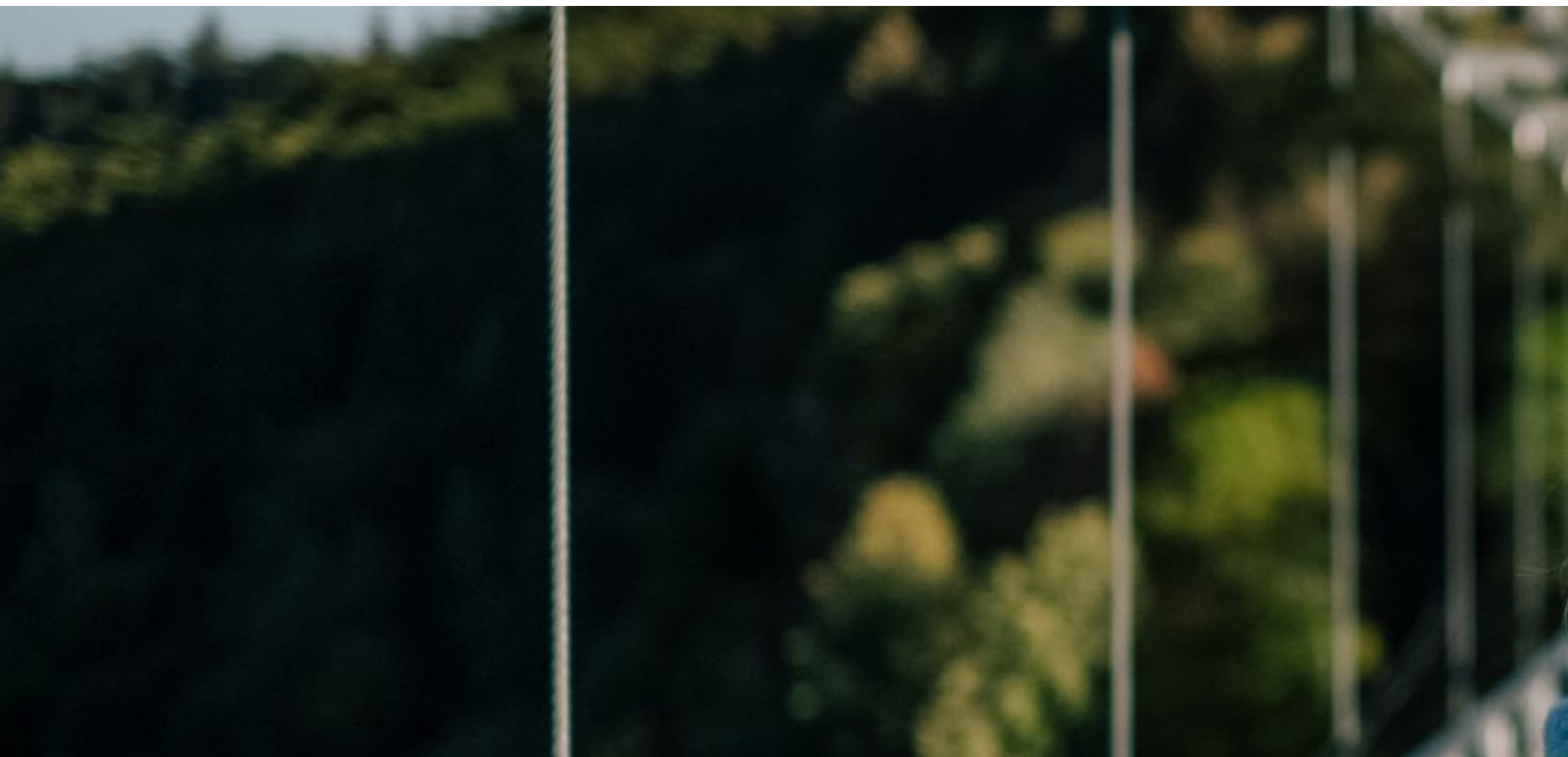
Moreover, as companies look to leverage large volumes of data and cutting-edge technologies as part of their innovation engines, they must ensure they safeguard human privacy and security. To truly unlock the value of innovative products, services and solutions, stakeholders must trust them. Demonstrating a commitment to improving the human condition through innovation will be critical for success.

Interweaving and embedding these three value drivers into every aspect of the cross-functional, continuous transformation being demanded enhances your company's ability to adapt. That makes your operating model more agile, which married to the fundamentals of long-term stakeholder value creation, ultimately maximizes growth potential.



Four ways to build the future enterprise

It's become a cliché to say COVID-19 upended the status quo. The more accurate description is it compounded and magnified forces already reshaping business and operating models, in the process recasting the very purpose of organizations. What lies beyond the pandemic is a more dynamic future requiring companies to continuously innovate, mobilize and scale new business models, operating models and capabilities. Organizations will need to embody agility in all aspects of their enterprise while adopting a continuous transformation mindset rooted in and motivated by the desire to improve the human experience.



If that sounds ambitious, it is. CEOs must boldly and decisively take steps to rewire, retool and reorient their organizations for this new working world. They must tolerate ambiguity, become nimbler, increase their appetite for risk-taking and cultivate agility to pivot quickly toward new opportunities. Embracing the three interconnected value drivers of humans at the center, technology at speed and innovation at scale allows companies to acquire the DNA of the future successful enterprise, helping them realize their growth potential and driving the creation of long-term stakeholder value.

Here are key considerations as you reboot and rebalance your organization to realize transformation:

1. Embark on a future-back approach using your corporate purpose to guide exploration and begin laying the strategic groundwork to build the capabilities necessary to ensure long-term relevance and resilience.
2. Adopt a mindset of impatience and dissatisfaction, seeking constant improvement in every aspect of your organization. Walk in the shoes of customers, employees and ecosystem partners, getting direct feedback to inform decision-making across every aspect of the enterprise.
3. Drive a human-centered mindset into innovation processes, technology adoption and deployment as well as every aspect of your culture. Ground your decision-making in asking how it will impact your employees, customers, partners and community.
4. Reframe how you obtain, manage, use and scale data by embedding trust at the core to make the intelligence being delivered trusted by customers, employees, ecosystems and regulators.



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