

Hindsight 2020

CEO poll
reveals key
lessons for
the future

2020 presented challenges that few business leaders could have predicted. To quantify how companies are navigating these challenges, Segal, a leading global HR and management consulting firm, and Chief Executive Group conducted a poll of approximately 500 CEOs across 21 industries leading firms with between \$5M to \$1B in revenue.

Among other things, the poll gleaned key areas that separated the businesses best positioned to successfully navigate the pandemic and other events from those that were met with much more significant challenges. Those five areas include:

- ▶ Adjusting priorities not only to survive but also seize business opportunities. In some cases, this has led to re-imagining the business model and creating a new vision moving forward.
- ▶ Accelerating the adoption of technology to enhance employee, customer and supplier interactions, while improving business continuity.
- ▶ Improving data management practices and the use of analytics to enhance scenario-planning and accelerate smart decision-making.
- ▶ Reimagining the workforce to effectively support business goals and consider roles, responsibilities, workplace, tools and workflow, while keeping a close eye on culture shifts.
- ▶ Improving employee communications, engagement, productivity, loyalty and performance.

Trends Revealed

THE POLL FOUND THAT ONE-THIRD TO ONE-HALF OF THE companies had instituted significant changes in response to the events of 2020, and between 15 and 32 percent had changes already in place or ready to implement. Many of these changes related to aspects of employee work processes, standards and systems to support employee productivity, connection and engagement.

While companies have pivoted to adapt to the environment brought about by the events of 2020, many of the changes instituted to support workers and business operations were reactionary and evolving. Answers to open-ended, non-multiple-choice questions revealed frustration with regards to issues such as workforce management and the impact a changing—and at the time of polling yet uncertain—political landscape was having on CEOs' decision-making about their business transformation timing, processes and plans.

Companies with annual revenues of \$100 million or more were overall better prepared than their smaller counterparts to deal with the changes required in 2020. In fact, a greater number of these larger companies reported having been making changes even before the event-driven needs arose.

Further analysis of this revenue bracket did not show the expected universally increasing curve of preparedness measures. We would have expected preparedness to continue to increase as company revenue rose. In fact, answers to questions that probed leadership flexibility demonstrated some flattening of the upward trajectory within the \$250 million+ cohort. This implies that those CEOs whose companies were in the \$100 million to \$250 million revenue bracket might have already had an adequate mix of resources to prepare and adapt going into the crisis, as well as the agility and culture organizations need to be flexible and execute on changes when needed.

While the survey did not probe specifically whether CEOs planned to leave flexible work arrangements in place post-Covid, responses across the questions spoke to a permanence for some of the workplace changes instituted in 2020. Where possible, it is likely that where work is performed and hours of operation will remain somewhat flexible.

Companies that had existing flexible work arrangements before 2020 will be in a stronger position to judge how much the events of 2020 affected productivity. Those companies that measured and created a baseline for these programs before changes or expansions were implemented could use that data to evaluate the effectiveness of adaptations and develop improvements.

“Working remotely is now a permanent part of our culture. By accepting this ‘new normal,’ it has become easier to hire new employees.”

—President of a mid-market wholesale/distribution company and survey respondent

“We reconfigured to permanently become a virtual company.”

—Dr. Peter Angood, CEO, American Association for Physician Leadership

“We deployed technology to support remote/traveling workers. We did this pre-Covid and are glad we did.”

—Starla Reichow, CFO, Kinematics

The survey revealed a marked uptick in training programs that started or expanded in the first months of the crisis, likely in response to adopting or expanding remote-work or hybrid arrangements. Once again, company size contributed to some differences in the

data: One third of the respondents overall provided new training due to Covid-19, but 47 percent of those with \$100 million+ in revenue confirmed the addition, compared to 28 percent of those earning less than \$100 million annually. Our assumption is that greater resources are available for training for the higher revenue group, but this is likely not universal and dependent on the type of business, the work performed and the skill level of the employees. In many cases, companies are redirecting travel expense dollars to training and other infrastructure

improvements. As one write-in response said, we are “shifting a lot of the T&E savings to digital/social marketing.”

A number of CEOs participating in the survey spoke to the need for effective employee communications programs. Every change in workplace processes that affects the nature of work can affect productivity, so it is not surprising that communications would take on an important role as companies digitize and change workflows. Some of the respondents, however, noted the need for incremental communications to parallel incremental changes or process improvements. Following this approach helps employees personalize the changes and understand what they need to start doing and stop doing in their roles better than one major communication tied to one significant role shift.

A number of the answers pointed to a growing recognition by leaders that their employees are stressed, that the stress is cumulative and that support through workplace programs is required. Zoom fatigue is real, and companies need a strategy to deal with it in terms of employee morale and productivity. Have the employers really made changes to improve mental health or only to deal with immediate fallout? This speaks to the definition of wellbeing and whether mental health is a component or a driver of that wellbeing.

A question not probed by the survey but noted in a few of the write-in responses is, How will virtual interactions affect client/customer relationships? More than a third of the respondents (36 percent overall, and 40 percent of those with \$100 million or more in revenue) said that they have added or changed their customer satisfaction tools or measures. This helps those organizations judge whether aspects of the virtual interactions such as frequency of Zoom check ins are effective in maintaining customer/client loyalty.

Survey Questions and Data Collected

ASSESSING PEOPLE AND THEIR ROLES

Survey question: *In light of Covid-19 and other 2020 events, what changes has your company made (or will make) in the way it assesses people and their roles?*

This question targeted the changes in assessments of employees and their roles along a past, present and future timeline for each of seven likely options. The data below shows the responses.

	Made pre-Covid	Made due to Covid	Will make in coming months	Not sure / Haven't decided yet
Provide tailored options to encourage and address the wellbeing of all employees	32.4%	54.0%	3.57%	10.1%
Shift responsibilities to adapt to a new organizational structure	22.3%	40.7%	11.9%	25.2%
Develop new goals and measures for business units and managers	25.9%	35.6%	21.3%	17.3%
Develop new performance metrics for employees	26.7%	21.3%	24.2%	27.8%
Rebalance the mix of on-site, remote and hybrid workers as a permanent state	8.4%	55.2%	13.3%	23.0%
Adjust incentives to support changes in performance goals and metrics	18.4%	24.4%	25.0%	32.2%
Offer new training to support changes in operating model	18.2%	33.2%	22.8%	25.8%

Company revenue differences affected three of the seven options. Comparing those companies above and below \$100 million in revenue, 47 percent of those above that revenue level rolled out training to support changes related to Covid and other 2020 events, while 28 percent of those below that level did so. This suggests that those organizations in the higher revenue stratum have greater resources to develop and rollout training.

Similarly, using that same division based on revenue, 33 percent of those in the higher-revenue group adjusted incentives to support changes in goals and metrics; 21 percent of those with lower revenue adjusted incentives.

Regarding rebalancing remote or hybrid arrangements instituted due to Covid, 68 percent of those above \$100 million are considering making it permanent, while 48 percent are considering this in the below \$100 million group. Before Covid, the data shows that the opposite was true: of the 8 percent overall who were considering permanent remote/hybrid arrangements

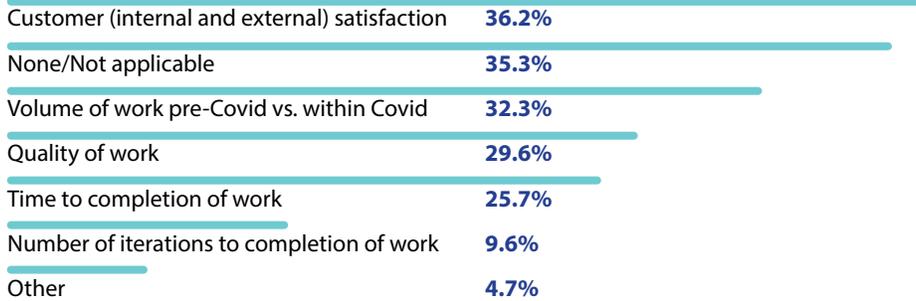
pre-Covid, the number rises to 10 percent for those with below \$100 million in revenue but falls to 2 percent for those with more than \$100 million in revenue. This suggests that the larger companies were less willing to consider remote or hybrid arrangements before 2020.

Cross-tabulating actions pre-Covid, due to Covid and planning to implement, all of the options presented in the question were likely steps that company leaders would take. The least likely—adjusting incentives to support new performance goals and metrics—had support of 68 percent of respondents. The most popular option—encouraging and addressing employee wellbeing—was in process, in place or planned with 90 percent of respondents. The second highest cross-tabulated total (83 percent) was for developing new goals and metrics for business units and managers—an expected measure due to the severity of actions needed in 2020 for a large percentage of businesses.

PERFORMANCE AND PRODUCTIVITY

Survey question: *Which of the following categories of performance and productivity measurements have you added or changed to assess direct reports and top-line managers in a remote environment?*

This question focused on two options in the previous question—how performance and productivity measures needed to change with remote work arrangements—and offered five categories plus the option to indicate that no changes were made. The options were not mutually exclusive. The data below shows the responses.



As the data shows, approximately one third of respondents selected four of the five change options, and one third said that no changes were made. Modifying the number of allowed iterations in work product was selected by less than 10 percent of respondents. This low number may indicate that processes are well-documented and staff is well cross-trained so that additional iterations are not necessary.

The 36 percent who acknowledged customer (internal and external) satisfaction changes likely have a customer focus in their businesses.

This is one of the three key business orientations, the others being time to market and operational excellence. It is possible that the remaining 64 percent of respondents focused their businesses on these other two orientations. However, few businesses can completely ignore customer satisfaction, and so it is surprising that this 36 percent measure is not higher in light of the substantial changes of 2020.

There were no significant differences when the respondents were grouped by revenue.

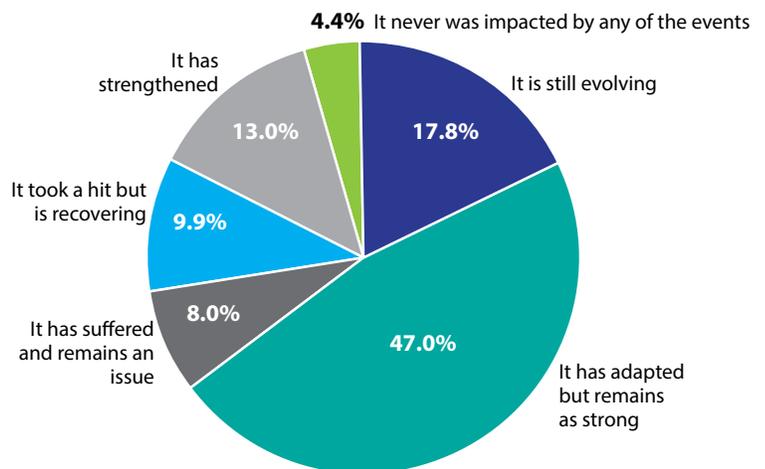
ORGANIZATIONAL CULTURE

Survey question: *How has the culture of your organization changed due to Covid-19 and other events in 2020?*

This question looks at the leaders' assessment of organizational culture. The data below, based on their perceptions, shows the responses, which were designed to be mutually exclusive response options.

Not surprisingly, 96 percent of respondents indicated that their organization's culture was impacted by 2020 events. For the 4 percent that said culture was not impacted, this could mean those organizations were well prepared to adapt as necessary and stay vital, or it may mean that the impact was small enough that the leaders who responded did not perceive any issues. In addition, 8 percent said their organization's culture suffered and has remaining issues.

The majority of the respondents acknowledged that the culture in their organizations was changing due to Covid and other 2020 events. There were no significant differences when the respondents were grouped by revenue.



LEADERSHIP

Survey question: *How have you modified your leadership style to stay in touch with your workforce's daily activity and its overall pulse?*

Leaders have a number of tools that they can use to stay in touch the business and the employees. This question offered eight likely options, and they were not mutually exclusive. The data below shows the responses.

Increased targeted communications **69.4%**

Increased one-to-one and small group meetings (including virtual meetings) **58.0%**

Required more frequent updates of activity and outputs **48.6%**

Increased town hall Q&A sessions **35.6%**

Formally polled managers and employees **23.6%**

Instituted or expanded "open-door" policy **15.2%**

Engaged a third party to conduct pulse surveys and other information-gathering techniques **7.3%**

Other **6.6%**

Created anonymous virtual suggestion box **6.2%**

*Respondents were asked to select all that apply

The three highest-ranked options—increasing targeted communications and meetings plus requiring more frequent updates—represent a two-way process. The latter gathers needed information that then can be synthesized and used in the former to create targeted messages and programs to support managers and staff.

Filtering the data by revenue to groups above and below \$100 million in revenue showed some interesting differences. Those in the former group produced more targeted communications (81 percent vs 65 percent), held more Q&A sessions (56 percent vs. 28 percent), polled managers and employees more often (31 percent vs. 21 percent), and engaged third-party help more often (14 percent vs. 5 percent). This could be the case because higher revenue levels provide greater resources available for these programs. (However, few of these programs require a large budget, so cost is not likely a major factor.)

The other possible explanation for the increased use of these programs in higher revenue companies is that larger companies often have internal staff in roles to support these programs.

CHALLENGES TO NEW BUSINESS INITIATIVES

Survey question: *What have been your greatest challenges to successful new business initiatives in 2020?*

This question offered seven likely options that were not mutually exclusive as well as one option for those who had no new business initiatives planned. The data below shows the responses.



*Respondents were asked to select all that apply

Not surprising, planning and executing on new initiatives in light of Covid and other events was cited as a challenge by 62 percent of respondents overall (71 percent by those with greater than \$100 million in revenue and 59 percent by those with less than \$100 million in revenue). The second and third most chosen responses were determining if timing was right (39 percent) and

the health and readiness of the organization (25 percent).

Few (5 percent) said that they had no challenges. Only 3 percent said that they had no business initiatives planned for 2020—a confirmation that few businesses today can remain static.

Survey question: *If any, what steps are you planning to take to help ensure the long-term success of your business initiatives amid Covid-19 and other 2020 challenges?*

This question allowed only open-ended written responses, and about half of the survey respondents chose to submit comments. These were grouped based on common themes where possible.

Many comments expressed frustration at specific government policies or programs. We found that seven business-related categories of responses led the results:



In reviewing these results, it is surprising that employee wellness comments were not more prevalent. The earlier question found that encouraging and addressing employee wellbeing was in process, in place or planned with 90 percent of respondents.

Finding that only 6.5 percent of respondents spoke about culture was also surprising considering that only 4 percent of respondents said that their culture was not affected by the events of 2020.

A number of the responses that mentioned staffing spoke of the problems of finding the right talent. Those organizations that have embraced remote work arrangements may find that their labor pool expands as they no longer have to consider geography an impediment, and more workers who enjoy working remotely can look farther from home for opportunities. The employers should realize, however, that programs such as onboarding, collaboration and performance monitoring will need to be adapted to fit a larger remote workforce.

MERGERS AND ACQUISITION PLANS

Survey question: *What impact has Covid-19 had on your M&A buy, sell or divestiture plans, if any?*

This question acknowledges that Covid-19 has changed some of the rules and norms for conducting M&A transactions. Because more than one shift in thinking may be required, this question allows multiple choices from among the five options. There is also an option for those who had no M&A plans, which was selected by more than a third of the respondents.



*Respondents were asked to select all that apply. **Percentages may not add up to 100% due to rounding

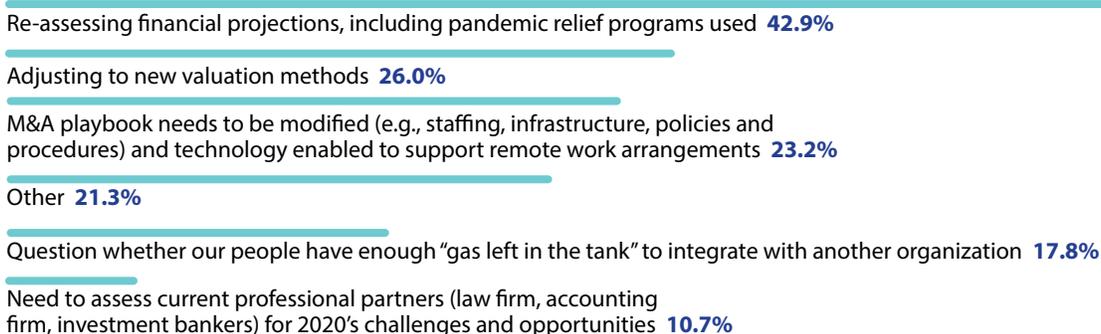
Of those with M&A plans, a quarter of the respondents said that Covid-19 had no effect and that they were proceeding with their plans. The 19 percent overall who said they adjusted or accelerated their plans shifted when viewed by company size based on revenue: those with more than \$100 million in revenue more likely (26 percent) and those below \$100 million less likely (16 percent). Further analysis of the higher-revenue group showed that the revenue band from \$100 million to \$249 million accounted for most of that 26 percent.

Similarly, those with higher revenue (\$100 million plus) said that Covid-19 created opportunistic buy or sell options (23 percent vs. 11 percent for those below that revenue point), possibly because they are in a better cash position and have more resources available to act quickly in the current business climate.

Those with no M&A plans were more likely to be in the group with less than \$100 million in revenue than above that threshold (39 percent vs. 26 percent).

Survey question: *How have the events of 2020 affected your efforts to prepare for an M&A deal?*

This question offered five answer options that were not mutually exclusive.



*Respondents were asked to select all that apply

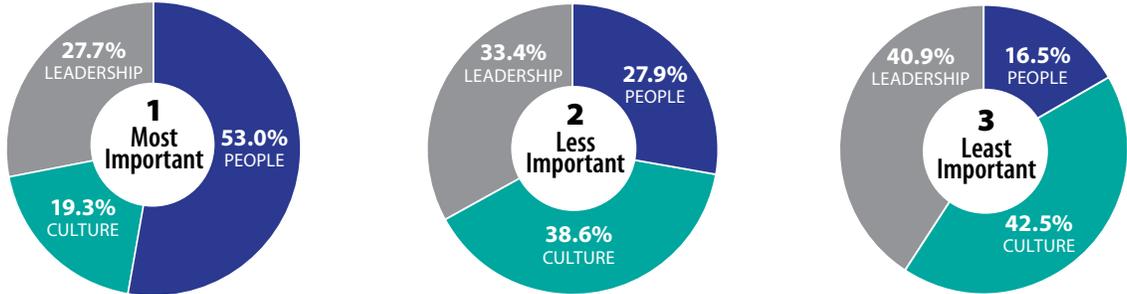
The largest number of respondents confirmed a need to re-assess financial projections, and the second most popular choice was adjusting to new valuation methods. This is not surprising in that financial aspects have always taken center stage in M&A deals.

The third most selected option acknowledged the need to modify the M&A playbook. For many organizations, their playbooks may have been dated even in January 2020 before Covid-19 and other events hit. The events of 2020 likely have brought those inadequacies further to light.

It is interesting that so few (11 percent) thought their choices of professional advisors may need refreshing. This speaks to a confidence in those the CEOs and other leaders trust. However, it still may be prudent to ask how 2020 has affected those professional advisors before engaging them for an upcoming M&A deal. Further probing may include those advisors' adoption of digital platforms to streamline and further enable the M&A lifecycle.

Survey question: *In light of Covid-19 and other 2020 events, please rank the following areas in terms of importance for where will you need to focus more energy in order to buy, sell or merge with another company.*

This question asked the respondents to rank the importance of people, culture and leadership in M&A deals. The question, which implies that improvements are needed, was added to this survey to see if Covid-19 has affected the rankings we have seen in prior surveys and polls.



As we have seen previously, people remained the top choice, emphasizing that leaders continue to realize that the people (employees at both companies involved in the transaction) can make or break a deal and are critical to achieving and sustaining synergies and more than just incremental value. With the events of 2020, leaders acknowledge that they must place more focus on preparing people to play their role.

In this survey, culture and leadership had almost equal emphasis in the overall tally. In all prior surveys, culture always ranked above leadership. However, in this survey, those leaders of companies with more than \$100 million in revenue saw leadership clearly more important than culture in terms of devoting more energy and focus. Perhaps companies of that size have more expanded leadership structures and so “leadership” has proved to be less flexible during the pandemic. Smaller organizations may be more flexible with leaders who are more accustomed to this needed flexibility. Another way to look at the data is that Covid-19 and other events of 2020 have raised the importance of leadership in guiding successful M&A strategies.

Drawing Conclusions and Moving Forward

WITHOUT QUESTION, 2020 was a year of disruption, as confirmed by the data collected. It tested each organization, each leader and each employee's tolerance for stress and their efficacy in approach to handling that stress. It also emphasized that adaptations and the solutions that follow must be stress-tested in the context of "us": just as employees must work together, business leaders need to consider the actions they've taken and the plans they've crafted for the future in the broader context of their peers (including suppliers and customers).

The challenges posed by 2020 are not unique to one organization or one sector, and so the solutions will likely emerge from this common experience, from a collective consideration of best practices. The elements of commonality—such as the increase in remote work and hybrid work arrangements or the need to consider expanding employee wellness programs—tend to cut across employers and industries. The broad-scope solutions then can be adapted to fit the requirements of each company's culture. Some of these are suggested in this survey.

The link between culture, engagement and productivity has become more evident. Companies where the culture could adapt to necessary business continuity changes have weathered the 2020 storm with greater agility and resilience. Based on the survey responses and other observations, culture should be moving toward improving people, process and outcomes, rather than altruistic reasons, but because the events of 2020 have transported the work environment five years or more forward in time, we learned that even the best business continuity and disaster recovery plans were not prepared for the magnitude and number of challenges 2020 brought us. However, we also discovered how quickly people can come together to creatively solve problems. Ideally, this has created lasting changes to culture whereby companies strive toward improving people, process and outcomes continuously.

Leaders also needed to adapt, as evidenced by the survey responses. Covid-19 and other 2020 events were "personal" for everyone, and the effect continues. No one was or is immune to the effects—whether directly or indirectly affecting health, wellbeing, relationships, financial stability, job and career—and even spirit. Leaders need to be keenly sensitive to this reality and include this in their planning for 2021 and beyond.

Tangible forward-looking steps and questions CEOs and other leaders may consider include:

- ▶ **Planning for more than technology to support remote work environments.** For many companies, 2020 proved that working remote can be effective, but now, as we shift focus away from short-term actions and survival, it is time to evaluate carefully the frequency and objectives of online meetings. Better methods, techniques and tools can increase interactions and collaboration among teams, as well as with clients and customers. As many organizations are planning less travel for 2021, technological approaches will become the norm for many customer, partner and supplier interactions, and this change likely will become, at least partially, permanent.
- ▶ **Evaluating not only how employees work but also what they do.** As the survey showed, Covid-19 triggered an increase to remote work (55 percent), a focus on employee wellbeing (54 percent) and the establishment of new goals (36 percent). What have we learned from these changes that we should continue doing, adjust moving forward or stop doing once we turn the corner?
- ▶ **Expanding the possibilities through digitalization.** Digitalization is more than new virtual meeting technology. It is a fundamental change in how business is conducted, starting with the customer experience. This may require process re-design, better data management methods, new systems and integrations, and the use of advanced technologies like analytics, artificial intelligence (AI) and robotic process automation (RPA). As CEOs view the changes in the nature of work, the work environment, the work processes and evolving roles of the current workforce, organizations are going to require a much more agile and hi-tech-enabled workforce to compete.
- ▶ **Recognizing the shifts in employee composition and the reasons why.** The year 2020 saw accelerated retirements and retirement planning for many employees. Digitalization notwithstanding, many of these employees will need to be replaced. This presents a twofold opportunity: bring in workers with the new skills that are needed for the new environment and address governance issues that have surfaced. DE&I (diversity, equity and inclusion) and ESG (environmental, social and governance reporting) are not just buzzword acronyms; they represent a 5-10-year advancement in these areas in just one year. Where business governance structure is lagging these advancements, CEOs and their

management teams will need to learn what to measure, why measure it, what is considered “good” and what to do when those measurements fall below “good.” New reporting standards on human capital metrics will likely be in place soon, and companies that ignore these changes will be in a weaker competitive position relative to the labor and investment markets.

- ▶ **Developing an analytics-based familiarity with the organization’s culture.** Although most organizations believe their culture has gotten stronger, the question remains, how do they really know? Since culture reveals itself during challenging times, evidence needed to gauge the behaviors and attitudes of employees during this time goes beyond traditional surveys and other measures and well past longstanding “gut” feelings. A new analysis of organizational culture will give leaders a chance to see what has changed, what employee concerns will need to be addressed and what aspects of the traditional culture remain.
- ▶ **Continuing and improving employee communications channels.** For many companies, employee communications increased dramatically in 2020—and so did the level of transparency. Will this continue, and if so, what must be shared moving forward now that employees have gotten used to the frequency and transparency? Determining this will take careful consideration because an abrupt change may have a negative impact on engagement and productivity.
- ▶ **Deciding on when, how and how quickly to re-start business initiatives put on hold.** CEOs may consider utilizing some form of business scenario-planning that goes beyond pre-Covid levels of sophistication. One example is the scenario-modeling used in some of the emerging M&A toolsets. Similar tools are coming to market for evaluating digitalization, sales, marketing, operational improvement and other potential initiatives.

The year 2020 has provided a unique opportunity for CEOs to consider ways to reset how their companies conduct business and, more importantly, grow and compete in a changed world. Those who seize this opportunity may find themselves in a stronger position to deal with the continuing requirements to be agile and responsive to what lies ahead.

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