

# The CEO Imperative: Will bold strategies fuel market-leading growth? (PART 1)



**ISAAC SARPONG:** Isaac is the Partner in charge of Tax Services. He has over 26 years' experience in the provision of multi-faceted advice to both local and international clients in taxation, accountancy, audit & assurance, and corporate law, among others. Isaac is a Chartered Accountant, a Chartered Tax Practitioner and a Lawyer.



## New realities, new strategies: leading CEOs look beyond short-term pressures to invest in long-term value creation in 2022.

### In brief

- Leading CEOs are resetting their risk radar and reframing their investment strategy for growth in a new environment.
- M&A remains a critical strategic option to boost capabilities in technology, talent and innovation as well as ESG/sustainability strategies.
- Most CEOs have investor support, but a fifth (21%) face challenges to safeguard future growth plans with backers.

Many companies are now laser-focused on transformation - embracing the changes initiated or accelerated by the pandemic. Given the huge scale of investments in M&A and organic measures in 2021, it's clear that many companies are reshaping themselves to capture the upside of the economic rebound. Within this competitive context, CEOs not yet designing and delivering ambitious investment strategies for growth risk falling behind in the race to transform for a better future.

In this edition of the CEO Imperative Series, which provides critical answers and actions to help CEOs reframe the future of their organizations, we explore how CEOs are responding to the pandemic and the recovery and offer recommended actions to help them fuel market-leading growth in the year ahead.

### CHAPTER 1

## Managing new opportunities, mitigating new types of risk

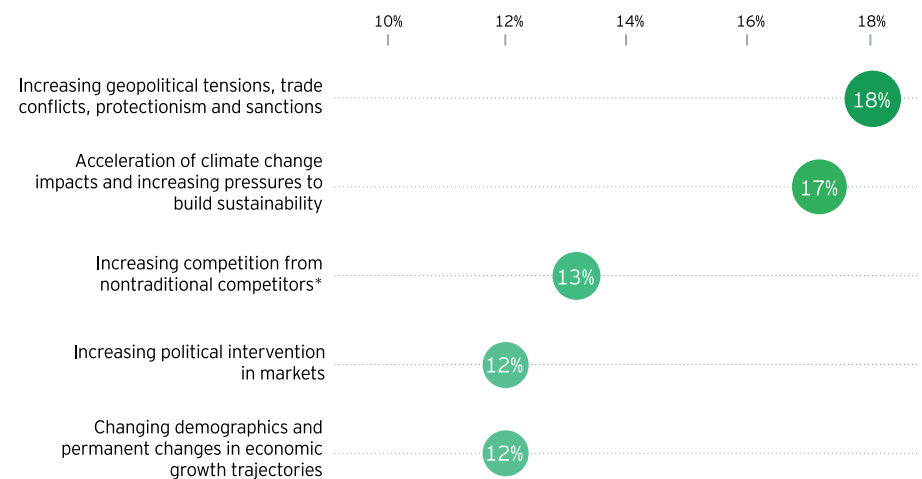
Many CEOs are responding to the impact of the pandemic, according to the EY CEO Survey 2022. The survey of 2,000 global CEOs unsurprisingly shows that the vast majority (86%) have been impacted by the pandemic.

In a reshaped landscape they are positioning for growth and anticipate significant upside opportunities. Early and bold choices on portfolio-transforming investments, particularly acquisitions and divestments, proved decisive in the wake of the global financial crisis. And risk-vs.-return history could be repeating itself for those with the right strategies.

But there are potential downsides. Exogenous risks - geopolitical tension, political market interference and the climate emergency - are top CEO concerns. Risks they can better control, such as managing conflicting stakeholder demands and the cost of talent, come further down the list.

Geopolitical tension is shifting portfolio investments. Many CEOs are rethinking cross-border operations. Increasing neo-statism is redefining a global operating environment largely defined by competition and cooperation among the US, EU and China.

Which of the following issues are the most critical risks to your future growth strategy?



In this context, many CEOs are reconfiguring supply chains to reduce costs and minimize uncertainty. They are presiding over companies with the same products and services, but the way in which those are produced and delivered has completely changed. The pandemic has demonstrated how supply security can be a competitive advantage.

Companies are making these changes while adapting to an increasingly multipolar regulatory environment with complicated - and often conflicting - demands.

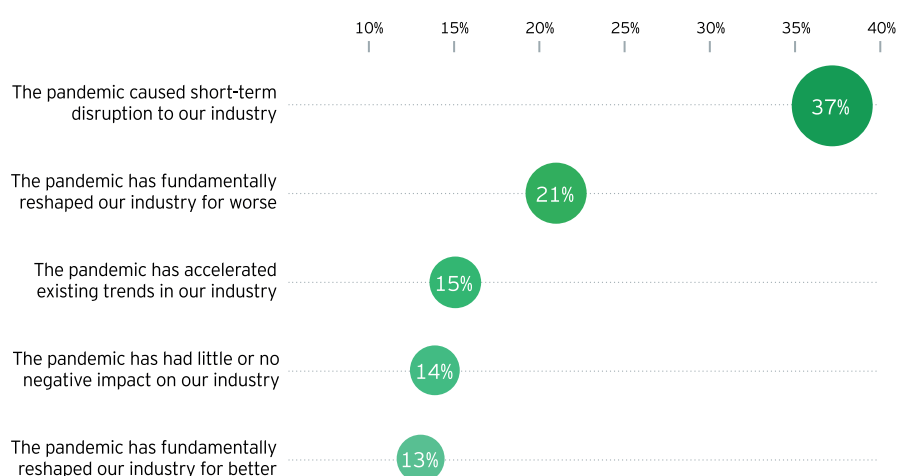
But this is not the end of globalization. Of those CEOs adjusting investment plans, nearly half (45%) have increased cross-border investments: there is no sign of domestic retrenchment - yet.

But the most immediate and increasingly international issue of concern is inflation, which has returned in a way that many of today's CEOs have not experienced.

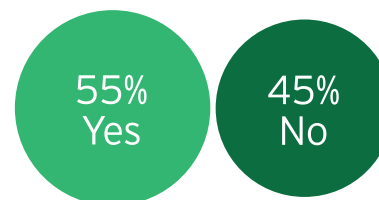
There is no one cause of the input pricing issues being seen across all sectors. In the past two years, pandemic-related shutdowns have wreaked havoc on global supply chains. Labor and energy costs have risen, as have the costs of raw materials. Freight rates have jumped more than 400% from their 2019 levels.<sup>1</sup> Add mounting warehousing costs and sales lost due to delays and it all adds up to an increased cost of doing business across the board. ■

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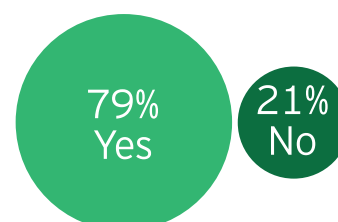
Which of the following statements most accurately reflects the impact of COVID-19 on your industry?



Are geopolitical challenges forcing you to adjust strategic investment?



Have you adjusted or are you planning to adjust your global operations or supply chains?



The respondents were allowed to select all the applicable responses. The percentages are prorated to 100%.

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# The CEO Imperative: Will bold strategies fuel market-leading growth? (PART 2)



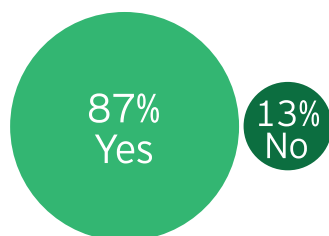
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Have you seen a significant increase in input prices?

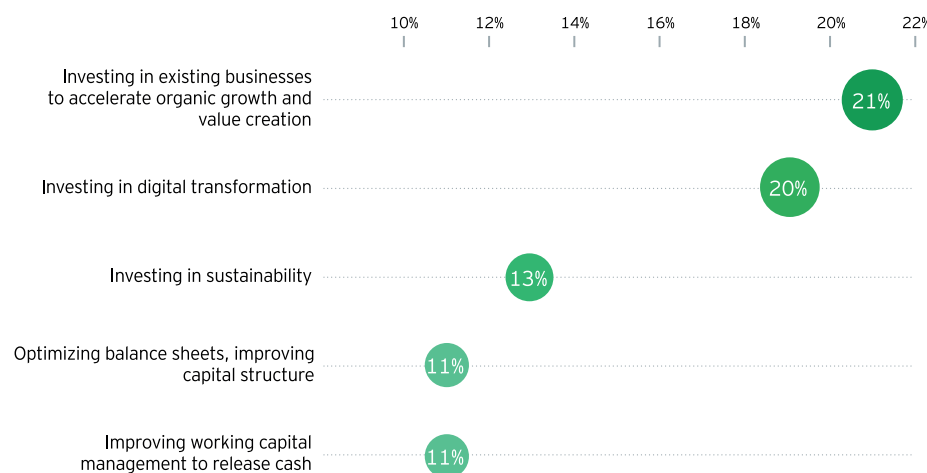


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Key CEO considerations in 2022

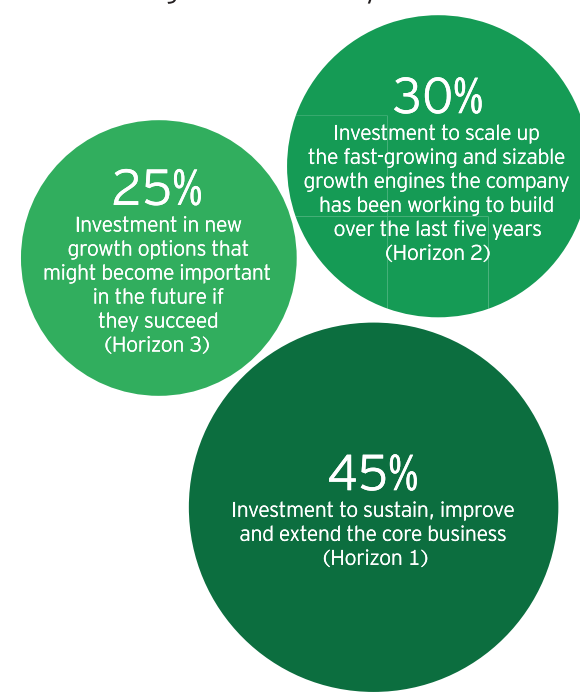
- Change from the inside out: Reconfigure internal processes to strengthen operational resilience and the talent agenda, while engaging external ecosystems - suppliers, partners and customers - to position for future growth.
- Stability is no accident: Strategically prioritize for the next unforeseen shock to help ensure optionality across the enterprise, including supply chain security and channels to customers.
- See around corners: Plan for a changing regulatory environment - such as emerging oversight of how companies can store and use data for commercial ends.

On which of the following capital strategy issues is your company placing the greatest attention and resources today?

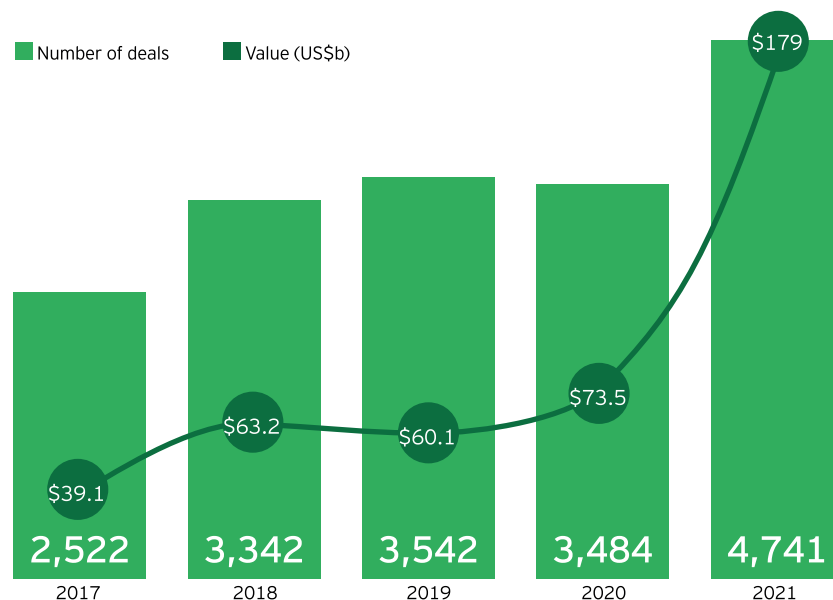


Only showing the top five options. The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.

How will your investment capital be allocated across three horizons during the next five years?



Global CVC deals by year (January 2017 - December 2021)



Source: EY Embryonic and CB Insights

Most investors are willing to support these longer-term growth ambitions, and CEOs understand that a compelling narrative is critical to securing investor support.

However, more than a fifth of investors (21%) are unwilling to support a long-term growth strategy or are fixated on short-term earnings, which might be a barrier to longer-term strategic planning.

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### CHAPTER 2

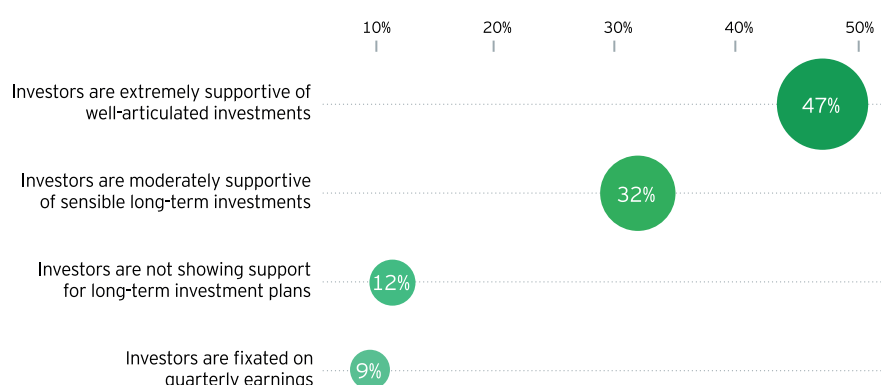
## Investment strategies as opportunity abounds

Many CEOs clearly recognize the need to invest now to ensure future opportunities. Optimizing current operations is critical to future investment plans.

Many CEOs are already expanding their horizons to capture future growth opportunities, with the understanding that bold steps now can increase potential to lead in the future.

The increase in corporate venture capital investments in 2021 supports this finding. Capex and corporate investment increases also point to many CEOs positioning their companies for critical future growth options.

To what extent do you feel investors support your company's investments in long-term growth initiatives?



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# The CEO Imperative: Will bold strategies fuel market-leading growth? (PART 3)



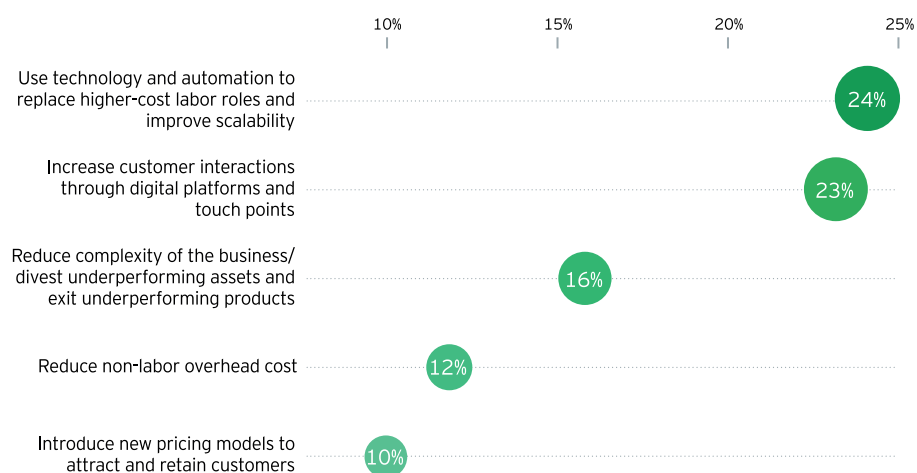
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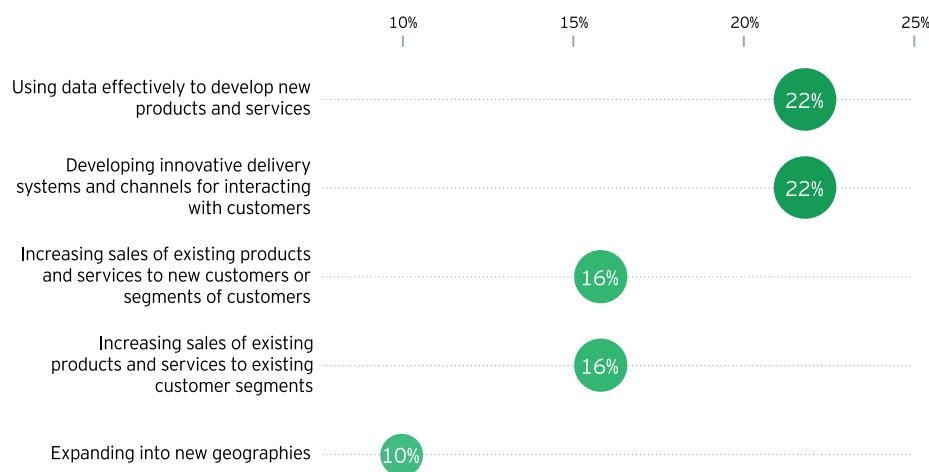
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What strategic drivers are you using to protect or improve profit margins?



Only showing the top five options  
The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.

How important are each of the following sources of growth likely to be for your company over the next five years?



Only showing the top five options  
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CEOs need to address investor engagement as a fundamental part of long-term value creation strategies. And they need to infuse narratives with critical growth and innovation opportunities.

With the move in private capital to a longer-horizon view on investments, corporate CEOs should be mindful of a shifting competitive landscape and the downside of short-term thinking, especially when engaging potential investors.

Almost half of CEOs (47%) see technology as key to customer engagement and maintaining or improving margin. With inflationary labor costs representing a significant head wind, automation is prioritized as a solution.

Leading CEOs should feel emboldened to invest now and prioritize automation strategies aligned with critical business priorities to improve long-term impact on resources.

These technology investments can unlock new paths to growth and enable plans to overhaul customer engagement while developing new data-driven products and services.

Companies still often overlook the rich data at their disposal - the next big idea can be uncovered by analyzing this rich resource already within reach. Leveraged correctly, data can create commercial advantages in the market as well as enhance operational effectiveness and process improvement within the business.

Key CEO considerations in 2022

- ▶ Strategize for the long haul: Focus on efficiency and stronger stakeholder engagement - emphasizing long-term value over short-term wins.
- ▶ Mine your own treasure: Use customer data to help predict changing behaviors and define future strategies.
- ▶ Educate and engage: Refresh your narratives to engage investors and all internal and external stakeholders - articulate a positive vision and respond to concerns quickly.

With US\$5.5t of deals announced, it is by far the highest year on record. Will 2022 be another record year? Maybe, maybe not; either way, M&A will remain a fundamental growth driver in the CEO strategic toolkit. ■

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### CHAPTER 3

## Transformational dealmaking remains high on the boardroom agenda

In 2021, M&A was the CEO accelerant of choice for strategic ambition - from buying innovation to fuel digital transformation to acquiring scarce talent, from reducing ESG risk profiles to entering new markets and services.

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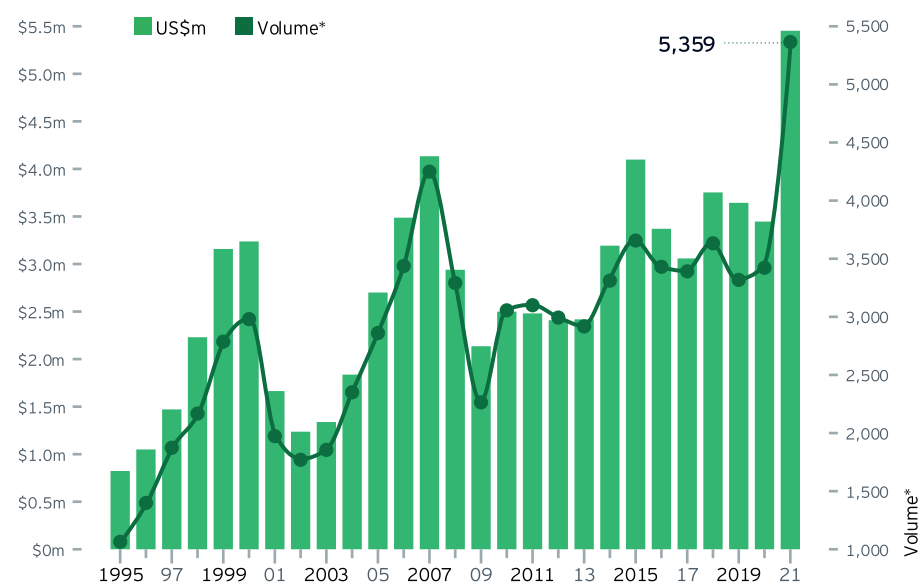
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### Global M&A by year



Source: EY analysis and Dealogic  
\*Volume based on deals US\$100m plus

# The CEO Imperative: Will bold strategies fuel market-leading growth? (PART 4)



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Nearly two-thirds (59%) of CEOs expect their companies to pursue acquisitions in the next 12 months. This is up from the 49% at the start of 2021 and points to another very strong year for deals. Given the scale of activity in 2021, many companies will be integrating recently acquired assets, but they will remain strategically poised to buy assets that support growth ambitions.

CEOs still see M&A as a critical accelerant for long-term growth strategies - acquiring operational capabilities and innovation. Pre-existing competitive landscapes have been redrawn across all sectors in the past 18 months, and there is more shifting of positions ahead.

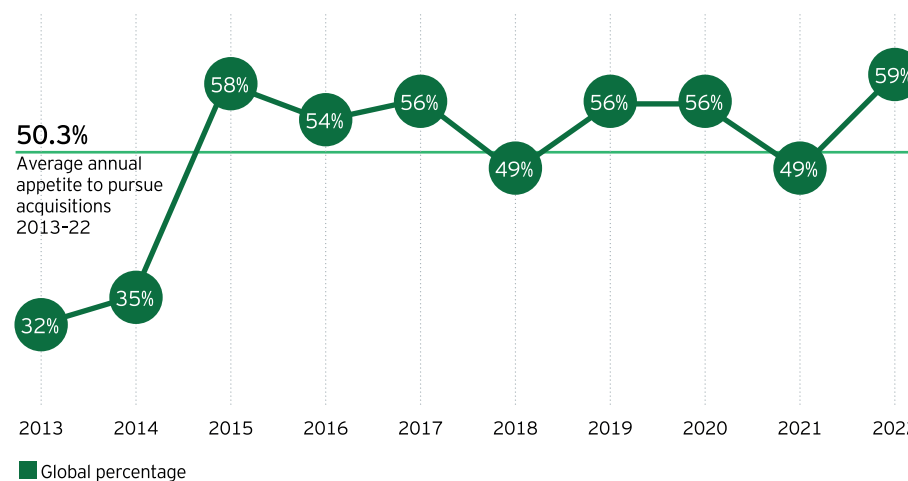
An increasing driver of future change will be environmental, social and governance (ESG). We saw a strong uptick in deals in the renewables space in 2021, but that is just one part of the story. Across all sectors we're seeing a strong desire to buy assets that accelerate sustainability strategies, especially in automotive, industrials and consumer - and that will likely continue at pace.

ESG and sustainability concerns are becoming critically important for CEO dealmakers across all sectors. An overwhelming 99% factor these issues into their buying strategies, while 6% have walked away from deals in the past year because of ESG-related concerns about the target. While this 6% may appear small, ESG has only recently become a lens through which assets are viewed.

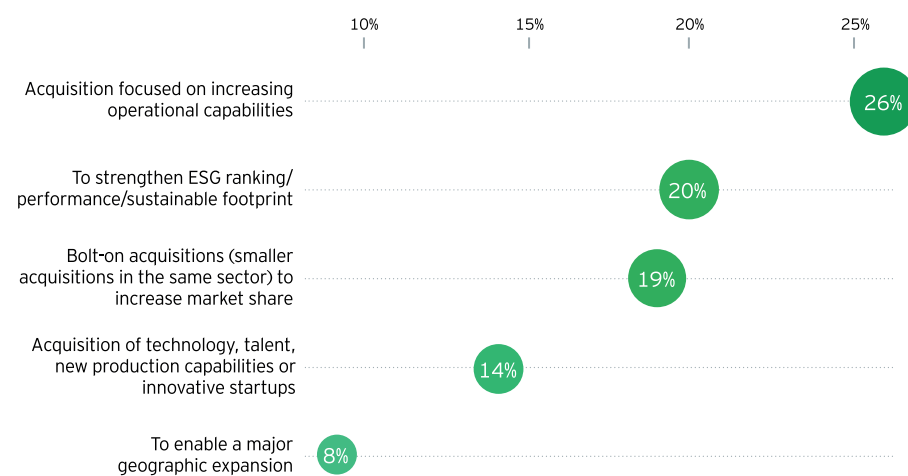
With these strong deal drivers live across many dimensions, there is also a formidable war chest for M&A available. The constituents of the S&P 500 hold an aggregate of US\$2.8t in cash on balance sheets.<sup>2</sup> Additionally, CEOs have the ability to raise debt at what remain historically low interest rates and to have funds raised through divestitures.

Companies that transacted early and boldly - buying and selling - in the wake of the global financial crisis outperformed non-transactors by 25% in shareholder returns over following decade. Similarly bold strategies employed now could result in the creation of commercial advantage, competitive agility and market strength.

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



What will your primary planned M&A activity be?



Only showing the top five options  
The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.

### Key CEO considerations in 2022

- Buy vs. build: Determine which approach is the best option to accelerate digital transformation or boost your ESG rating
- Fix, sell, close: Systematically review your portfolio through the lens of changing talent, customer and societal expectations more broadly and prepare to divest and reshape for a different environment.
- Beware of affinity bias: Understand synergies and risks from unfamiliar assets that differ from your core business.

### Summary

The pandemic has been a wake-up call for many CEOs, and the transformation imperative is now clearer than ever. Many are actively reconfiguring their companies for resilience and investing boldly for optimal growth - with M&A still high on the boardroom agenda.

But CEOs unable to take bold steps could face stern tests down the line, particularly as intensifying headwinds pose challenges in the race to capture emerging opportunities. The need to act now is too strong. CEOs who stand still will fall behind in the race for market-leading growth. ■

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