



CEB Corporate Strategy Board®

Growth Readiness

Prioritizing Investments
to Drive Executive Commitment

A FRAMEWORK FOR MEMBER CONVERSATIONS

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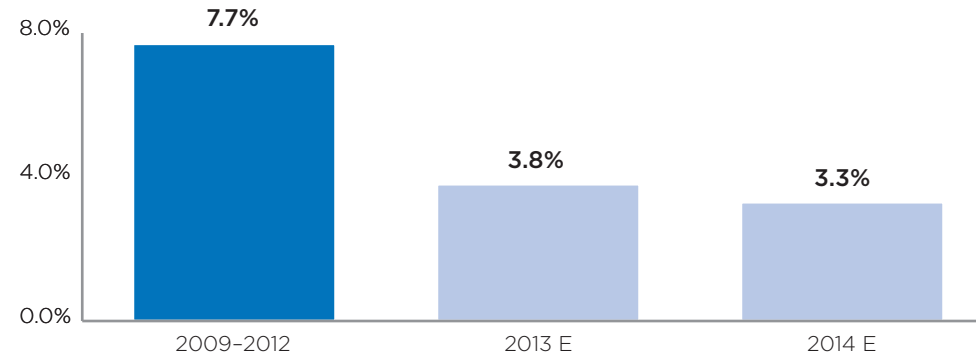
Analysts estimate that as global demand rates stall, company revenue growth will slow by roughly 50%.

- Starting in 2013, analyst project that the S&P 500 growth rates will halve and remain low through 2014. (Pinged Jian again on 2015 numbers)
- In response, companies have planned to boost non-incremental growth investments by almost two-thirds.

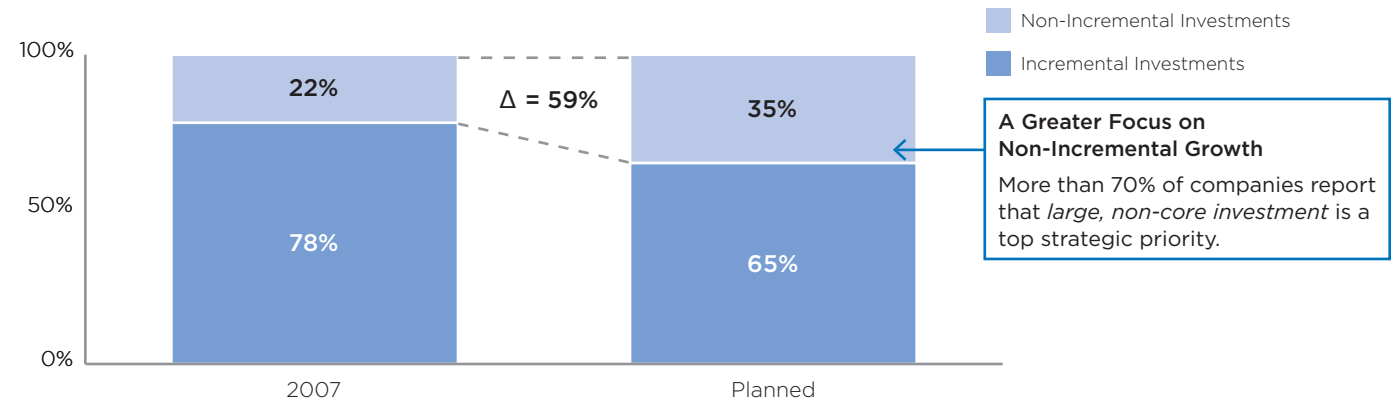
Definition
Non-Incremental Investment
 A large growth opportunity that requires some change to the business system, products or markets.

SEEKING NEW WAYS TO CLOSE THE GROWTH GAP

Aggregate Analyst Growth Estimates
 Annualized, S&P 500



Shift in Growth Investment Allocation Over Five Years
 Average Investment Mix from CSB's 2012 Growth Investment Benchmarking Survey



n = 38.

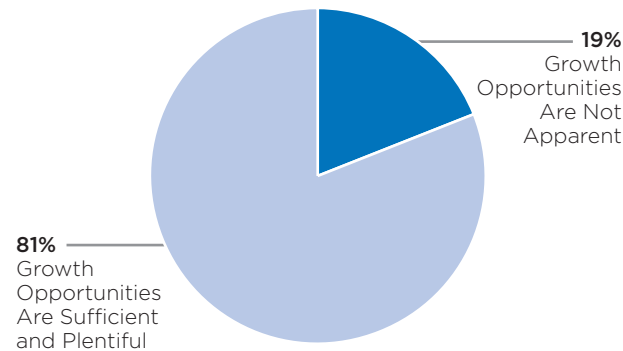
Source: Bloomberg, CEB 2012 Aggregate Analyst Projections Report.

Most companies have sufficient growth options and the cash necessary for investment.

- A 2012 CSB poll found that an overwhelming majority of members felt that they had sufficient growth options available to drive greater growth in the short- to mid-term.
- Further, analysis of S&P 500 balance sheets reveals that corporate cash positions have continually and steadily increased since the onset of the 2008 recession.

AMPLE OPPORTUNITY, PLENTY OF CASH

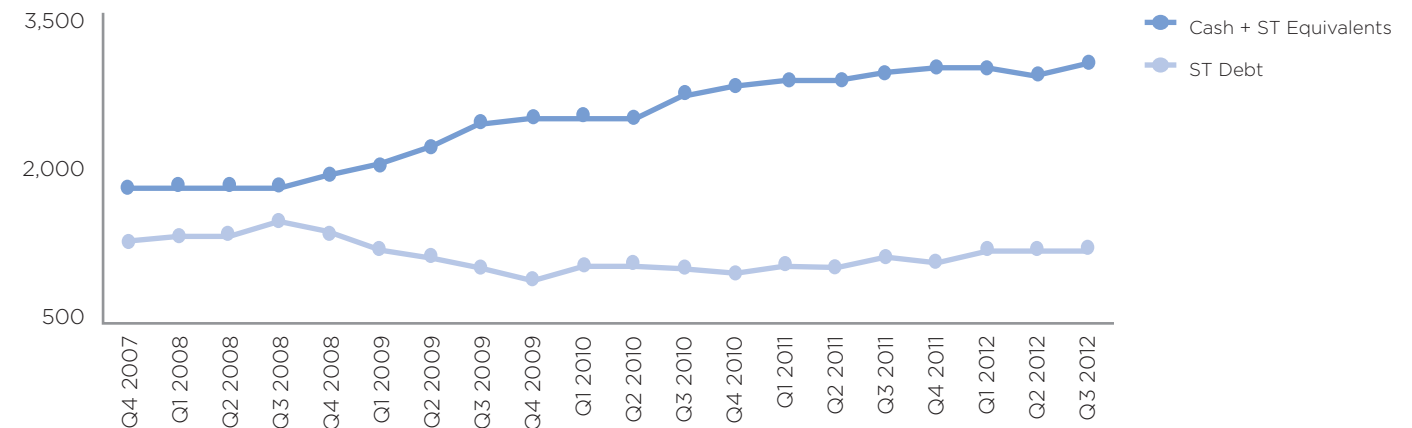
Availability of Options for Growth
Percentage of Respondents



n = 79 strategy executives.

Increase in Corporate Cash Positions

S&P 500 10-Q Averages Over Time, Excluding Financial Companies



n = 398.

Source: Corporate Strategy Board's 2012 Growth Survey, Corporate Strategy Board's 2012 Agenda Poll, Bloomberg.



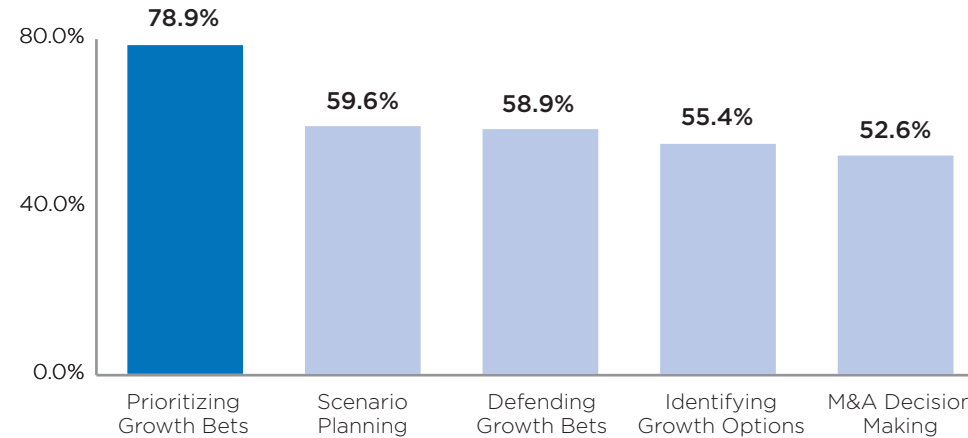
While options and cash are abundant, strategists find prioritization a key challenge for 2013.

- Over three-fourths of Strategists reported that improving growth investment prioritization is a top agenda item for 2013, surpassing other perennial concerns such as identifying growth options and M&A decision making.

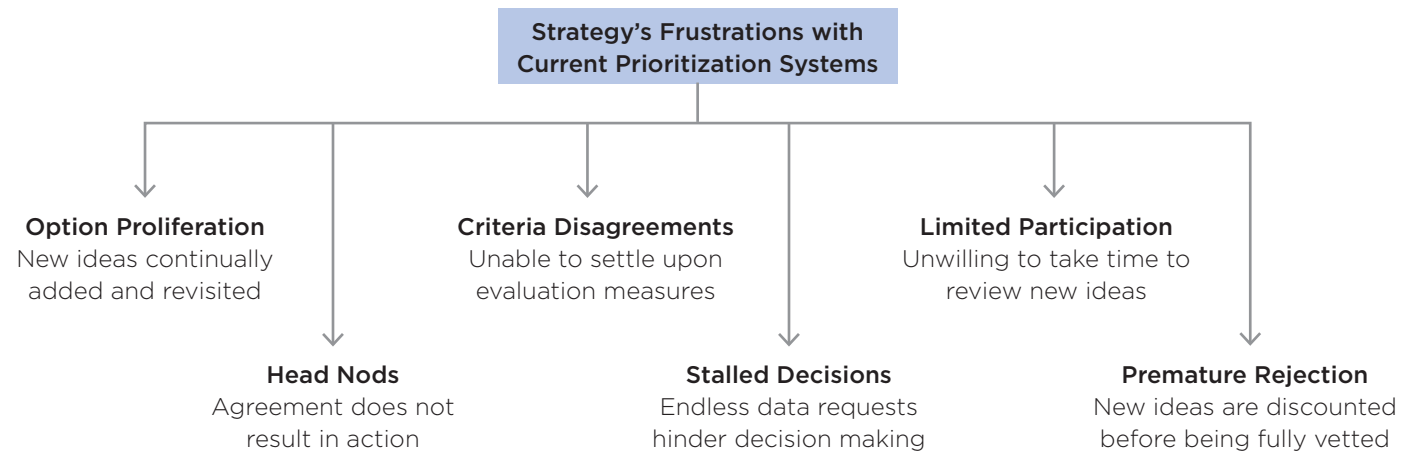
PROBLEMS WITH INVESTMENT PRIORITIZATION

Strategy's Top Priorities for 2013

Percentage of Strategists Rating Topic as a Top Priority and Focus Area



n = 59.



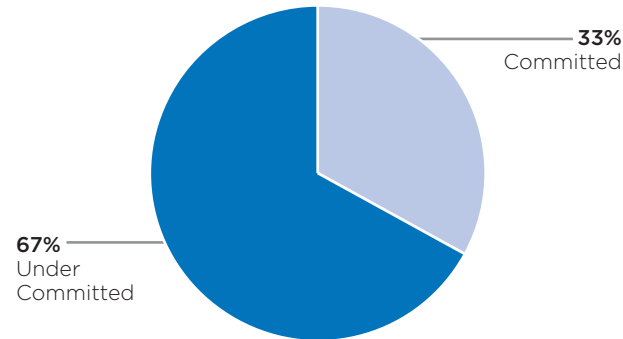
Strategists report lower levels of executive commitment for significant non-incremental investments.

- Lack of commitment to non-incremental investment can cost a company 3.25% less return (above hurdle rate), or a 34% lower profit than they might otherwise achieve.
- Low commitment implies a weaker executive understanding of investment merits and willingness to maintain continued support.

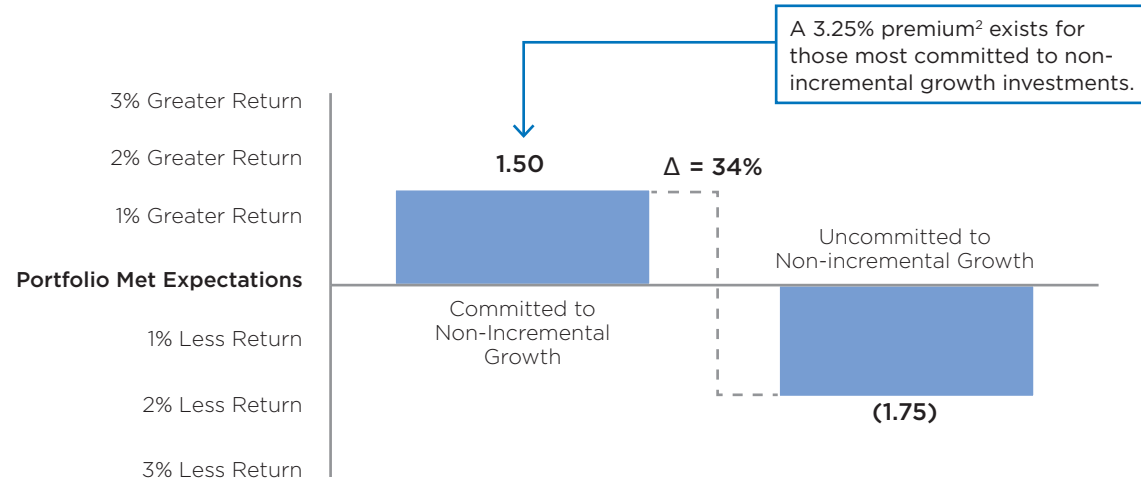
Definition
 Executives willing to invest in non-incremental projects and actively support their development through launch.

COMMITMENT MATTERS

Average Level of Executive Support for Non-Incremental Investments
Degree Sufficient Support Exists for Non-Incremental Investments Given Strategic Objectives



Impact of Commitment on Risk-Adjusted Return
CSB 2013 Growth Benchmarking Survey¹



n = 32.

¹ Five year return of the 2007 growth portfolio as measured against expected return.

² Difference in return between those with above average commitment and those with below average (p < 0.05).

Source: CSB 2012 Growth Investments Benchmarking Survey.



Strategists have a number of tools at their disposal to enable prioritization.

- The tools used to prioritize growth investments break into two main categories, analytical tools to build the fact-base of decisions and decision process tools to manage the investment review process.
- Analytics focus on external, market-facing assessments or internal-facing considerations.
- Decision process focuses on either group decision making or individual stakeholder decision making.

A WIDE ARRAY OF PRIORITIZATION TOOLS

Strategy's Primary Tools for Investment Prioritization

Analytics	
Market Assessments	Feasibility Assessments
<ul style="list-style-type: none"> ▪ Market Intel ▪ Risk assessments ▪ Scenario analysis ▪ Portfolio analysis 	<ul style="list-style-type: none"> ▪ Capability analysis ▪ Investment sequencing ▪ Risk mitigation ▪ Strategic gap analysis

- Provide fact basis for decisions
- Frame external and internal environment
- Anticipate future states
- Demonstrate "relative value" (trade offs)

Decision Processes	
Governance Structures	Stakeholder Engagement
<ul style="list-style-type: none"> ▪ Investment review process ▪ Standard criteria ▪ Prototyping and pilots ▪ Separate core/noncore evaluation 	<ul style="list-style-type: none"> ▪ Blocker analysis ▪ Project support ▪ Strategy training ▪ Strategy communication

- Coordinate collective decisions
- Structure decision making guidelines
- Drive personal engagement
- Surface hidden assumptions

Source: CSB research.

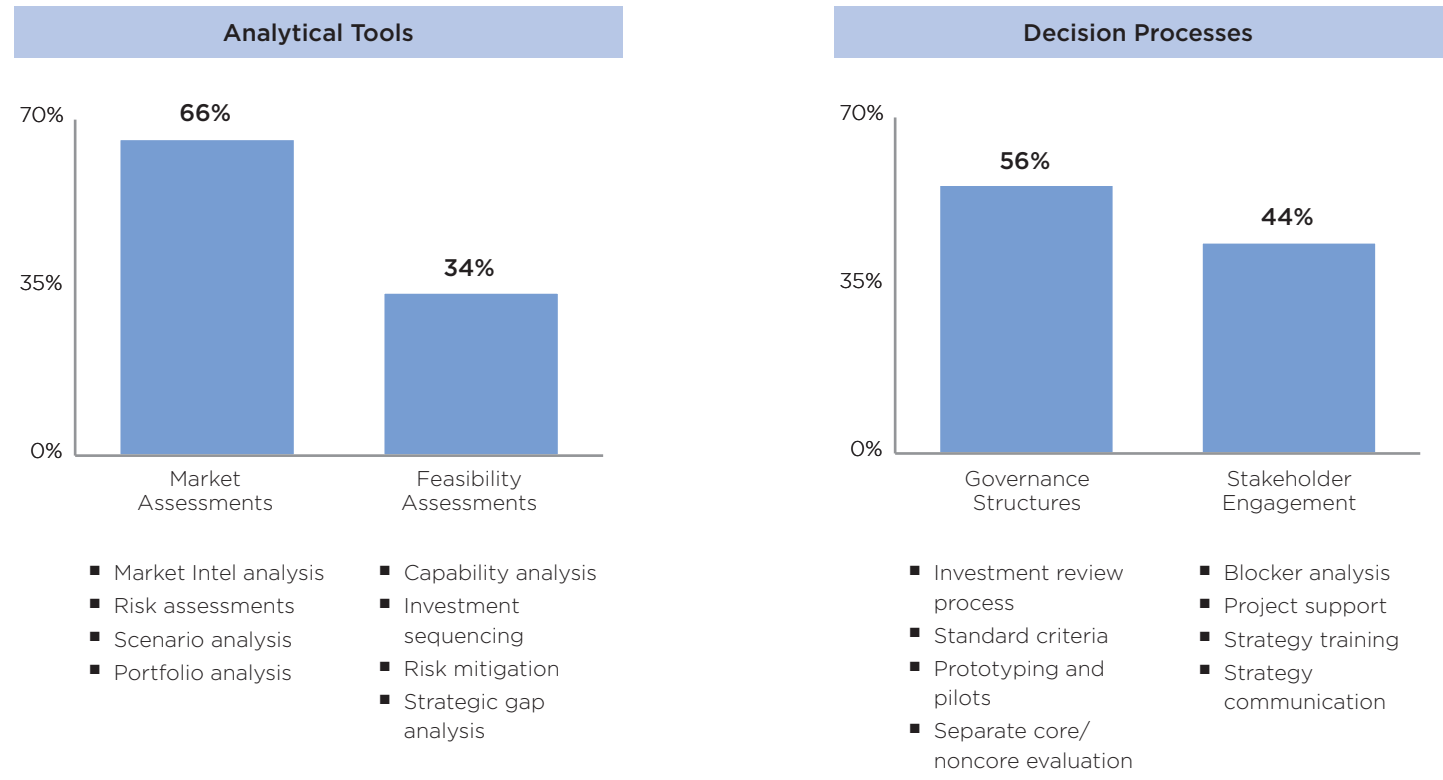


Strategy focuses its prioritization efforts on market assessments and managing governance structures.

- Strategists report heavier reliance on market-facing analytical tools than internal feasibility assessments by a 2:1 margin.
- For decision processes, tool usage is evenly split with a preference for governance structures.

FINDING 1: PREDOMINANTLY MARKET + GOVERNANCE

Focus of Strategists' Prioritization Activities: Frequency of Use
Percentage That Strategists Rely on Each Prioritization Technique



n = 49.

Source: CSB's 2012 Growth Investments Benchmarking Report.

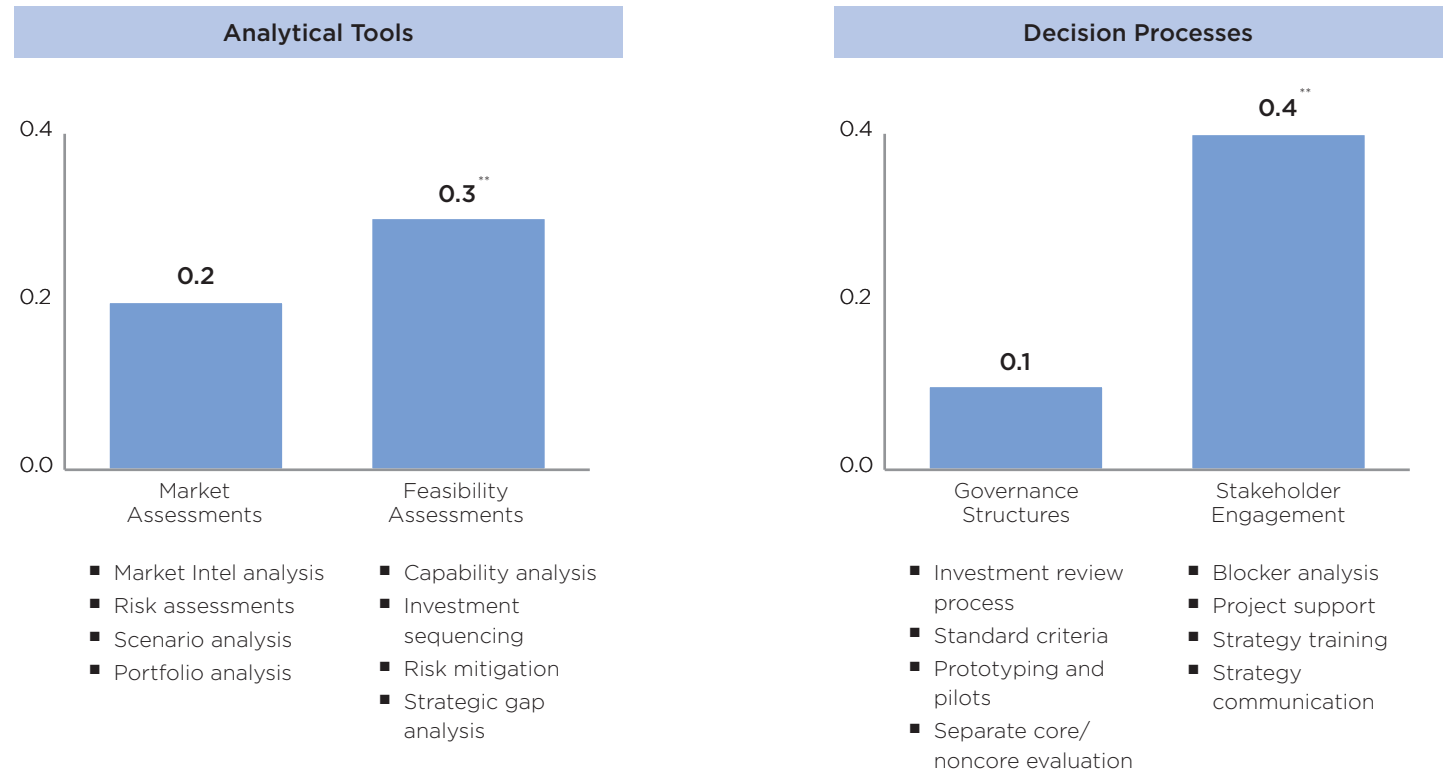
Though most use a market-based governance approach, it is the least effective at driving commitment.

- To understand how prioritization tools drive commitment, CSB research looked at how strategists' proficiency using different prioritization tools impacted overall executive commitment levels.
- Analysis of results from the 2013 CSB Growth Benchmarking Survey revealed that those companies which effectively leveraged internal assessments reported higher commitment levels overall, irrespective of proficiency with market-based tools.
- Likewise, those able to more effectively leverage stakeholder engagement tools received a significant increase in commitment over those that just relying upon governance structures.

FINDING 2: THE LEAST USED TOOLS DRIVE COMMITMENT

Prioritization Method Impact on Executive Commitment

Correlation Between Commitment and Effectiveness of Prioritization Tool Groups



n = 49.

** Significant at p < 0.05.

Note: Correlation between executive commitment (as reported by Strategists) and Strategy's effectiveness at leveraging each toolset to drive prioritization decisions.

Source: CSB's 2012 Growth Investments Benchmarking Survey.



Market changes have altered how executives make decisions and develop commitment.

- Prior to the recession, commitment could be captured on the basis of the opportunity's inherent attractiveness.
- Today the basis of commitment to major growth bets has fundamentally changed.
- Strategy must consider how changes to executive commitment and decision-making habits impact the tools used to assess investment options.

THE BASIS OF COMMITMENT HAS CHANGED

Historical Context to Executive Decision-Making

Contextual Factors	Before 2008	Today
Market Change	<ul style="list-style-type: none"> ▪ Robust YoY growth rates ▪ Stable growth trends makes market data more reliable 	<ul style="list-style-type: none"> ▪ Slower growth ▪ Market volatility makes market data unreliable
Executive Sentiment	<ul style="list-style-type: none"> ▪ Can we go beyond the core? ▪ "I'd rather be fast than right" 	<ul style="list-style-type: none"> ▪ Will we disrupt the core? ▪ "Risk comes from not knowing what you're doing."
Commitment Drivers	<ul style="list-style-type: none"> ▪ Inherent attractiveness of the opportunity ▪ Group consensus on which investments to make 	<ul style="list-style-type: none"> ▪ Certainty of return ▪ Strong individual belief in the value of growth investments



Market-Based Decisions

Decisions based on the inherent attractiveness of a high potential opportunity.



"Readiness"-Based Decisions

Decisions based on the availability of everything necessary for success.

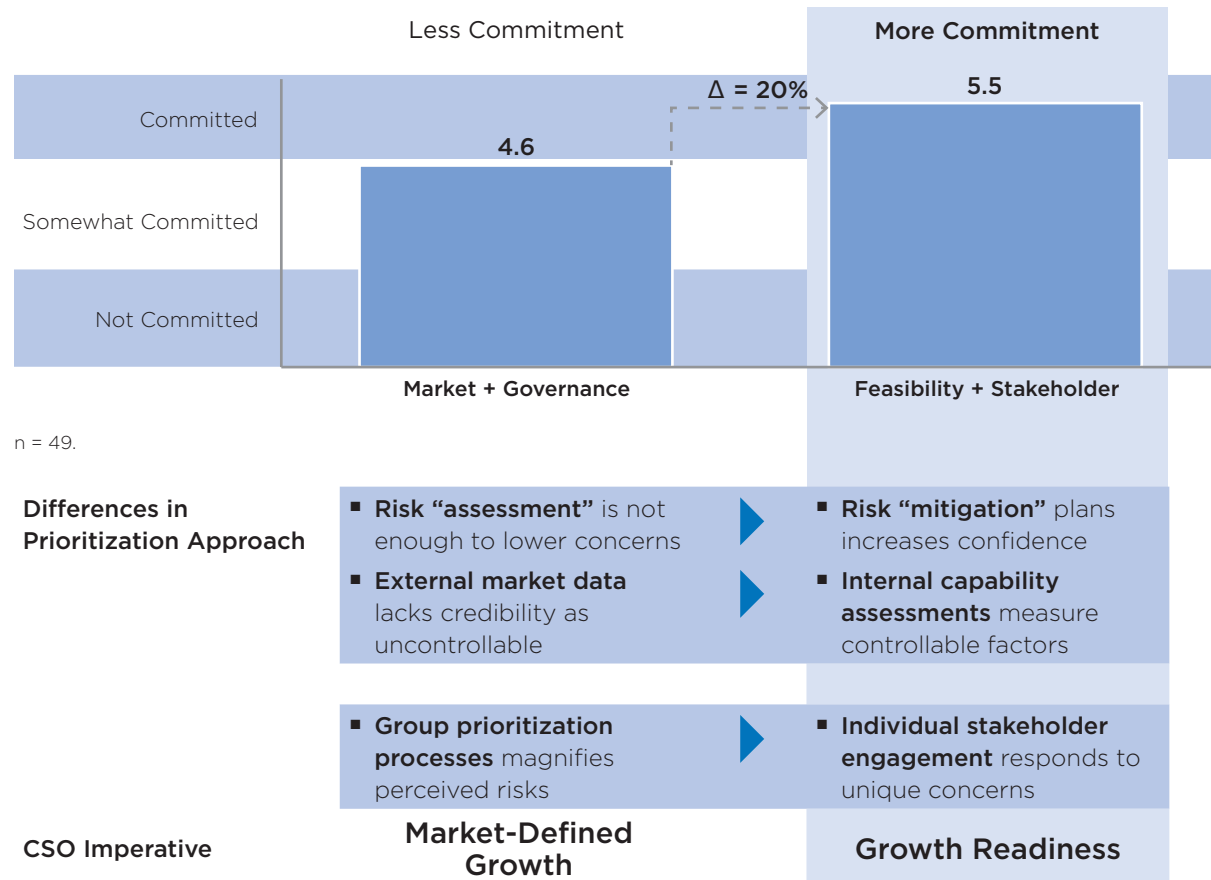


The combination of feasibility and engagement tools creates a clearer picture of readiness, driving confidence.

- Those companies that emphasize the combination of feasibility and stakeholder management approaches reported significantly more commitment from business partners than those relying most heavily upon market and governance prioritization tools.
- This approach more accurately relates to the way in which the basis of commitment has changed.
- We refer to this new prioritization approach as one that emphasizes “growth readiness” over “market-defined growth”. This shift reprioritizes investments based on the ability of the organization to successfully execute rather than on inherent market attractiveness.

NEW CSO IMPERATIVE: PRIORITIZE ON READINESS

Effectiveness of Prioritization Tools in Driving Commitment¹
 CSB 2012 Growth Benchmarking Survey



¹ Means difference comparison of commitment between companies within the top quartile of market + governance scores and those within the top quartile of feasibility + stakeholder scores. p < 0.05.



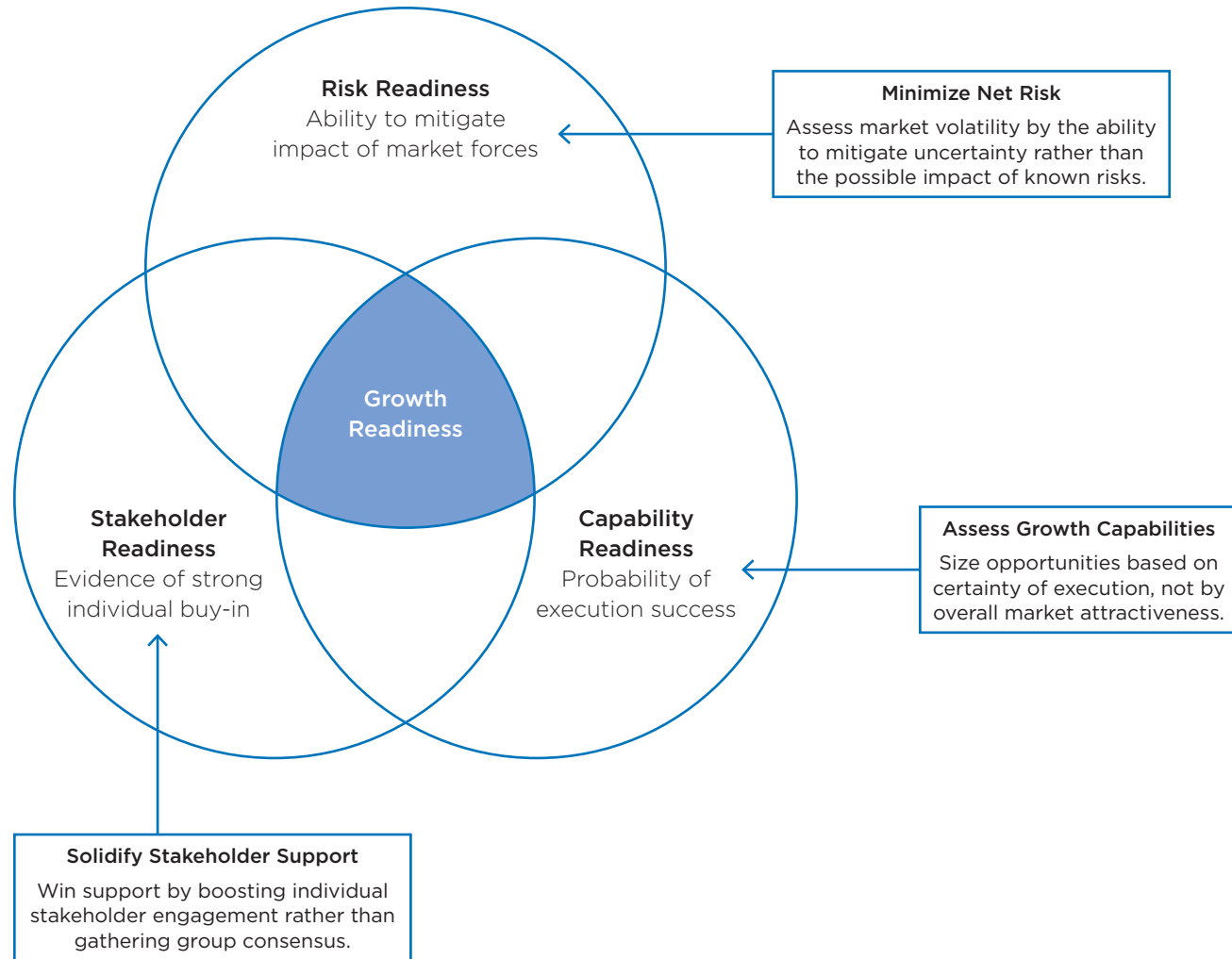
Prioritize investments based on the strength of the three core elements of readiness.

- To prioritize investments based on growth readiness, strategists must consider the three enablers of growth readiness, Risk Readiness, Capability Readiness and Stakeholder Readiness.

ENABLING COMMITMENT THROUGH READINESS

Prioritizing Investments Based on Readiness

Primary Readiness Enablers





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