

IBM Institute for Business Value
C-suite Series: The 2021 CEO Study

Find your essential

How to thrive in a
post-pandemic reality

IBM



The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 3,000 CEOs from nearly 50 countries and 26 industries. These interviews were conducted virtually. In addition, through live video conferencing and phone interviews, and when safe, in-person meetings, the IBV conducted deep-dive conversations with two dozen select CEOs from 11 industries and 11 countries.

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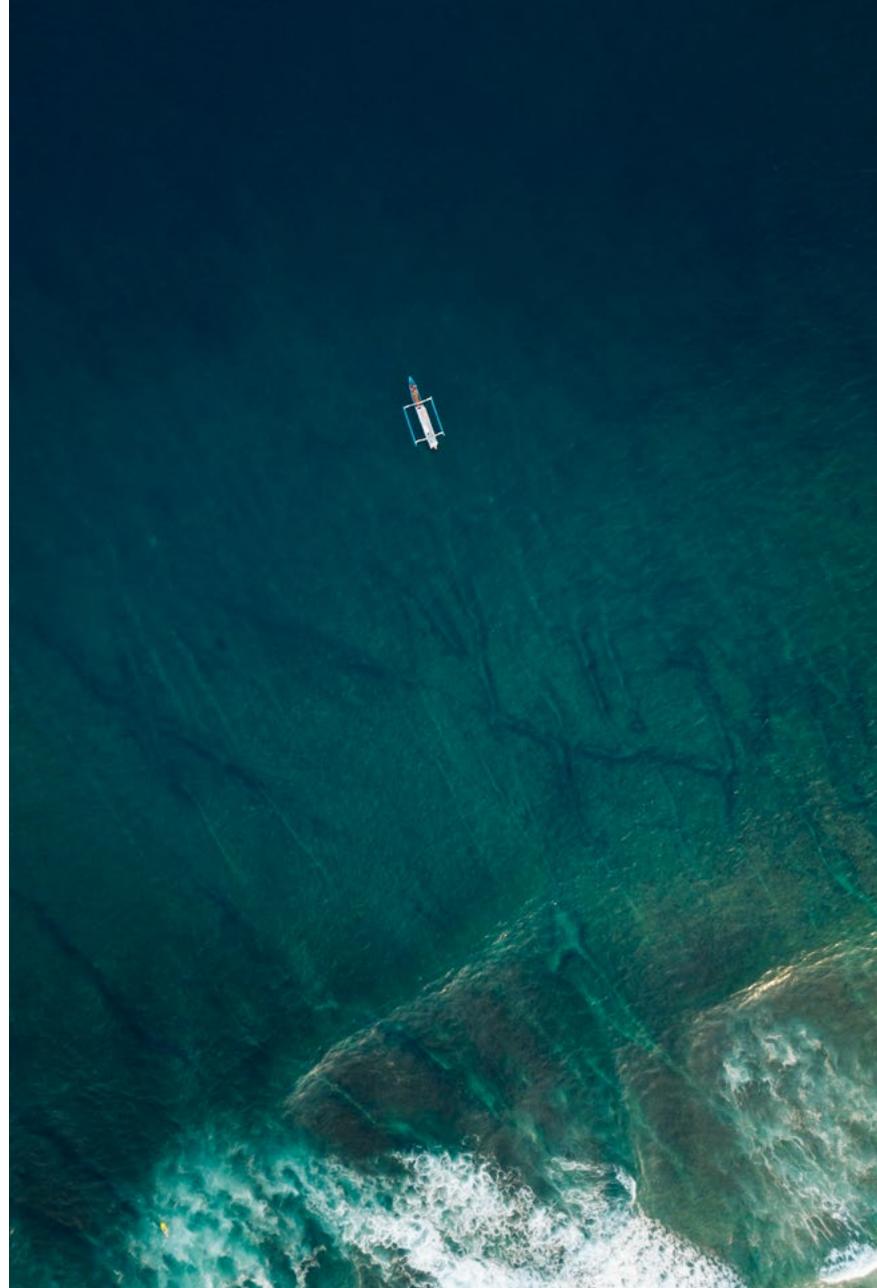
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Introduction

This is a moment to take stock in an entirely new way. Whether COVID-19 impacts subside from here or persist, 2020 served as a dramatic inflection point. Never before has the entire planet reconfigured its behavior simultaneously, participating in lockdowns, quarantines, and enforced social distancing. For businesses and governments, the implications have been extreme, with assumptions and plans radically altered. From Asia to the Americas, the status quo has evaporated both within and across industries. The future is murkier than ever—yet presents both new opportunities and new risks.

To better understand this singular moment, the IBM Institute for Business Value (IBV) launched its most extensive Chief Executive Officer (CEO) research project ever. Building on almost 20 years of C-suite studies, the IBV gathered insights from more than 3,000 CEOs and the most senior public sector leaders across the economy and around the world, supplementing its own deep expertise with that of Oxford Economics, a leader in global forecasting and quantitative analysis. In addition, IBV hand-selected two dozen CEOs for extensive, exclusive interviews that delve into the mindsets, themes, and challenges that top leaders are grappling with right now.

What we've learned is extraordinary. We discovered eye-opening surprises that reflect just how unprecedented the next era will be, with new priorities and new areas of focus. From emerging expectations around remote work to accelerated technological adoption, the leading practices of yesterday and requirements of tomorrow are far from aligned.

“COVID-19 has changed how we look at the future,” says CEO Fernando González of CEMEX, a global leader in the building materials industry. “We started questioning and challenging everything. The traditional ways of planning are outdated. We sense every hour, every day, every week, and react to it.” As CEO and President Mark Little of Suncor, Canada’s largest energy company, puts it, echoing nearly every CEO we interviewed, “We’ll never go back.”

The central, overarching question of this new era: what will it take to be essential—to customers, employees, community, and investors? The CEOs we spoke with almost uniformly emphasized that focusing on the sharpest edge of their businesses, what differentiates their organizations and delivers the most value, has become the overarching imperative.

Out of the chaos has come clarity: get rid of diversions and indulgences, root out “tradition for tradition’s sake,” and exploit distinctive advantages. This applies externally, in products and services, as well as internally. Who is essential to your organization, and what is essential to the operation of your business? While many of our findings were indeed extraordinary, we also discovered that a retrenchment—focusing on the basics—may be equally as important as we move beyond the COVID disruption into whatever comes next.

“Strip away distractions, and then invest all of your energy, your resources, to only the things that are going to make you the most successful.”

Jeff McElfresh, CEO, AT&T Communications

“We must have the courage and conviction to focus on a handful of priorities,” says CEO Jeff McElfresh of AT&T Communications, which serves more than 130 million US customers and nearly all of the Fortune 1,000. “We can no longer juggle a hundred plates. Strip away distractions, and then invest all of your energy, your resources, to only the things that are going to make you the most successful. Shift activity in the company to rely on partners for some functions. What are we really good at? Rely on somebody else for other ingredients.”

The key themes that emerged from our CEO study:

Leadership

Flatter, faster, and more flexible structures are succeeding. “This entire experience has made us less bureaucratic, more responsive,” says Alex Gorsky, CEO of Johnson & Johnson, a global producer of medical devices, pharmaceuticals, and consumer packaged goods. The top-performing organizations also put more emphasis on the core value proposition. As Gorsky says, “You have to be ready to go all in.”

Technology

Tech maturity is an even more important performance differentiator, with cloud computing, artificial intelligence (AI), and the Internet of Things (IoT) at the top of the essential tools list. Organizations that invested in these areas performed better than peers during the disruptions of 2020.

Employees

Remote work will be a permanent fixture as part of a hybrid workforce that blends in-person employees with virtual colleagues. This will shift organizational culture and demand new management approaches and upgraded executive capabilities.

Open innovation

CEOs anticipate fewer partnerships—but of higher strategic importance. Why do everything yourself if you can partner with someone else who does it better, and together unlock fresh opportunities?

Cybersecurity

CEOs at the top-performing organizations put higher strategic importance on protecting against cyber risks and data exposures. They recognize that trust has become the currency of business ecosystems.

This report is divided into three chapters. Chapter 1, “Essential priorities,” presents key results from the entire pool of 3,000 CEOs surveyed.

Chapter 2, “Essential advantages,” goes a layer deeper, zeroing in on CEOs of Outperformer organizations—those who thrived relative to peers in their industry, both before the pandemic as well as during it—and illuminating what differentiates them from their Underperformer peers.

Chapter 3, “Essential lessons,” draws insights from three groups of respondents revealed by our data. Consistent with the theme of finding your essential advantages, we discovered that respondents naturally grouped into segments of expertise: *customer-focused*, *product-focused*, and *operations-focused* (see “Research and analysis methodology” on page 50).

While these designations may seem familiar, the reinventions required by this unique era ask for a decidedly nontraditional formulation. In this third chapter, we highlight lessons from within each group, including Outperformer and Underperformer distinctions specific to each segment. What is essential for one type of business, we learn, differs dramatically from the others.

Today, of course, every significant organization includes elements of customer, product, and operations—with a requirement to be competitive in each. (Customer engagement, for instance, is a priority that runs across all three groups.) This is fundamentally different from the previous era of strategic planning, where focusing on one segment alone might “do the job.” It also makes each segment-focused analysis valuable for virtually every organization.

Yet CEOs can’t prioritize everything, which is why finding their essential differentiators (and relying on partners to help address the other areas) is so compelling. The performance gap between Outperformers and Underperformers has widened in the past year, with differences between strategic focus areas becoming even more pronounced.

“We’ve been building some muscle in the organization to be better at partnering because we can’t do everything ourselves. We don’t want to.”

Ross McEwan, CEO, National Australia Bank

Our report concludes with an action guide that highlights how to put these findings to work for your organization, as well as “essential questions to ask” within each chapter. Along the way are targeted Perspectives that address provocative topics, such as the C-suite role that’s lost its relevance; the troubling metric that points to continued diversity-and-inclusion issues; and the emerging technology that CEOs should not let slip into a blind spot. We also dig into respondents by industry, identifying some unexpected patterns. In the year ahead, the IBV will continue to augment this report with studies of specific industries and targeted top-executive roles, combining deep quantitative research and distinctive qualitative analysis that help business leaders make smarter business decisions.

Chapter 1

Essential priorities

The IBV's exclusive survey of 3,000 global CEOs unearthed clear priorities that span key areas:

- *Perform with purposeful agility*
- *Make tech matter more*
- *Embrace emerging regulations*

The business environment of 2020 has seen longstanding plans and rules replaced by urgencies of the moment. Yet once CEOs addressed what *must* be done, the questions turned to what *should* be done. What are the learnings, drawn from historical leading practices as well as from the most successful COVID pivots, that will produce the best results in the next two to three years?

Perform with purposeful agility

After the uncertainty of the past year, CEOs stress organizational agility—the capability of an organization to respond quickly and pivot without losing momentum—as a top priority for leaders to an unprecedented degree. As Suncor's Mark Little puts it, “What's going to differentiate you is your ability to be agile.”

According to our research, 56% of CEOs emphasize the need to “aggressively pursue” operational agility and flexibility over the next two to three years (see Figure 1).

“If you can embrace agile setups and experiments, then you become adaptive and nimble.”

Piyush Gupta, CEO, DBS Bank

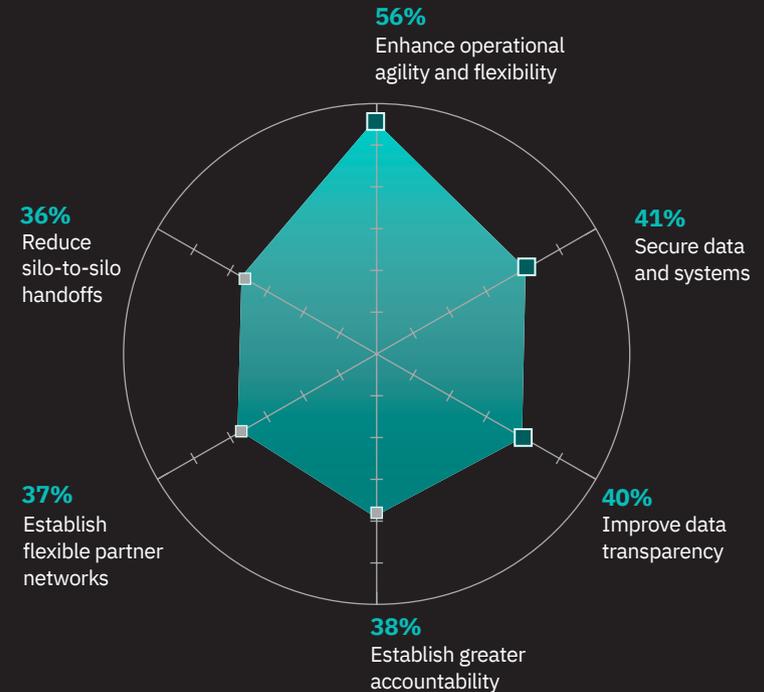
“If you can embrace agile setups, experiments, and constantly nurture a learning culture,” says CEO Piyush Gupta of Singapore-based DBS Bank, one of Southeast Asia’s largest banks, “then you become adaptive and nimble, which means you can respond a lot more quickly to opportunity and changes in the environment.” He adds: “That’s what we’re trying to do.” Looking ahead, CEOs recognize like never before the importance of purposefully preparing for changes—whether driven by competition, government, or external events—and having an infrastructure that can adjust rapidly.

The challenge often lies in identifying the clear impact of agile initiatives, while in some cases, even “agile chaos” has resulted. Therefore, agile ways of working need to be more purposeful. They should include a clear focus on business outcomes and guidelines that indicate where innovation will lead to essential next-level advantages—so that agile initiatives result in material, valuable changes and real-world impact.

Figure 1

Three’s a charm:
Agility, security,
transparency

Top three actions of CEOs
to build a change-ready
organization.

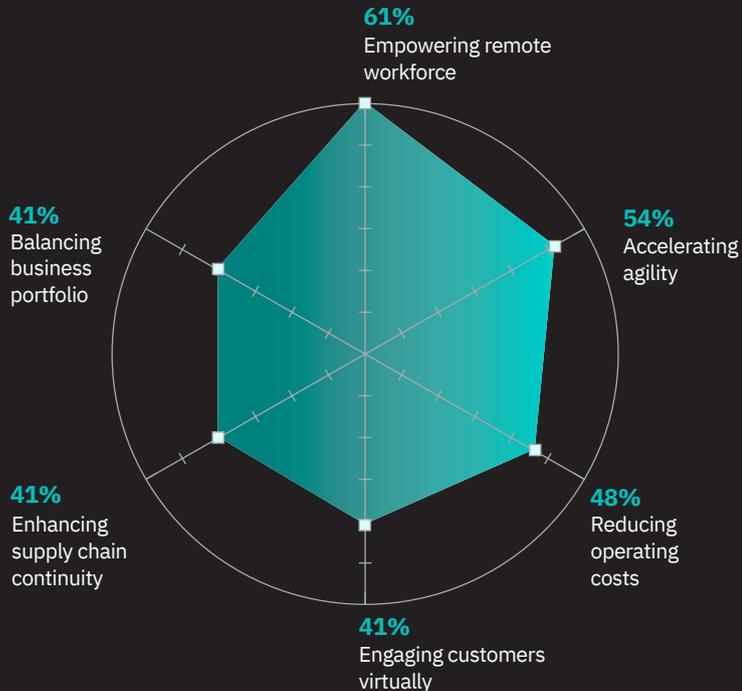


Q. Which of the above will you most aggressively pursue over the next 2-3 years?

Figure 2

Ramping up remote

Emerging expectations make flexibility a top strategic priority.



CEOs recognize that this new way of driving flexibility and delivering innovation can only be realized with an empowered remote workforce. While 2020 amplified a host of strategic priorities—from supply chain continuity to virtually engaging customers—empowering remote work was noted by CEOs as their top concern more frequently than anything else (see Figure 2).

“The leadership component of big business is going to be stressed [by remote work] at a level that I don’t believe most executives appreciate,” asserts Jeff McElfresh of AT&T Communications. “It’s unclear to me that anyone has cracked the code on how to operate the distributed workforce model that COVID has accelerated us into. Not all leaders are comfortable managing in a distributed model. You have to be more precise about each role and the kind of leader that best fits. We’ve got work to do to unlock the potential.”

This is forcing very practical struggles. “We are imagining the post-pandemic employee experience,” says CEO Roberto Nobile of Telecom Argentina, Argentina’s leading telecommunications and entertainment company with 23,000 employees all over the country, referring to his future workforce. “How are the dynamics going to be? We are thinking in terms of digitization, e-collaboration, agility, and total flexibility so as each team will decide how to work. We are co-designing the processes together, breaking down silos and old paradigms.”

Q. How important has implementation of the above been to your organization’s strategy since beginning 2020?

Make tech matter more

The 3,000 CEOs surveyed cite technological factors as the number one most important external force that will impact their enterprises over the next two to three years. That emphasis is well placed. According to the IBV's recent "Digital acceleration" report, digital maturity is significantly correlated with financial performance. The study found that during COVID-19, more tech-savvy organizations outperformed their less tech-savvy peers on revenue growth by an average of 6 percentage points, across 12 industries.¹ In related research, 60% of executives surveyed indicated that they are accelerating their companies' digital transformations during the pandemic.²

"Organizations with really good technology platforms have stood up, while those without have really struggled," says CEO Ross McEwan of National Australia Bank, one of the world's 25 largest banks. He adds gratefully, "This bank had spent quite a bit of money on redoing its platforms."

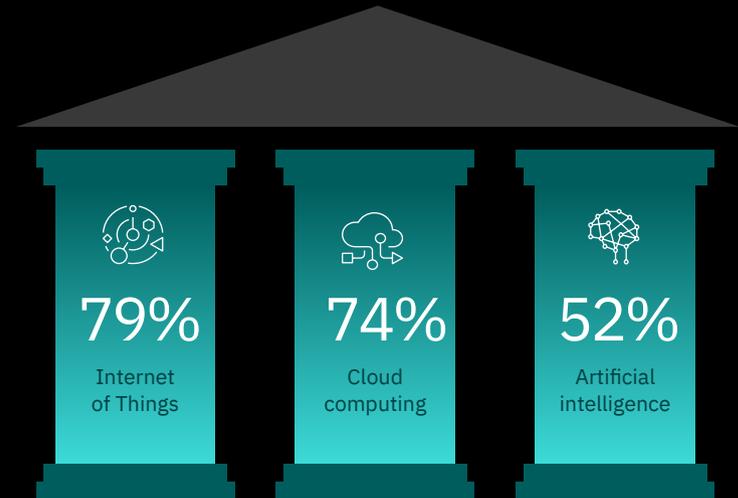
Technology not only enables agility—it is central to enabling a hybrid workforce, as well as both operational efficiency and customer engagement. "How do we leverage technology to allow new flexibility?" asks Barri Rafferty, former CEO of Ketchum, a global communications consultancy, and now Executive Vice President and Head of Communications at Wells Fargo.

Which technologies are most important? The new CEO survey results rank IoT, cloud computing, and AI as the top three technologies expected to help deliver results (see Figure 3).

Figure 3

The tech to tackle now

CEOs look most to IoT, cloud computing, and AI to deliver results.

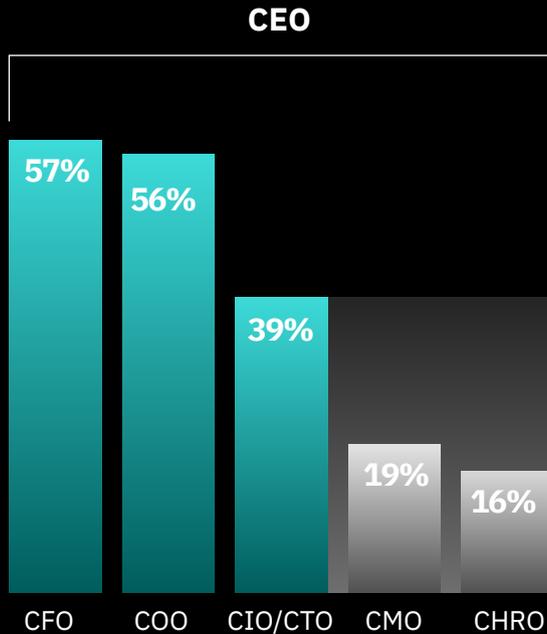


Q. Over the next 2-3 years, which technologies will most help you deliver results?

Figure 4

The C-suite counts on tech

CEOs view the CIO/CTO as a critical role.



Q. Who from your C-suite team will play the most crucial role for your organization?

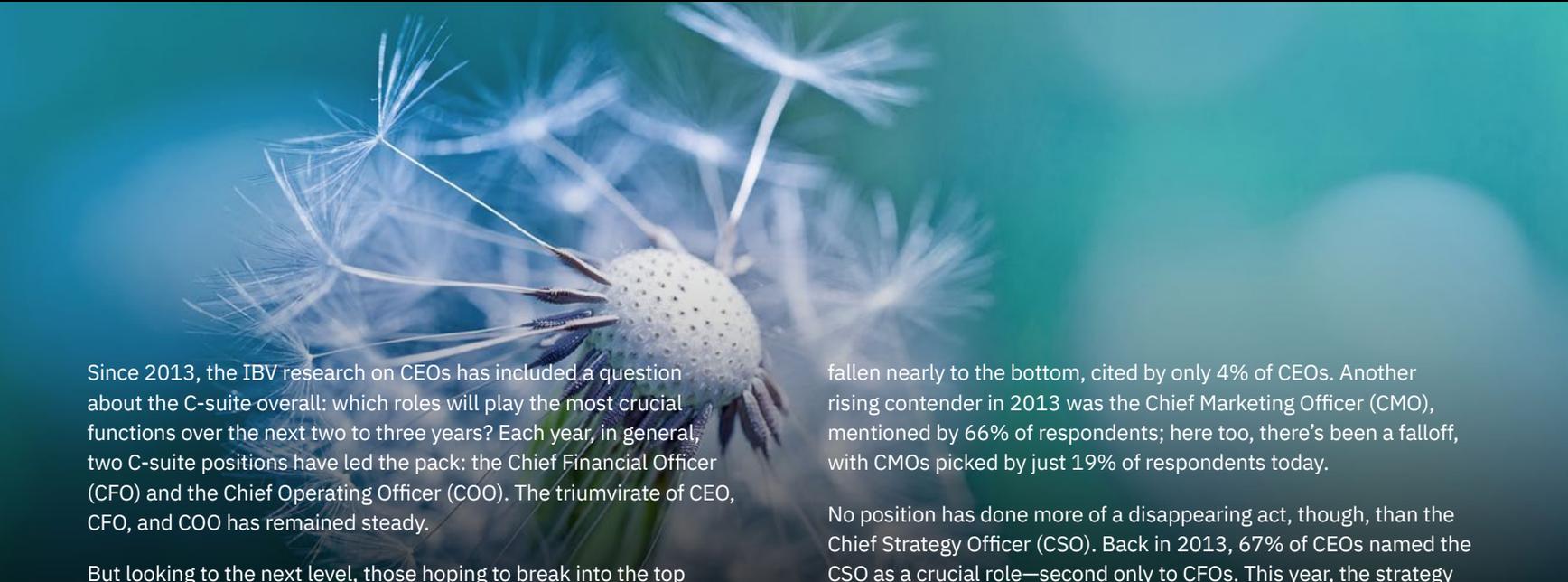
These findings echo the IBV’s “Digital acceleration” report, which identified cloud and AI as performance differentiators.³ This trio of capabilities is often linked and self-reinforcing. IoT enables data collection from vehicles, industrial processes, customer interactions, and so forth. This data is then organized and disseminated via interconnected clouds, and often processed and enhanced using AI. Together, IoT, cloud computing, and AI represent where future-focused organizations look to earn an advantage, redefining how work gets done as what we call “intelligent workflows.”

When it comes to implementing these technologies, Duncan Painter, CEO of Ascential, a UK-based B2B media and consultancy services company, states, “If you really want to leverage the power of being in the global cloud-driven platform world, then you’ve got to trust partners that are expert in that. Because the whole value and leverage you get from being [in the cloud] is the fact that you’re not trying to do it yourself.”

The rising importance of tech is reflected inside the C-suite as well. When asked to identify which other members of the C-suite will play the most crucial role for their organizations over the next two to three years, CEOs named their tech chiefs—Chief Information Officers (CIOs) and Chief Technology Officers (CTOs)—at more than twice the rate of Chief Marketing Officers (CMOs) and Chief Human Resources Officers (CHROs). In fact, tech chiefs are rated at the very top of the C-suite, alongside Chief Financial Officers (CFOs) and Chief Operating Officers (COOs) (see Figure 4). This is a dramatic departure from what we have seen in previous studies and reinforces the degree to which CEOs see technology playing a key role across their organizations. (See “Perspective: The vanishing Chief Strategy Officer” on page 11.)

Perspective

The vanishing Chief Strategy Officer



Since 2013, the IBV research on CEOs has included a question about the C-suite overall: which roles will play the most crucial functions over the next two to three years? Each year, in general, two C-suite positions have led the pack: the Chief Financial Officer (CFO) and the Chief Operating Officer (COO). The triumvirate of CEO, CFO, and COO has remained steady.

But looking to the next level, those hoping to break into the top ranks—and maybe position themselves to be the next CEO—have seen dramatic shifts. Back in 2013, one of the rising positions was Chief Innovation Officer (CIO), noted by 47% of survey respondents and fifth ranked overall. But in the most recent survey, that role has

fallen nearly to the bottom, cited by only 4% of CEOs. Another rising contender in 2013 was the Chief Marketing Officer (CMO), mentioned by 66% of respondents; here too, there's been a falloff, with CMOs picked by just 19% of respondents today.

No position has done more of a disappearing act, though, than the Chief Strategy Officer (CSO). Back in 2013, 67% of CEOs named the CSO as a crucial role—second only to CFOs. This year, the strategy role fell off the map, prized by only 6% of their bosses.

Where has the attention shifted? To the tech chief—the Chief Technology Officer (CTO) or Chief Information Officer (CIO). This year, the CTO/CIO role finished in the third position, identified by 39% of the CEOs, its highest-ever spot in our surveys.

“Technology is becoming ubiquitous in everything we do,” says Alex Gorsky of Johnson & Johnson. “Whether it’s telemedicine, or the way we’ve used data to fundamentally understand the genome of the COVID-19 virus to be able to produce our vaccine, or whether it’s the way we’re integrating data and working with large healthcare systems to identify the best locations to introduce clinical trials—the uptake of digital connectedness is just going to further accelerate.”

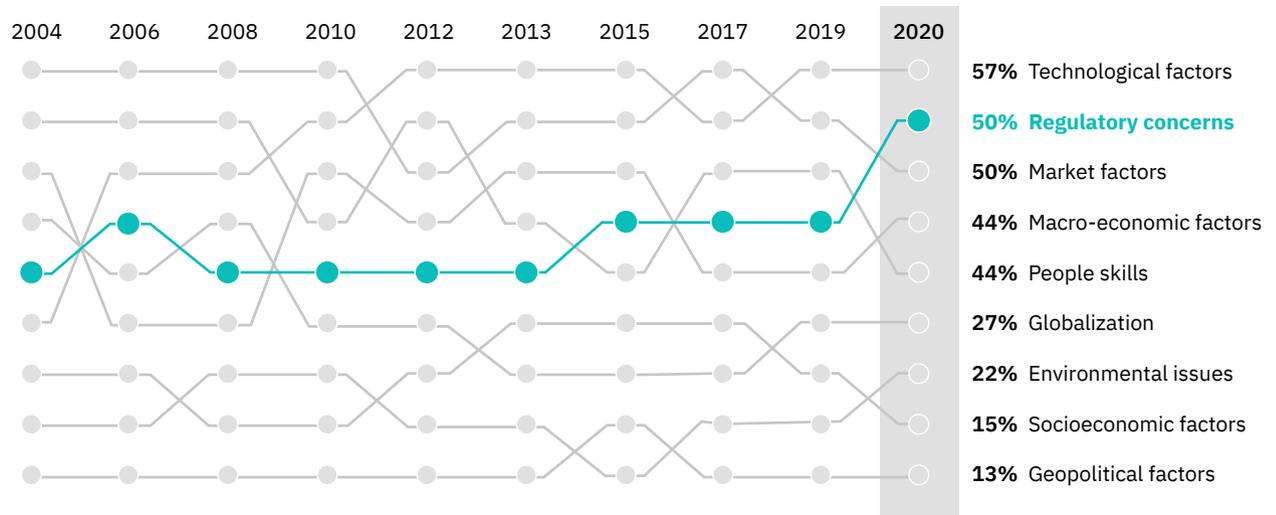
Embrace emerging regulations

The third priority area involves regulation. Over the past 17 years of CEO research by the IBV, regulatory concern has never finished above the fourth position among expected top external forces cited by respondents. For nearly a decade, the first and second spots jockeyed between technology factors and market factors (encompassing competition, market dynamics, changing customer expectations, and so on). But this year, regulation leapfrogged to second, cited as a priority by half the CEOs in our study (see Figure 5).

Figure 5

The regulatory reckoning

Digital maturity often aligns with strong financial performance, but regulatory concerns are surging.



Q. What are the most important external forces that will impact your enterprise in the next 2-3 years?

“Technology is becoming ubiquitous in everything we do.”

Alex Gorsky, CEO, Johnson & Johnson

This unquestionably reflects a rising assertiveness by governments around privacy, data, trade and—amplified by COVID-19—health. Lockdowns and quarantines set a new precedent for government’s power over business that has at least one out of two CEOs looking over their shoulders.

Chapter 1. Essential priorities

Three essential questions

How do we drive purposeful agility with a remote workforce?

- What changes should we make to our ways of working and organizational model, including our geographical footprint?
- How do we need to change our organizational culture to embrace a hybrid workforce as a new business reality?
- What additional support mechanisms does my workforce need to be productive and engaged?

Are we leveraging tech to its full potential?

- How will we identify new technologies and capabilities?
- What steps will we take to prioritize and integrate our technology investments?
- Where are the greatest opportunities to strengthen our competitive advantage using technology?

How might regulation impact our strategy?

- What actions should we take now to prepare for expected changes to the regulatory environment?
- How will we redefine or establish new partnerships to manage regulatory changes?
- What new opportunities could emerge as the result of new regulations?

Chapter 2

Essential advantages

Our research revealed differences between Outperformers and Underperformers in five key areas:

- *Leadership*
- *Technology*
- *Employees*
- *Open innovation*
- *Cybersecurity*

Traditional ways of assessing performance, of judging which businesses are worth learning from, were dramatically upended in 2020. The global pandemic and ensuing rolling lockdowns ravaged some industries and locations while boosting others. The heavy impact of circumstantial factors meant that sometimes merely being in the right place was rewarded, and merely being in the wrong place was punished. (See “Perspective: The performance paradox” on page 15.)

To adjust for this reality, the IBV applied a two-factor screen to the data provided by 3,000 CEOs. We identified those who reported high revenue growth compared to their peers over the three years prior to 2020 *and* performance on par with or exceeding peers during 2020 itself. About one in five respondents met that two-pronged standard of outperformance. A similar-size group of respondents, one in five, reported below-par revenue growth for both periods. When the IBV compared the responses of the Outperformers with those of the Underperformers, dramatic differences emerged.

Outperformers entered 2020 with higher revenue growth than their competitors and have since widened their advantage—from a 5% to 7% point difference in annual rate of growth. For organizations with \$10 billion in annual revenue, this difference in revenue growth is equivalent to an additional \$700 million annually.

Underperformers, perhaps unsurprisingly, are 31% more likely than Outperformers to cite cash flow as a future concern. They are also twice as likely to agree that the competitive gap between winners and losers is widening—a reflection of the vulnerable position they find themselves in.

Perspective

The performance paradox: Luck, delusion, and overconfidence

Just because your business is doing well, don't presume you're doing things right. And if your business is struggling, don't presume you've botched something. This is the reality of the pandemic economy.

The risk of delusion on both sides of the equation has never been higher. Those in the hospitality and travel sectors got hammered in 2020 regardless of strategy, practices, or talent. Those who sell cleaning supplies, nasal swabs, and pet food? Their ascension may be more about being in the right place at the right time than any unusually psychic strategy.

"If you've been lucky because things have been on your track, don't be too happy," says the CEO of a consumer wearables manufacturer in Asia. "Just as war can stimulate military development, when the war is over, military technology must return to civilian uses. It's all about the year after."

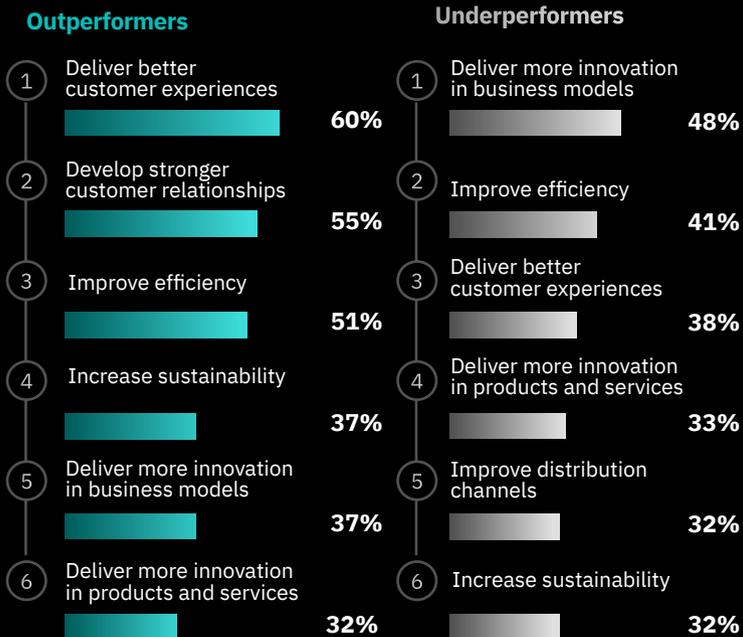
The actionable marketplace information available to business leaders is harder to interpret than ever, with the vision of future impact unclear. Some organizations have arguably become overconfident based on good performances during the pandemic. In fact, a dominant number of the respondents in our product-focused segment express confidence about their preparedness on all manner of future risks. In many circumstances, this may prove unwarranted.

CEOs should remind themselves and their teams: simply relying on the experience of the lucky—or negating the achievements of the unlucky—is unsophisticated and potentially misleading. Data-driven decision making, with heightened attention paid to suspect and biased information, is paramount. Boards of directors, tasked with assessing CEOs, should be particularly vigilant, both in potentially rewarding those buoyed by tailwinds and in critiquing those facing uncommonly challenging headwinds.

Figure 6

Concentrating where it counts

As a group, Outperformers agree on where to focus, while Underperformers lack consensus on priorities.



The differences between Outperformers and Underperformers are revealed in each of the five key areas of Outperformer focus:

- Leadership
- Technology
- Employees
- Open innovation
- Cybersecurity

Factor 1. Leadership comes first

Across our study, Outperformers demonstrate a far more focused set of priorities compared to Underperformers, whose responses are more distributed (see Figure 6). The Outperformers are not passively gathering information or hedging their bets waiting for the dust to settle. Regardless of their specific areas of focus, we consistently see the decisive strategic leadership that sets Outperformers apart. In fact, 85% of Outperformers overall cite leadership as critical to business performance. Only 69% of Underperformers report the same priority.

As demonstrated in the analyses above, in addition to making more explicit choices throughout, Outperformers consistently emphasize customer-related items. To learn more about these priorities, we provide an in-depth analysis in Chapter 3 (check the “Essential lessons in customer focus” section on page 28).

Q. Which of the above represent your organization's highest priorities over the next 2-3 years?

One more prime example: Outperformers identify a sense of purpose and mission as critical to engaging employees at a rate 53% higher than Underperformers (see Figure 7). In today's trust climate, where faith in institutions overall has been declining, that is an emerging competitive advantage. "There's a higher expectation about the role of business in society than a year ago," says Alex Gorsky of Johnson & Johnson. "It's become part of the vernacular in a much more significant way. Expectations have changed." As Franz Reiner, CEO of Daimler Mobility, a global financial and mobility services provider, puts it, "What does your company stand for, and what do you want to achieve?"

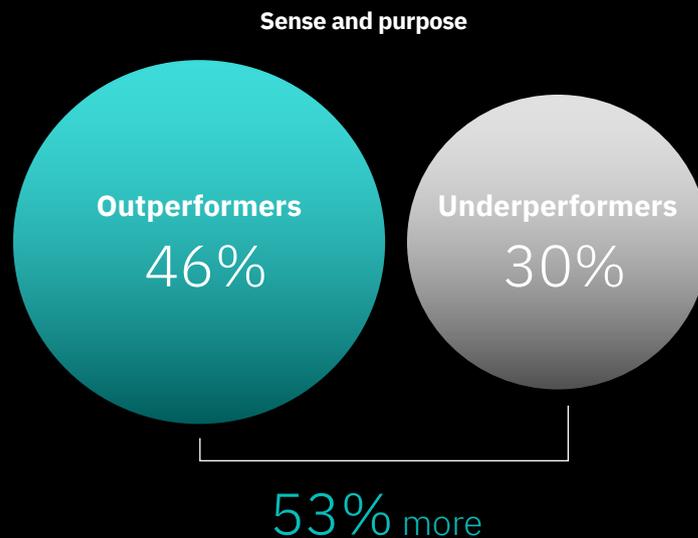
"We are here for a purpose, and the focus of the company is not just to make money," says DBS Bank's Piyush Gupta. "That's deeply rooted in the company. To that extent, I think we have a head start on many others."

The heightened employee engagement from these efforts paradoxically helps performance. As the IBV CHRO study "Unplug from the past" notes, "Organizations that score in the top 25% on employee experience report more than double the return on sales compared to organizations in the bottom quartile."⁴ Additionally, in the groundbreaking IBM study "The Employee Experience Index," employee experience is positively associated with increased motivation and discretionary effort, and decreased turnover intentions.⁵

Figure 7

The power of purpose

Above all, Outperformers view purpose and mission as an employee engagement essential.

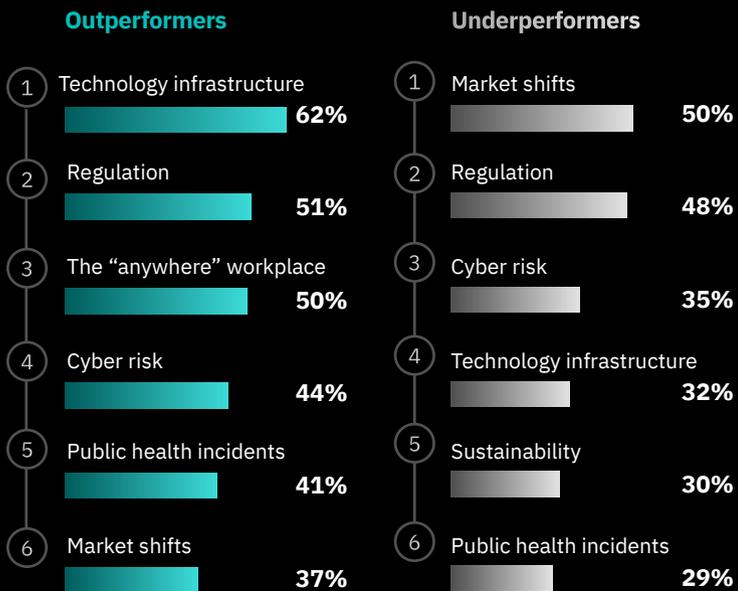


Q. What are the most important organizational attributes to engage employees over the next 2-3 years?

Figure 8

Seeking solid ground

Outperformers know that as technology evolves, so must its foundation.



Q. Which of the above elements do you expect to create the greatest challenges for your organization over the next 2-3 years?

Factor 2. Technology is more than a tool

The CEOs of Underperformer organizations tend to underappreciate the impact of technology, focusing instead on traditional marketplace concerns. When identifying the top challenges over the next two to three years, CEOs of underperforming organizations select market shifts more than any other factor.

The CEOs of Outperformers, meanwhile, are most focused on the forward-looking risks and opportunities of emerging technologies. As C.K. Venkataraman, Managing Director of Titan Company Limited, a lifestyle product company in India, notes: "We had invested substantially in [emerging] technologies starting about five years back. We were growing along a certain geometric progression curve, but then COVID came and took it to an exponential curve. The customer adoption acceleration, as well as the company execution of its digital strategy acceleration, both ended up happening because of COVID. And I think we ended up leapfrogging at least two years."

Emerging tech must be built on something, and Outperforming CEOs identify tech infrastructure as a top challenge twice as often as Underperformers. The specific figure, 62% of Outperformer respondents, is significantly higher than that received by any of 17 other specific challenges we asked about (see Figure 8). This also underscores the appreciation by Outperformers of how quickly tech continues to move, as well as how laggards overlook that factor.

When it comes to specific technologies, Underperformers seem to be a cycle behind. They identify chatbots, voice technologies, and Natural Language Processing as key to delivering future

results more than three times as much as Outperformers. Certainly these tools can be powerful (see the IBV study “The value of virtual agent technology” for benefits).⁶ But Underperformers should consider that, without being paired with other sophisticated technologies, these tools may not ultimately deliver differentiating performance. As explored in the IBV’s recent report on digital acceleration, “Each industry has a unique mix of technologies. . . . a ‘technology fingerprint,’ so to speak. . . . and it is important to understand the unique technology mix that leads to optimal performance within individual industries.”⁷ Across 12 industries in the study, tech-savvy organizations realized a revenue growth premium of 6% during the COVID pandemic compared to nonadopters.⁸

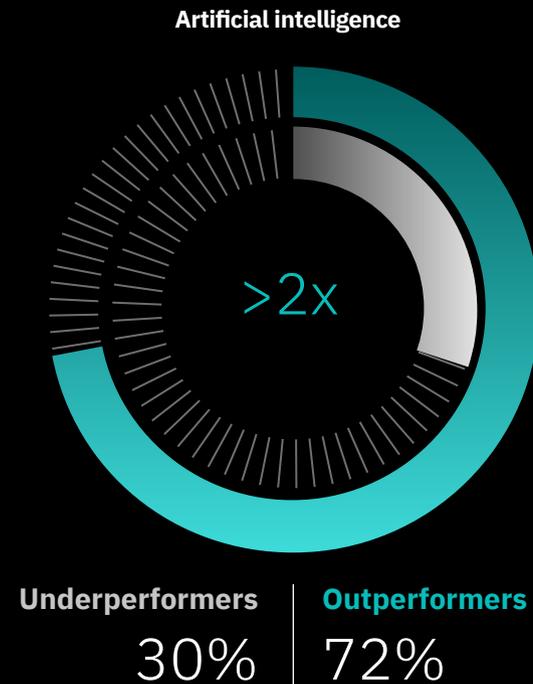
Meanwhile, Outperformers expect AI to deliver results in the next two to three years—and to do so at more than double the frequency of Underperformers (see Figure 9).

This gap in appreciation indicates that those already trailing in AI adoption may fall further behind. Notably, AI is specifically identified in the IBV’s “Digital acceleration” report as a differentiating technology across multiple industries.⁹ Outperformers appear to have recognized this appealing combination of performance impact and relatively low adoption to date as an opportunity to gain early-mover advantage. The high opportunity cost of a tech gap has particular implications when it comes to the next impending computing revolution. For example, while few CEOs identify quantum as critical to delivering near-term results, the technology’s longer-term potential warrants serious consideration (see “Perspective: The quantum opportunity” on page 20).

Figure 9

Artificial intelligence, real results

More than twice as many
Outperformers expect results
from AI than Underperformers.



Q. Which of the above technologies will most help you deliver results over the next 2-3 years?

Perspective

The quantum opportunity

What technology do CEOs anticipate helping deliver the most results over the next two to three years? When presented with a menu of 16 options to choose from—from biometrics to autonomous vehicles to 5G—the big winners were cloud computing, IoT, and AI. Even the CEOs from Underperformer enterprises largely agreed with these priorities.

Among the technologies near the bottom of the list? Quantum computing. 89% of CEOs do not expect quantum to deliver results for their organizations in the next two to three years. Yet this certainly stands in stark contrast to the tech-industry media coverage and investments quantum garners.

Certainly quantum can be difficult to discern, and with few experts embedded in organizations, understanding how it fits into workflows and adds the most value can be challenging. At the same time, quantum has been advancing at a steady pace toward broad applicability, with dramatic potential implications across industries and operations much more diverse than just tech stacks.¹⁰

There is an echo here with how AI was viewed not long ago: as a tech obsession and curiosity that was far enough from the realm of applicability that it could be ignored. Yet those enterprises that chose to invest in and grow comfortable with applying AI were those most likely to take advantage as it matured and delivered outperforming results. CEOs who ignore quantum and allow it to become a blind spot may be doing so at their own peril—a parallel to the missed opportunity when AI was emerging a decade ago.

Factor 3. The hybrid workplace—and its employees—can't be taken for granted

“What does the workplace look like in the future?” asks Barri Rafferty, former CEO of Ketchum and now Executive Vice President at Wells Fargo. “How do we re-engage around collaboration and ways to be together again?”

When it comes to the workplace, the perspectives of Outperformers and Underperformers diverge sharply. The pandemic-fueled, remote “anywhere” workplace is among the most cited areas of future focus by Outperformers, with 50% of CEOs identifying it as a key challenge. Underperformers identify the anywhere workplace at half that rate—on a par with topics such as tariffs.

Surprisingly, despite inherent differences across industries when it comes to the issues associated with a hybrid workforce, in only one industry, local government, do more than 50% of Underperformers identify this challenge. Even in the other industries with relatively high percentages of Underperformers focused on the anywhere workplace—retail/consumer banking, IT services, and retail—Underperformers still consistently lag behind their outperforming competitors on this issue. In other words, while Outperformers are actively preparing for the challenges and opportunities associated with the anywhere workplace, Underperformers risk falling further behind.

“With remote working, you need to keep the soul of the company alive.”

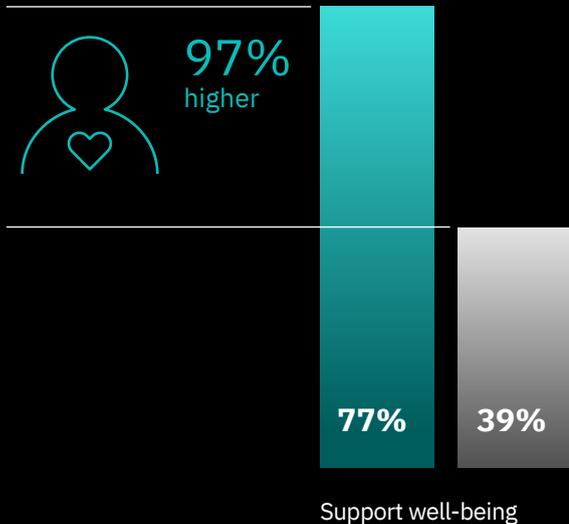
Piyush Gupta, CEO, DBS Bank

Figure 10

People over profit

97% more Outperformers than Underperformers support employee well-being, even if it hurts profitability.

Outperformers
Underperformers



Q. To what extent do you support the well-being of employees during this time of crisis, even if it costs you profitability?

Outperformers also focus more on employee well-being, with 97% more of them than Underperformers supporting workforce health and wellness even if it costs near-term profit (see Figure 10). This finding reinforces data from another IBV study, “Accelerating the journey to HR 3.0,” which found that CHROs at outperforming organizations reported their companies “support as a core value” the physical, emotional, and financial well-being of their employees at rates nearly three times those of Underperformers.¹¹ This support has to be not just well-intended, but well-received. “The far most important capability is human capability,” says Younus Al Nasser, CEO of Smart Dubai, the government agency that facilitates the city’s digital transformation. “Technology advancements come when you have the right human capabilities.”

However, there’s one important point to consider. A C-suite focus on employee well-being may not be enough if the employees themselves aren’t feeling the love. (See “Perspective: What ‘employee well-being’ means to CEOs” on page 23.)

Perspective

What “employee well-being” means to CEOs—and to everyone else

The pandemic has brought a refreshing reinforcement among corporate leaders: the mental and physical well-being of their people is a major priority. Part of that has been simple human caring, and part has been smart business practice. Fernando González of CEMEX notes that having healthcare centers in place at his company’s facilities proved a competitive advantage: “We didn’t have any material disruption of our supply chain. Some of our competitors did, companies just shutting down, closing temporarily to deal with infections in their work centers.”

In many organizations, employees have felt decidedly less enthusiastic about corporate efforts. Our recent report “Closing the chasm” compared employer perspectives with those of employees. When asked if companies were supporting the physical and

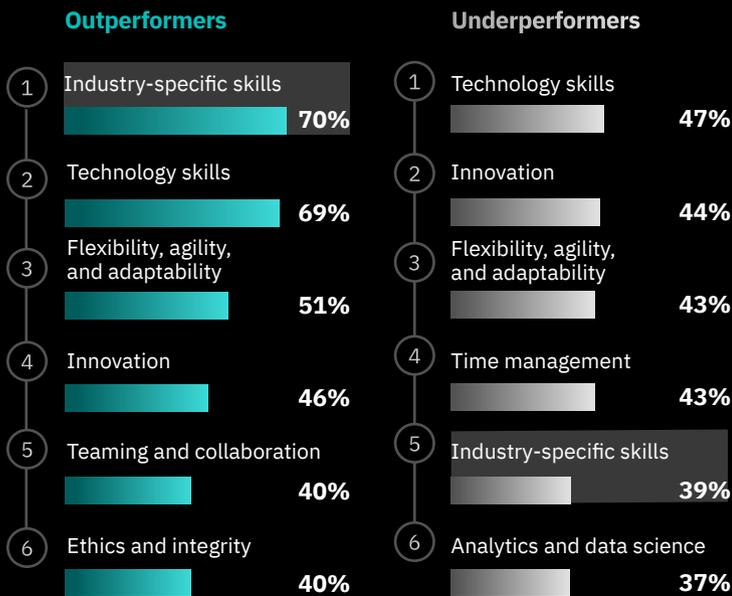
emotional health of employees, 80% of executives agreed or strongly agreed. Yet when the same question was posed to employees, the figure was a glaringly low 46%. When asked if organizations were providing adequate training on how to work in new ways prompted by the pandemic, 74% of executives agreed, while only 38% of employees said the same.¹²

The message here is that, for many organizations, sensing-and-responding processes are underdeveloped or just plain ineffective. If you think you’re providing a benefit, and the recipient of that benefit doesn’t see it the same way, you’ve failed. Employee expectations of their employers have permanently changed. There’s clearly more work to be done to deliver on the promise of comprehensive employee well-being.

Figure 11

Skills in the spotlight

Outperformers emphasize industry-specific skills 79% more than Underperformers.



Q. What are the most critical skills your organization needs over the next 2-3 years?

In all this, we anticipate an even bigger need for loyal and productive employees with industry-specific skills. Even prior to 2020, IBV research explored the challenges facing organizations related to talent shortages and the impact of rapidly changing skills requirements.¹³ Outperformers now stress the importance of industry-specific skills at almost twice the frequency of Underperformers (see Figure 11).

This echoes the “essential” focus emerging throughout this year’s CEO Study. Successfully navigating this environment will require strong leadership to reshape how organizations recruit, grow, and retain critical skills.

Factor 4: Partner to win with open innovation

Over the past several years, we have seen a steep decline in the percentage of CEOs who expect more partnering opportunities in the years ahead. From a high of 79% in 2015, only 36% of CEOs in our 2020 research expect more partnering opportunities.

It is therefore particularly notable that, in a reflection of the “focus on what we do best” mantra, Outperformers—in clear contrast to Underperformers—report a heightened emphasis on partnerships. Asked to identify those factors that increased in importance most in 2020, 63% of Outperformers identify partnerships, compared with only 32% of Underperformers (see Figure 12).

Looking ahead, 47% more Outperformers than Underperformers expect to aggressively pursue establishing flexible partner networks. They stress customer relationships and experiences at 68% and 59% higher rates, respectively, than Underperformers, indicating a more outward-looking perspective.

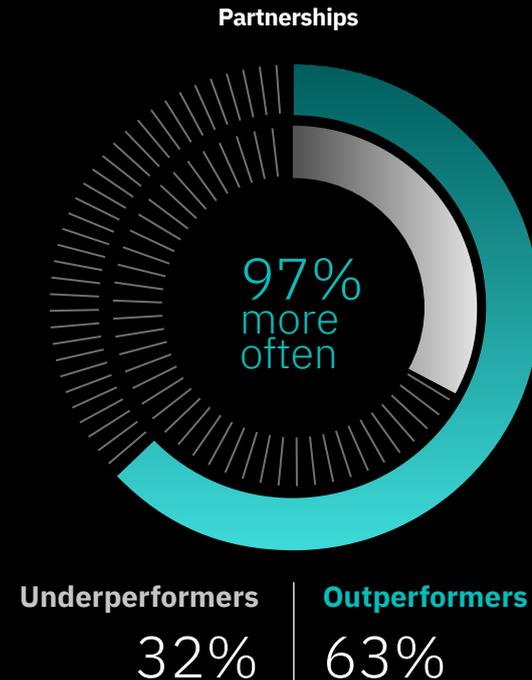
In other words, organizations are forming fewer partnerships. But Outperformers stand out in their recognition that the partnerships they do engage in are more important—and more valuable—than ever. The CEO of a UK-based general merchandise retailer makes it clear: “Through partners and by building a relevant ecosystem, we can focus on the areas where we bring the best value and thus are able to accelerate outcomes.”

To optimize the advantages of open innovation requires trusted, secure, reliable partnerships. By tapping into ecosystems that amplify their effectiveness, Outperformers are extending their dominance over inward-looking laggards. Duncan Painter of Ascential states, “In the last five years, companies who truly embrace ecosystems recognize that what they’ve got to do is be collaborative and enabling to take advantage. You give expertise to others, but not try and replicate what others do. . . . Respect of someone else’s expertise just gets you there much faster. And by being there faster, you get greater results.”

Figure 12

Focus on our best, partner for the rest

Outperformers report partnering for needed capabilities 97% more often than Underperformers.

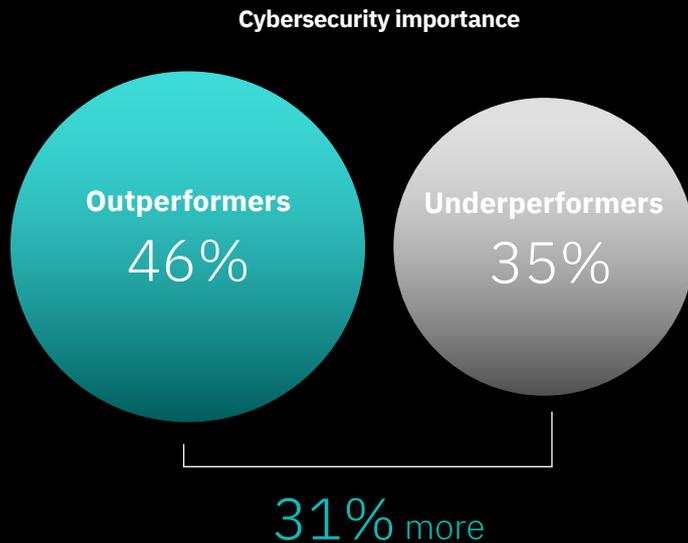


Q. How has the COVID-19 pandemic changed the importance of partnerships in driving business performance?

Figure 13

Technical safeguards

Outperformers view technology as a potent tool to enhance security.



Factor 5: Cybersecurity provides a foundation

In parallel with their deeper focus on ecosystems, remote activities, and technology overall, Outperformers distinguish themselves from Underperformers in one more significant area: a heightened focus on cybersecurity. 26% more Outperformers than Underperformers identify cyber risk as among their greatest challenges over the next two to three years. The number two factor Outperformers will aggressively pursue is securing data and systems. Furthermore, 31% more Outperformers than Underperformers cite security and risk as an area where they expect technology to have the greatest impact (see Figure 13).

Outperformers appear to recognize that digital security and trust need to be integrated into strategy, given the essential reliance on technology for partnering, culture, customer engagement, and more. The importance and impact of tech is so important, so central, that cybersecurity is elevated to a justifiably highest-order priority. This is consistent with research from the IBV “Digital acceleration” study, which found top performers to be 72% more likely to use AI to gather and assess threat intelligence. By not preparing, Underperformers reveal their tech naiveté.¹⁴ They also may be creating exposure for themselves—because even less tech-mature businesses are still, essentially, tech-dependent.

Q. Where in your organization do you see technology having the greatest impact over the next 2-3 years?

Chapter 2. Essential advantages

Five essential questions

How can we develop more focused strategic leadership?

- What are the new fundamental requirements of our next generation of leaders?
- How do customers help drive our leadership decisions?
- In what new ways will we lead by example to also engage with digital-native employees?

Are we talking about technology more than implementing it?

- How have we integrated technology and technology leaders into our strategic planning processes?
- How have we changed our KPIs to reflect new capabilities and objectives?
- What steps are we taking to grow skills and attract top technology talent?

Could we do more to support employee wellness, including a focus on mental health?

- What actions should we take to help ensure our employees are healthy, safe, and financially secure?
- How do we identify emerging and persistent employee issues?
- How can we go about growing trust with our employees, and establishing a sense of purpose and mission?

How can partnerships help us innovate?

- How can we use an expanded ecosystem to positively impact our products, workflows, and experiences?
- What capabilities can we delegate to, obtain from, or jointly develop with our most trusted partners?
- How can technology enhance transparency and flexibility with our partners?

How do we embed cybersecurity as a foundational element in everything we do?

- How do we organize responsibilities so that we can help develop comprehensive end-to-end cybersecurity, including our ecosystem?
- What do we need to put in place so that every employee feels responsible for cybersecurity?
- How can we use our cybersecurity strengths to enhance customer, partner, and employee trust?

Chapter 3

Essential lessons

Our 3,000 respondents fall into three natural groupings, each with their own unique practices and priorities:

- *Customer-focused (50%)*
- *Product-focused (30%)*
- *Operations-focused (20%)*

To unlock even more specific insights—and mindful of CEOs’ rising emphasis on finding distinctive advantage—our analysis went a layer deeper. Applying a data-driven segmentation analysis, the IBV discovered three natural groupings within the 3,000 respondents: customer-focused, product-focused, and operations-focused. (See “Perspective: And the winning model is . . .” on page 49.)

By drilling deep into each group, specialized and distinctive leading practices were illuminated—some of which differentiate the groups from each other, and others that differentiate Outperformers and Underperformers within a specific group.

Essential lessons in customer focus: Raising the experience bar

The largest of the three groupings, covering 48% of the pool, are respondents whose most important business priorities revolve around customers, clients, and citizens. While all organizations are active in this arena, CEOs in this category give heightened attention to customer relationships. During 2020, they stressed virtual engagement with end users 50% more than other CEOs. For example, they are more likely to include customers in development and testing as well as in validating privacy and security policy.

“We were more inward looking in our first 40 years,” says CEO Xia Shizhong of Camel Group, a large automotive starter battery manufacturer in Hubei Province, China. “In the future, we need to be more outward looking.”

The customer-related lessons become acute when comparing Outperformers in the group to Underperformers. Consider acting on customer feedback, a logical and expected priority for this realm. This is cited as the most important method of creating a differentiated consumer experience—but by the *Underperformers*.

Of course, Outperformers value customer feedback too, but their first and second priorities when it comes to customer experience are customer-service *etiquette* and dynamic feedback—feedback that’s smart, curated in real time, and fueled by technology such as AI. The message is that simply giving customers what they *say they want* isn’t enough. The goal should be to delight customers at every interaction by treating them better than they expect, acknowledging that a customer’s impression of the organization is only as good as their last experience. Real-time dynamic feedback helps Outperformers achieve that goal.

In our analysis of customer-focused organizations, we found Underperformers to be more reactive and Outperformers to be substantially more flexible and dynamic through empowered employees. “The bar has been raised higher,” says Piyush Gupta of DBS Bank.

“The big change,” Gupta says, “is hyper-digitalization.” When asked where technology would have the greatest impact over the next two to three years, customer-focused Underperformers cited consumer *insights*—harvesting data about consumer behavior and preferences. Yet for Outperformers, the by-far dominant answer was consumer *experience*—using those consumer insights to actually drive decisions and technical strategies that enhance engagement (see Figure 14).

The lagging organizations look to data for competitive clues; they collect data and use it to give consumers what they ask for. Outperformers take it one giant step further. They are proactive in how they apply data, using it to emphasize engagement. Rather than simply respond to data, Outperformers use it as a tool to build and shape customer relationships. The goal is designing and developing informed, differentiating experiences.

“We used AI during the pandemic to understand where demand is recovering. We were looking ahead of the curve.”

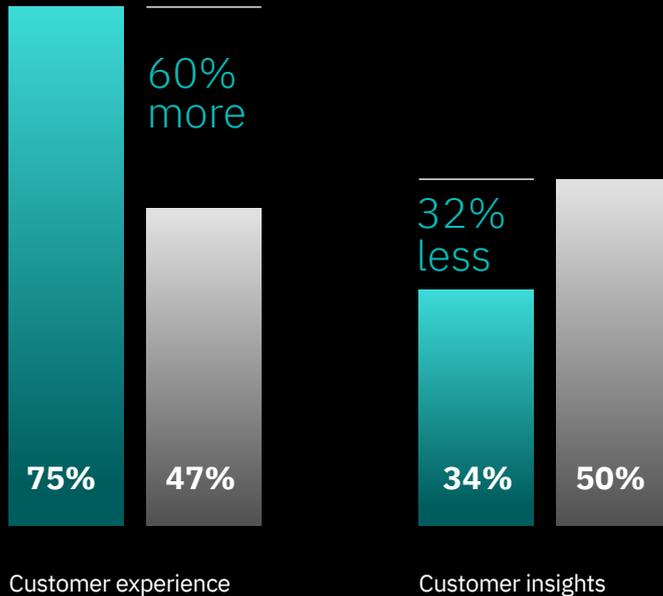
Calin Rovinescu, CEO, Air Canada

Figure 14

Creating compelling customer experiences

Outperformers don't tap data in a one-sided search for insights, but use it to craft consumer relationships.

Customer-focused Outperformers
Customer-focused Underperformers



Q. Where in your organization do you see technology having the greatest impact over the next 2-3 years? Note: Respondents are customer-focused Outperformers and Underperformers.

In their pursuit of excellence, Outperformers also cite platforms and partnerships among the factors most responsible for their success. This indicates an openness to other modes of relationship building and a willingness to leverage outside expertise, ecosystems, and open innovation. Underperformers see value in these tools only half as often.

Consistent with their focus on positive customer experience and partnering, customer-focused Outperformers cite ethics and integrity as critical human skills 56% more frequently than Underperformers—they know that trying to exploit or take advantage of customers or partners is a short-term, loser's game. This reflects an acceleration of a finding in the IBV study "The enterprise guide to closing the skills gap" that saw ethics and integrity, among other behavioral skills, increasing in importance over time.¹⁵ Notably, customer-focused Outperformers also identify ethics and values as critical attributes to engage their own employees 88% more frequently than Underperformers.

Importantly, what further differentiates the top tier of customer-focused organizations is how they're using technology at the leadership level: two out of three Outperformer CEOs specifically cite the role of tech in driving decision-making processes; about half as many Underperformers rely on such tech application. "The more data, the more difficult the decision making," says Xunfeng Liu, chairman of China's Shanghai Huayi Group, a large chemical products company with global operations, "but the more data, the more accurate the decision making."

This is a clarion call for applying AI in customer-focused efforts, where data can be voluminous and even overwhelming. A telling comparison: Underperformers in this group cite augmented reality and virtual reality as key drivers of results over the next several years at more than four times the frequency of Outperformers; they apparently see a silver bullet in these technologies that Outperformers do not. Yet conversely, when it comes to AI, Underperformers are far less committed, with only one in four respondents citing it as a priority. For Outperformers, AI is championed by a whopping 82% of CEOs.

Air Canada CEO Calin Rovinescu offers a specific example from 2020 of just what AI can deliver to drive decision making: "We used AI during the pandemic to understand where demand is recovering," he says. "We could not use any of the tools we had built previously, because they were based on historical data. And all that data was thrown out the window. So we were using AI to see what hotels are seeing, what car rental companies are seeing, what Airbnb is seeing. We were looking ahead of the curve."

The digital maturity gap between Outperformers and Underperformers highlights the importance of adopting and embedding ever-evolving new technologies—and how significant the differentiation gap becomes after a few years. It is a powerful reminder for CEOs to stay alert and proactively map a path of new tech adoption, from AI and hybrid cloud to high precision computing to quantum.

As a critical final piece to the customer service puzzle, 72% of customer-focused Outperformers identify protecting against cybersecurity risks as a top-three priority—alongside agility and empowering remote work. This is a reflection of their reliance on—and commitment to—digital tools and experiences. But it also indicates the prioritizing of consumer trust as a differentiator—validating the central theme of the 2019 IBM C-suite Study, "Build your trust advantage."¹⁶ Among the tech-lagging Underperformers, cybersecurity implementation is noted as important by only 24% of respondents (see Figure 15).

Figure 15

Boosting cybersecurity

Outperformers understand the urgency of keeping digital tools safe.



Q. How important has protecting against new cybersecurity risks been to your organization's strategy since the beginning of 2020?

Chapter 3. Essential lessons

Three essential questions for the customer-focused organization

Are we providing a differentiated customer experience?

- How are customers defining what we should be doing?
- Are we doing enough with the data we collect from customers to help create a differentiated customer experience?
- In what ways do we anticipate changing customer needs to drive sustainable differentiation?

How does technology help drive our decision making?

- How are we realizing the benefits of our past investments in data?
- Where are we leveraging AI and other decision-enhancing tools?
- How can we better focus our teams on uniquely human decisions and activities?

Are we prioritizing customer trust?

- How are we using trust as a differentiator with our customers?
- Which of our actions balance privacy and security with compelling customer engagement?
- How have we built security into all of our partnerships and workflows?

Perspective

The persistent diversity gap

The broad global dialogue about racial and gender equity has been much discussed in C-suites around the world. The IBV is currently exploring diversity and inclusion (D&I) in a series of studies. (The first, “Untapped potential: The Hispanic talent advantage,” was released in December 2020.¹⁷) Our research finds that while aspirations may be high, implementation remains a work in progress.

When asked if D&I behaviors are central criteria for leadership, the CEOs in our C-suite Study expressed positive conviction. Outperformers agreed 29% more frequently than Underperformers, an indication that D&I practices can feed financial results. “I think diverse leadership will be a very powerful thing for our organization,” says CEO Radhika Gupta of India’s Edelweiss Asset Management, one of India’s fastest-growing asset management companies. “Times are so different and so volatile and different kinds of people bring so many different things to the table.”

Yet, for most organizations, when it comes to putting that conviction into action, the results are troubling. D&I was noted as a measurable part of financial performance by only one in four respondents, with little differentiation between Outperformers and Underperformers. If what’s measured is what matters most, then for most organizations, D&I falls short.

Equally troubling, when asked about the most important organizational attributes for engaging employees, D&I ranked near the bottom of a 13-choice list. Even among Outperformers—those arguably with the most financial leeway to invest in support of the aspiration—D&I was cited by only 17% of CEO respondents, ending up in the twelfth position.

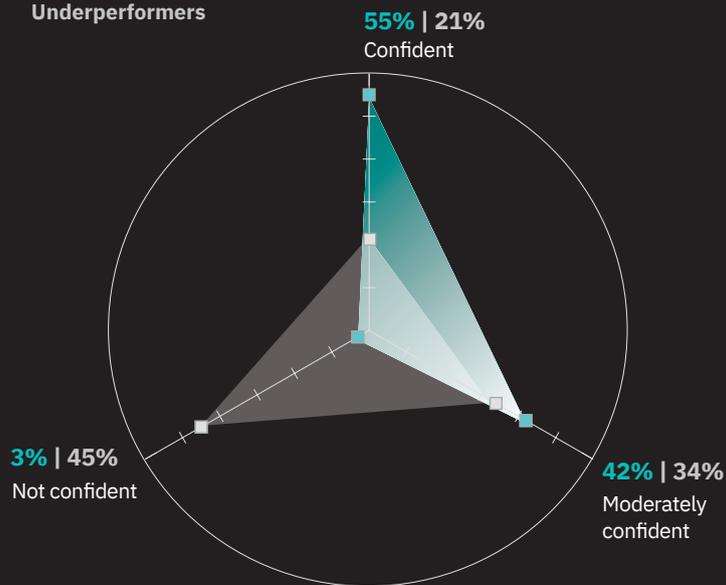
Figure 16

Embrace risk— but be prepared

Product-focused Outperformers

Product-focused Underperformers

97% of product-focused
Outperformers have
confidence in their risk
readiness.



Q. How confident are you that your organization is prepared for major disruptions over the next 2-3 years?

Essential lessons in product focus:

The innovation priority

The second-largest of the three groupings identified by the IBV's segmentation analysis—covering 30% of the 3,000 CEOs—are respondents whose most important business priorities revolve around products and services. These businesses are active with customers as well, of course, but CEOs here give heightened attention to product and service innovation. (See “Perspective: CEO spotlight—What’s your vanilla?” on page 35).

“Users can change products in an instant,” as the CEO of a consumer wearables manufacturer in Asia puts it. “They are more educated, more discerning. Bad products have no opportunities. We can outsource channels and suppliers, but product creativity cannot be bought. If I had to choose one ability, I’d select product sensitivity.”

Interestingly, this is the group reporting the least impact from the COVID-19 convulsions of 2020. Two-thirds of the product-focused Outperformers, in fact, reported an expectation not just to best their peers over the year, but for continued growth in absolute terms. They report remarkable confidence, too, in their preparation for a broad range of risks; 97% of these Outperformers say they are at least moderately confident (see Figure 16). (Whether that confidence is well placed is an open question. See “Perspective: The performance paradox” on page 15.)

Perspective

CEO spotlight— What's your vanilla?

In the IBV's interviews with top CEOs, one theme came up repeatedly—the need to focus. Jeff McElfresh of AT&T Communications offered a particularly tasty analogy:

“There are many things that we could choose to do—and we will never be best in class at some,” McElfresh says. “We could build a great oven and, man, we got the best cost structure on flour, so we bake cakes. But we don't have to design the icing. Maybe we partner with others. We focus on what we do really well and rely on somebody else for some of these other ingredients.”

McElfresh goes a step further: “And it may not be a complete cake at all that we sell. Sometimes people just really want tasty vanilla ice cream.” For AT&T Communications, he says, vanilla ice cream revolves around ubiquitous access to the telecom network.

“We're pretty sure, based on analysis that we've done, that in a down market, this vanilla ice cream is a bigger success and a bigger expected market. And in an upside market, it's a raging success.”

So what's your vanilla? “In order to be effective, you focus not on 50 flavors of ice cream, you rally the power of this massive organization around one,” McElfresh observes. “That helps improve our chance of high-quality execution.”

“Purposeful innovation is very important in what we do.”

Radhika Gupta, CEO, Edelweiss Asset Management

What they are worried about, at a higher rate than other CEOs, is regulation. CEOs of product-focused organizations cite regulation as a concern over the next three years 23% more often than their underperforming product-focused peers.

Outperformers are also more likely to stress customer relationships and experiences—demonstrating a stronger focus on and recognition of the close ties between products and customers. Edelweiss Asset Management’s Radhika Gupta highlights this: “Purposeful innovation is very important in what we do. Every time we’re thinking about doing something, we’re asking ourselves, ‘Are we doing something to solve a consumer problem, or are we just doing something to serve our own purposes?’”

While product and services innovation is noted as the highest future priority by both product-focused leaders and laggards alike, the laggards dedicate extra effort to some telling areas. Roughly twice as many Underperformers as Outperformers cite brand and social media among their most important differentiating factors today. And Underperformers rank improving the effectiveness of marketing and sales as their second-highest priority for the future. This could indicate a reliance on packaging and promotion, rather than product quality itself.

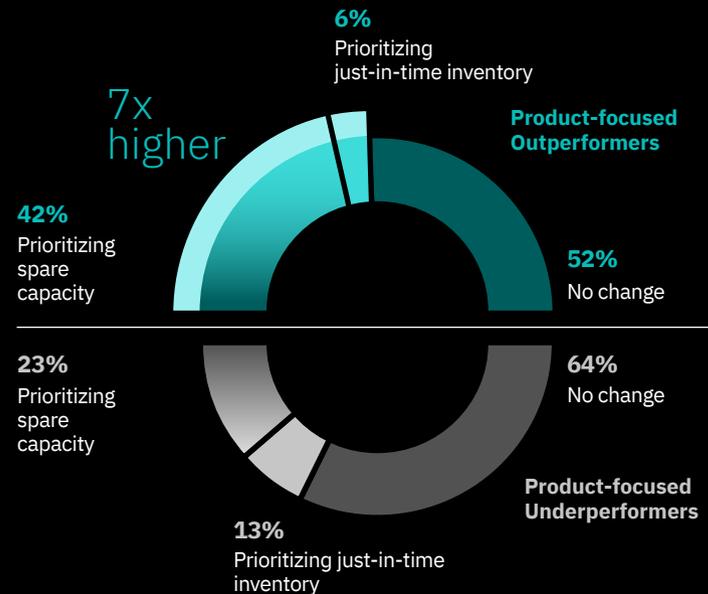
For product-focused Outperformers, sales and marketing finishes in the eighth slot, identified almost 40% less frequently. In other words, the Underperformers are focusing on the message (perhaps to counterbalance concerns about what they are offering). The Outperformers may expect that the intrinsic value of their products and services will, to a certain degree, prevail. In that case, their products and services can essentially sell themselves. The product-focused Outperformers recognize the importance of human-centric design and product and service excellence as the prime route to lasting success.

There is also an intriguing difference between leaders and laggards when it comes to supply chains. For those engaged with physical goods, 2020 provided a bracing wake-up call. But not everyone has been answering that call with the same intensity. The product-focused Outperformers report prioritizing spare capacity at a *seven times higher* rate than prioritizing just-in-time inventory (see Figure 17).

Figure 17

Capacity counts

“Just-in-time” planning has given way to “just-in-case” preparation.



Q. In which direction will you be making changes to your supply chain?

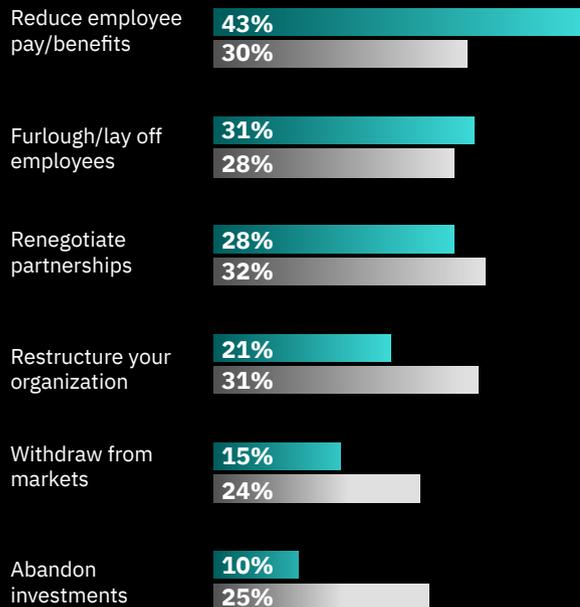
Figure 18

Difficult decisions

Product-focused Outperformers

Product-focused Underperformers

To deal with recent volatility, product-focused Outperformers took more employee-related actions.



Q. What are the most difficult decisions you have had to make over the past 6 months (Q2-Q3 2020)?

This is an extraordinary transition, reflective of an ongoing global reshuffling of supply chain capacity and planning. And while Outperformers respond aggressively, product-focused Underperformers prioritize spare capacity at barely half the rate. Nearly two-thirds are planning no change at all to their priorities. In fact, Underperformers have been more apt to pull back on innovation efforts overall. When asked to identify difficult decisions made during 2020 uncertainty, product-focused Underperformers indicated abandoning investments 150% more frequently than Outperformers (see Figure 18).

In terms of tech, product-focused Outperformers point to distributed ledgers such as blockchain as potential results drivers at nearly twice the rate of their underperforming peers. 83% more Outperformers than Underperformers also expect 3D printing—an emerging design and manufacturing tool that enables new creations and reduces cost points—to drive value. The product-focused Outperformers also expect augmented reality and virtual reality to drive results at a level that is 175% above what Outperformers in customer-focused and operations-focused groups report. This suggests that product-focused Outperformers are confident they've reached a degree of maturity in foundational technologies, and are therefore more apt and willing to lean into emerging technologies as the next lever of differentiation.

One eye-popping distinction between product-focused Outperformers and Underperformers: their expectations around the remote anywhere workplace. For Underperformers, this is cited by CEOs as a middling challenge—above items such as cash flow, but below topics such as raising capital. For Outperformers, though, managing a remote workforce is among the very top challenges, cited by CEOs in this group nearly twice as often as their Underperformer peers.

What this reflects is a dichotomy in expectations about—and perhaps appreciation for—how remote or hybrid work might disrupt the key human-to-human creativity that drives innovation. “This year,” says Johnson & Johnson’s Alex Gorsky, “you could succeed on the capital that you established over years of investing in corporate culture and innovation. Our concern is, what’s the half-life? How long before that fades?” The challenge these CEOs see is indeed acute. As Gorsky notes, “If you don’t have that physician and engineer shoulder to shoulder, are you going to have the same innovative output on your next digital robotics platform?”

But within challenge lies opportunity. C.K. Venkataraman of Titan Company observes, “COVID came and forced us to work from home. Digitally working together was adopted in a huge way, including doing customer meetings digitally, franchisee meetings digitally, we were doing all kinds of reviews digitally. This new way of working—with so much emphasis on innovation, piloting, closure—became a big way of life, including new levels of energy, engagement, and even the democratizing of talent.”

Chapter 3. Essential lessons

Three essential questions for the product-focused organization

Are we prioritizing spare capacity in our supply chain?

- What actions are we taking to help ensure our supply chain continues to function productively during future disruptions?
- Where are the bottlenecks we need to address?
- How are we engaging our partners to build capacity and resilience?

Is our marketing effort masking product weakness?

- How are we differentiating our products and services with compelling value for customers?
- What actions will make our products and services “sticky?”
- What future disruptions could compromise the value our products and services delivery and how are we preparing for those scenarios?

Are we tracking how remote work is impacting creativity?

- In what ways are we promoting cross-functional exchanges and innovation across a hybrid workforce?
- How are we redefining how we measure innovation and creativity?
- What new leadership behaviors initiated in 2020 will we retain?

Essential lessons in operations focus:

The experimentation mindset

The last group identified by the IBV's segmentation analysis, covering some 20% of the 3,000 CEOs, are respondents whose most important business priorities revolve around operations. In the context of COVID-19, this is the group hit hardest during 2020. Among even the Outperformers in this cohort, 60% report expected revenue declines for the year, a figure twice the size of Outperformers in the customer- and product-focused groups.

But despite those difficulties, the operations-focused Outperformers demonstrate some key differentiation from Underperformers—valuable distinctions that any organization can learn from.

Overall, operators stress efficiency, distribution, pricing structure, and transparency—all expected and appropriate disciplines. The surprises with this group come, again, when comparing its Outperformers and Underperformers. Operations-focused laggards are taking the short view, citing budgets, for example, as one of the most important external forces impacting the enterprise in the future. But their leading peers take a more proactive, forward-looking perspective, positioning themselves for a prosperous tomorrow by emphasizing factors such as emerging technologies. It's the difference between surviving and thriving.

“We’re trying to accelerate investments in the intangible world. How do you generate value?”

Mark Little, CEO, Suncor

Perhaps unsurprisingly, process automation is identified as an expected driver of results, as well as cloud computing and AI (see Figure 19). “Trustworthy data can be of great value,” says Guo Jian, Vice CEO of COFCO Trading Agriculture Bigdata & Solutions Co., Ltd., part of China’s largest grain trading and logistics company. “With the development of China’s information technology, we’re providing new services for agriculture and farmers.”

Technology will drive improving business agility, say the operations-focused CEOs. This gets to a core challenge that Outperforming CEOs recognize is of utmost importance to address.

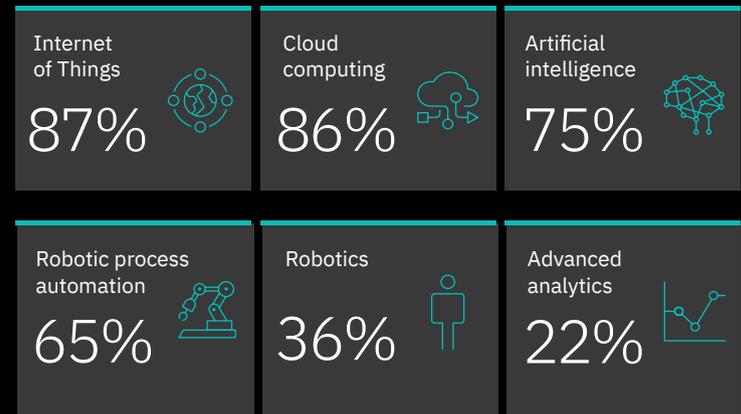
“Shifting the mindset from engineering something to death to experimenting and failing quickly is the opposite of the way we’ve worked culturally,” says Mark Little of Suncor. “It’s a very different approach.” Much of the solution, Little says, revolves around technology and the proper approach to implementing it: “We’re trying to accelerate investments in the intangible world. How do you generate value?”

Figure 19

Great expectations

Almost two-thirds of operations-focused Outperformers placed robotic process automation a firm fourth in terms of expected performance, right behind the usual trio of IoT, cloud, and AI.

Top technologies in next 2-3 years

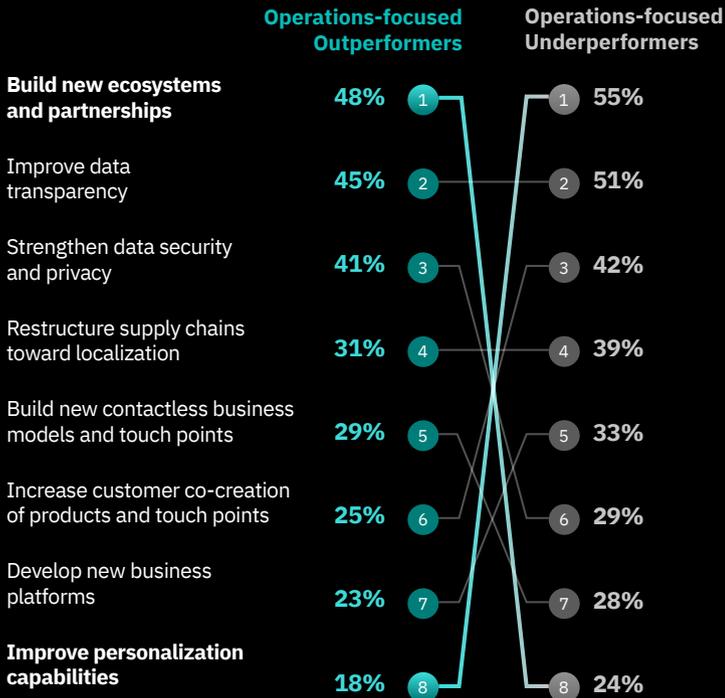


Q. Which of the above technologies will most help deliver the results you need over the next 2-3 years?

Figure 20

In partnerships we trust

Building ecosystems and partners is the top action operations-focused Outperformers will take to meet customer expectations, but it's the lowest priority for Underperformers.



“If I work with partners, then I can be successful faster. And I don’t have to have every competency on board here.”

Franz Reiner, CEO, Daimler Mobility

A second critical differentiator among operations-focused Outperformers: partnerships. Outperformers designate partners and ecosystems as a key tool at *double* the level of Underperformers. In fact, when identifying ways to build trust with customers and meet expectations, Outperformers rank partnerships as first on their list among eight choices; for Underperformers, it ranks dead last, at eighth (see Figure 20).

Q. How will you build customer experience and trust to meet expectations over the next 2-3 years?

Even amid the darkest pandemic-disrupted moments, operations-focused Outperformers stuck with partners, responding to a challenging economy by renegotiating partnerships 44% more than Underperformers. “If I work with partners, then I can be successful faster,” Daimler Mobility’s Franz Reiner says simply, explaining his organization’s commitment and the priority of open innovation. “And I don’t have to have every competency on board here.”

Another critical area of differentiation among operators: sustainability. Outperformers rate sustainability among their highest priorities for the next two to three years, 32% more than Underperformers. As they emphasize not just surviving but thriving, operations-focused Outperformers see both opportunity and risk mitigation in sustainability. Given the critical importance of sustainability worldwide, the IBV will publish new research in this area later in 2021.

Two final areas of differentiation in this operations-focused group: employee engagement and customer engagement. Outperformers stress purpose and mission in employee engagement at an 83% higher frequency than Underperformers. During the steepest difficulties of 2020, they were also more prone to pulling back on employee benefits, while Underperformers were more likely to opt for layoffs and furloughs (see Figure 21). By keeping engagement and capacity higher, operations-focused Outperformers were positioned to accelerate as conditions rebounded.

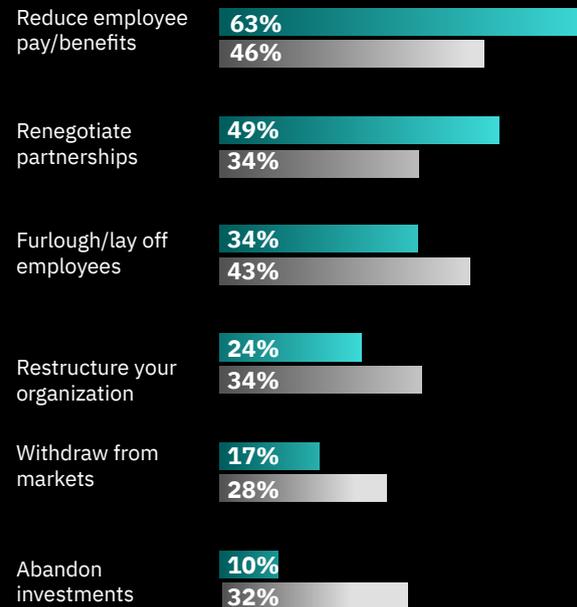
Figure 21

Decisions under duress

Operations-focused Outperformers

Operations-focused Underperformers

Both operations-focused Outperformers and Underperformers most often chose to retain employees with reduced benefits.



Q. What are the most difficult decisions you have had to make over the past 6 months (Q2-Q3 2020)?

Even amid the darkest pandemic-disrupted moments, operations-focused Outperformers stuck with partners.

As for customer engagement, the operations-focused Outperformers echo the perspective of the customer-focused segment mentioned earlier: a primary emphasis on customer *experience*, while Underperformers lean into customer *insights*. In other words, the top operators conduct themselves with a similarly mature, sophisticated customer bent as customer-focused Outperformer organizations.

Chapter 3. Essential lessons

Three essential questions for the operations-focused organization

Are we proactively exploring emerging technologies?

- What specific actions are we taking to explore the benefits of emerging technologies?
- What capabilities would deliver the greatest value for our organization?
- How are we positioning ourselves to seize first- or early-mover advantages?

Is sustainability core to our strategy?

- Where are the greatest opportunities for our organization to benefit from increased sustainability?
- How will we articulate the value of sustainability in our business strategy?
- How can sustainability serve as a differentiator with partners and customers?

Are we building long-term trust with our employees?

- How are we positioning our organization and our work to earn the long-term trust of our employees?
- What actions are we taking to instill employees with a sense of purpose?
- How are we measuring the value of employee engagement as a driver of customer engagement?

Perspective

Startup advice in a perfect world...

Entrepreneurs have always found opportunity in difficult environments. Even the earliest days of IBM, more than a century ago, came in the middle of a two-year-long panic. So where would CEOs choose to start a business now, in what industry, and using what technology? The IBV asked its 3,000 respondents, and the results were intriguing.¹⁸

The top-cited location for starting a new business was India, followed by China in the second spot. This reflects the growth potential in those economies and the still-open paths for scaling presented by their huge domestic markets. The third most-cited country, surprisingly, was Italy, with the US in the fourth spot. Singapore ranked a distant fifth and was followed closely by Germany, Brazil, and Japan.

The top-cited industries: financial services (known for historically high margins), retail, manufacturing, consumer products, and healthcare. All are areas where a tech-infused newcomer might have advantages over incumbents.

As for the five technologies that CEOs say are most important in enabling new businesses? They're AI, robotics, IoT, augmented reality/virtual reality, and cloud, with almost 75% of CEOs identifying at least one of these essential building blocks.

Does this mean that an AI-based financial services business in India would be the best bet—the most successful new startup at the moment? Only time and high-level execution will tell.

Action guide

Essential truths

The urgent question facing CEOs today: what will it take to be essential—to customers, employees, communities, and investors? To help you find your essential, our action guide takes a deep dive into five questions.

Standing still has never been an option for executives, and the events of the past year have amplified that truth. CEOs of all stripes recognize that reality, whether by choice or by pressure. The pandemic spurred urgency, but which organizations will persist in operating at that speed? “The big challenge,” says Daimler Mobility’s Franz Reiner, “will be to carry this momentum forward. To continue with a clear focus on the most relevant projects, with a clear mindset to implement those more quickly. We have to be careful not to fall back into old habits.”

When it comes to a crisis, the word “survival” is limiting. Organizations can’t just stay the same and endure; they need to reshape themselves for the future. Even the oft-cited word “resilience” could describe bending in the wind—and then simply snapping back to the status quo, with no ground gained. That may be the safest course, but it’s not the most forward-focused. And it may not be enough to navigate future disruptions. “We need to gamble a lot,” says Mohammed Shael, CEO of Corporate Strategic Affairs Sector, Dubai Department of Economic Development. “We need to take high risks. We need not believe that what was created 20 years ago is valid today.”

The future requires a different approach. It involves focus on customer experience, an empowered hybrid workforce, and a new kind of leadership: a “design leadership” approach that is empathetic, sensing, and strategic. It combines human-centric design with service and product excellence as a key driver of differentiation. This will help organizations move toward becoming a “virtual enterprise,” using interconnected technology across the organization that enables operation through disruptions, empowers engaged employees, and results in loyal customers.

Barri Rafferty, former CEO of Ketchum and now Executive Vice President at Wells Fargo, believes differentiation will come from a combination of digital and in-person capabilities from an organization's leaders. She has seen COVID bring out more empathy and a change in tone among CEOs and other executives. "We've fallen into having so much online this year, but we're craving experiences," Rafferty says. "When I look ahead, I wonder how we capture that technology transformation and agility—we found companies could move quicker and do things we didn't think we could do on a large scale—and marry that with the caring and empathy and experiences people want and are craving again."

To thrive in the years ahead, CEOs should continually examine five questions that help them find their essential.

What is our essential strategy?

"If we cannot be best in class in everything (however much we might try), then we must zero in on what we are 'really good at,'" as AT&T Communications' Jeff McElfresh puts it. Where will our organization's special advantages provide outsized value? Where do we need to be competent but not expend resources on trying to outperform? How can partnerships and ecosystems amplify our efforts most efficiently? Open innovation and collaboration provide a way forward, offering access to broader ideas, talent, and opportunity than ivory tower approaches can match.

What is our essential technology?

From IoT to cloud computing and AI, digital maturity has shown itself to be a powerful performance differentiator. As we learned during 2020, sometimes the hard way, having capability in place beforehand matters. Yet Underperformers still under-prioritize AI. Openness to new exponential technologies can offer competitive advantages, as we encounter future problems and opportunities that we didn't know existed. Adoption is hard and takes time. Reflect on our organization's ability to embrace new technologies effectively and at speed. Finally, how can we be proactive in anticipating the next rapidly approaching revolution in computing: the advent of quantum?

Who is our essential workforce?

The global embrace of remote work has reset expectations, choices, and cultures. "What might have taken 10 years all happened within six months," observes National Australia Bank's Ross McEwan. How each organization balances in-person and virtual work will impact cost structure, product development, leadership requirements, and culture. As Piyush Gupta of DBS Bank puts it, "With remote working, you need to keep the soul of the company alive."

Who are our essential leaders?

The role of corporate leaders has become even more complex, at the top and at every level down. Financial acumen must be married to human connection. Communication skill requirements have been adjusted and amplified. Mission and purpose, social action, and community awareness are at a premium. Broader, flatter structures, with more fluid decision making—and more reliance on technology for every piece of the enterprise—impact training, promotion, and talent management across the board.

What are our essential risks?

Trouble *will* come, as 2020 taught so painfully. Preparedness is a long-term cost, and it is ignored at existential peril. Supply chain vulnerability was exposed. Cyber risk and data security loom, often under-addressed, as organizations become more technologically mature. Underperformers in particular underappreciate the need for cybersecurity mastery. Yet cybersecurity needs to be embedded throughout strategy and aligned with partners. Once risks are acknowledged, planned for, and addressed, long-term opportunities can be aggressively pursued and value can then be realized. Shifting toward zero-trust security across partner and customer ecosystems enables secure interactions, workflows, and innovation.¹⁹ These may all be the most important sources of value going forward.

“We cannot play defense indefinitely,” says Calin Rovinescu of Air Canada, whose industry felt the teeth of COVID-19 more than most. “We have to start playing offense. It’s picking spots and investing in the crux of what we’re trying to do.” For Air Canada, that’s taken the form of launching a new loyalty program, buying a struggling leisure airline, and shifting resources to transport cargo. Other enterprises answer the questions of 2020 by pushing to acquire different skills: “We’ve been building some muscle in the organization to be better at partnering,” says Ross McEwan of National Australia Bank. “Because we can’t do everything ourselves. We don’t want to.”

Finding your essential—the sharp edge of the knife for your enterprise—*this* is your priority. Transformation is never complete, especially for an ambitious company committed to avoiding complacency and any self-delusion that its market position is automatically secure. “You are not going to be perfect,” says Fernando González of CEMEX. “Part of the investment is not going to pay off. But it doesn’t matter. You try to understand what is not working properly, you stop doing that, and you focus on what you think can really pay off.”

Perspective

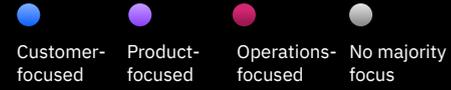
And the winning model is...

A natural question arises when assessing this study’s three segments: are Outperformers from a specific industry more likely to align with a customer-focused, product-focused, or operations-focused model?

Analyzing all 3,000 respondents across all industries, we found that nearly 50% of respondents lean toward a customer focus, while 30% identify as product-focused and approximately 20% as operations-focused. We then looked for distinctive patterns of Outperformers within each industry and found that in 17 of the 26 industries studied (65%), the majority of Outperformers have opted for one focus. In the other nine industries, there is not a clear majority focus among the Outperformers—the results are mixed.

We then compared Outperformer focus preference with the preference of others in their industry (see figure). In 10 industries, we discovered that the majority of both Outperformers and all others have the same focus. In 10 industries, Outperformers and all others diverge, either adhering to different areas of focus or a clear focus on one side and a “no majority focus” result on the other. Finally, in the six remaining industries, there are “no majority focus” results on both sides.

Through additional analysis, we uncovered industry-specific Outperformer-focused insights that can help you further accelerate your differentiation and value (even if you follow a contrarian approach). You can find details and examples of our findings in the upcoming IBV CEO Study industry deep dives.



Research and analysis methodology

The IBM Institute for Business Value (IBV), in cooperation with Oxford Economics, interviewed 3,000 CEOs from nearly 50 countries and 26 industries. These interviews were conducted virtually. In addition, through live video conferencing and phone interviews, and when safe, in-person meetings, the IBV conducted deep-dive conversations with two dozen select CEOs from 11 industries and 11 countries. These qualitative and quantitative interviews focused on strategic business priorities; drivers of success; and challenges prior to COVID-19, during COVID-19, and in a future post-pandemic economy.

Respondents in our study represent the most senior executive roles at their organizations: CEOs, Public Leaders, General Managers, and Managing Directors. The IBV designed data collection by country and industry, as well as revenue growth or decline prior to 2020 and during 2020 (including the COVID-19 pandemic) versus industry peers. Through these defining mechanisms, the IBV was able to identify Outperformers and Underperformers.

The IBV also implemented a segmentation logic that sorted respondents into one of three groups. These segments have been defined as *customer-focused*, *product-focused*, and *operations-focused* CEOs. Each of the three were based on responses to specific items from the 2021 IBM CEO survey instrument.

- *Customer focus* is defined in terms of an organization’s identification with a willingness to have customer participation as an element of “co-creation” in product design and development efforts; its innovation focus on customer experience; its performance centered on customer engagement; and its emphasis on the prominent use of customer insights to define and mold organizational capabilities.
- *Product focus* is defined in terms of an organization’s desire to deliver more innovation in products and services; its determination to develop more reliable, secure, and individualized products; and its innovative focus concentrated on product and service improvement.
- *Operations focus* is defined in terms of an organization placing high importance on the reduction of operational costs; its emphasis on enhancing operational agility and flexibility; its innovative focus on its developing business models; and its demonstrated, strong participation in completing a transformative digital journey.

Each responding organization in the 2021 IBM CEO data set obtained a combined score for each of these three performance axes. Each assignment was made by determining its most prominent axis. Performance ties were identified and treated as a special consideration and were not included in the by-axis profiles.

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