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# A Perilous Passage for Corporate Functions

## Letter From the Editor

Corporate functions throughout the enterprise have entered a danger zone. The various departments — from finance to legal, from procurement to audit — are falling out of sync with the business they support on critical dimensions such as autonomy, speed, risk tolerance and data use. Senior leaders recognize this but have been much too cautious in their response. As Doug Eckstein writes in this edition of *Fi|r|st*: "That disconnect cannot persist." Where it does, corporate functions will not stay relevant; the center cannot hold. Eckstein breaks down the overwhelming forces of change into manageable categories and explains the implications for the very near future — the year 2020.

This issue also contains practical roadmaps for the perilous stretch ahead. Our writers sketch out the required next stage for five specific functions, describe the gap that has to close and offer guidance for the next few years.

It won't be easy. You'll have to speed up, let go of some direct control and reinvent your staff — changing the mindset from pushing transactions through to offering useful recommendations, and upgrading technical and soft skills.

On the upside, functional leaders have been saying for years that they want to get more strategic. This is your chance. At the other end of this rough passage, your team will spend less time on routine tasks and devote more to training and advising.

You'll find help inside these pages:

- Because you'll need to automate your function and provide self-service tools for the business — tips for the non-IT leader **negotiating with technology vendors**
- Because you'll need to get people to actually use the systems you buy — **proven tactics to boost adoption**, whether that's well-timed infusions of clout or the introduction of software as a colleague (SaaS)
- Because you'll need to work more extensively with other functions to avoid duplication and push the company forward faster — frameworks to **build an organization that systematically spots fruitful opportunities for collaboration**
- Because you'll need to hold on to the high-potential employees required for success in this brave new world — **fresh insights on how to overcome the thin leadership bench**, a major, and common, risk
- Because you'll need to understand the threat to the whole enterprise — **how the risk factors for growth stalls have changed** since the recession, along with signals to steer executives away from these traps

*Fi|r|st* stands for the intersection of **Finance, Risk, and Strategy** — how companies expand, how they can be both bold and principled and how they persuade employees and investors to join them for the ride. The journal addresses cross-cutting challenges that pressure the C-suite and executive teams.

What happens if your function fails to keep up? Business units will make decisions without you.

—Judy Pasternak

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Smooth and consistent cross-functional collaboration does not happen naturally. It's time to get serious; these processes, platforms and workforce innovations help companies find, create, evaluate and act on opportunities across departments, in different business units and around the world.

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## 41 Avoid Growth Stalls: Root Causes Have Changed Since the Recession

A stall is not a bad quarter, or even a bad year, but a significant, sustained downturn in top-line growth that unleashes a hurricane of damage. The good news is many stall factors are knowable and preventable. Beware of today's most common and dangerous stall factors.

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Scott Galloway, author of *The Four: The Hidden DNA of Amazon, Apple, Facebook and Google*, explains how these tech giants upended traditional market forces, and how other companies might follow in their footsteps. He also explains the T algorithm — the elements you need “for getting to \$1 trillion dollars.”

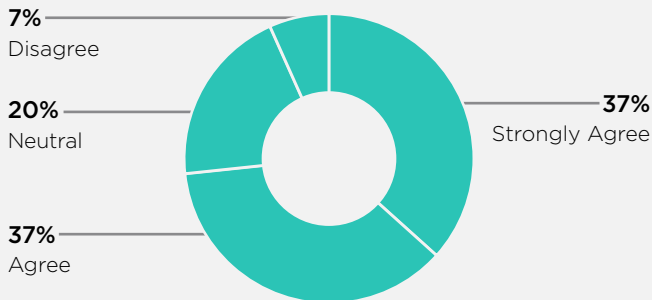
# The Cutting Edge: Q2 2018

## A Fir|st Look at New Research

Compiled by Oana Lupu

### CEOs Say Companies Must Retrain Employees at Risk of Losing Their Jobs

#### CEO Perception of Business Need or Responsibility to Invest Significantly More in Retraining



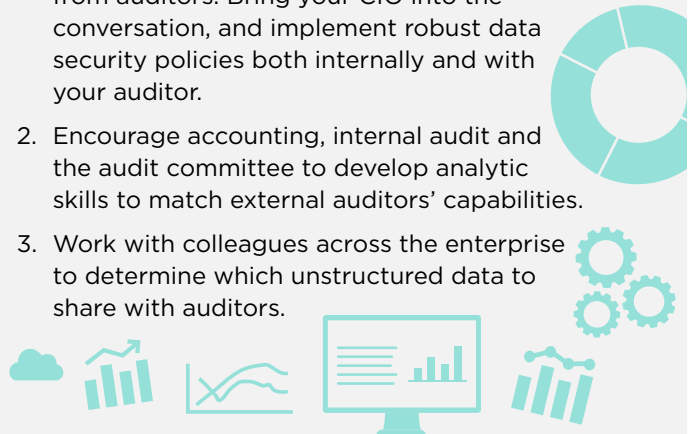
*n* = 30 CEOs.  
Source: CEB 2018 CEO 20 Pulse on the Future of Work.  
Note: Percentages may not add up to 100% because of rounding.

Over the next year, CEOs say they'll emphasize both **training employees for other opportunities** in the organization (79%) and **creating greater internal career mobility** (73%).

### How Big Data Is Changing the External Audit, and What It Means for Finance

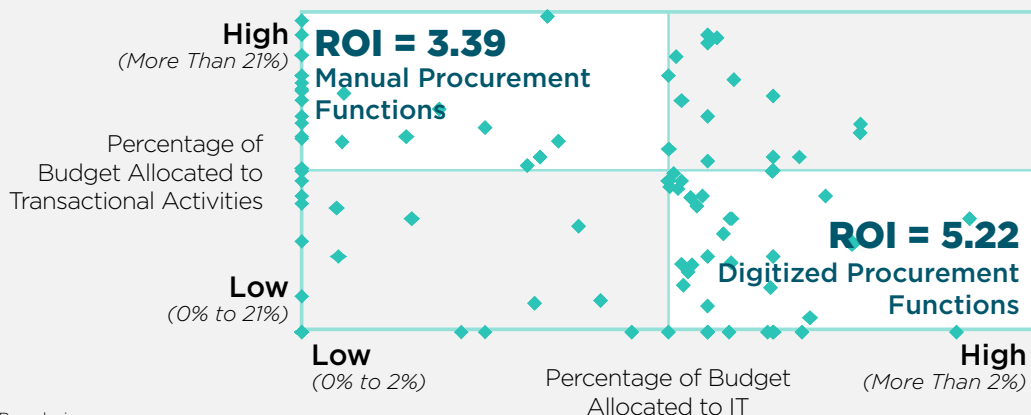
External auditors are venturing into the use of analysis, modeling and visualization to identify anomalies in audit-related information. As audit firms gain new capabilities, finance teams should:

1. Prepare to receive requests for more data from auditors. Bring your CIO into the conversation, and implement robust data security policies both internally and with your auditor.
2. Encourage accounting, internal audit and the audit committee to develop analytic skills to match external auditors' capabilities.
3. Work with colleagues across the enterprise to determine which unstructured data to share with auditors.



### The Importance of Procurement Digitalization

Procurement functions with a higher percentage of their budget allocated to IT deliver higher ROI than those with manual processes.



*n* = 71.  
Source: CEB analysis.  
Note: The confidence level of this analysis is 95%.



# Business Misconduct: A Vicious Cycle

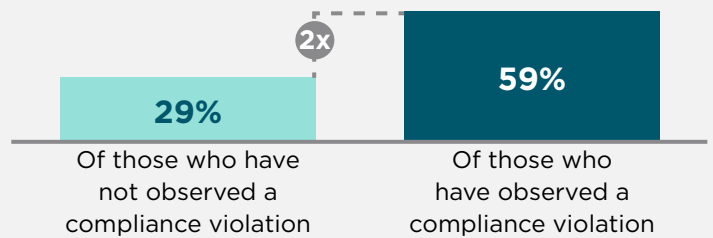
Almost 3 in 10 employees observed at least 1 compliance violation at work in the past year.



Those employees are **twice as likely** to look for a job with another organization.

n = 5,025.  
Source: CEB 2017 Compliance and Ethics Global Culture Assessment.

Percentage of Employees Actively Looking for a Job With Another Organization



n = 1,755.  
Source: CEB 2017 Compliance and Ethics Global Culture Assessment.

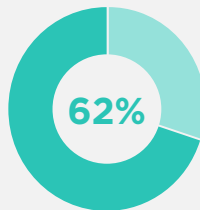
**Compliance violations drive away the very people organizations need to detect and prevent future misconduct.**



## Those Who Report Misconduct

Of those who reported noncompliance, 62% also said they are actively looking for a job with another organization.

n = 1,080.  
Source: CEB 2017 Compliance and Ethics Global Culture Assessment.



Compared to **only half** of those who observed, but did not report, noncompliance.

n = 392.  
Source: CEB 2017 Compliance and Ethics Global Culture Assessment.

## Those Who Model Good Behavior

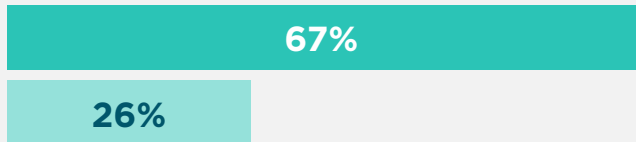
Outside my job, I believe in the importance of acting with integrity.

Employees who strongly agree with this statement and who have witnessed noncompliance are **almost three times as likely** to look for a job with another organization as employees who strongly agree but have not witnessed noncompliance.

n = 587.  
Source: CEB 2017 Compliance and Ethics Global Culture Assessment.

## Those Who Exert High Levels of Discretionary Effort

67% of employees who exhibit superior discretionary effort **and have witnessed noncompliance** are actively looking for a job with another organization.



Compared to 26% of employees who exhibit superior discretionary effort **but have not witnessed noncompliance**.

n = 525.  
Source: CEB 2017 Compliance and Ethics Global Culture Assessment.

# 8 Corporate Shifts That Will Reshape Functions

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By Doug Eckstein

The old paradox that “the more things change, the more they stay the same” is a good description of what corporate functions are experiencing today. The businesses they serve are changing rapidly. The sheer pace and volume of this change make it hard for functional executives to process it and determine the correct response.

In addition, the media portrays these changes differently from what functional leaders see on a day-to-day basis. The result is a kind of cognitive dissonance that makes it easy to dismiss the cumulative impact as hyperbole. Not surprisingly, corporate functions aren’t evolving fast enough to keep up with the upheaval the business is actually experiencing.

That disconnect cannot persist. If it does, functional leaders will find themselves on the wrong side of important choices someone else made for them. One not-so-pessimistic outcome is that the business will act more often without considering corporate functions’ guidance — a reversion to more gut-based decision making, but perhaps with more cherry-picked data. The scarier possibility is that the business will redefine — and limit inappropriately — the role of corporate functions it views as less relevant given how the business has evolved.

To help senior leaders make sense of the shifts underway and determine the near-term implications for their functions, we distilled the murky fog of change into a set of trends we think are the most relevant for every function in the near future — by about 2020 (see Figure 1). This is by no means a comprehensive list, but it is a good place to start.

## 8 Trends, 4 Big Implications

Some important themes emerge from these trends. At least four will have big implications for corporate functions in the next two years.

### **Corporate functions must enable and manage the taking of bigger risks.**

The risks of the business acting and not acting are increasing at the same time. The rise of platforms and network effects enables companies that

can create enough scale to secure most of the profits in a given market. It makes sense, then, that compared to five years ago, we see a 50% increase in CEOs saying their firms must be first movers. At the same time, newly emergent risks, such as data privacy, are mixing with the business’s pre-existent risk aversion to give added pause to executives wishing to make bolder bets.

Corporate functions will have to navigate this balance carefully. While most functional leaders acknowledge a role in enabling appropriate risk taking, corporate functions’ default approach tends to focus primarily on the quality of risk management at the expense of faster, more confident risk-adjusted decisions. And that is often what is perceived by the business when corporate functions engage. Addressing this overabundance of caution will require corporate functions to change how they partner with each other and the business. They’ll need to limit their disparate requirements, which can feel like they are piling on, and embed risk guidance in existing decision-making processes.

### **Corporate functions are getting slower relative to the business — and if that doesn’t change, the business will seek alternatives.**

The business has developed a voracious appetite for speed. And the speed differential between the business and corporate functions is growing — dangerously. The business can launch and customize products nearly instantly using technologies such as 3D printing, online software and crowdfunding. But getting a contract reviewed or a vendor onboarded takes longer than ever, in part because growing (and overlapping) process requirements have outpaced the function’s coordination and efficiency gains. It’s no wonder 25% of corporate function staff report slowing down new product launches.

Figure 1: 8 Trends Reshaping Corporate Functions

### Pervasive Digital Capabilities

Companies (and functions) use digital capabilities for almost every activity — every step, input and output of every value chain — which is reshaping what they do and how they do it.



### Corporate Function Drag

Corporate functions slow down the business and threaten growth. Their overlapping process requirements create a bureaucracy that makes work less, not more, efficient.



### Data Scrutiny

Customers, regulators, business leaders and employees expect companies to effectively manage data and the risks it poses. Functions will have to remake processes to minimize unnecessary data collection and use while continuing to leverage data to increase business value.



### Eroding Process Ownership

Access to tools and data means the business will do more for itself. Corporate functions will control fewer tasks they once considered core activities and will be pushed to provide higher-quality insight where they do get involved.



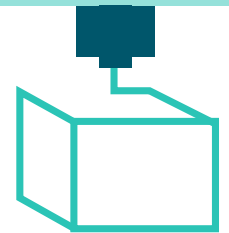
### War for Talent

Stiff competition for scarce talent creates the need for hiring based on skills, not roles, and for talent sharing across functions. Functional leaders will need to build new relationships and make the case for prioritizing their work.



### Asset Lite

New products and services can be made, customized and launched almost instantly using online software, 3D printing and crowdfunding. Firms can quickly alter and scale their product and service portfolios, which pressures corporate functions to promptly support new offerings.



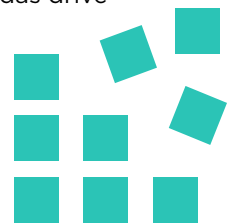
### Winners Take All

The rise of platforms and network effects means companies that can create enough scale secure most of the profits in a given market. Bigger, riskier growth bets are thus necessary to compete, which will challenge corporate functions to both enable and manage risk taking.



### Regulatory Fragmentation

More countries assert themselves, and populist political agendas drive enforcement. It will be harder for the business to execute activities quickly while maintaining compliance and effective risk management.



The notion that the business will continue to accept slow execution so long as it gets higher quality, lower risk or more savings is becoming less true. So is the idea the business has no choice but to use corporate functions' services despite their slow pace. In response, corporate functions will need to close this speed gap — and fast — which will require changes in how they deliver their services to the business.

**Corporate functions lag behind the business in accessing and analyzing data, and the business expects this to improve.**

Many of the business's opportunities are powered by its advancing ability to access and analyze ever-increasing volumes of data. Corporate functions sit on a mountain of data as well but are often less aware of what they have access to or how to protect it and benefit from it. Solving this will take time, adding to the urgency from a business and risk management perspective.

Rethinking process design and changing functional staff behaviors are undoubtedly necessary. In some cases, though, corporate functions will need access to staff with deeper technical competencies that are increasingly scarce, such as data scientists. Functional leaders must therefore compete more effectively with other functions for talent and establish talent sharing protocols or partnerships where appropriate.

**Corporate functions are forced to rethink their roles because the business can do more for itself.**

Access to tools and data means the business can execute tasks that were historically owned by corporate functions — without necessarily losing the value of their stewardship. This capability has been helped along by increasing maturity in many core processes owned by corporate functions; the more mature and stable the process, the easier for others to replicate it, especially with useful tools at hand.

Despite the fact that digital technology is nowhere near reaching its full potential, it has already started to erode corporate functions' ownership of certain processes. As an example, 70% of business executives are already willing to run their own IT projects.

This is not necessarily a bad thing because it allows corporate functions to focus elsewhere, but it raises the stakes for them to rethink the value they deliver to the firm and their role in supporting the business.

## Steps to Take Now

Certainly, not all of these trends will fully materialize by 2020. However, they will all have material consequences for corporate functions' value, role, delivery model and resources by that time. In many cases we are already seeing their effects.

The good news is that functional leaders can take some no-regret actions now to set their organizations up for success:

- Convene the functional leadership team to examine the trends and their implications for your department. Ask leaders to think forward two to five years, identify implications for your organization and develop scenarios for how your function may change.
- Add discussions related to the trends as standing agenda items in your meetings with other functional and business leaders. Begin brainstorming and driving consensus on how the trends affect their expectations for the function.
- Embed the implications of the trends into your function's strategic plan, and add metrics — where appropriate — to the function's dashboard to track related changes.

Waiting to see how these trends affect your function is far more dangerous than taking the steps above. Delay may cost you the flexibility you'll need to control your function's response to how your business is changing.

# How 5 Functions Must Change

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**Procurement's New Deal: Let the Business Buy**

**Audit Must Knock Down Walls: Combine Data and Partnership for Fast Change**

**Legal Breaks the Mold: Fewer Law Firms, More Software**

**Real Estate's Mandate: Tech That Uncovers Workplace Needs**

**The Digital Business Needs a Very Different Finance Function**

# Procurement's New Deal

## Let the Business Buy

By Elaine Song and Bryan Kurey

As companies respond more quickly to market shifts with new products, procurement must accelerate and change the nature of its support. Delivering goods and services at the best price is no longer enough, and it simply takes too long.

The business will be able to — and feel a need to — take on more sourcing responsibility. In fact, everyone in the organization might claim some expertise in executing purchases because they “buy things all the time.” Simple transactions will make up the bulk of their new activities, but they’ll also need to negotiate medium-to-large contracts for items like ad hoc consulting, outside legal counsel, HR benefits and project-based temporary labor.

When it comes to process, procurement will play an advisory role, helping where needed and coaching the 53% of business staff who aren’t highly proficient at following policies that cut costs and reduce risks.

Stakeholders will expect more business insight in return for their buying efforts, shifting procurement’s value. The function’s major contribution will move from process requirements that reduce cost and risk to data-driven insight based on the function’s pool of spend, supplier and market information. Procurement will still handle high-risk, high-dollar buys, but it will devote more time to identifying new opportunities and eliminating overlooked inefficiencies.

The typical procurement function has a lot of work to do to reach this near-future state — and not much time left

to do it. To deliver, procurement must address two pressing needs: investing in technology and upgrading the skills of its staff. This means rethinking departmental budget priorities.

### Technology: Still at the Starting Line

Procurement’s starting point is creating a strategy for technology spending. Only 22% have done this, although it’s clear that more software is required for faster execution and better analytics.

Procurement executives are looking at robotic process automation (RPA) software, automated RFX, contract authoring and evaluation, and transactional procurement self-service. (Imagine every corporate purchase feeling as convenient as ordering shampoo on Amazon and having it whisked right to your door.) They are also evaluating technologies that enable quicker visual reporting and analysis, automated sourcing project identification and other forms of predictive analytics. Yet very few have acted.

According to our 2017 survey of 109 procurement departments:<sup>1</sup>

- Twenty percent are using data visualization tools.
- Seventeen percent have self-service procurement technologies.
- Six percent invested in cognitive procurement help desks.
- Five percent use predictive analytics.
- Three percent have purchased RPA.
- None have implemented artificial intelligence.

### Skills: From Execution to Customer Service and Advice

Procurement has sought to transform its staff composition for many years. The function originated and grew with employees adept at pushing transactions through, identifying new areas for spend consolidation across

the organization and negotiating hard for better terms with suppliers. But now more than 60% of senior procurement executives believe talent improvements are a major priority.

With technology and the business taking on those old roles, functional investment in people will focus more on professional advisory skill sets and internal influence — required capabilities for the new activities. While head count may decline, spending on staff will likely increase because it is a more expensive profile.

Procurement will reallocate budget toward personnel from activities such as outsourcing and corporate overhead, which will diminish as activity sets consolidate. Indeed, this has already begun; investment in personnel jumped to 78% of total budget in 2017, up from 60% in 2014.

Endnotes

<sup>1</sup> CEB 2017 Digital Procurement Benchmarking Survey; n = 109 procurement organizations.

For the CPO

**Table 1: Procurement — Impact of Trends** (see p. 8 of this issue for definitions of trends)

	Corporate Trends	Resulting Functional Shift Required
<b>Value Drivers</b>	<ul style="list-style-type: none"> <li>• Corporate Function Drag</li> <li>• Data Scrutiny</li> <li>• Asset Lite</li> <li>• Regulatory Fragmentation</li> </ul>	1. Cost Savings and Risk Mitigation to Execution Speed and Business Insight
<b>Procurement's Role</b>	<ul style="list-style-type: none"> <li>• Corporate Function Drag</li> <li>• Eroding Process Ownership</li> </ul>	2. Sourcing Executor to Sourcing Advisor
<b>Business Role</b>	<ul style="list-style-type: none"> <li>• Eroding Process Ownership</li> <li>• Winners Take All</li> </ul>	3. Procurement Customer to Disciplined Sourcing Agent
<b>Delivery Model</b>	<ul style="list-style-type: none"> <li>• Eroding Process Ownership</li> </ul>	4. Standalone Corporate Function to Hybrid Center of Excellence
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Pervasive Digital Capabilities</li> <li>• Eroding Process Ownership</li> <li>• War for Talent</li> </ul>	5. Execution Staff and Core Technology to Professional Advisory Staff and Customer-Oriented Technology

**Table 2: To-Do List for CPOs**

Immediate	Next Two Years
<ul style="list-style-type: none"> <li>• Convene a subgroup of the procurement leadership team and a few midlevel, high-potential employees to examine the five shifts in Table 1. Ask them to think forward five years, identify implications for your organization and develop scenarios for how your organization may change.</li> <li>• Include discussions related to the five shifts as a standing agenda item in meetings with the CEO and CFO. Begin brainstorming and drive consensus on expectations regarding execution speed and market and supplier insight.</li> <li>• Discuss the implications of Shifts 2 and 4 (becoming a sourcing advisor and a hybrid center of excellence, respectively) with the CEO and CFO.</li> <li>• Discuss the implications of Shifts 1 and 3 (providing execution speed and decision insight and becoming a disciplined sourcing agent, respectively) in the next meeting with business unit general managers.</li> <li>• Include IT when discussing the implications of Shift 5 (incorporating professional advisory staff and customer-oriented technology) with the CFO.</li> </ul>	<ul style="list-style-type: none"> <li>• Embed the implications of the five shifts in Table 1 into the procurement strategic plan; define how they affect the buy portfolio and the procurement function's structure, role and skill requirements.</li> <li>• Add metrics to the procurement functional dashboard to track changes related to the five shifts.</li> <li>• Coach business unit managers to help them improve their sourcing discipline, and establish a process for reaching out to procurement for sourcing discipline support.</li> <li>• Describe the five shifts and their implications for the procurement function's structure and role — as well as for individual career plans — in procurement team meetings, conference calls, emails and newsletters.</li> <li>• Reevaluate procurement leadership team succession plans to ensure the organization develops leaders with the right skill sets, including procurement process excellence, vendor management, analytic skills, project management and internal relationship management.</li> <li>• Explain how the procurement function and its value drivers are changing in meetings with vendor partners.</li> </ul>

# Audit Must Knock Down Walls

## Combine Data and Partnership for Fast Change

By Malcolm Murray

An audit department that, in 2020, still operates the way it always has will not be able to provide comprehensive assurance to the board, nor will it be able to contribute meaningful insights to the business.

The bad news, then, is that audit must rapidly perform a difficult transformation and fundamentally change parts of its operating model. The good news, however, is that the changes audit needs to make are not achieved in isolation but rather offer synergies between them:

**Change 1: Flexibility** — Audit departments have come a long way in becoming more flexible, but too often they still rely on informal, dated, biased or incomplete risk information. Chief audit executives (CAEs) tell us they know they have audits that don't add value, and auditors tell us they continue audits even after they've stopped being valuable. True flexibility is necessary, and this will require:

- New methods of continuously and collectively gathering risk information, particularly through data analytics and continuous risk assessment
- New ways of enabling audit teams to ensure they are acting on what they learn and not wasting their time

**Change 2: Digitalization** — A second imperative for audit is becoming truly digital. This means making use of data in all audit projects to provide true assurance over a full population and generate business insights. It also means being able to audit the processes in the business that are rapidly digitalizing, becoming automated or becoming

platforms. Otherwise, audit will soon be cut off from crucial parts of the business. Progress is apparent, but more is needed quickly:

- Ninety-two percent of audit departments use data analytics in engagement fieldwork, and 65% use or plan to use analytics in department planning and risk assessment.
- Eighty-one percent use data visualization tools.
- Fifty-two percent have a standalone data analytics team.
- Nineteen percent have started or are implementing robotic process automation (RPA).
- Fifty percent have started to use or are implementing predictive analytics.
- Twenty-seven percent have hired or plan to hire a data scientist.<sup>1</sup>

**Change 3: True Business Risk Partnership** — Audit's third imperative, the need to build a true risk partnership with the business, is deeply intertwined with the first two. To be dynamic and risk-based, audit needs strong relationships with the business.

Fortunately, these ties will grow stronger naturally if audit embraces automation — automating low-value activities and freeing up time to focus on higher-value activities. The same applies to leveraging data analytics to provide management with insights it did not have; if audit can advise the business on new digital projects, such as RPA, trust will be a natural byproduct, and the business will share pertinent information.

**Change 4: Build Aligned Assurance** — The fourth imperative is necessary to enable the first three: audit must take the lead in breaking down the walls between assurance functions in the organization and constructing a true aligned assurance partnership. This is critical for gathering information and tapping into expertise audit does not possess; it also frees up audit resources by relying on work of the second line.

**Change 5: Recruit for New Critical Skills** — Finally, audit cannot execute on the above imperatives by relying on its traditional talent management methods. It’s time to get creative in recruiting auditors with different skills, especially digital and business acumen skills. Audit must also rethink the traditional staffing model by making more use of outside experts.

Based on our most recent survey of audit priorities, audit departments are wise to these challenges. But 2020 is only a few years away, and audit needs to step up its game.

Endnotes

<sup>1</sup> CEB 2017 Data Analytics in Audit Benchmark; n = 232.

For the CAE

**Table 1: Audit — Impact of Trends** (see p. 8 of this issue for definitions of trends)

	Corporate Trends	Resulting Functional Shift Required
<b>Value Drivers</b>	<ul style="list-style-type: none"> <li>• Corporate Function Drag</li> <li>• Regulatory Fragmentation</li> </ul>	1. Audit Universe Coverage to Dynamic Risk Coverage
<b>Audit’s Role</b>	<ul style="list-style-type: none"> <li>• Winners Take All</li> <li>• Asset Lite</li> </ul>	2. Providing the Board With Assurance to Providing Board Assurance Plus Business Risk Partnership
<b>Business Role</b>	<ul style="list-style-type: none"> <li>• Eroding Process Ownership</li> </ul>	3. Bolt-On Risk Management to Built-In Risk Management
<b>Delivery Model</b>	<ul style="list-style-type: none"> <li>• Pervasive Digital Capabilities</li> <li>• Data Scrutiny</li> </ul>	4. On-Site, Point-in-Time Auditing to Digital Auditing
<b>Resources</b>	<ul style="list-style-type: none"> <li>• War for Talent</li> </ul>	5. Audit-Expertise-Driven Structure to Operational-Expertise-Driven Structure

**Table 2: To-Do List for CAEs**

Immediate	Next Two Years
<ul style="list-style-type: none"> <li>• Convene a subgroup of the audit leadership team and a few midlevel, high-potential employees to examine the five shifts in Table 1 and their implications for your audit department.</li> <li>• Include discussions related to the five shifts as a standing agenda item in meetings with the audit committee and senior management to further educate them on the role and the value of audit.</li> <li>• Commence or continue efforts to work with other assurance providers in the organization to develop an aligned assurance framework and jointly strengthen the risk management capabilities of the first line.</li> </ul>	<ul style="list-style-type: none"> <li>• Embed the implications of the five shifts in Table 1 into your audit department strategic plan; define how they affect risk assessment, audit planning and the department’s structure and skill requirements.</li> <li>• Start revisiting audit methodology in light of the increased use of data analytics and the need to do different kinds of audits in the future.</li> <li>• Add metrics to your performance management system to track changes related to the five shifts.</li> <li>• Describe the five shifts and their implications for the audit department’s structure and role — as well as for individual career plans — to the wider team in team meetings, conference calls, emails and newsletters.</li> <li>• Develop a task force in the audit department to investigate how audits can make greater use of data for remote and continuous auditing.</li> </ul>

# Legal Breaks the Mold

## Fewer Law Firms, More Software

By Abbott Martin

Legal's operating model needs an overhaul for the digital age; legal and compliance must give the business more support, more quickly. Yet the functions face an ever-growing set of independent decision makers who create interdependent legal, compliance and reputational risks. This combination is simply unsustainable without making five shifts.

### **Shift 1: From Cost and Quality First to Agile Strategic Support**

Traditionally, legal departments created value by performing legal work and meeting corporate obligations at lower total cost than outside counsel. In addition, executives no longer had to procure and manage outside counsel.

But now the company must rapidly experiment with new business models while managing the underlying legal risk and protecting the legal assets, such as IP, reputation and regulatory rights, on which strategy depends. In short, legal needs to offer what we call agile strategic support.

### **Shift 2: From Legal Service Manager to Enterprise Capacity Builder**

To provide that support, the department will need to provide real business intelligence. And to provide business intelligence, legal will need to spend less time on routine work and more time deriving insight from legal information. That is, legal must build more cost-effective capacity within

the business to perform what was formerly legal's work.

Even so, business clients will still need assistance. To make this shift with minimal disruption, legal must routinize legal work such as contracts, marketing review, advertising review and employment issues.

There's a significant opportunity here. About 63% of in-house legal work — repeatable, fact-based decisions in which no subjective judgment or interpretation is necessary — can be standardized to some degree.

### **Shift 3: From Centralized Control to Business Partner Ownership**

Departments have not taken as much action as they might to codify legal work and push quasi-legal tasks back to business partners:

- Fifty-nine percent have standardized sales and distribution contracts.
- Fifty-four percent have standardized review of licenses.
- Eighteen percent have standardized product development contracts.
- Eight percent have automated procurement contract review.

Of course, this shift must also be accompanied with accountability for business clients and legal metrics to protect against an unintended change in legal risk exposure.

**Shift 4: From Direct Service to In-Channel Product Delivery**

Legal should increasingly think of its judgment as a “product” that can be delivered to business clients. This means legal support must be relevant and easy to execute.

Legal should build its judgment into existing workflows (such as capital allocation processes, business development playbooks and vendor approvals) and corporate dashboards (such as risk and finance reports). Even complicated decision making can be packaged and bundled as a product for use.

**Shift 5: From Law Firm Relationship Model to Flexible Provider Networks**

With 56% of total legal spend going to outside counsel, it’s clear legal departments still rely on law firms. But new technologies should enable legal departments to break this dependence. More than that, the aforementioned shifts require it.

To execute the shifts, the legal department must bring in new skills, competencies and technologies, and it would be prohibitively expensive to hire for all these skills. It is increasingly possible, however, to piece together functional networks of app designers, analytic specialists and contract legal specialists who can execute high-quality legal projects, such as building a contract intake system and automating contract generation or marketing review.

With a little planning, legal departments can create their own on-demand groups of law firms, technology providers and platforms to execute specific sets of legal work.

**Table 1: Five Shifts by Time Frame**

Immediate	Next Two Years
<p><b>1. Agile Strategic Support</b></p> <ul style="list-style-type: none"> <li>• Discuss corporate trends and corporate risk appetite with the executive committee.</li> <li>• Narrow legal focus to strategic support, strategic legal assets and internal capacity building.</li> <li>• Invest in analytics capability and project and process management hygiene.</li> </ul>	<p>Legal enables faster, more confident and risk-adjusted decisions.</p>
<p><b>2. Enterprise Capacity Builder</b></p> <ul style="list-style-type: none"> <li>• Inventory the work done by the legal department.</li> <li>• Use comparative advantage to rationalize the legal service menu and identify the best-fit provider of legal services.</li> <li>• Discuss service priorities and trade-offs with internal clients.</li> <li>• Reallocate work to best-fit providers.</li> </ul>	<p>Legal focuses on strategic support and emerging legal issues while building execution support into business operations.</p>
<p><b>3. Business Partner Ownership</b></p> <ul style="list-style-type: none"> <li>• Create incentives for knowledge management.</li> <li>• Identify recurring business problems.</li> <li>• Embed scalable solutions (e.g., products) into business workflows</li> </ul>	<p>The business independently executes recurring work that does not require new legal judgment.</p>
<p><b>4. In-Channel Product Delivery</b></p> <ul style="list-style-type: none"> <li>• Identify the “right” opportunities to scale legal solutions by applying simple scope and judgment filters.</li> <li>• Redefine roles and responsibilities to focus on scalable legal products and client use.</li> <li>• Assess use patterns of legal products.</li> </ul>	<p>Most legal guidance is delivered in-channel and at scale.</p>
<p><b>5. Flexible Provider Networks</b></p> <ul style="list-style-type: none"> <li>• Create a vision for sourcing strategy that aligns external providers with business needs.</li> <li>• Select and standardize legal processes for outsourcing.</li> <li>• Pilot, experiment and learn from emerging legal and technology providers.</li> <li>• Unbundle legal services among a variety of external providers.</li> </ul>	<p>Legal services are provided through a network of law firms, technology providers and platforms that collectively execute specific legal work.</p>

By 2020, success will be measured by the speed with which a legal department transforms new conditions — changing laws, regulations and interpretations — into standardized guidance embedded in operations to increase the company’s capacity to make better decisions. Only by making this transition will legal departments be able to support business at the necessary speed, reduce friction in operations and enable increases in corporate productivity.

# Real Estate's Mandate

## Tech That Uncovers Workplace Needs

By Noah Hersch and Lynne Tappan

People are working differently, and that means businesses must think differently about their real estate portfolios. Corporate real estate (CRE) needs to offer flexibility, business advice and analytics — a big change from its traditional emphasis on cost savings and space efficiency. Indeed, CRE must carve out a new role in a world where companies compete intensely for talent: helping the organization make use of new technologies to increase productivity and employee engagement.

This will require working with two other functions in particular:

- **IT** — To plan technology and digital workplace investments that enable mobile and remote work for employees
- **HR** — To understand employee needs and productivity drivers

Fewer people may need to be in the office in some cases, while in others, more staff may need to be on hand. And CRE must also continue to design spaces that can attract a skilled workforce, inspire creativity and enable collaboration.

### Can the Business Make Good Workplace Decisions?

In the interest of speed, the business will execute many of the activities and decisions CRE has sought to control. This

will include everything from investing in workplace technology to putting amenities in place — for example, the state-of-the-art fitness center, the online food ordering options — and even contracting local service providers. All of that can be quickly sourced and put to work independent of CRE (or even corporate procurement).

These go-it-alone decisions from the business might not be the right ones, so CRE must take on an advisory role, helping business units align themselves with the company strategy and CRE's overall vision for the workplace. Of course, that means CRE must keep up with corporate strategy and business leaders to understand the long-term direction of the enterprise.

### Toward the Personalized Office: VPAs, Augmented Reality

Technology resource investment will focus on software for space scheduling along with advancing digital workplace initiatives. The result: a workplace that becomes personalized and responsive through intelligent apps, virtual personal assistants (VPAs), augmented reality, and more. To continue the cycle, data from employees' use of these tools will provide new insights on how employees work and what they need.

This metamorphosis will require new skills in the function that were previously not considered part of the CRE profile — in particular, analytics and influencing abilities. But these capabilities are scarce and expensive, particularly in the analytics space. As a result, CRE will need to tap into shared talent resources throughout the company, such as multidisciplinary data and analytics teams and individual data science specialists.

For most heads of CRE, this evolution will be welcome. Many have been pursuing it for a number of years, and some have already achieved it. Once the transition occurs, the workplace will only become more important, and the insights will be more readily available to act on.

## For the Head of CRE

**Table 1: CRE – Impact of Trends** (see p. 8 of this issue for definitions of trends)

	Corporate Trends	Resulting Functional Shift Required
<b>Value Drivers</b>	<ul style="list-style-type: none"> <li>• Pervasive Digital Capabilities</li> <li>• Data Scrutiny</li> <li>• Corporate Function Drag</li> <li>• Asset Lite</li> </ul>	1. Cost Savings and Space Efficiency to Employee Experience and Space Flexibility
<b>CRE's Role</b>	<ul style="list-style-type: none"> <li>• Eroding Process Ownership</li> <li>• Asset Lite</li> <li>• Corporate Function Drag</li> </ul>	2. Service Provider to Workplace Strategist
<b>Business Role</b>	<ul style="list-style-type: none"> <li>• Eroding Process Ownership</li> <li>• Asset Lite</li> <li>• Regulatory Fragmentation</li> </ul>	3. Information Provider to Solution Design Partner
<b>Delivery Model</b>	<ul style="list-style-type: none"> <li>• Eroding Process Ownership</li> <li>• War for Talent</li> <li>• Winners Take All</li> </ul>	4. Best-in-Class or Bundled Services to Integrated Delivery Model
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Pervasive Digital Capabilities</li> <li>• Data Scrutiny</li> <li>• War for Talent</li> <li>• Corporate Function Drag</li> </ul>	5. Skills and Technology Focused on Customer Service and Portfolio Management to Skills and Technology Focused on Influence and Real-Time Analytics

**Table 2: To-Do List for Heads of CRE**

Immediate	Next Two Years
<ul style="list-style-type: none"> <li>• Convene the CRE leadership team and involved stakeholders to examine the five shifts in Table 1. Ask them to think forward five years, identify implications for your organization and develop scenarios for how your organization may change.</li> <li>• Include discussions related to the five shifts as a standing agenda item in meetings with the CTO and CHRO. Begin brainstorming and drive consensus on employee experience drivers and best approaches to improve worker flexibility.</li> <li>• Organize a meeting with risk and legal to review data privacy regulations and workplace minimum requirements implications for real estate.</li> <li>• Meet with service providers to discuss additional capabilities they can provide, new areas for collaboration and the quality of talent they should allocate to your organization.</li> <li>• Meet with business partners to discuss their new role as a solution design partner and what the implications are for collaboration, data sharing and performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Embed the implications of the five shifts in Table 1 into CRE's strategic plan; define how they affect enterprise portfolio management.</li> <li>• Add metrics to CRE's performance dashboard to track trends related to the five shifts.</li> <li>• Help business unit leaders improve their inputs for space needs forecasting and workplace strategy.</li> <li>• Describe the five shifts and their implications for CRE's structure and role — as well as for individual career plans — in CRE team meetings, conference calls, emails and newsletters.</li> <li>• Explain how CRE and its value drivers are changing in meetings with outsourced service provider partners.</li> <li>• Expand dedicated business liaisons across the organizations.</li> </ul>

# Benchmarks to Improve Procurement Effectiveness

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# The Digital Business Needs a Very Different Finance Function

By Jason Boldt and Tim Raiswell

Finance has made inroads into digital workflow automation and controls oversight. In its primary mandate of *governing and reporting*, finance performance is better than ever with the steady adoption of technologies such as electronic transaction processing, spreadsheets, financial ERP systems and planning tools.

Yet the transition to digital business requires a dramatic adjustment for the function's second broad mandate: *guiding* executives to make profitable growth investments. Finance, like other functions such as legal and procurement, is discovering it cannot afford to look only at how to improve its own work with robotics, artificial intelligence (AI) and analytics. Instead, it must take in the entire organization's shifting needs to learn what changes are required to its own design and mission.

Managers overseeing strategies powered by digital business models cannot afford the current, slow-moving model of analyst intervention. They will use financial data that is immediately accessible and easy to manipulate, or they will not use the data at all. Finance must therefore reconsider what it means — and what it takes — to guide decision makers (see Table 1).

## Value Model: Finance as a Digital Service

Financial data was long the most valuable, and sometimes the only, source of information for organizational decision making. The entire foundation of finance's analyst model rests on this assumption. Finance's aim has therefore been to make financial information available and teach others how to use it to make better decisions and judgments. For example, finance seeks to help business leaders understand the financial trade-offs of different investment options or how the actions of a business unit affect the balance sheet.

But summarized financial data is no longer enough. It can be misleading because it is typically only a weekly or monthly snapshot of performance. Consider, for example, a restaurant chain that is testing microstrategies for adding new menu items, parking spaces or drive through lanes. A summarized report might hide the behavioral shifts that reveal customer preferences and — more importantly — which behaviors are most profitable.

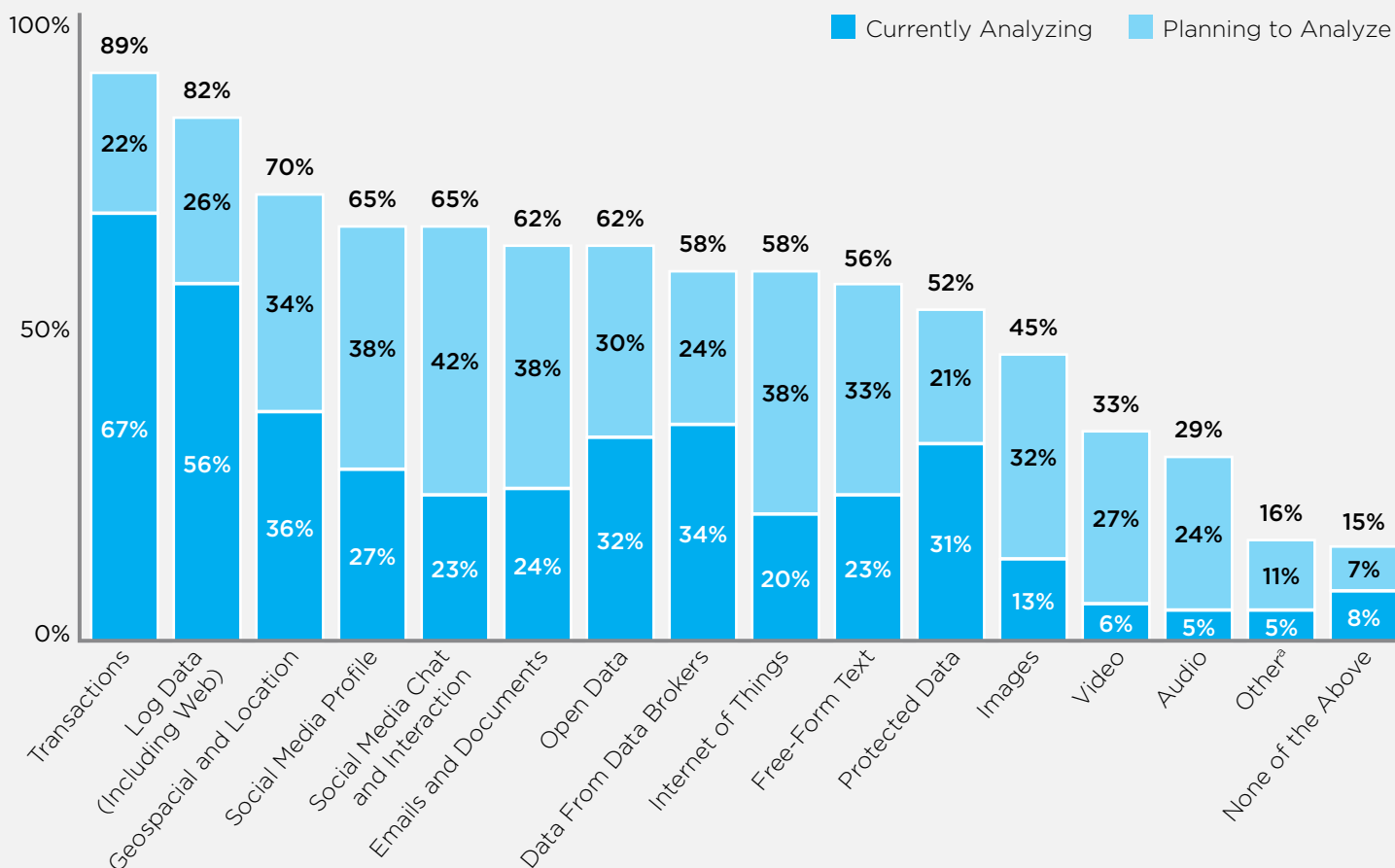
The business increasingly seeks to leverage geospatial, social and other forms of unstructured big data (see Figure 1) in driving customer profitability, but these initiatives are constrained by how well they reconcile that big data with transactional financial data. The value of the finance function in a digital business therefore rests on how well it can underpin and power enterprise applications with financial data, without a person in between.

Leading finance teams will become a digital interface for the organization's financial data, allowing both analysts and digital tools to "plug into" it. This role will enable profitable and efficient growth decisions, no matter how micro or localized.

**Table 1. The Digital Future of Finance**

	Current State	Digital Future
<b>Value Model</b>	Finance as Advisor: Finance guides managers to make financially informed decisions.	Finance as a Digital Service: Finance creates data and expertise as a service.
<b>System for Delivering Value</b>	Calendar-based processes and project-aligned support	Continuous, integrated processes and flexible support
<b>Capabilities</b>	Accountant- and analyst-based	Product- and data-engineer-based
<b>Stakeholder Relationships</b>	Matrixed business partnership	Distributed and multidisciplinary

**Figure 1: Data Sources for Big Data Analysis**



n = 195.  
 Source: Nick Heudecker, "Best Practices for Designing Your Data Lake," Gartner, 19 October 2016.  
<sup>a</sup> Other includes genomic, meteorological, traffic, security and customer data.

## System for Delivering Value: Continuous, Integrated Processes and Flexible Support

In light of the shifts above, the calendar is losing relevance as a signpost for evaluating business performance. Far from being ad hoc, the pace of digital business will rest on systematic, algorithmic processes. The challenge for finance is not that these processes are unpredictable or random; it's that they are varied and continuous.

Like the process innovations that enabled rapid, soft closes on non-quarter-end periods, digital finance technologies promise to let finance teams:

- Close the books, forecast and analyze variance at intervals that match business need.
- Allocate resources based on triggers and initiatives.
- Simulate profitability of investment decisions in real time.

Embedded AI can make core processes more proactive. For example, AI could enable a “prescriptive close,” whereby it proposes period-end adjustments and accruals based on past period-close activities.

New capabilities like in-memory computing will allow finance teams to integrate financial planning with functional planning activities like sales planning, workforce and labor planning, and customer lifetime value management.

The convergence will also open a critical opportunity to improve how finance forecasts and communicates the value of the overall firm. For example, valuation models that incorporate social or product performance data elements into assumptions about retention rates could yield a more reliable understanding of future cash flows.

## Capabilities: Product- and Data-Engineering-Based

Finance's overall structure and skill set will change markedly in response to a digital business environment. New technologies will mean new finance workflows. Robotic process automation (RPA), for example, will replace defined manual tasks across the finance function and will continue to expand as finance technology vendors and service providers develop new ways to use the software. In FP&A, AI-enabled capabilities will replace many traditional financial analyst data-wrangling and manipulation tasks, such as routine forecasts.

Overall, the accounting and analyst model will likely retreat (at a different speed for each industry) to the limit of financial strategy activities such as investment assessment, strategic options modeling, portfolio management, variable cost allocations and capital structure management.

To put data strategy at the center of finance's work, leading finance organizations (like leading IT organizations) will structure the function as a set of products that support digital business initiatives. The resulting functions will need product managers with both technical and financial expertise. These product managers will map internal customer needs, test the usability of new deliverables and map how new AI capabilities could ensure core finance processes operate effectively.

Financial data engineers will oversee the firm's financial data model and data flows between applications and platforms. They will partner with accountants to help prepare external financial data for regulators and investors, with compliant, accounting-based segregation of duties. And they will become critical multidisciplinary team members in the broader digital business.

With almost every defined manual task automated and the labor displaced, finance leaders should expect to see a net decrease in finance head count. The current analyst career track could shift in many directions; centralized analytics, product management, general management and marketing roles all require financial expertise, and new opportunities will open with new multidisciplinary exercises.

## Stakeholder Relationships: Distributed and Multidisciplinary

The boundary walls between traditional functional processes are already starting to break down. Rather than simply influencing one another through business partnership, functional leaders will work from objective foundations of shared knowledge and information for many activities.

Not all aspects of the finance leader's current to-do list are digitally reliant, but some urgent changes now require a level of technological and strategic savvy that is unprecedented in finance. Table 2 outlines how relationships with important stakeholders should shift to prepare for digital opportunities.

### Next Steps

- See “25 Questions to Help You Choose and Manage a Tech Vendor” in this issue of the journal to get practical tips for choosing and managing technology vendors.
- Deploy our new finance Ignition service annually to stay up to date on the latest digital enhancements to finance processes.
- Implement our objective, data-driven purchasing and implementation guidance for significant technologies to capture digital opportunities in cloud-based application deployments, integrated planning, AI and RPA.

**Table 2: Finance's Shifting Relationships With Stakeholders**

Stakeholder	Changing From	Changing To	Reliance on a Digital Solution
<b>1. Executive Leadership</b>			
CEO	Reporting on business-level profitability and its drivers	Testing, funding and reporting on product microstrategies	Medium
Board	Reporting on financial health and risks	Reporting on where the company needs to take more risks to grow	Low
Executive Leadership Team	Instilling strategy and budget discipline	Creating faster funding models and measuring the return on digital investment	Medium
IT	Allocating finance employees to IT to tighten budget requirements	Allocating IT employees to finance to speed up technology adoption	Low
<b>2. Business and Product Leadership</b>			
Innovation and R&D	Measuring the return on innovation	Provoking more calculated risk taking	Low
Marketing and Sales	Reporting the return on advertising and channel investments	Co-developing and funding microstrategies through integrated financial and sales planning	High
General Management	Delivering better business-facing financial analysts	Delivering always-on, real-time financial data	Medium
<b>3. Workforce and Operations Leadership</b>			
Shared Services	Funding opportunities to use labor in lower-cost locations	Funding opportunities to use digital technologies in a virtual workforce and move beyond geographic constraints entirely	High
Business-Line Finance	Pushing central process compliance	Collaborating on center of excellence builds	Low
HR	Providing financial analytic supplements to workforce plans	Fully integrating financial and workforce plans	High
<b>4. External Relationships</b>			
Revenue Authorities	Maximizing audit settlements defensively	Collaborating with authorities to mitigate reputational risks	Low
Regulators	Driving rapid compliance with new accounting standards	Creating intuitive and consumable financial disclosures	Low
Customers	Analyzing customer profitability	Predicting profitability based on digital customer experience	High

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# Steps Toward the Future

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25 Questions to Help You Choose  
and Manage a Tech Vendor

3 Ways to Get Employees Using  
That Technology You Bought

Build Structures for Cross-Functional  
Collaboration

The Collaboration-Speed Matrix:  
Where Bottlenecks Form

4 New Ways to Gain an Edge  
With HIPOs

Avoid Growth Stalls: Root Causes  
Have Changed Since the Recession

# 25 Questions to Help You Choose and Manage a Tech Vendor

By Laura Cohn

So you need to hire a tech vendor. Whether you want to automate contract management or financial data work, you'll need to start with a long list of vendors based on independent research, whittle it down to three to five serious prospects and then send requests for proposals to that small group. When they respond to your RFP, ask them to demonstrate their technology.

Along the way, keep your queries tightly focused to cut through the inevitable vendor hype and arrive at an informed decision.

## Questions for Stakeholders to Clarify the Business Need

1. Have we defined metrics for assessing the success of this technology solution?
2. Do we understand how staff will use the technology?
3. Have we spoken with potential users to understand how this would fit into their existing day-to-day work?
4. What is the likelihood the way we use this technology will change over time?
  - Don't skip this question. Failing to anticipate business change now may result in costly adjustments later.

## Questions for Vendors to Differentiate Offerings

5. We have identified two to three core problems this technology must resolve for us. Can you provide

specific examples of how you have addressed these issues for other clients?

6. What type of preparation (such as data access, security or special configuration) was required to successfully resolve those clients' problems?
7. Could we obtain a reference from a customer with the same or a highly similar problem?
  - It is very hard to spot the main weaknesses of software solutions during the buying process; they usually surface during implementation. Engaging with a user of the technology will help you understand potential pitfalls.

## Questions for the Vendor to Get More Background

8. How many other organizations use this product?
9. How are your other clients similar to and different from us?
10. Can you provide documented examples of how other organizations use your product?

11. Can you provide a tailored demonstration to show how your product will resolve our specific need?
  12. Based on the problem we are facing, which functionality of your product will we use most?
  13. Which functionality will we use least?
  14. Can you provide examples of features you have added based on client feedback?
  15. How will our staff access the solution?
  16. Will our staff be able to use an enterprise ID and/or single sign-on to log into your software?
  17. How will our staff pull reports from the software?
  18. How would we have to adapt our use of your product during a major business event, such as geographic expansion, M&A or significant increase in staff head count?
  19. How would you change your offering if a competitor offered the same product and services bundle at a lower price?
  20. Which functionalities of your product could be enhanced to meet our specific need more efficiently in future releases?
- Talk to some of the third parties independently. Third-party service providers with experience can provide a more honest and impartial assessment of the solution's strengths and weaknesses.
23. What is the average implementation cost?
    - Ask how have prices changed in the past two years and what is likely to happen to them in the next two years.
  24. Will you provide initial training to my staff?
    - Determine whether the type and number of training sessions or support calls included in the contract are limited.
  25. What happens if there is a breach?
    - Find out the most recent version of critical files the vendor could provide in such an event. Ask whether the vendor would be open to an audit by your IT department of its disaster recovery and business continuity plans.

### Questions for the Selected Vendor to Avoid After-Purchase Surprises

21. What types of existing data will the technology solution need to access?
  - Of all vendor solution requirements, data is the most complicated. It is also the most likely to undermine the potential benefits if an unforeseen amount of integration prevents the solution from working as planned.
22. How many third-party service providers have you certified in implementing your technology?

## Prepare for the Future

**Cloud-Based Applications:** This category is particularly relevant for finance leaders; cloud-based deployments account for almost 30% of the finance technology market. But this emerging segment is still at the beginning of its life cycle. To minimize the risks of early adoption, don't let technology (or vendors) drive cloud deployment decisions. You need strategic reasons for making such a move — for example, enabling finance transformation as part of a move to digital business or as part of a corporate “cloud first” strategy.

**Artificial Intelligence (AI):** AI will have a profound and deep impact on organizations; it could lead to automation of complex, knowledge-intensive tasks that are currently the domain of skilled personnel. Functional leaders should educate themselves and their teams on what AI is, what the implications are, and what risks it will raise.

# 3 Ways to Get Employees Using That Technology You Bought

By Jessica Kranish

Going digital won't pay off if hardly anyone uses the powerful new systems you bought. So it's worth putting in time and lending your clout to make a rollout work. After all, technology is critical to every aspect of the new corporate functional model — whether that's speeding up processes in your own department or persuading the business to use self-service tools.

For function heads, that can mean proactively getting involved more than you usually would and timing your interventions correctly to get glitches fixed fast. It may also mean getting creative — enlisting VIP power users, for instance, or paving the way for acceptance of a bot by giving it a name.

Without these efforts, you could get less than you paid for with your technology investments. You read that right — your company will lose money. For every \$100 spent on technology, companies typically realize just \$74 in return. They not only miss out on expected benefits but also receive a lower value than the initial outlay (see Figure 1). If the technology doesn't fit business needs, if it's delayed or doesn't deliver what was promised, or if it's just plain hard to work with, you'll come out on the wrong end of a "use or lose" proposition.

The following three tactics can help. General counsel, CFOs, internal audit — all can learn from these examples

of procurement and shared service organizations that succeeded in getting people to adopt the systems they needed to deliver the speed and accuracy the business demands.

## A Department Head Who Rolled Up His Sleeves

Typically, project implementation teams are responsible for handling the changes new systems require. But if senior executives ground themselves in the details of a new project — making sure they personally understand the processes involved — they can prevent slowdowns and resolve issues quickly.

For instance, the average delay in implementing projects dropped from eight weeks to two after Marcos Meirelles stepped in more forcefully at Seagate. Meirelles, a vice president, was responsible for supply base management when he led the charge on new technology projects. He shared the following lessons.

### During the Scoping Phase

**What typically happens:** Executives work with IT to capture the full extent of system requirements, but they often wind up with a huge catalog of requests, and some may not be necessary. For instance, business partners might ask for flashy new features they saw at a conference.

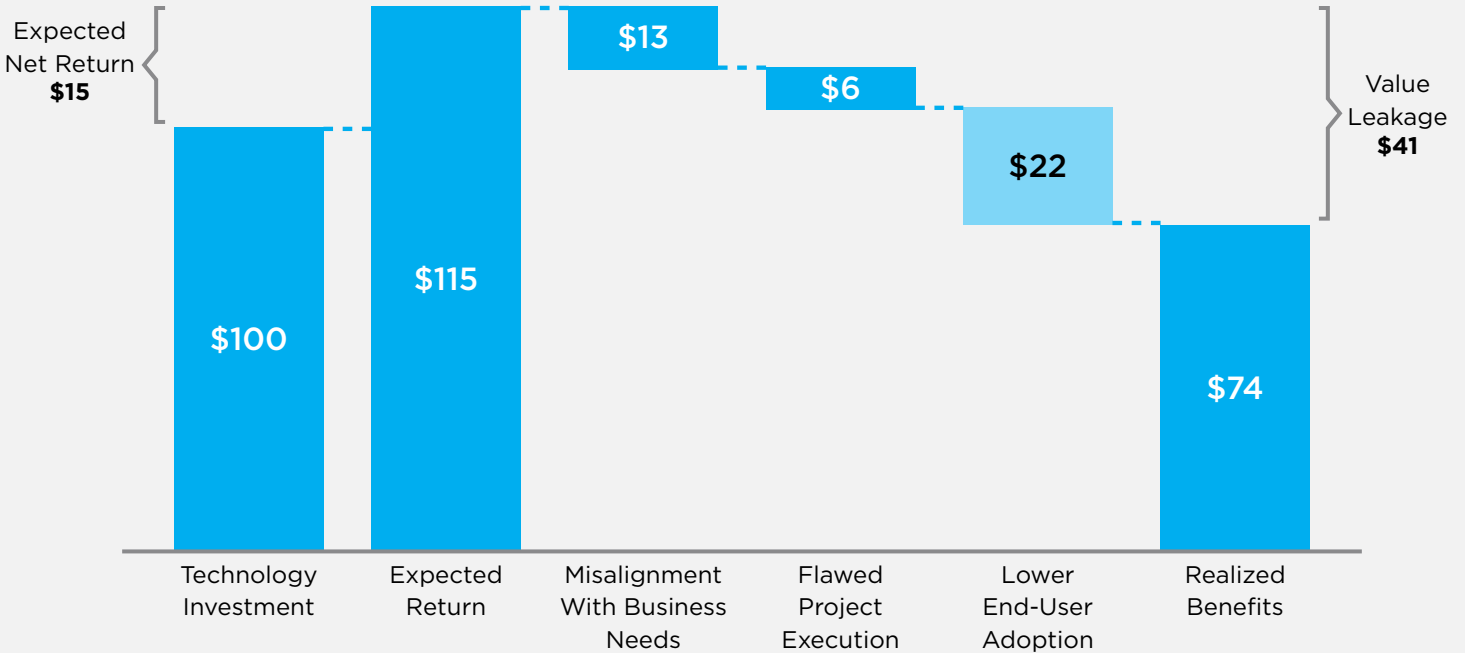
**What to do instead:** Go ahead and get into the weeds with vendors on the details. It will help you explain to business partners why a standard configuration will support objectives and save money.

### During the Configuration Phase

**What typically happens:** Staff members and other stakeholders pressure the implementation team to accommodate custom process changes or workflow requests.

**What to do instead:** Use your senior status to personally vet these requests and block those that aren't both critical and within the scope of the project.

Figure 1: Value Leakage for Every \$100 Invested in Technology



Source: CEB analysis.  
 Note: Validation of value leakage estimates: Model assumes a typical project portfolio of \$100 million annually with a 15% expected return. Estimate of realized business benefits is validated by surveying the business sponsors of 51 systems implementations. Sources of value leakage are sized based on regression analysis of 163 drivers of project business impact.

Your employees or IT staff members on the project management team most likely won't have the clout to do so. Make your default position "no"; require employees who come to you to prove the value of their suggestion rather than the other way around.

One way to mollify stakeholders: create a "parking lot" of high-priority capabilities to build into future software releases.

**During the Launch Phase**

**What typically happens:** Technology implementation teams wait too long to resolve issues before escalating them to the relevant senior executive. In other instances, they might lack the necessary resources to fix the problem.

**What to do instead:** Lean in early and often to solicit issue reports so you can take action to resolve problems as soon as possible. When you identify potential pitfalls, it should be up to you — not up to the implementation team members — to decide which

issues they should handle first. Project managers often won't have enough influence to acquire scarce resources to help; you can use your political capital to provide support.

For instance, if an issue report reveals a problem that will lead to major delays, you could negotiate with another executive to swing IT resources away from an ongoing project and onto your initiative.

**Put Users First (Especially VIPs)**

Your technology may make sense to employees in the controlled environment of your training session, but back at their desks, they'll probably encounter questions they weren't prepared for. If employees find a new system too difficult to use, or if they aren't sure how to incorporate it into the way they work, they likely won't bother using it — or they'll only use it in a limited way.

Procurement at Agilent found a simple way to address this issue: remove the barriers ahead of time, and design an effortless experience for the business. That will translate into more use of your system so you can achieve the benefits that drew you to the technology in the first place.

The first step in resolving employee questions that lead to low adoption is to identify where they might crop up. Procurement at Agilent did this in three ways when introducing a new system:

- Internal brainstorming sessions within procurement before the launch
- A company-wide SharePoint site that solicited feedback on procurement technology
- Training sessions on specific issues users identified shortly after the launch

At each step, after identifying roadblocks, procurement based its solutions on three principles:

**1. Prioritize Simpler Decision Making**

- Identify new types of decisions the system requires, and reduce or remove the burden of making them.
- Include rules in the new system for nonobvious decisions.

**2. Help Users Cross Specific Hurdles**

- Listen to and acknowledge end-user frustrations, then demonstrate the easiest possible way employees can complete their work despite this obstacle.
- Embed help screens into the system to assist with common workflow disruptions.

**3. Unlock Critical Information**

- Autopopulate required fields with already available information where possible so users don't have to look for it.
- Provide users with a guide showing where to find the details they must add to the system.

The underlying rule: make it easy. Procurement hypothesized that prioritizing the user experience would lead to a trouble-free transition to the new system.

Another important piece of the puzzle is additional support for VIPs. Agilent's procurement team identified users who were especially important to adoption: influencers, whose opinions other employees valued, and power users, who had to work with the technology most frequently (see Figure 2). A good or bad review from these people could make or break adoption rates.

This principle applies to other functions and in other industries. Legal executives at a marketing software company, for instance, couldn't get sales staff to use its self-service contract generator. When they asked a top salesperson to serve as a role model, the system caught on.

At Agilent, procurement's dedication to the user experience paid off:

the average adoption rate of new technology jumped from 54% to 94% once it began using this process.

"Fewer users are blindsided by the new technology and instead feel familiar with what it looks like and how it works," a global sourcing strategic planning manager at Agilent told us. "People are also more motivated to use the new technology."

**A Bot With a Name**

Robotics can make workers uncomfortable, especially when they might be concerned the technology will one day eliminate the need for their jobs.

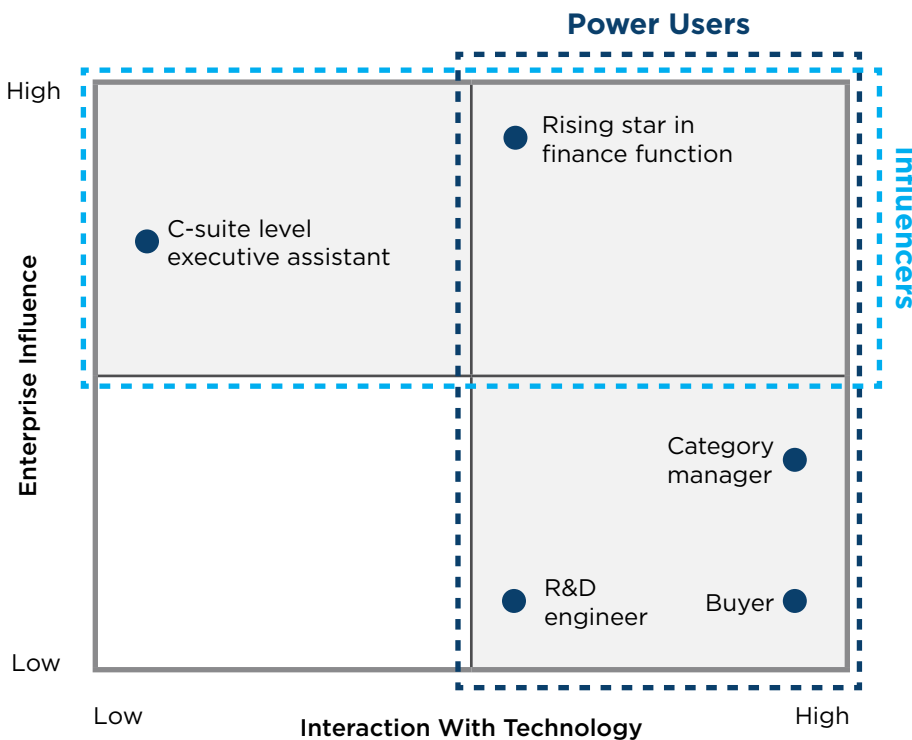
To make the introduction less awkward, the shared service organization at the U.S. space agency NASA introduced its new bots like it would human colleagues. NASA's aim was to reinforce perception of the bots as part of the workforce, not just an IT project. "We realized you have to get past the TV shows and movies to explain that the bots are here," former Portfolio Manager Jim Walker told us.

The shared service organization skipped the technical details of how the bots operate and instead taught employees how the programs offer "efficiencies for our team to go home on time and do other transactions," Walker said. Not only that, NASA reinforced the concept by naming the software systems for U.S. presidents. Washington G. Bot, fittingly, was the first.

**Next Steps**

Members can access the tools and resources in this article by visiting the CEB Procurement Leadership Council and CEB Shared Services Leadership Council sites or contacting an account manager.

**Figure 2: Disruptive User Segmentation Matrix**



Source: CEB analysis.

# Build Structures for Cross- Functional Collaboration

By Steve Shapiro and Peter Aykens

Once designed for one-off uses and “gap filling,” collaboration must now become a way of corporate life. Digital-driven organizations have to stop thinking about cross-functional initiatives as temporary solutions to a specific problem or opportunity and start thinking about collaboration as a characteristic of the nimble (albeit often sprawling and dispersed) organization. But ongoing, organic partnerships between departments do not happen naturally.

It’s time to get serious. By 2020, three-quarters of business leaders expect to have many internal initiatives spanning multiple functions and a workforce with skills adapted to multiple functions.<sup>1</sup> Employees also tell us they are seeing more changes that increase cross-functional work (see Figure 1).

No wonder two-thirds of executives recently polled by Gartner indicate they are using collaboration models as part of their digital transformation initiatives.<sup>2</sup> Yet success has proved elusive over the years. A 2015 Harvard Business Review article reported that three-quarters of cross-functional teams lack a clear goal or objective.<sup>3</sup> Initiatives often fail when executive sponsors don’t offer full support or competing priorities push them down the participants’

agendas. These challenges remain even as much-needed, more ambitious corporate changes such as aligned assurance create extra pressure to get collaboration right.

Still, we’ve seen several processes, platforms and workforce innovations that can help companies find, create, evaluate and execute cross-functional opportunities. The following frameworks are not mutually exclusive, and organizations that collaborate effectively often use them in conjunction with one another.

## Information Sharing Platforms: Crowdsourcing Growth Ideas

The digital forces that are making collaboration a necessity also provide the means to make it easier. New social networking platforms designed for internal corporate use, such as Yammer and Chatter, can help companies open up communication channels and visibility.

Several companies have gone a step further, developing in-house tools to inform the whole organization about

projects underway. If each function knows what other functions are working on, employees and departments can see areas where it makes sense to join forces.

One company used a web-based platform to solicit ideas for growth opportunities from the general workforce and stored the suggestions online. Employees helped with initial vetting by answering a few questions about their submissions' fit with company risk tolerance and long-term strategy. Then a group of cross-functional volunteers led by the strategy function reviewed the proposals in the repository. While they were at it, they took note of the synergies they encountered.

### Insight Transfer Teams: Coordination at the Center

A central team is another way to coordinate among functions and even host regular meetings between business units. For example, regional divisions may be unaware they are encountering similar trends. Central teams can lead "insight transfer workshops," as one company calls them, which can help expose fruitful areas for cooperation and spread successful experiments. The team essentially acts as an all-seeing eye, scaling opportunities and solutions from one function to others. The meetings directly connect people who may be working on similar challenges.

### New Workforce Roles: Growth Networkers and Embedded Collaboration Scouts

One quick way to plant a cross-functional mindset at the employee level is to assign some staff to specialized roles as liaisons between functions. These employees also relieve pressure on functional or business unit heads who don't have the time or resources to hunt for ways to work across boundaries, no matter how much they want to.

One company called these types of employees growth networkers and selected people based on their potential to become a general manager and their existing relationships across units (see Figure 2). The role offered time to focus on coordinating projects and made use of the networkers' knowledge of the business. The corporate strategy team provided further support.

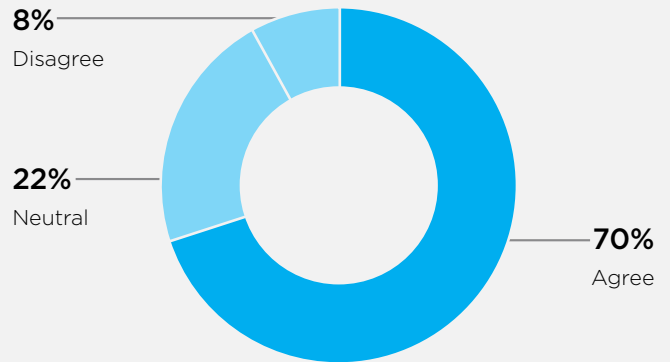
Growth networkers throughout the organization created another network in itself. They met regularly to share insights.

Another company created "hybrid" employees to foster closer collaboration between two specific functions. One function would embed a staff member into the other with the specific responsibility of looking for joint projects. This tactic defuses tension over priorities because the envoy has no "home team" responsibilities, just a mandate to share experiments and scale ideas.

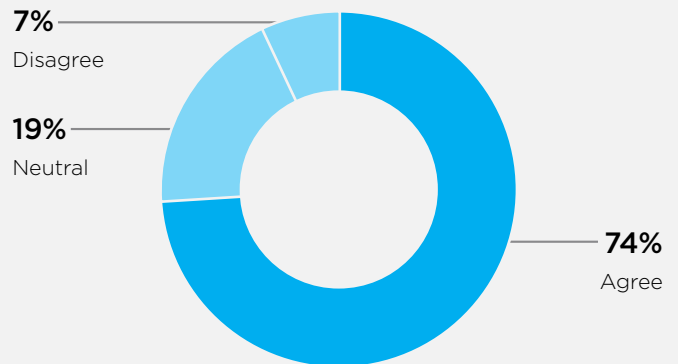
**Figure 1: Reported Change in the Frequency of Cross-Functional and Collaborative Changes**

Percentage of Respondents

**"Compared to three years ago, changes are more likely to be cross-functional."**



**"Compared to three years ago, changes require more collaboration with other functions to implement effectively."**



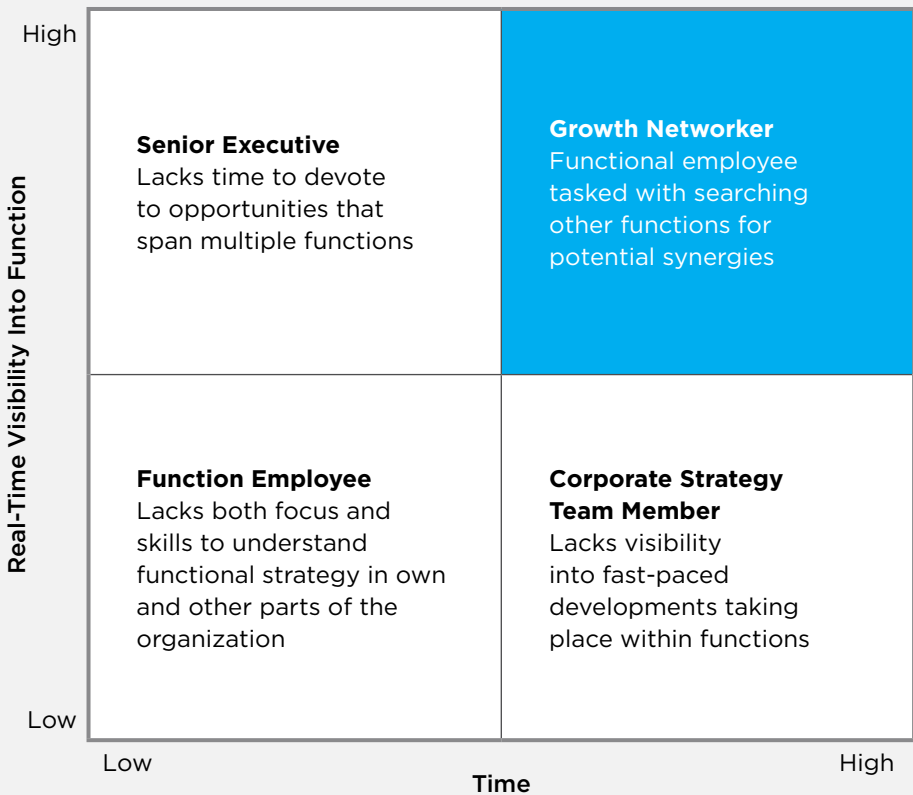
*n* = 3,937 employees (cross-functional); 6,535 employees (collaborative).  
Source: CEB 2016 Workforce Change Survey.

### Move From Opportunity to Action

Just as structures can help expose opportunities for collaboration, they can also improve the execution of cross-functional projects. After all, nobody likes being forced into working together, but people do like to be included in decisions.

One firm uses a workshop where functions assess potential initiatives that would involve them. They can evaluate their own readiness to participate — and get a sneak peek at the advantages of collaboration. A chance for input gives

**Figure 2: Selection of Employees for Liaison Roles**



**Profile of a Growth Networker**

- Responsible for searching across units to find and capture synergies.
- Selected and funded by the business unit and accountable to it.
- Has the skill profile of an emerging general manager.
- A concentration of cross-BU relationships boosts the odds of making connections.
- The role gives high-potential employee exposure and development opportunities.
- Can assemble a team within the business to pursue opportunities.
- Strategists provide ongoing support to growth networkers' work.

Source: CEB analysis.

executives a strong sense of ownership before the project even begins.

You can also manage execution with the same systems that discovered the initiatives in the first place. For instance, the liaison employees who unearth initiatives can also get them underway. Or, with executive oversight, coordination teams can help functions align or pool money and staff and direct the collaboration from within. In both cases, instead of transferring information between functions, these hubs act as a safe space for ideas to incubate and for products to develop free from functional pressures and normal resource constraints.

IBM used this strategy to develop its “Emerging Business Opportunities” framework, which led to more than \$15 billion in growth between 2000

and 2005.<sup>4</sup> By 2011, 20% of IBM’s top-line growth came from businesses that started in these cross-functional units.<sup>5</sup>

### Put a Variety of Structures to Use

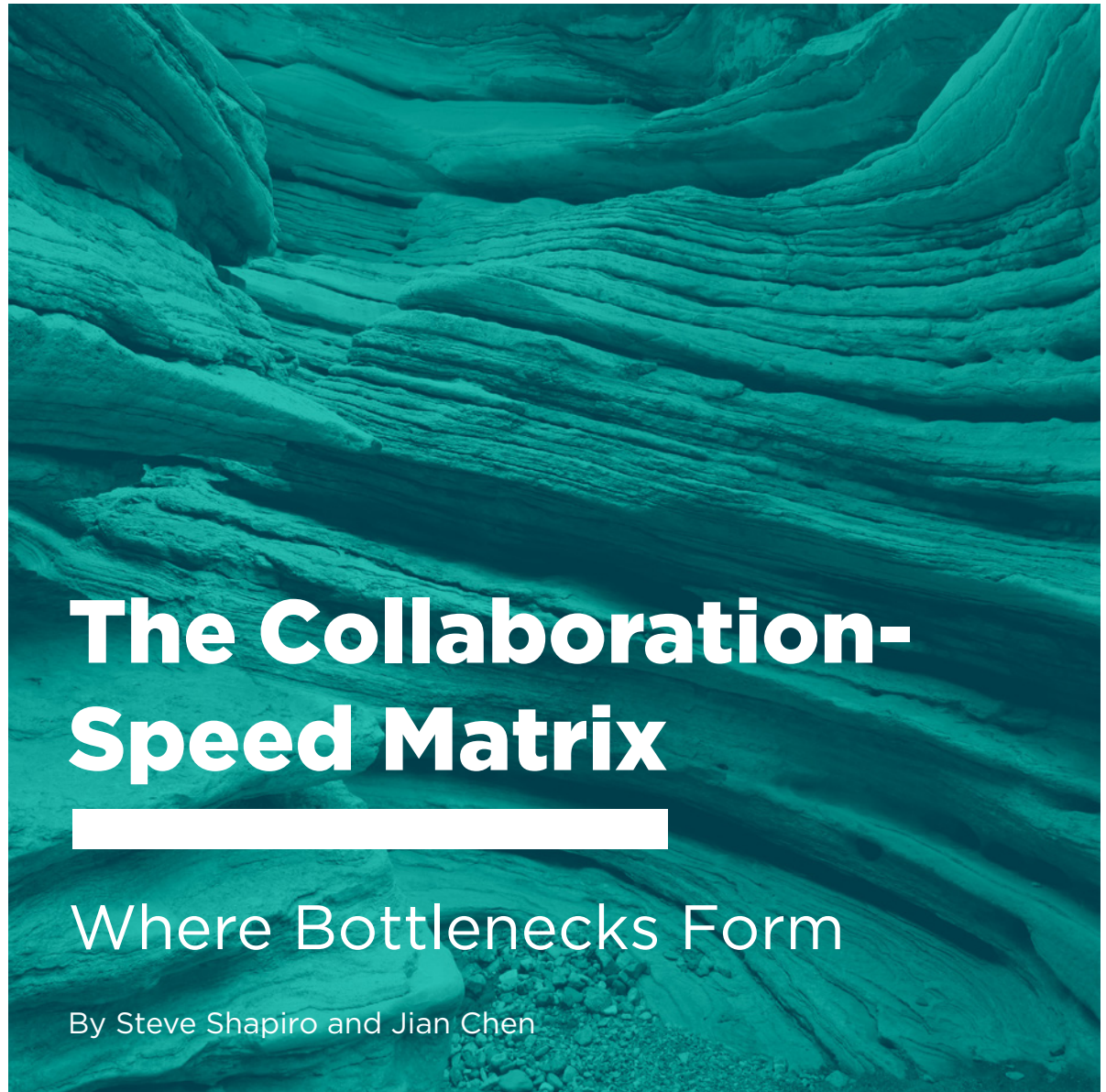
By now, you may have spotted how these different structures can fit together, but here are a few real-world examples:

- The company that used growth networkers also used a web platform to solicit ideas and tasked its cross-functional liaisons with searching submissions for new opportunities.
- The company that solicited ideas through a web platform also built a cross-functional team of “growth prospectors” who pressure-tested ideas before the execution phase.

There’s an old proverb: give a man a fish, and you’ll feed him for a day; teach a man to fish, and you’ll feed him for a lifetime. Here’s a new one: create a cross-functional project, and it will go away; build a cross-functional organization, and you’ll have projects in your pipeline.

#### Endnotes

<sup>1</sup> CEB Digital Enterprise 2020 Survey; n = 2,419 business leaders.  
<sup>2</sup> Gartner 2017 Digital Business Survey; n = 244.  
<sup>3</sup> Behnam Tabrizi, “75% of Cross-Functional Teams Are Dysfunctional,” *Harvard Business Review*, 23 June 2015, <https://hbr.org/2015/06/75-of-cross-functional-teams-are-dysfunctional>.  
<sup>4</sup> Charles A. O’Reilly, Michael Tushman, Bruce Harreld, “Organizational Ambidexterity: IBM and Emerging Business Opportunities,” Stanford Graduate School of Business, 2009, <https://www.gsb.stanford.edu/faculty-research/working-papers/organizational-ambidexterity-ibm-emerging-business-opportunities>.  
<sup>5</sup> William R. Kerr, “Innovation and Business Growth,” *Designing the Future: Economic, Societal, and Political Dimensions of Innovation* 151 (2015): 137-156, [http://www.hbs.edu/faculty/Publication%20Files/Kerr-Innovation15\\_439c4e1b-9b5f-4565-8f22-d9ff0acfe260.pdf](http://www.hbs.edu/faculty/Publication%20Files/Kerr-Innovation15_439c4e1b-9b5f-4565-8f22-d9ff0acfe260.pdf).



# The Collaboration-Speed Matrix

## Where Bottlenecks Form

By Steve Shapiro and Jian Chen

Collaboration is meant to speed things up and make an organization more agile, but what happens when cross-functional work starts to slow things down? When functions rely on other functions, some act as the “slowers,” and others could become the “slowees.” Depending on the particular interaction, they may even take turns acting as brakes.

Take a look at Figure 1 to see how this works. This scatterplot graph shows the likelihood of drag between pairs of functions and how much their cross-functional relationship has grown in the past three years.<sup>1</sup>

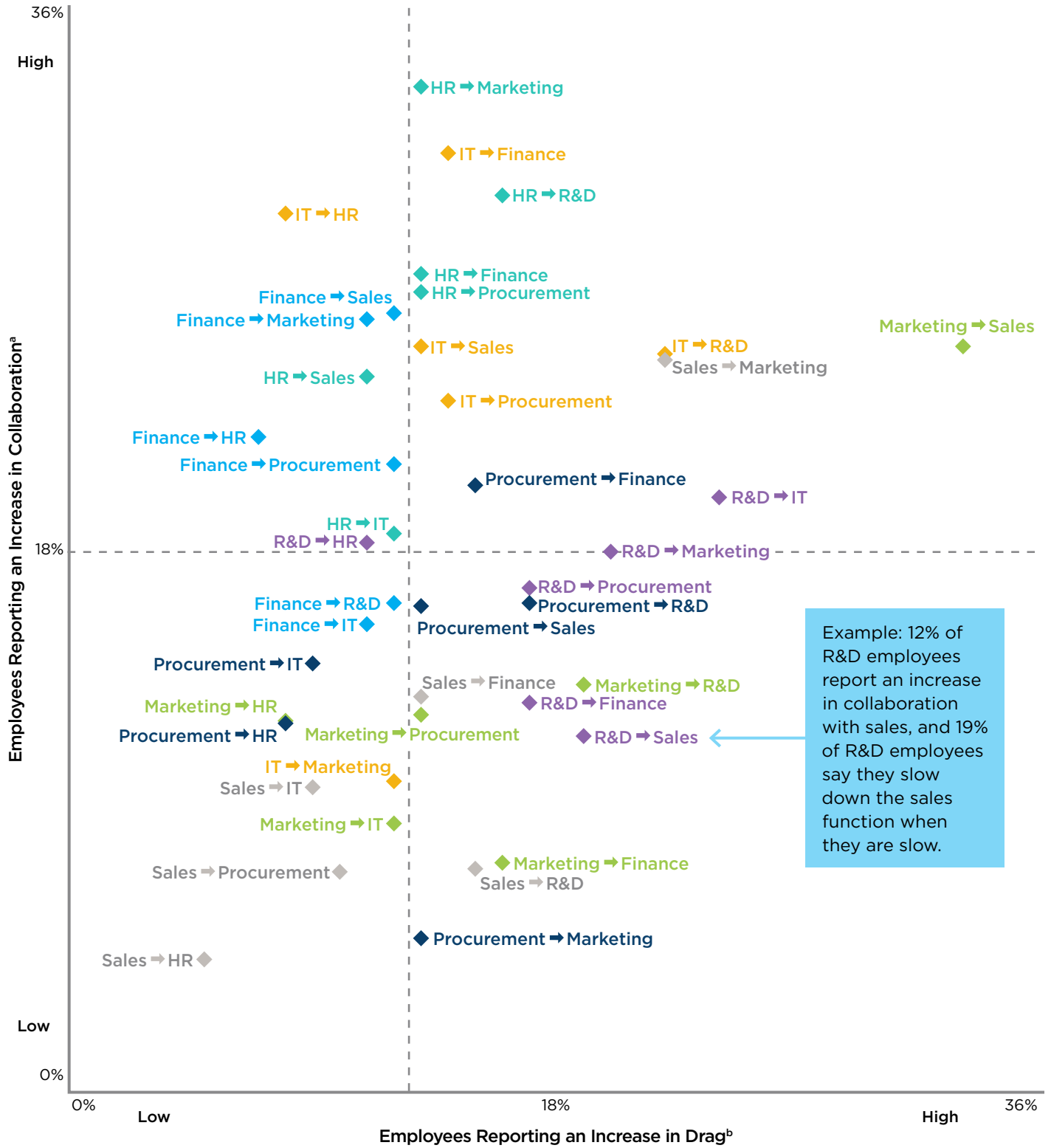
Pay particular attention to the relationships in the upper-right quadrant. These cross-functional connections are increasing at a higher rate and have greater potential to slow down the business than others. Note how sales and marketing, for instance, depend on each other more often and how each has a pronounced impact on the other’s speed. A similar relationship holds true for R&D and IT.

*Patricia Simione contributed to this article.*

#### Footnote

<sup>1</sup> Data was not available to analyze the impacts for legal and assurance functions.

## Where Collaboration Is Growing and What It's Slowing



Source: CEB analysis.

<sup>a</sup> Percentage of employees in the first function reporting an increase in work with the second function.

<sup>b</sup> Percentage of employees in the first function saying their drag hurts the second function.

Note: Data was not available to analyze the impacts for legal and assurance functions.

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Contribution to  
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## Procurement

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# 4 New Ways to Gain an Edge With HIPOs

By Matthew Braswell and Oana Lupu

Organizations with weak succession pipelines grow their revenue and profit only half as fast as those with strong pipelines.<sup>1</sup> Yet only 13% of companies are confident they have a strong leadership bench for the future.<sup>2</sup> In an era that requires fast (and right) decision making and support to get a stream of new products to market, this problem has become a crisis.

Bringing in superstars from outside isn't a foolproof strategy, either. The labor market has been tightening, and unemployment in most G20 countries is below or very close to prerecession levels.<sup>3</sup> In addition, external hires — for whom companies must pay market price — take time to onboard and build internal networks before they can truly make an impact.<sup>4</sup>

In light of all this, the importance of retaining high-potential employees (HIPOs) can't be overstated. HIPOs are more likely than non-HIPOs to be actively looking for a job with another organization (35% vs. 23%, respectively).<sup>5</sup> Websites and professional networks have made it easier for HIPOs to find other opportunities — and to be found. With so many companies in dire need of future leaders, the competition for top talent is bound to intensify.

## The Traditional Approach to Retaining HIPOs Isn't Enough Anymore

Keeping HIPOs with your company means maintaining the employment value that attracted them to the enterprise in

the first place. This part shouldn't be a surprise: when we asked HIPOs to rank 38 attributes that attract them to a job, they said the ones that matter most are (in this order):

1. Competitiveness of the compensation package
2. Extent to which the job allows balance of work and other interests
3. Level of stability of the organization and job
4. Degree of respect the organization shows employees
5. Future career opportunities provided by the organization<sup>6</sup>

But there's a twist: while these attributes are very important, they don't hold the key to HIPO retention. We compared HIPOs who are actively seeking to move to another organization with those who are not and found that both groups are quite satisfied with all five attributes.<sup>7</sup> So keep it up, but don't assume these will be enough.

Four factors you may not have considered can prompt HIPOs to head for the exits. Each one can be influenced by the head of a function. Through your own efforts and by collaborating with other senior leaders, you can make progress on each action point.

### 1. Protect HIPOs From Collaboration Overload

When senior executives need to pick someone to lead an important project, they are likely to give the role to a HIPO. Theoretically, the arrangement will be a win-win: the HIPO will get the opportunity to work on something challenging and engaging, and the organization will be on its way to achieving a business objective.

That's a perfectly plausible line of reasoning, and it frequently plays out in real life. The result: HIPOs feel the burden of collaboration overload acutely. More HIPOs than non-HIPOs say the number of individuals involved in their day-to-day work has

increased over the past three years (51% vs. 31%, respectively).<sup>8</sup>

HIPOs appear to be especially sensitive to this burden; 45% of HIPOs who have experienced an increase in the number of people involved in their day-to-day work are looking for another job — as opposed to 30% of HIPOs who have experienced a decrease. The gap among non-HIPOs is much smaller — 29% and 23% respectively (see Figure 1).

**What to do:** Make sure HIPOs’ managers routinely probe to get a full sense of what these employees have on their plates. HIPOs likely proactively take on work or contribute to projects their managers may not know about. Also, communicate to managers that you need them to coach HIPOs on how to say “no” when they are stretched too thin.

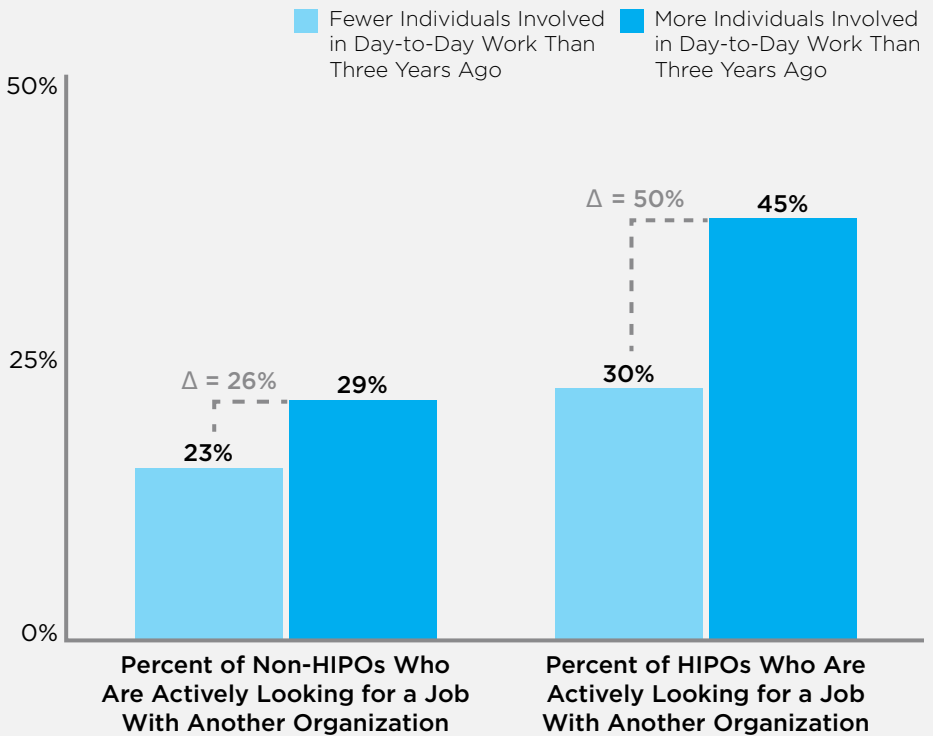
## 2. Nip Harassment in the Bud

Compared to other employees, HIPOs are particularly attuned to current conversations about different types of harassment in the workplace. While the perception of increased gender, ethnic and/or racial harassment drives all employees to seek positions elsewhere, the effect is especially strong for HIPOs (see Figure 2).

Increases in politically motivated harassment also disproportionately alienate HIPOs: 61% who have seen an increase in such harassment over the past six months are looking for a job with another company compared to only 25% who have seen a decrease. The figures for non-HIPOs are 39% and 23% respectively — a much smaller gap.<sup>9</sup>

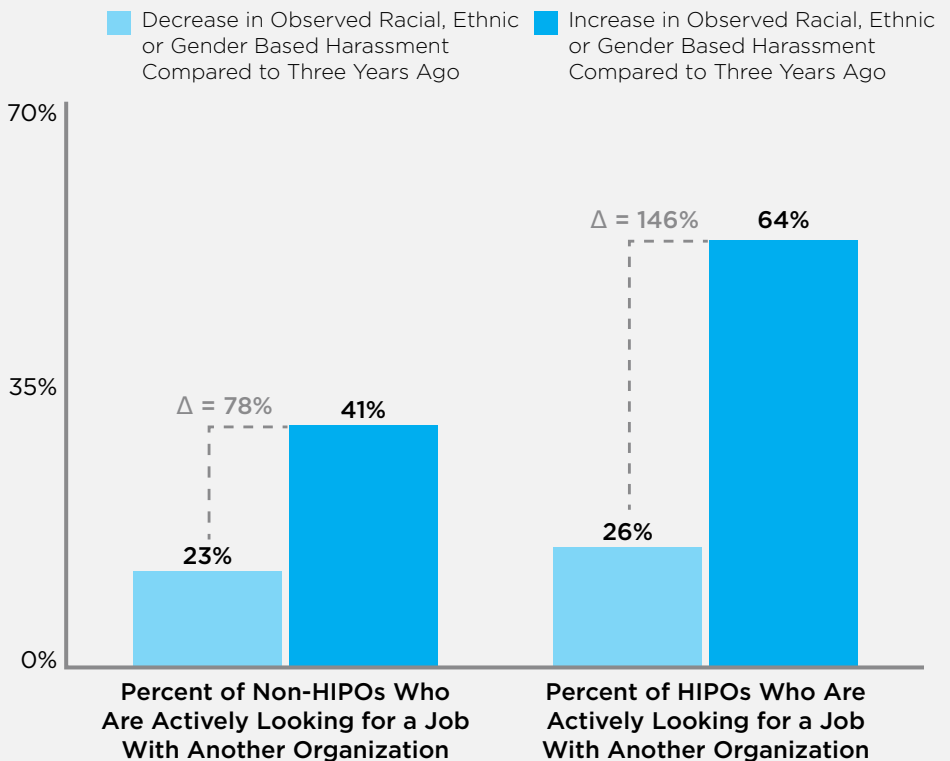
**What to do:** It’s not enough to say you have a zero-tolerance policy and then simply react when harassment occurs, typically by handling each instance privately and case by case. Instead, start proactively promoting respectful and equitable behavior in your function. To do this, be explicit about what will happen to harassers, and work with

Figure 1: Impact of Collaboration on Intent to Leave



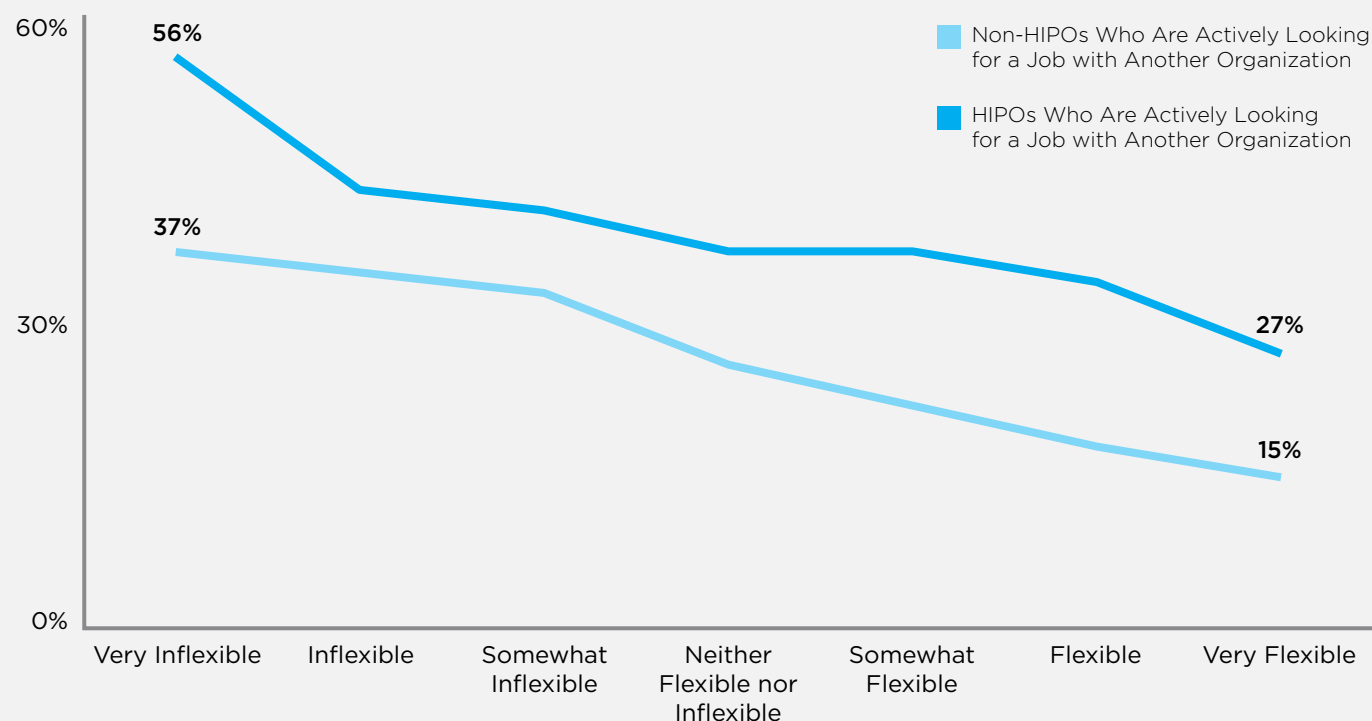
n = 1,052.  
Source: CEB 2015 Career Employee Survey.

Figure 2: Impact of Perceived Harassment on Intent to Leave



n = 2,505.  
Source: CEB 2017 Q4 Global Labor Market Survey.

**Figure 3: Impact of Perceived Inflexibility on Intent to Leave**



n = 2,304.  
Source: CEB 2015 Career Employee Survey.

HR to communicate with employees about specific instances of harassment and their actual consequences as they happen.

It's important to act swiftly and firmly but also be transparent with your team so HIPOs can see that those were unfortunate, isolated incidents — and that your function and the organization overall don't condone this type of behavior.

### 3. Be Sensitive Toward Changing Personal Circumstances

HIPOs who believe their organizations would be flexible in accommodating their needs and preferences following a life change (such as marriage, childbirth or health issues) are less likely to be looking for a new job than the average HIPO. While the same is true for non-HIPOs, this factor impacts

HIPOs' intent to leave more strongly: HIPOs are 1.5 times more likely than non-HIPOs to be actively looking for a job with another organization if they think theirs would be inflexible (see Figure 3).<sup>10</sup>

**What to do:** Ask managers to check in with HIPOs in your function through periodic “stay interviews”—perhaps every six to 12 months. While conventional exit interviews shed light on why employees are leaving, stay interviews give managers the opportunity to correct any potential issues *before* HIPOs step out the door. These conversations can cover many different topics, but they are a great way to learn more about HIPOs' personal preferences and needs, such as flexible work hours and teleworking arrangements.

Give managers in your function leeway to act on the information they gather during those conversations and be as

accommodating of HIPOs' needs as policies will allow.

### 4. Don't Give the Impression You Are Favoring External Hires

Casting a broad net can be valuable when it comes to hiring. This is especially true in today's economy; external hires can bring diversity of thought, new skills and experience in adjacent industries. However, in addition to the economics we cited earlier, consistently overlooking your own bench when filling open roles sends a powerful negative message. It can impact HIPOs' perceptions of future career opportunities on your team or within the organization. Again, this is one of the most important factors they look for in a job.

In other words, it's not enough to show your organization has future

career opportunities; you also have to give HIPOs reason to believe internal candidates like themselves can benefit from them. Employees who report that opportunities at their organizations are usually filled by external candidates are more likely to be looking for jobs elsewhere, and the effect is especially strong among HIPOs (see Figure 4).

Conversely, only 17% of HIPOs who agree that “internal applicants have a reasonable chance of getting the posted job opportunities” are looking for positions elsewhere compared to 47% of HIPOs who disagree.<sup>11</sup>

**What to do:** To prevent HIPOs in your function from making the wrong assumptions about what past hiring practices may mean for their future opportunities, encourage HIPO managers to have transparent discussions about their reports’ changing career aspirations, and keep an up-to-date record of specific internal roles HIPOs are interested in. When an opening becomes available that HIPOs in your function have expressed interest in, make sure they are included in the recruiting process.

Encourage managers to be open about the hiring decision making process. They should help HIPOs understand why external candidates were given preference for certain types of roles; for example, perhaps a recent technological development created a need for a certain skill set that no internal candidate possessed. Managers should also coach HIPOs to identify and develop the skills they need to keep up with the competition.

### Take Action

As a functional leader, you can control or influence all of these factors. You:

- Make decisions that affect how many other people HIPOs work with
- Are responsible for maintaining a team climate in which harassment doesn’t happen or, at least, is quickly addressed

- Can influence the organization’s willingness to be flexible around HIPO life events
- Have a say in the external vs. internal hiring strategy for your department

Take advantage of these opportunities to impact HIPO retention and thereby fortify your leadership bench. Rather than assuming only HR can have an effect in this area, act now to create an environment HIPOs won’t want to leave.

*Brian Kropp contributed to this article.*

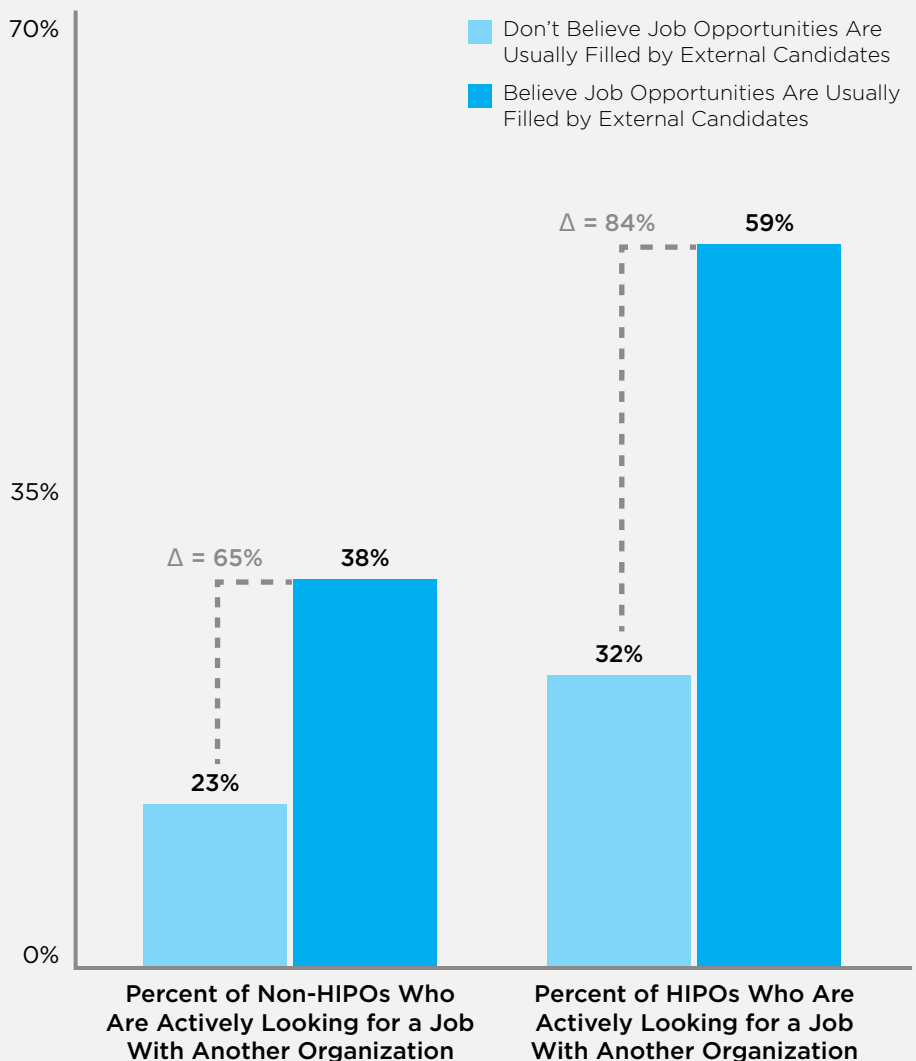
### Endnotes

- <sup>1</sup> CEB 2013 Succession Management Survey; n = 203 organizations.
- <sup>2</sup> CEB 2016 HIPO Survey; n = 142 HR leaders.
- <sup>3</sup> Bloomberg L.P., “Unemployment Rate in the G20 Countries, 29 February 2008 through 31 January 2018,” retrieved 20 February 2018 from Bloomberg terminal.
- <sup>5</sup> CEB 2017 Q4 Global Labor Market Survey.
- <sup>6</sup> Ibid.
- <sup>8</sup> CEB 2015 Careers Employee Survey.
- <sup>9</sup> CEB 2017 Q4 Global Labor Market Survey.
- <sup>10</sup> CEB 2015 Careers Employee Survey.
- <sup>11</sup> Ibid.

### Footnotes

- <sup>4</sup> As evidenced in our wealth and commercial banking sales force benchmark studies.
- <sup>7</sup> Satisfaction with the following factors among HIPOs who are actively looking vs. HIPOs who are not actively looking, respectively: compensation — 82% vs. 78%; work-life balance — 85% vs. 82%; stability — 87% vs. 86%; respect — 87% vs. 87%; career opportunities — 81% vs. 77%.

**Figure 4: Impact of Perceived External Hire Favoritism on Intent to Leave**



n = 2,304.  
Source: CEB 2015 Career Employee Survey.

# Avoid Growth Stalls

## Root Causes Have Changed Since the Recession

By Benjamin Seesel and Carolina Valencia

Investors are looking for growth — of course — and the reward for healthy growth has become more exaggerated since the global recovery began. Since 2013, after the Great Recession, large companies generating balanced growth (increasing earnings through both revenue and margin) achieved a 2% Total Shareholder Return (TSR) premium compared to the industry median — and compared to an only 1.3% premium in the years before the recession.

Despite the laser focus on boosting revenue, 93% of large companies experienced stalls from 1996 through 2016 (before, during and after economies declined). A stall is not a bad quarter, or even a bad year, but a significant, sustained downturn in top-line growth that unleashes a hurricane of damage:

- Stalled companies lose an average of 68% of their value.
- Growth does not just stagnate but turns negative, with stalled companies' top-line revenue being 3.8% lower four years after the stall, on average.
- Stalls' damage can be postponed through cost cutting, but not for long. On average, a company's stock price bottoms 2.25 years after the stall.

The destructive nature of stall points makes avoiding them for as long as possible a top priority for executives. The good news is that 85% of the factors causing stall points

are knowable and preventable. In other words, the vast majority of stalls are not the result of regulatory change, or other uncontrollable events, but of bad decisions leading to flaws in corporate strategy or organizational design. The implication is clear: if executives can get ahead of potential stall factors at their organizations, they can prevent stall points.

We've been studying growth stalls since 2006 and have discovered some changes since the Great Recession. The top two most frequent factors that fed stall risk before the recession are still the most common causes today, and have become significantly more frequent in the aftermath. They are:

- **Premium position captivity:** Failure to respond to the advent of a competitor, multiple competitors from emerging markets or changing customer preferences
- **Innovation management breakdown:** Failure to achieve desired or required ROI in new products, services or business development

Four new stall factors emerged during the recovery. The most common among them is **lack of strategic focus**; continuous change to organizations' strategies prevent them from maturing and generating expected results.

Don't get blindsided. Here are red flags that can alert strategists and senior leaders to each of these stall factors.

### Premium Position Captivity

This factor can manifest in a company in six different ways:

#### 1. A competitor's market entry significantly displaces the existing market leader's proposition or price and value.

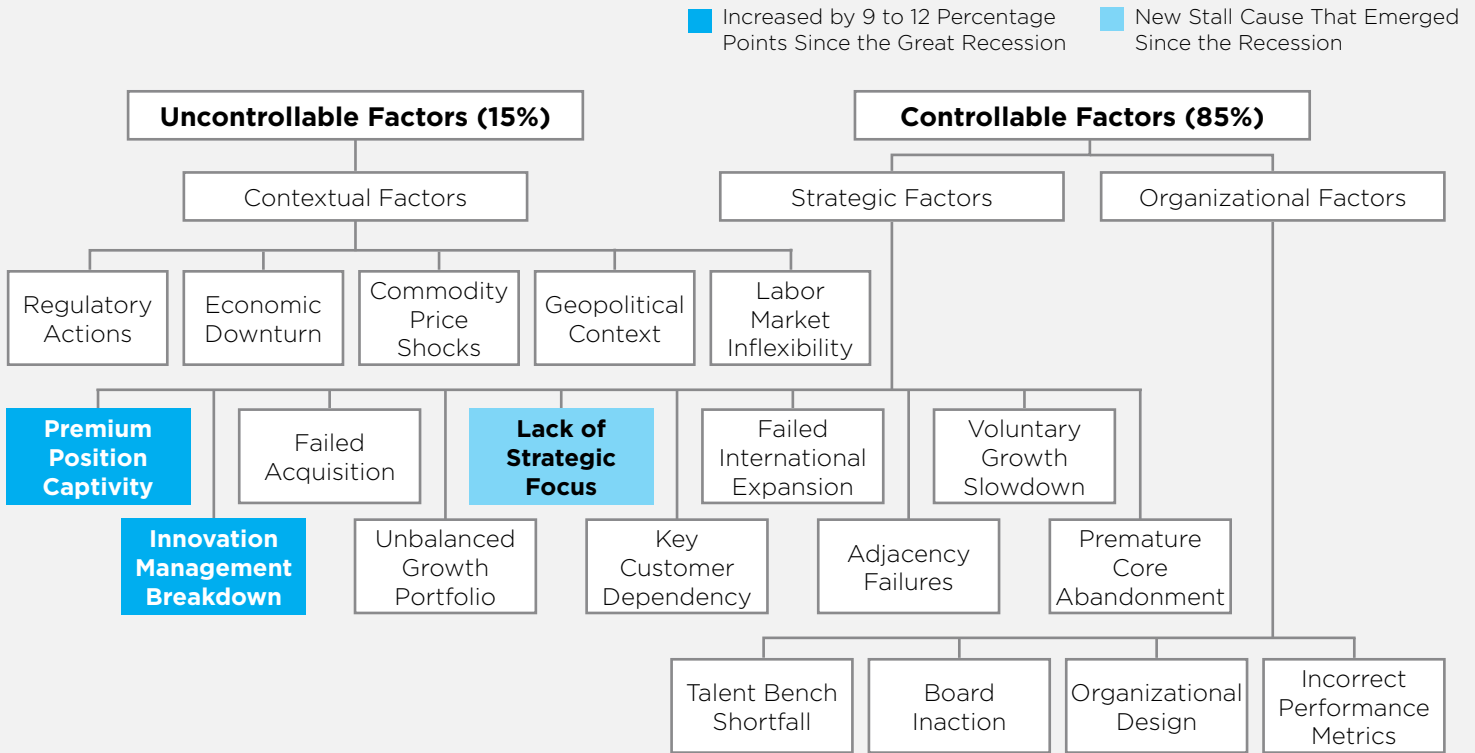
Example: Traditional grocery stores started offering organic foods, and Whole Foods didn't change its operations or market to match their lower prices.

Red flags:

- New entrants with largely different profiles from current industry

The chart below shows which stall factors are controllable within the company.

**Figure 1: The Root Causes of Company Stalls**



n = 30 public companies with revenue of \$1 billion or more that stalled in 2011. Source: CEB analysis.

- players are gaining footholds in the market.
  - Your frontline increasingly reports business lost to new entrants or customers demanding new, entrant-like features or services.
- 2. The company has a false sense of security in the power of the brand image to retain a loyal customer base.**
- Example: Coca-Cola was overconfident in consumer loyalty despite customers' shift to healthier beverage options.
- Red flags:
- Your company lacks an honest, systematic assessment of core customers' willingness to pay a premium for superior performance and brand reputation.
  - Your central brand proposition does not 100% cover emerging customer needs or demands.
- 3. The company self-restricts top-line growth opportunities to those that shore up or enhance current gross margins.**

- Example: Despite seeing a decline in sales, MetLife stayed disciplined on pricing to protect profit margins.
- Red flags:
- You make product or service decisions based on margin against current business systems rather than top-line revenue or competitive benefits.
  - Your company is significantly more effective at executing projects that cut costs than those that capture new revenue opportunities.
- 4. A premium-captive firm shifts toward an even higher-premium market niche to protect margins.**
- Example: McDonald's created new, higher-priced items, such as Angus burgers and wraps, to increase margins. Customers largely rejected them.
- Red flags:
- Customers are losing interest in, or the ability to move toward, pricier product and service tiers.

- Sales and marketing are struggling to push price increases to customers.
- 5. The company fails to recognize and respond appropriately to material changes in customer preferences.**
- Example: As the popularity of software products and services in the tech sector grew, Avnet was slow to offer them.
- Red flags:
- Executives are failing to respond to macro trends that are changing what customers want.
  - Your frontline salesforce cannot consistently win using standard sales tools and time frames.
- 6. The company fails to recognize and respond to overall customer frugality.**
- Example: Weight Watchers struggled to compete with free "live healthy" apps or one-time purchase options, such as Fitbit, that helped customers improve their health at no or low cost.

Red flags:

- Customers increasingly opt for “good-enough” solutions at low or no cost.
- Your frontline salesforce reports that customers increasingly seek to unbundle solution offerings.

## Breakdown in Innovation Management

Falling short of desired or required ROI in new products, services and business development also presents in several variations:

### 1. The company deliberately decides to reduce R&D funding in favor of nongrowth initiatives or to engineer overall earnings performance.

Example: Eli Lilly focused its investment on increasing sales of its blockbuster products, not on improving R&D or planning for patent expirations until it was too late.

Red flags:

- Your company’s commitment to R&D projects often diminishes before teams can realistically demonstrate results.
- You often divert R&D funding to cover other immediate business needs.

### 2. New product development is too slow.

Example: John Deere’s innovation of software and services (customers’ preferred products) was not fast enough, giving market share to competitors who captured this growing segment faster.

Red flags:

- Your product development cycle times have begun to lag behind those of competitors.
- Your company often misses R&D timelines because of changes that could be considered overengineering.

### 3. The company lacks the market influence necessary to establish a technology standard for which it has innovative offerings.

Example: As the green movement lost momentum, Johnson Controls was unable to attract customers to high-efficiency and green products at expected rates.

Red flags:

- Your new product introductions do not alter customer perceptions about their needs or habits.
- Critical business partners in the value chain do not see the benefits of aligning their offerings with your new products or services.

### 4. The company has an incorrect perception of market appetite for a new product and the competitive differentiation opportunity it could profitably provide.

Example: IBM was one of the first companies to invest in artificial intelligence with Watson but has still not been paid for it.

Red flags:

- Your innovations are often considered too “ahead of their time” and only pick up interest among dedicated product or service enthusiasts.
- Your organization maintains a lengthy back catalog of custom products and SKUs with limited growth potential or use cases.

## Lack of Strategic Focus

A “strategy of the week” problem occurs when management teams zig and zag from one strategy to another, never sticking with anything long enough to get paid for it.

Red flags:

- Executives are not fully committed to growth projects currently underway.
- Your organization is siphoning resources away from growth investments to fund short-term priorities.
- Your organization has a long-term vision of an ambitious transformation but no tangible plan for how to get there.
- Executives lack a coherent, shared set of beliefs regarding the future direction of customers, competitors and market dynamics.
- Stakeholders disagree on the criteria to evaluate and prioritize growth projects.

## A Complete List of the Root Causes of Revenue Stalls

Table 1 shows an overview of our findings about stall factors since the 2008-2009 downturn.

**Table 1: Stall Cause Changes Since 2008**

Stall Causes That Increased	
• Premium Position Captivity	• Geopolitical Context
• Innovation Management	• Failed Acquisition
• Breakdown	• Unbalanced Growth Portfolio
New Stall Causes That Emerged	
• Lack of Strategic Focus	• Overreliance on Narrow Markets
• New Customer Frugality	• Commodity Price Shocks
Stall Causes That Declined	
• Premature Core Abandonment	• Organization Design
• Key Customer Dependency	• Incorrect Performance Metrics
• Failed International Expansion	• Labor Market Inflexibility
• Adjacency Failures	• Regulatory Actions
• Board Inaction	• Talent Bench Shortfall

*n* = 30 public companies with revenue of less than \$1 billion that stalled in 2011.

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# 2018 State of the Legal Function

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# Following the Footsteps of 4 Tech Giants That Remade Business

A Q&A With  
Scott Galloway

By Scott Engler

Four technology companies have a combined market capitalization that is approximately the GDP of France or one-quarter of the S&P 500 Top 50, as noted by New York University Business Professor Scott Galloway, who is also founder of L2.

In conversation with us, Galloway — author of *The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google* — explains:

- How these giants upended traditional market forces
- How other companies might follow in their footsteps
- The sacrifices a person should expect to make to reach the top of the career ladder (hint: pretty much everything).

**Ten years ago, Exxon, GE, Microsoft, Citigroup [and] Bank of America [were] the top five companies by market cap; 10 years later, Microsoft is the only one left standing in that top five. Taking a step back, what is the big picture change that's happening?**

Tech is eating the planet. ... The economic titans of yesteryear — whether it was General Motors or P&G — when ... their products rolled off the assembly line, or you twisted a cap off a tube of toothpaste, it began aging. ... Their value began declining. These [tech] products, as you use them, they become more valuable.

Almost all of the companies that have outperformed the S&P five years in a row have these network effects. Once you hit a tipping point, they become somewhat unassailable. It's very

hard for a competitor or an upstart to chip away at them because everyone's on Facebook, or Amazon's scale is so dramatic that it can run a business at zero or very flat margins and still make a ton of money. The companies that are scooping up all the value in the marketplace right now have this reverse-aging effect.

**What's the takeaway for a more traditional company?**

The biggest challenge old-economy firms face is that they're no longer perceived as an accelerant for people's careers. As a result, the best and brightest young people are no longer going to work for the old economy icons of yesteryear. They all want to go to work for the new guys. The team with the best players wins.

**What you don't see with the traditional or more mature company is the ability to make these big, long-term bets and stick with them. The big bets they need to make, they can't make because of the short-term focus. ... You say Amazon's basically turned that equation around.**

Amazon has named them "type 2" investments. They are these



**Scott Galloway**

“You need to take your profit expectations down and start reinvesting more in your business. And it’s not romantic, it’s not sexy, but most big companies haven’t come to that recognition.”

moonshots that might have a one in 10 chance of success but could pay off potentially 100 times. You start building infrastructure to service your own data storage. It’s not really a competence of yours, but you say, “We’re going to launch this business on our own.” And [its] probably not a great idea strategically — it blows out all these traditional norms of sticking to your focus — but it pays off 100 times, maybe even 1,000 times for Amazon. Going into TV was crazy; launching a phone was crazy, and that didn’t work. So, Amazon does a lot of crazy stuff that doesn’t work.

Traditional companies don’t have the capital to make that many type 2 investments. So when they make one, it’s a big bet. What often happens is they enter into consensual hallucination with the marketplace, and they keep it going well after they’ve probably gotten data that it’s not working.

**A lot of companies are stuck in this risk-averse mentality. What does leadership need to do to change?**

When you talk about leadership for a CEO, a CEO has to walk into the boardroom and then walk onto

analyst calls and say (and this is what Jeff Bezos did that these guys aren’t willing to do or haven’t been given license to do), “Oh yes, we’re going to run at break-even. We’re going to lose money.”

When I’m invited into boardrooms of old-economy companies, they think I’m going to show up with a magic wand and talk about innovation or a cultural shift that’s going to result in them being able to go toe-to-toe with the new economy players. The first thing I say to them is, “You need to take your profit expectations down and start reinvesting more in your business.” And it’s not romantic, it’s not sexy, but most big companies haven’t come to that recognition, that “Okay, I’m going to have to face my shareholders and tell them I’m taking EBITDA down by 10%, 20%, 50% to make the requisite investments to compete with these guys.”

And then it’s an issue of “Okay, well, how do I allocate that capital? How do I become more nimble? How do I leverage some of these trends in technology? How do I get the right people?”

**Amazon can bring down businesses just by announcing that they’re going into a business. Every other old-guard company immediately starts to tank, and ultimately their assets will be cheap to buy.**

Amazon can now ... inflict pain on a competitor just by wishing it ill. It doesn’t even need to go into the business. It can announce ... or maybe it even doesn’t announce; it can go on background saying [it’s] thinking about getting into the drugstore business, and [in] the first couple hours of the trading day, the two largest drugstore companies, CVS and Walgreens, shed 4% and 5% of their value respectively. ... By the afternoon, an equity analyst is putting out a report that this might be bad for manufacturer brands, and then drug companies begin shedding value.

I believe that any consumer stock could be taken down 10% to 30% within 30 days, just with press releases from Amazon. Consumer stocks trade on three things now: the underlying performance of the firm, the macroenvironment and what Amazon is or isn’t doing in the sector. I’ve never seen that before.

**Let's take a spin through the Big Four now and the body analogy that you use for them. Amazon we've talked about a lot. [It's] hitting at the gut.**

The company that can generally deliver more for less is usually the most valuable company in the world. So Walmart was the best at it through the '80s and '90s. China is the best at it as an economy and is now the fastest-growing economy. And the company that has a reputation for providing more for less better than anyone right now is Amazon. So Amazon is our consumptive gut.

**And then if we move to the "family jewels," if you will, Apple represents the peacock.**

If survival is the strongest instinct, and [we] wake up in the morning and don't feel physically threatened ... we move to the second most powerful instinct. That's procreation and the ability to signal that you have good genes and would be a worthy mate. Apple is now really the signal — similar to what a luxury watch used to be — that says, "I live in a city. I'm educated. I have disposal income. I'm part of the innovation class. I'm creative. I'm a worthy mate."

The luxury industry has been probably the best industry over the past 20 or 30 years, even better than tech, when you look at ROI. And Apple decided it no longer wanted to be the best house in the worst neighborhood — computer hardware, which is a rational purchase. It wanted to be the best house in the best neighborhood, which is luxury.

So the result is the company that has pulled off the impossible. ... It's a low-cost provider. It can go into the supply chain and secure components for the lowest cost. But it is also the premium-price product. So the auto equivalent would be a company that has the margins and prices of a Ferrari with the production volumes of a Toyota. And as a result, we have a company that's more profitable by a long shot than any entity in history.

**Let's go to Facebook. Facebook is the heart.**

Yes, so one of the wonderful things about our species is we not only need to be loved — kids with poor nutrition and a lot of affection have better outcomes than kids with good nutrition and poor amounts of affection — but we [also] need to love others. And a very strong indicator of how long you'll live is how many people in your life you love. Caregivers live the longest. When your parents move in with you, you live longer.

So Facebook taps into this need to love others, mostly through photos and imagery that create empathy and connection. There's a lot of evidence now showing that more time on social media actually leads to some very negative mental outcomes, but I think the notion of connecting with people and staying in touch with them is a very attractive premise.

**What is it [Facebook] doing from a strategic perspective that allows [it] to be in that top four?**

It's assembled a community that's larger or as vast as Christianity. There are about 2.1 billion people who have a relationship with Facebook. So in terms of a man-made thing, this is really the most successful thing in history.

And you've assembled the viewing audience of the Super Bowl every day, but instead of throwing up ads for products that I will never buy, [it] can throw up specific ads that say, "Scott, we saw on your profile that you're heading to Copenhagen tonight, so we're going to run an ad for a hotel in Copenhagen." We've never seen the collection of this many targets with this level of targeting.

**Where does Google fit into this equation? You call [it] the brain.**

We have a brain that is robust enough to ask very difficult ... questions but not smart enough to answer to them. So, we've always had a need for a super being that we can pray to and try and get divine intervention, some sort of answers — or the illusion of answers.

Google knows when you're about to get engaged. It knows when you're about to get divorced. It knows about what diseases you have; it knows what diseases you're worried about exposing yourself to. So you trust Google.

**Can you explain what "T algorithm" means, and then the basics of the T algorithm?**

I wrote the book because I wanted companies to be able to learn how ... [to] apply the underpinnings of these [Big Four] companies. I call it the T algorithm, and that is, what is the algorithm for getting to \$1 trillion?

One [element] is vertical [integration]. These guys control the whole experience. Apple went into stores; Google controls the entire consumer experience. One [element] is access to cheap capital or storytelling; if you don't have a visionary who can really captivate the markets and get you this sort of crazy, low-cost capital, you're going to have a tough time competing.

You have to be seen as an accelerant for people's careers. You have to be seen as a good citizen, likable. ... I think you have to be within a bike ride of a world-class engineering university.

**I'll list them all: product differentiation, visionary capital, global likability, vertical integration, accelerant, geography. Where you are matters. I love the bike ride thing. We haven't talked about ... artificial intelligence (AI), though. AI is something that people are excited about, and they view it with trepidation. What does AI mean for the average company that's out there?**

AI is basically ... comfort with data.

Domino's captures the type of pizza you want. You open the Domino's app, and it has a stop clock counting down. If you don't press "stop" within 20 seconds, it just sends that pizza to your address, which it already has.

When I'm in New York ... I ... go on Caviar, which is this great home delivery of food, and it'll immediately

# “I think you have to be within a bike ride of a world-class engineering university.”

pop up what I've ordered before. And that sounds basic, but it makes it super easy and seamless.

“AI” is a fancy way of saying facility with data, statistics [and] machine learning ... so that it's just easier for the consumer to go to you, even if somebody comes up with a better product.

## **Let's flip this now to your career advice.**

The world is headed toward more processing power. You just have to steep yourself as much as you can in data and try to get as close to technology [as you can] — at least understand it. It doesn't mean you have to be a technologist, but understanding how technology is changing your life. The first thing you need to do ... [is] get on these platforms.

I think young people in their 20s and 30s have to make a decision. If they're talented and blessed with a good education and a strong support system, they can work hard and make a good living. If they want to make a great living ... then I think they have to pretty much forgo everything else in their life.

The marketplace is so competitive now with globalization and access to global markets. The kid out of India, the kid out of Brazil — they want their piece of the pie, too, and they're willing to

work 12 or 14 hours a day. Just make the trade-off. If you want to have balance in your life in your 20s and 30s, more power to you, but recognize you're probably not going to have the same economic success as someone who is willing to go all in.

I would say, in my 20s and 30s I don't remember much else but work. And it cost me my hair. Unfortunately, it cost me my marriage, and I'm not proud of that. But I had decided I wanted to be economically successful. It was really important to me. And I'm not saying that's the right way to go; I'm not saying that's the path to happiness. But I think an adult conversation with yourself when you're young around what is really the commitment required to be successful in a full-body-contact global economy is ... important. ...

I see kids so frustrated that they don't have balance, and I think, “Well, okay, you're not going to have balance if you expect to work for one of these companies and kill it and be able to afford to live in San Francisco or New York. If you're not willing to work around the clock in your 20s and 30s, then you should think about a different trajectory economically and what that means for your life.” And that's okay. ... Not everybody has to be a millionaire.

*This transcript was edited for length and clarity.*

