2014 Top Insights for the World's Leading Executives

CEB

WHAT THE BEST COMPANIES DO

2014 Top Insights

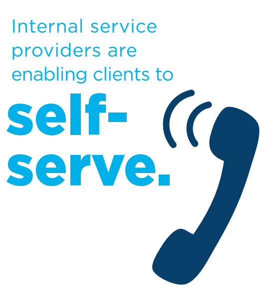
Contents

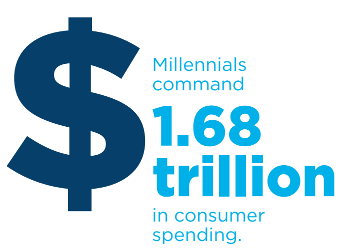
Trends Shaping the Business Frontier

Although the adage "the only constant is change" is well known (and well worn), the ability to spot meaningful changes—and as importantly, to adapt to them—is hardly easy or common. As a result, executives often recognize change too late or misunderstand the implications of those changes for their teams. And those misses cost firms dearly in terms of direct, indirect, and opportunity costs. As we look back on our most recent research and reflect on the changes that affect thousands of executives in organizations around the globe, there are five critical areas of change that require your immediate attention.

1. Changing Nature of Work

As the way organizations create value evolves, the very nature of work is also changing. Employees have to become more flexible across geographic and functional boundaries. Simultaneously, the value that employees create is becoming more interdependent on other employees' work, placing a premium on what we call "network performance." In fact, our research finds that workforces that excel at both individual task performance and network performance can boost year-over-year revenue growth by 11% and profit growth by 5%. This change in the nature of work requires firms to reengineer how they attract, develop, and manage human capital.





2. Changing Needs of Internal Clients

For internal service providers in the organization, clients seem to be more difficult than ever to serve. Clients' need to move quickly has led them to claim more authority and freedom in decision making. That in turn requires internal service providers—from IT to HR to risk management to strategy development—to enable their clients to do much of the work that those same providers used to do.

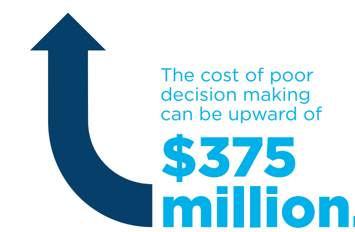
3. Changing Nature of the Consumer

As technology and demographic shifts alter consumers' experiences and expectations, suppliers are under pressure to close the gap between the branded experience they provide and what consumers have come to expect. For example, millennials are displaying growing desires and values for self-expression, belonging, and social relevance—not only with products but also with the experience around products. Brands that fall short in millennial consumers' eyes risk losing touch with one-quarter of the US population, which makes up the majority of first-time homebuyers and new parents and commands $1.68 trillion in annual consumer spending. With this in mind, brands must close the value divide, digitally expressed, with consumers.

4. Changing Nature of Business Customers

As deal complexity has risen, so too has customers' risk aversion and the number of stakeholders dedicated to a given sales purchase. CEB research shows that 5.4 people are involved in the average B2B buying process. The consensus that these groups require for decision making slows down the purchase and adds dysfunction to the buying process, something that buyers and suppliers alike must learn to overcome. Without any intervention, sale cycles extend, and both buyers and suppliers walk away with smaller deals than either side wanted.

5. Changing Impact of Information



Although it's no surprise that the information we have access to is growing exponentially, executives underappreciate the toll that it takes on the users of that information. We see users struggling as they hit the limits of their cognitive ability to process, make sense of, and ultimately put to use the huge and varied array of information at their fingertips. From consumers to executives, people see more options now than they had in the past. They have access to more information to aid them in the decision-making process, and yet they struggle more to make decisions and often fail. Further, our research shows that the cost of poor decision making can be upward of $375 million. Leaders in the organization need to make information helpful, not harmful, to decision making.

Supporting Executives and Their Teams to Address These Challenges

All of these changes have significant implications for executives managing their functions. Most executives will likely face more than one of these changes at any one time. At CEB, we help enable our members to survive and thrive in this fast-changing environment.

In the enclosed materials, we'll address a specific subset of these changes and the resulting challenges executives face that are most critical to address for the performance of your team and organization.

Human Resources

The nature of work is changing. Our management approaches, however, haven't kept up. To drive breakthrough performance, the best HR teams operate with a singular focus: to drive an employee's individual performance as well as his or her ability to work with and through others.

The Performance Transformation

Strategies to Build a Workforce of Enterprise Contributors

Situation

The new work environment is full of performance challenges, yet performance must improve by 27% to meet business goals over the next 12 months.

Insight

The best companies attract, develop, engage, and enable a new kind of performer who is effective at his or her individual tasks as well as at working with and through others.

Potential

Workforces that excel at making enterprise contributions can almost double their impact on financial outcomes.

The Organizational Environment Has Changed

- Greater organizational complexity
- Higher productivity expectations
- More interdependence
- Increased access to information

Employees Striving to Meet High Expectations, But Reaching the Limit

The new work environment is full of performance challenges, but companies must increase employee performance by 27% to hit revenue and profitability targets.

Many jump to improve the performance management system, but there is no appreciable difference in the actual performance of employees based on the type of performance management system used.

Achieving the breakthrough performance needed will become increasingly unlikely through conventional means.

Shifting Focus to Network Performance

To achieve breakthrough performance, companies need enterprise contributors or employees who perform well individually and demonstrate network performance, which involves working effectively with and through others.

Organizations with More Enterprise Contributors Win

Increasing enterprise contribution can have a 2x greater impact on profitability than driving individual task execution alone.

In fact, organizations with more enterprise contributors outperform their peers by 5% and 11% on year-over-year revenue and profit growth, respectively.

This means that the average Fortune 500 organization can increase profit by US$144 million and revenue by US$924 million.

How to Make Enterprise Contribution Easier

Most organizations motivate their employees to be enterprise contributors by using common strategies such as encouraging leaders to be role models of collaboration and updating competency models to include collaboration.

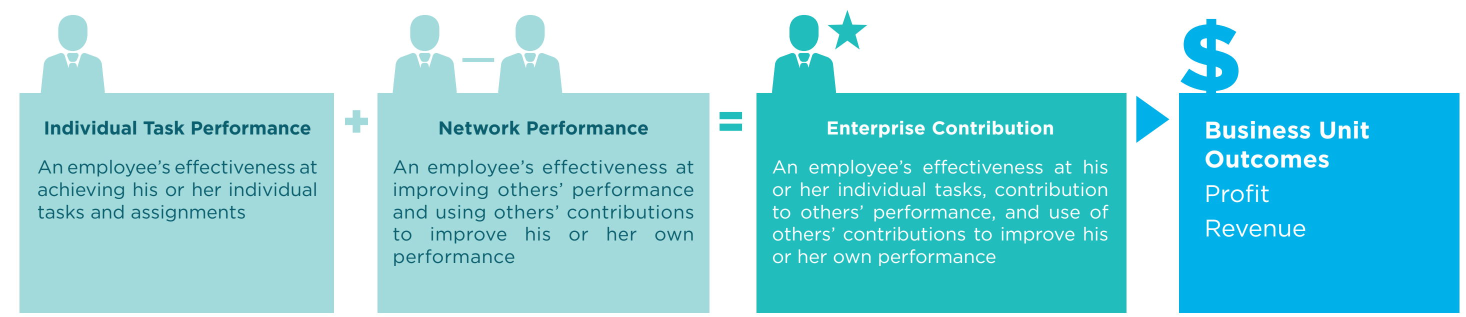
Transforming Talent Management

"The work that's been done by CEB on the enterprise contributor model...we implemented in the company and it was really something that enhanced, in my opinion, HR's ability to create a future perspective on talent in the company."

David Carson
General Manager, Human Resources

DAIMLER

CEB Model of Employee Performance: Enterprise Contribution



Source: CEB analysis.

But employees don't lack motivation. In fact, three-quarters of employees want to become enterprise contributors but feel their organization makes it difficult to do so.

Leaders then should focus on reconciling four competing organizational priorities—what we call "performance paradoxes"—to make it easier for employees to meet today's new performance expectations:

1. Coworkers are asked to help each other, but they also compete for raises and promotions. By rewarding for enterprise contribution, employees won't feel compromised for collaborating.
2. Employees need autonomy, but they also require direction in prioritizing their activities. The best companies provide context to employees so they can both prioritize the right things and work independently.
3. Although collaboration tools can improve quality, they can slow execution. Companies must let teams govern their own interactions to improve both collaboration and execution.
4. Employees value contributing, but being rewarded for it actually reduces their motivation. The key is to reward for collaboration and make it feel rewarding itself. Using this approach helps companies leverage both financial and intrinsic incentives.

Your Brand Needs to Do More

Moving from Appeal to Influence

Situation

Job applicants have access to more information about potential employers than ever before—and with more choices comes more doubt.

Insight

The best companies move away from creating the most appealing image of the employer for a mass audience—or branding for appeal—to branding for influence.

Potential

A branding for influence approach entails providing trusted guidance to help applicants make better decisions about whether to apply, and it yields greater returns.

The Corporate Brand Effect

Organizations with well-known corporate brands have 43% higher application volume than those with lesser-known brands, **but applicant quality is virtually identical.**

Branding for Appeal Adds to Information Overload

Applicant volume has risen by 33% in the past three years, but applicant quality remains low.

In response, more than three-quarters of organizations have launched formal employment branding initiatives. These initiatives position the organization as a great place to work by communicating universally appealing brand messages through the most popular channels.

Unfortunately, this branding for appeal strategy results in applicant pools that are only 28% high quality. Now more than ever, applicants are exposed to a sea of promotional messages about organizations being great places to work, and with more choices comes more doubt about where to apply.

Eighty percent of an applicant's decision to apply is informed by sources outside of the organization, which don't filter negative or inaccurate information.

Nearly half of employees (45%) admit to not being completely honest when they tell others about their employer.

Sixty-nine percent of applicants don't know where they would consider applying if they left their current employer.

Consequently, branding for appeal only adds to the unhelpful information they already have from other sources as they struggle to make the right decisions about where to apply.

Persuade the Best, Deflect the Rest

Companies must make a strategic employment branding shift to compete in today's information-rich labor market.

A branding for influence approach gives applicants the trusted guidance they need to make better decisions about whether to apply, whereas a branding for appeal approach simply promotes the organization as a great place to work.

Learn More About This Insight

Brand-Enabled Business Growth

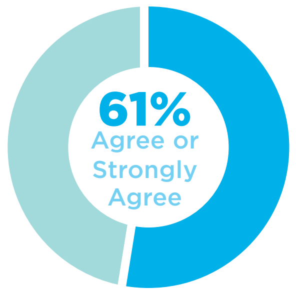
"Over-investing branding efforts in critical segments means that we are better placed to attract and convert talent that is central to our achievement of strategic business objectives."

John Qudeen
Vice President,
Global Recruiting

THOMSON REUTERS

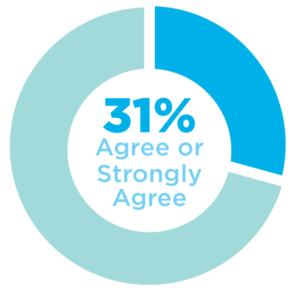
Applicant Uncertainty About Where to Apply

More Skepticism
"Compared to three years ago, I am more skeptical of what employers say about themselves."



n = 4,663.
Source: CEB 2014 Employment Branding Effectiveness Survey.

Less Confidence
"If I wanted to leave my current employer, I know which other employers I would consider applying to."



n = 5,412.
Source: CEB Q4 2013 Global Labor Market Survey.

Also, a branding for influence approach drives consideration of fit instead of improving perceptions, because employers want the highest-quality candidates to apply and wish to dissuade poor-quality candidates.

Quadruple Applicant Pool Strength

Companies that brand for appeal see an applicant pool with only 28% high-quality applicants, while companies that brand for influence get 43%.

Furthermore, organizations that brand for influence enjoy:

- Fifty-four percent higher-quality applicant pools,
- Twenty-two percent higher-quality shortlists, and
- Nine percent higher-quality hires.

Three Steps to Branding for Influence

1. **Focus branding on critical talent.** Shift from targeting branding at a wider array of talent segments to customizing more deeply for the most important talent segments.
2. **Create messages to consult rather than sell.** Instead of highlighting the company's selling points, your messages should challenge applicants' thinking.
3. **Build a network of brand influencers.** Focus less on managing a channel strategy and more on managing internal and external influencers.

More Learning Through Less Learning

Building a Productive Learning Culture

Situation

Conventional training falls short in developing the skills and engaging employees in the way the new work environment demands.

Insight

De-emphasize participation in learning, and focus instead on learning relevance, learning capability, and learner networks.

Potential

A productive learning culture boosts employees' performance and overall learning capabilities.

A Changing Learning Landscape

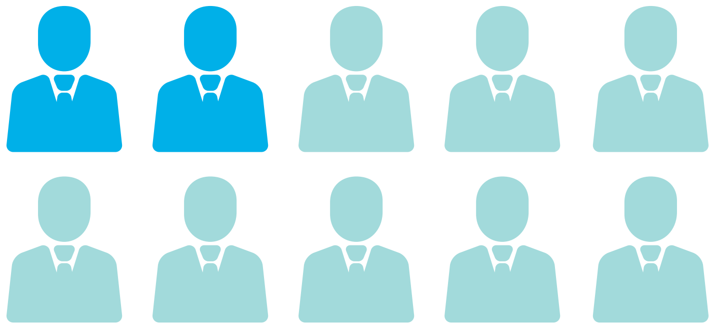
As line leaders pursue new growth opportunities or seek to improve their execution of existing plans, they need employees with new and more complex skills.

At the same time, the learning landscape is evolving, and employees have new expectations of L&D:

- Fifty-seven percent of employees expect learning to be more "just in time," or as needed, than it was three years ago.
- Only 37% of employees expect that the organization will actively manage their development.
- Only 21% of employees expect most of their learning to happen in the classroom.

As a result, corporations spend an estimated $145 billion annually on training. Yet less than half of those investments result in tangible returns, despite the fact that 84% of learners find L&D solutions satisfying.

Only 20% of Employees Are Effective Learners



n = 23,764.
Source: CEB 2014 Learning Culture Survey.

Sample Productive Learning Behaviors

- Knowing when to ask for help and offer support
- Changing behaviors and/or perceptions based on learning
- Seeking learning that increases job-relevant knowledge today and in the future

Reframing Learning Culture

L&D leaders understand that to improve the quality and long-term effects of learning throughout the organization, they must extend the L&D function's influence by building a culture of learning.

Most organizations create this culture of learning by investing in and providing more learning opportunities across more learning channels; improving the quality and structure of learning content; and advocating that employees oversee their own individual development.

These approaches ultimately promote more learning activity and increase attendance—creating a culture of learning participation.

However, in most cases, extra learning does not mean higher-quality or sustained learning. Nearly three in four line leaders report that employees with high learning participation lack the necessary skills to achieve business goals.

In fact, the extra learning activity creates a lot of waste. Every day, employees waste approximately 11% of their time on unproductive learning. This misused time costs the average organization more than US$134.5 million in employee productivity each year.

Employees Thrive in Learning Cultures That Emphasize Productivity

By designing learning programs that increase employee awareness of how to learn (not just what to learn) and by using learning technologies and platforms that enable employees to develop their learning behaviors (not just consume content), an organization can more than double the number of its employees with high learning capabilities.

Furthermore, when an organization fosters learning environments that employees consider fair, relevant, safe, and clear, it can have up to a 14% impact on employee performance.

Three Shifts Every Company Should Make to Shape Its Learning Culture

1. **Rightsize learning opportunities.** Instead of increasing learning choices, rightsize learning opportunities so only those that are highly relevant and effective are available to employees.
2. **Advance the organization's learning capability.** Instead of just creating and teaching learning content, advance the organization's learning capability by teaching employees how to better learn.
3. **Foster shared ownership of the learning environment.** Instead of simply focusing on the individual's responsibility to learn, emphasize a shared employee–leader ownership of the learning environment.

Take Your HR Team to the Next Level

Increasing the Strategic Value of Transactional HR Roles

Situation

Less than one-fifth of line leaders rates HR as an effective strategic partner to the line.

Insight

Four organizational barriers are impeding the strategic effectiveness of HR Business Partners (HRBPs).

Potential

Organizations that improve HRBP competencies and minimize or remove organizational barriers can nearly double their number of effective HRBPs.

Data-Driven Talent Decisions

In recent years, leading HR organizations have moved from merely supporting workforce planning with internal data to crafting talent sourcing strategies based on an acute knowledge of the organization and deep expertise of external labor markets.

The Influence of the HRBP Has Been Elevated—and So Has the Complexity of Their Role

An organization is only as good as its people. So it's no surprise that CEOs rank human capital as their number one focus—higher than operational excellence, innovation, and customer relationships.

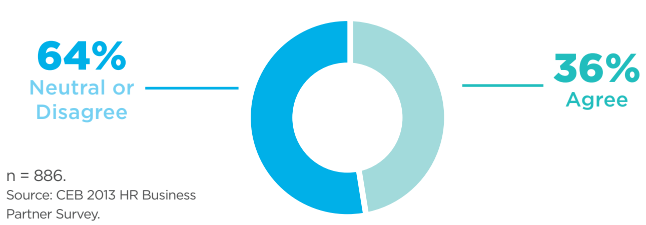
Yet C-level executives also cite increasing pains as a result of talent mismanagement:

- Less than one-fifth feel HRBPs act as strategic partners.
- Forty-three percent have missed on key financial targets.
- Only 10% are effective at aligning talent to meet strategic objectives.

Our research points to two significant shifts in the work environment contributing to line leader dissatisfaction:

1. **Greater dependence on others**—Seventy-six percent of HRBPs have to collaborate more with others than they did in the past.
2. **A flood of new data sources**—Three-quarters of HRBPs report that they have access to more data and information than they did in the past, which can lead to more informed decisions but also to information overload.

Lack of Coordination with Other Functional Support
Percentage of Line Leaders Agreeing That Their HRBP Is Effective at Coordinating with Other Functions



n = 886.
Source: CEB 2013 HR Business Partner Survey.

[Learn More About This Insight]

Leading with Data

"It's crucial to understand the strength of our talent segments, anticipate where gaps could emerge, and prioritize our efforts in sync with the business. We help HRBPs filter out the noise and cut through the clutter of data to do that."

Ian O'Keefe
Head of HR Analytics
SEARS HOLDINGS

It's Not Just About the Individual

Organizations have invested in developing HRBP competencies, but individual attributes are only half the picture. Four organizational barriers inhibit the strategic effectiveness of even the most capable HRBPs:

1. **Application Barrier**
   Lack of clarity on how to apply competencies in day-to-day work
2. **Partnership Barrier**
   Being tasked to provide transactional support rather than strategic insight
3. **Functional Barrier**
   Tensions among functional groups that inhibit collaboration within HR
4. **Enterprise Barrier**
   Lack of coordination with functional partners outside of HR

Business Benefits from HR Transformations

Organizations that improve HRBP competencies and minimize or remove these organizational barriers can nearly double the number of HRBPs who are effective at strategic activities—from 19% today to 40% by 2017.

For an average Fortune 500 company, such an improvement translates to an additional $700 million in revenue and $60 million in profit.

Furthermore, when organizational barriers disappear and HRBPs become more strategic, they can improve employee performance by up to 22%, employee retention by up to 24%, revenue by up to 7%, and profit by up to 9%.

Removing the Barriers to HRBP Performance

- Focus the HRBP role on strategic activities in alignment with business unit and corporate objectives.
- Hire and prepare HRBPs for the critical competencies necessary in the new work environment, such as data judgment and leveraging professional networks.
- Do not rely exclusively on capability building alone to improve HRBPs; remove organizational barriers that prevent them from being more strategic.
- Set rigorous expectations for what it means to be strategic and how it applies to day-to-day work.
- Equip HRBPs with the data and analytics to evolve from transactional support to delivering strategic insights.
- Instead of trying to minimize tensions among HR functions, view them as opportunities to negotiate roles and find new ways to coordinate.
- Beyond information sharing, formalize a process for fostering collaboration with non-HR peers to deliver integrated solutions to the line.

Rethinking the Workforce Survey

Achieving Strategic and Cultural Alignment for Your Organization

Situation

Despite achieving high levels of employee engagement, 80% of business leaders say their employee engagement initiatives do not drive business outcomes at their company.

Insight

CEB research reveals that 60% of highly engaged employees do not believe their work is aligned with company goals.

Potential

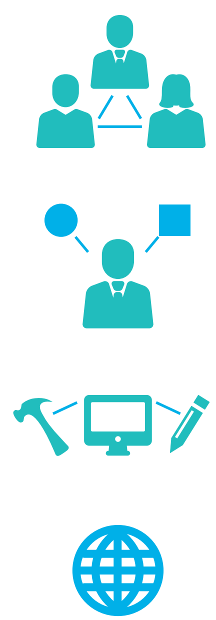
The ClearAdvantage approach assesses engagement, alignment, and agility—three competencies that every organization needs to succeed today. It also measures critical workforce capabilities needed to execute on your organization's specific business priorities.

Engagement Is Important and Necessary, but It's Not Enough

Eighty percent of the 4,000 business leaders CEB surveyed in 2011 said engagement initiatives do not drive business outcomes at their companies.

Exploring the New Work Environment

Leaders are finding it harder to engage employees in corporate priorities. Top-down management is less effective as work becomes more horizontal and distributed.



More Coordination
60% of employees coordinate with at least 10 people to complete their day-to-day work. Thirty percent are working with 20 or more colleagues on a daily basis.

More Decision Makers
50% of employees say more people are involved in decisions today than they were three years ago.

More Work Across Silos
67% of employees say they are working with people from different teams and departments.

More Global
57% of employees say they are working more with employees in another location than they were three years ago.

Source: CEB analysis.

In recent years, leading organizations have begun to see a disconnect between their engagement initiatives and business performance. Despite achieving high levels of employee engagement, they struggle to translate that engagement into even stronger business performance.

On Culture

"Culture is the foundation for any successful enterprise, and ours inspires our people to improve every day. It is why [our organization] works."

Chairman and CEO
Electronics Industry

Engagement Is Sufficient, but It Is Not Enough to Drive Business Performance

Eighty percent of the 4,000 business leaders CEB surveyed said that engagement initiatives do not drive business outcomes at their companies.

The changing nature of work has created demand for new survey tools to measure more than employee engagement—going deeper to assess interrelated factors that enable engagement to deliver meaningful business results.

The best companies move away from simply measuring engagement and instead use an effective survey framework to look beyond and assess two broad types of workforce capabilities:

- **Universal**—Three competencies that every organization needs to succeed: engagement, alignment, and agility
- **Strategy-Specific**—Capabilities needed to achieve the organization's strategic priorities, such as a focus on efficiency, customer centricity, innovation, or quality

Build an Engaged Workforce Culture Committed to Driving Business Performance

CEB's approach to employee surveys is based heavily on our ClearAdvantage framework, which assesses the critical workforce capabilities needed to execute on your organization's specific business priorities. Based on unparalleled research and groundbreaking CEB insights on what drives workforce and business performance, this unique survey assesses employee engagement, alignment, and agility specific to critical priorities, including business transformation, continuous improvement, and quality. This framework—exclusively designed for our employee engagement survey solutions—allows your workforce survey to become a strategic tool to help drive organizational performance.

CEB's ClearAdvantage approach helps ensure:

- Employees are engaged and directing their effort and energy toward the firm's goals,
- Employees are able to lead and adapt to change as circumstances shift, and
- Organizational culture supports the firm's strategy.

In addition to having the right survey framework, it's critical to have the right survey technology platform to ensure organizations focus on the more strategic actions that follow

Implications for the Workforce Survey

1. **Assess more than engagement.** Instead of measuring engagement alone, use new tools to assess interrelated factors that enable engagement to deliver more meaningful business results. This approach entails assessing employee engagement, agility, and alignment to company goals.
2. **Use your survey to measure critical workforce capabilities.** Using CEB's ClearAdvantage framework, an organization can focus on capabilities specific to the strategy it has selected so it can create enterprise value.
3. **Leverage insights for strategic action.** Focus more on developing action plans based on results and insights derived from your workforce survey.

What Makes a High Potential?

Quite Possibly Not What You Think

Situation

A high-potential (HiPo) program, seen by many organizations worldwide as the feeder to its leaders of the future, is statistically more likely to fail than succeed.

Insight

Only one in seven high performers is actually a HiPo. Candidates are being nominated for subjective reasons and not scientific reasons.

Potential

Assessing the ability, aspiration, and engagement of your HiPos makes your odds of success much greater. By looking at these three components, you have a structured, scalable, and practical framework for your selection process.

A HiPo Is Twice as Valuable to an Organization

Organizations with stronger leaders can show twice the revenue and twice the profit growth. Yet a HiPo program, seen by many organizations worldwide as the feeder to its leaders of the future, is statistically more likely to fail than succeed. Fifty percent of HR managers lack confidence in their programs, and a staggering five in six HR managers are dissatisfied with the results of their programs.

Research covering a decade of assessments and recent analysis using the CEB analytics database of 6.6 million has revealed the following:

- Organizations with stronger leadership strength experience twice the revenue and profit growth.
- Fifty-five percent will drop out of the HiPo program within five years.
- Forty-six percent of leaders fail to meet their business objectives in a new role.
- At least one in seven employees are wrongly put in the program in the first place.

Potentially, this means much of your investment in a HiPo program is, at best, wasted and, at worst, feeding your competitors with some of your most highly valuable people.

High Potential Versus High Performance

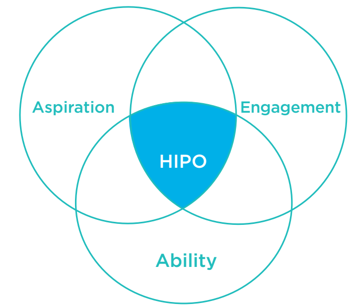
If only one in seven high performers are actually HiPos, why do many organizations still wrongly assume that a high performer is also a HiPo? One of the problems is that managers are nominating staff for a HiPo program without having a robust identification process in place. As a result, candidates are being selected for subjective reasons and not scientific reasons.

But HR managers can now access the tools and information to transform the identification stage of HiPo programs. This data ensures the program is worthy of its investment, creates competitive advantage, and produces a source of future leaders.

Are You Nominating for the Right Reasons?

In some cases, HiPos are not being selected with valid or structured reasoning in mind. Although selecting individuals on the basis of high performance isn't unheard of, in the worst case, selection can be simply based on tenure or achievement of passable results.

If you consider that only one in three organizations is using hard assessment data to identify their potential, it's not surprising that the nomination process can be unclear.



The Three Components of a HiPo Program

Ten years of data shows there is a way to choose the right HiPo.

A HiPo employee is a proven high performer with three distinguishing attributes that allow him or her to rise and succeed in more senior, critical positions: **aspiration** to rise to senior roles, **ability** to be effective in more responsible and senior roles, and **engagement** to commit to the organization and remain in challenging roles.

High performance is only a starting point for identifying candidates. You then need to assess these individuals for their aspiration, ability, and engagement:

1. Assess for aspiration and critical career management behaviors to understand if an employee will rise to a senior and more challenging position.
2. Assess for future managerial and leadership ability to know whether the employee has the competencies required for success in more senior and challenging roles.
3. Evaluate engagement to know whether the employee is committed to the organization and sees the organization as the best place to realize his or her career goals.

HiPo Identification: The HR Manager's To-Do List

- Ensure high performance as the sole criteria for consideration is off the agenda.
- Create a plan to review and reassess every candidate in the HiPo program.
- Carry out a talent audit on your existing candidates and audit other high performers to ensure you didn't miss anyone.
- Establish a feedback mechanism with your line of business, and prepare these business leaders to offer support and develop stretch roles.
- Communicate clearly with managers and outline challenges they may face with HiPos.
- Arm the CEO and CFO with statistics about HiPos, and explain that you're going to carry out a comprehensive review based on high performance as well as ability, aspiration, and engagement.
- Explain that you're going to create a data-driven, robust process to identify HiPos.
- Use analysis from your talent audit to understand those in the HiPo program and those who should actually be in the program.

Finance

The nature of work is changing, and many finance teams are turning to transformation to manage this challenge—unfortunately, 70% fail. Leading companies successfully approach change by creating more effective finance operating models, improving overhead productivity, and developing the right nontechnical staff skills—all to help the business make better decisions and enable and support growth.

A New Standard for Transforming Finance

Adopting the Disciplines of a Profit Center

Situation

Finance teams are being asked to do more today than ever before—driving organizations to launch massive transformation projects in an attempt to decrease cost and add value.

Insight

The best finance teams view the function as a profit center—measuring cost, value, and finance service levels in tandem, all while hiring and developing the finance competencies that matter most in delivering value to the business.

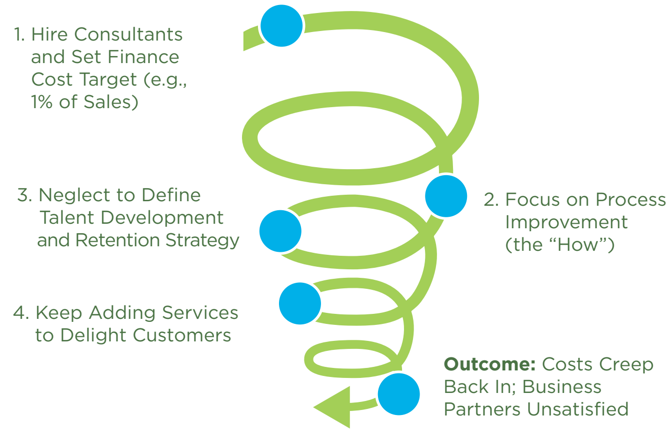
Potential

Through this approach, finance teams can determine which services are most profitable and stop providing those that are not. In essence, instead of trying to **do more with less,** leading finance teams **do better with less.**

Seventy-Five Percent of CFOs Are Transforming Their Departments, But Only 30% Succeed

The nature of finance work has shifted dramatically in the past decade. The governance-based aspects of the function—such as accounting, auditing, and budgeting—have become table stakes for successful performance, while business demands for guidance-based support—such as advanced analytics, business case development, and planning—have rapidly increased. As a result, nearly 75% of CFOs are in the middle of transforming their finance departments.

Finance Transformation Death Spiral



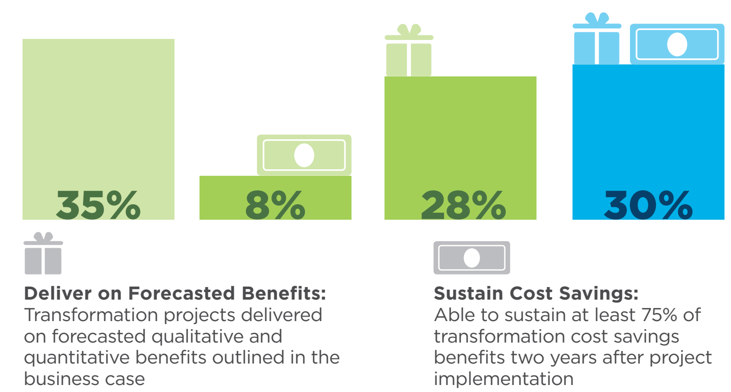
Source: CEB analysis.

Seventy Percent of Finance Transformations Fail

Most finance transformation projects are too focused on achieving a specified level of finance cost as a percentage of revenue. When this metric becomes the primary means to gauge performance, it leads to poor finance transformation decisions.

> "We have tackled most of the low-hanging fruit by centralizing and offshoring the activities that are well suited for it and streamlining certain processes, but we know that we can no longer just rely on an efficiency play to meet cost savings targets. **At some point we just have to eliminate some services to be able to focus on the most critical items."**
>
> CFO
> Financial Services Company

Percentage of Transformation Projects That Delivered Forecasted Results



Source: CEB 2013 Finance Transformation Survey.

Act Like a Profit Center

The best companies approach finance transformation in a fundamentally different way: they treat Finance as if it were a profit center. These finance teams measure performance and allocate resources based on the return on investment from and risk mitigated by their finance services, not simply the cost to serve.

Instead of Trying to Do More With Less, Leading Finance Teams Do Better With Less

In an economic climate where the only certainty is change, finance departments should not fall into the trap of trying to look like every other corporate function. Instead, they should build a vision for supporting business growth, scale back the activities that don't contribute to this vision, and manage internal customers to help them buy in to this vision.

Through this profit-center approach, finance teams determine which services are most profitable and stop providing those that are not. In essence, instead of trying to **do more with less,** leading finance teams **do better with less.**

Three Recommendations for a Successful Finance Transformation

Successful finance transformation teams do three things differently:

1. **Align finance strategy to the future state of the business.** Finance executives that are most successful at transformation pay less attention to historical spend, industry benchmarks, and traditional frameworks, and pay more attention to their unique corporate strategy and the right level of finance resources to help the business succeed.

   For instance, if Finance ran a transformation exercise for a profit center—such as streamlining the business by reducing SKUs—the team would not solely consider the cost of delivering each product when deciding what to cut. Instead, they would compare delivery cost to the value that the product creates for the present and future states of the business.
2. **Decide what to stop doing.** Allocate resources to the services, markets, and products that deliver the most business value, while scaling back or eliminating low-value services.
3. **Manage business partner expectations.** Don't mistake business partner satisfaction for an effective finance service. Attempting to delight all internal customers runs counter to a profit center mentality. Rather than aiming for universal business partner satisfaction, successful transformation projects shape customer expectations and force customers to choose between what they want and what they need.

The Future of Overhead Cost Management

Adapting to the New Nature of Work in the Corporate Core

Situation

CEOs and CFOs are being heavily pressured by investors to maintain cost discipline and improve margins—particularly on overhead costs.

Insight

Cost manage ad hoc and project-based (i.e., judgment-based) work, not just transactional spend, to ensure G&A functions stay efficient.

Potential

The costs associated with judgment-based work amount to more than 2% of sales for the average company, which exceeds spend on transactional work.

Pitfalls of Traditional Approaches

Traditional cost management tools do not get to the level of granularity or value-assessment required to make judgment-based work more efficient.

Seventy-Three Percent of Companies Are Under Pressure to Contain Overhead Growth

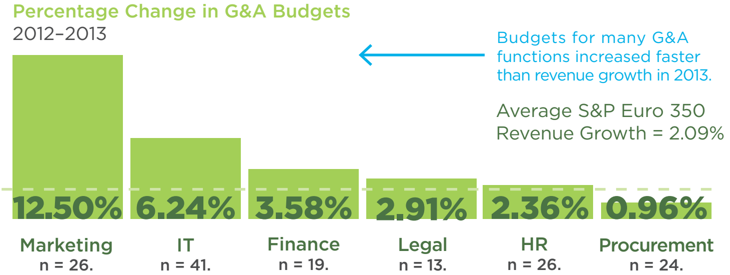
Despite a considerable focus on managing overhead costs during the past six years, only 12% of CFOs are confident that their companies are spending appropriately in the right G&A categories.

New Forces Making Overhead Even Harder to Manage

Investors are pressuring CEOs and CFOs to improve margins, particularly by containing costs (e.g., overhead costs) not explicitly linked to growth. However, controlling overhead costs is increasingly difficult because the composition of overhead has changed dramatically over the past decade, driven by the following:

1. **G&A Functions Transforming to Become Strategic Business Partners—**G&A functions are transforming to deliver more strategic value to the business through support of "front-office" and insight-intensive activities, such as analytics and innovation.
2. **Growing Organizational Complexity—**Growth in new, unfamiliar markets and the rise in matrix structures increases complexity and the amount of custom work to meet local market requirements and diverse stakeholder needs.

Percentage Change in G&A Budgets
2012–2013



Source: CEB Finance Overhead Cost Management Assessment 2014; CEB Finance Pulse Poll.

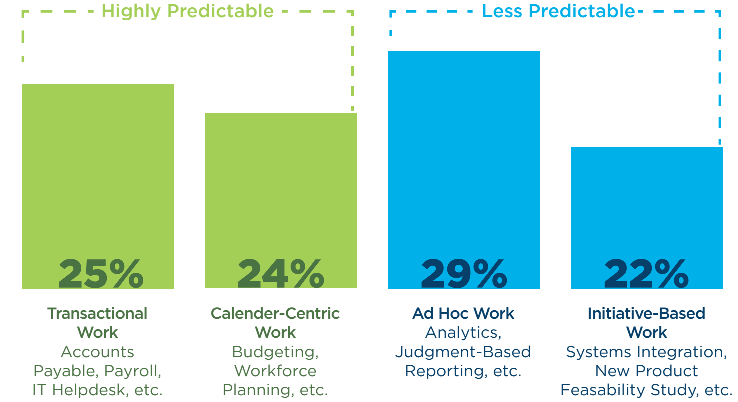
> "It was easier to cut overhead costs in the past. Now, although overhead spend is growing, it's less apparent where the fat is."
>
> CFO
> Consumer Products Company

Transforming to Deliver More Value

Most finance functions are under transformative pressure to move from the execution of governance-focused tasks to identifying business-focused activities that drive value creation. Growth in overhead costs are being increasingly driven by hard-to-track but large volumes of ad hoc and project-based work undertaken by G&A functions.

Leading G&A functions evolve to deliver strategic value to the business, taking on more unsystematic and judgment-intensive work. They segment G&A spend into nontraditional categories to manage spend in new and different ways.

Size of G&A Costs By the Nature of Work
Modeled from CEB G&A Budget and Spend Benchmarks[a]



Rules-Based Work:
Activity that is routine and follows a well-defined process

Judgment-Based Work
Activity that is more ambiguous and knowledge intensive

n = 86.
Source: CEB 2013 G&A Cost Management Survey.
[a] Based on classifying function-by-function expenses by nature of work and a G&A to sales ratio of 5.61%.

For the median (€8 billion) company, the costs of judgmentbased work amounted to €228 million or 2.86% of sales in 2013.

Cost Manage Judgment-Based Work, Not Just Rules-Based Work

Cost management approaches that segment costs by the nature of work, compare the performance of ad hoc and project-based work across G&A functions, and transfer internal best practices for managing judgment-based work are far more effective than traditional tools at improving the efficiency of G&A functions.

A New Toolkit Required

Traditional Cost Management	New Cost Management Tools
Historicals-based budgeting	Complexity-Driver-Based Budgeting
Line-item-based measurement	Nature-of-work cost measurement
Traditional revenue-industry benchmarks	Internal value benchmarks
Technology-driven automation	Behavior change

Source: CEB analysis.

Key Trends Driving Judgment-Based Work

Companies require a new cost management toolkit to oversee the costs of judgment-based work, which involves:

- Adapting budgeting models to growing complexity,
- Measuring G&A spend by the nature of work, not just functional expense line items,
- Implementing metrics that reflect customer value, and
- Overcoming resistance to improving how judgment-based work is performed.

Learn More About This Insight

Balancing Governance and Guidance

Developing the Talent That Makes Great Finance Teams

Situation
The finance function is evolving toward a more advisory-based service model. But all too often, finance teams lack the requisite skills to evolve from a controlling or reporting role into a consultative partner role.

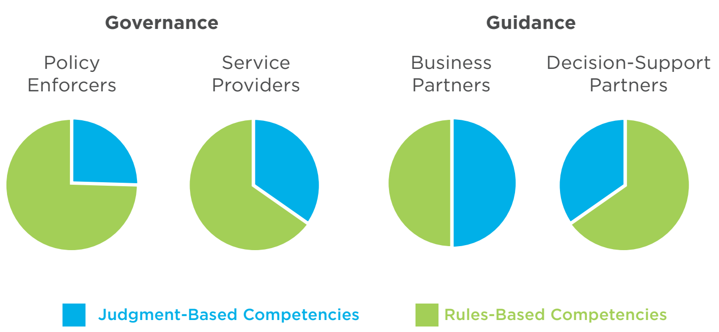
Insight
Although technical skills remain a critical requirement for finance employees, leading companies also allocate resources to building judgment- and relationship-based skills that underpin the most valuable aspects of Finance's business partnership.

Potential
Finance teams that invest in the key, nontechnical competencies are three times more likely to make strategic business decisions, twice as likely to be highly productive, and nearly three times more likely to be strong in attracting and retaining the best talent.

Finance Is Witnessing a Shift from Governance to Guidance
The nature of finance work has shifted dramatically in the past decade. Today, finance teams are overwhelmed with ad hoc requests, and now there is more demand than ever for collaboration between Finance and the business to ensure sustainable growth in stakeholder capital in a very tough operating environment.

The Typical Finance Team Is Weak in the Competencies That Matter Most
As a result of these gaps and shortfalls, 75% of CFOs report being unhappy with the mix of talent on their teams and believe their teams lack the skills to help the organization make the right decisions and to meet evolving business demands. These figures point to an urgent need to change the way finance talent is recruited, developed, and managed.

Governance and Guidance Roles Call for Different Competencies and Talent Strategies



Source: CEB analysis.

> "Finance needs better business awareness not only for strategic support but also for day-to-day functioning. We need better business-focused managers across the team, not just among senior leaders."
>
> **Bhavesh Shah**
> **VP Finance**
> Janssen | Pharmaceutical Companies of Johnson & Johnson

The New Finance Skill Set
To help define the competencies that matter most, we studied 2,200 finance professionals across 75 global companies and identified five critical nontechnical skill clusters.

The first competencies we identified reflect independent performance. This skill set is made up of the doer competencies, which represent the ability to take the initiative and execute on a project independently. This set also encompasses the learner competencies, which include openness to feedback, new ideas, and opportunities to improve skills.

Although learner and doer competencies are important, what truly differentiates high-performing finance departments is the other competency group: the pathfinders. This group includes three competency areas:

- **Persuader Competencies—**These include the ability to simplify complex ideas and articulate them clearly. Those with persuader skills are talented and adaptable communicators, able to challenge business assumptions.
- **Strategist Competencies—**These entail a strong understanding of business operations and emerging technology, as well as an ability to think of financial performance in terms of the key value drivers of the business.
- **Builder Competencies—**These include the capacity to create a vision and set the goals to achieve it. Those with builder skills are able to develop teams and gain buy-in for their plan.

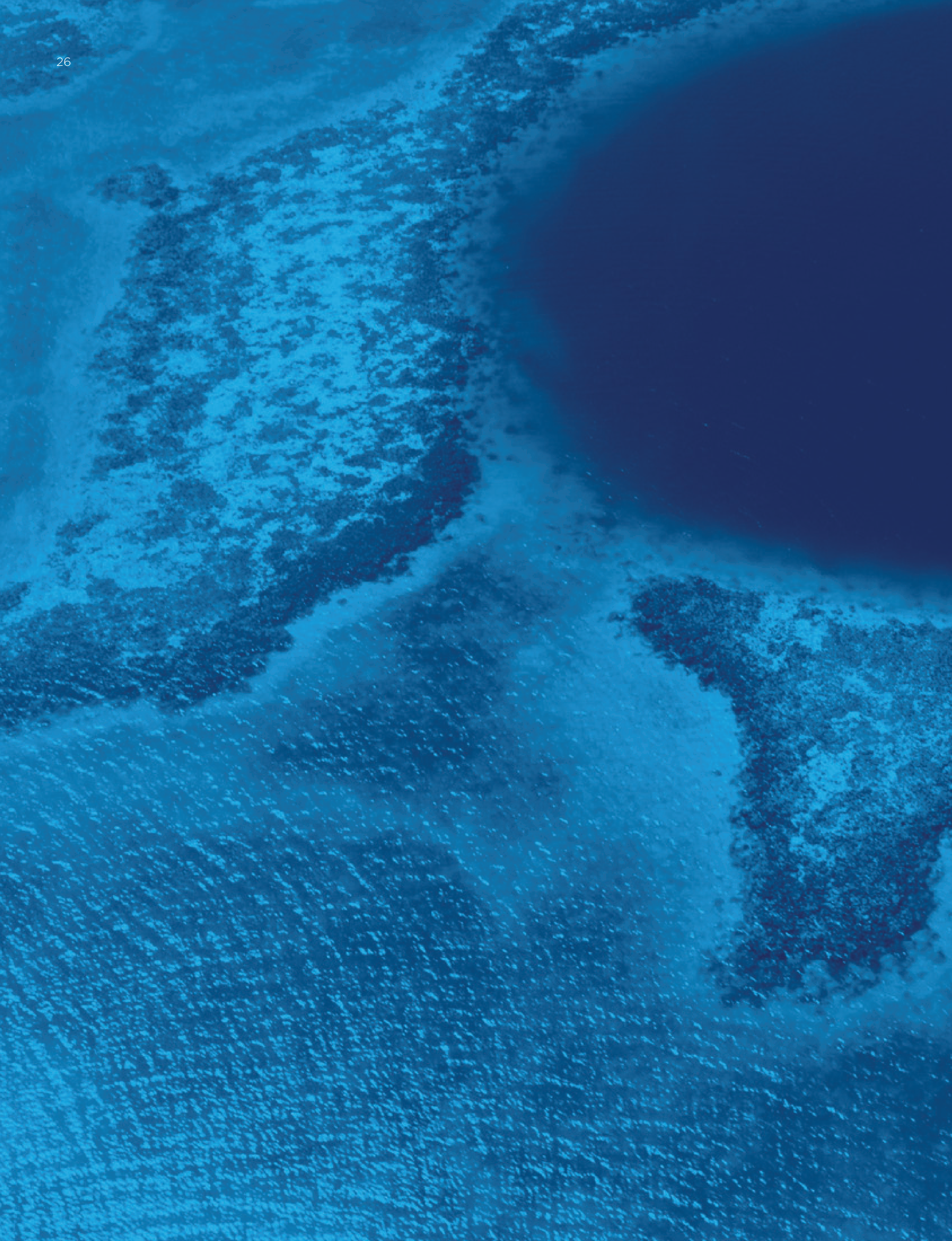
Unicorns Are, Indeed, a Myth
Finding an employee excellent at builder, strategist, and persuader competencies is highly unlikely. Only 1% of finance staff excel and demonstrate high proficiency with the pathfinder competencies. Instead of looking for a "skill unicorn," ensure the finance team collectively possesses a mix of competencies and is not overly dominant on the doer and learner competencies.

Finance teams with a greater focus on pathfinder competencies have a higher impact on their organizations than those without. In fact, they are twice as likely to be highly productive, three times more likely to make and inform strategic decisions, and nearly three times more likely to recruit and retain the best talent.

Three Factors That Differentiate Finance Talent Leaders
Successful finance executives do three things differently:

- **Redesign hiring strategy for critical competencies:**
  - Prioritize and hire for competencies that are most lacking in Finance and that have the lowest improvement potential.
  - Raise the bar on hiring, especially for builder competencies.
  - Get creative in sourcing finance candidates.
- **Coach for hard-to-teach competencies:**
  - Over-invest in coaching as it has the highest impact on finance staff's skill improvement.
- **Embed critical competencies in performance management:**
  - Measure and reward the competencies that drive department effectiveness.

Learn More About This Insight



Information Technology

The nature of work is changing, and technology has become the most integral business driver. As a result, IT organizations are under greater strain as business leaders become more ambitious with their technology initiatives. To succeed in this environment, IT must make changes to the way it approaches IT strategy, operations, and workforce.

Overcoming the Insight Deficit

Big Judgment in an Era of Big Data

Situation

Companies are investing large sums to derive insight from the information streaming in from all corners of the enterprise, but less than 40% of employees have sufficiently mature skills to use data effectively for decision making.

Insight

"Big data" needs to be complemented by "big judgment." Big data and more advanced analytics will dramatically amplify the effects of human decisions.

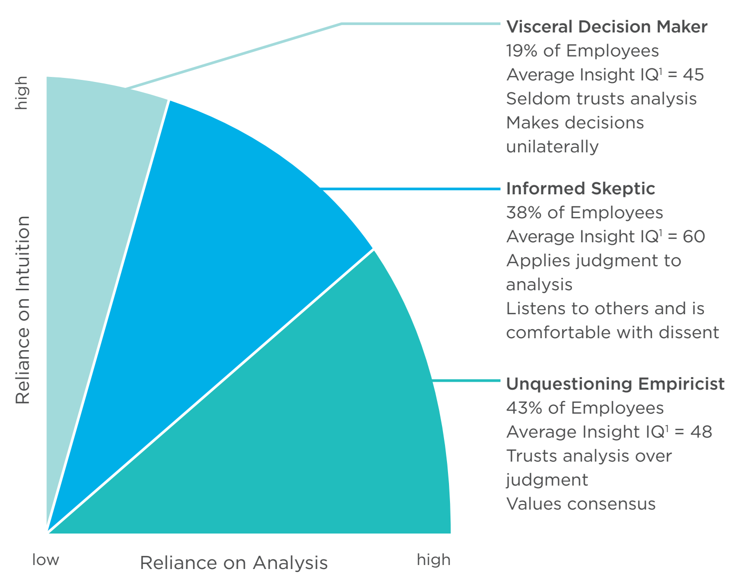
Potential

Functions with the highest Insight IQ—the ability to find and analyze relevant information to make better decisions—perform, on average, 24% better than their peers across a wide range of metrics.

A New Era of Decision Making

Executives around the world are realizing that we have entered a new era of decision making. The amount of information at our disposal has grown exponentially across the past decade. However, even as companies invest eight- and nine-figure sums to derive insight from this information streaming in from suppliers, customers, and internal operations, less than 40% of employees have sufficiently mature processes and skills to use data effectively for decision making.

Most Employees Struggle to Apply Judgment to Data
Analytic Maturity Profiles



n = 4,941 employees.
Source: CEB 2011 Insight IQ Diagnostic.
[1] Insight IQ is measured on a 0–100 scale, with higher values indicating higher levels of analytic maturity.

Complement "Big Data" with "Big Judgment"

To overcome this insight deficit, "big data" needs to be complemented by "big judgment." Big data and more advanced analytics will dramatically amplify the effects of human decisions, sometimes to an unimaginable scale.

Overcoming the Insight Deficit Has Significant Benefits

Overcoming the insight deficit has a significant economic payoff: functions with the highest Insight IQ—the ability to find and analyze relevant information to make better decisions—performed, on average, 24% better than their peers across a wide range of metrics, including effectiveness, productivity, employee engagement, and market share growth.

High Insight IQ Companies Focus on Four Activities

Leaders should focus on the following four activities to improve their personal and organizational capability to make better decisions:

1. **Develop more informed skeptics.** The most important activity for executives is to increase Insight IQ across a broad range of employees. Employees best equipped to make good decisions—Informed Skeptics—effectively balance judgment and analysis, possess strong analytic skills, and listen to others' opinions but are willing to dissent.

   Leaders need to cultivate the critical-thinking skills necessary to challenge and interpret analyses and, importantly, to evaluate when these analyses do and do not apply. This approach includes educating employees on the limitations of data, developing an analytic training curriculum, hiring quantitative experts who can coach, and formalizing decision processes.

2. **Challenge your own biases.** The best frameworks fail if decision-making processes do not account for the underlying assumptions used to start analysis. The best companies take the time to "decide how to decide" by explicitly debating and articulating their decision criteria.

3. **Take ownership of your information.** At the best companies, business leaders own the following pieces of the information value chain: the process of determining what data is necessary; what analyses they want to run; how they share that data across business, supplier, and customer boundaries; and how they staff and fund the work necessary to derive insight from data.

4. **Make information usable.** One-half of employees find information from corporate sources to be in an unusable format. To overcome this challenge, the best companies deploy a combination of improved information filtering, better visualization, and increased investments in training. They develop a deeper understanding of how, when, and why information is used, and they vary quality standards accordingly.

The Looming IT Crisis That Might Surprise You

Why Talent Matters

Situation

Today's work environment demands wholesale restructuring of IT talent. But most IT organizations are unprepared for the changes taking place today and will simply not be able to make the leap.

Insight

The highest performing CIOs spend more time on talent development than on any other activity.

Potential

By getting talent decisions right, IT organizations can help their companies drive up to a 12% increase in revenue.

Why Talent Matters

Today's work environment demands wholesale restructuring of IT talent. To prosper, IT needs new capabilities in architecture, service management, security, and governance—all intertwined with business skills, competencies in negotiation, and the ability to influence. But most IT organizations are unprepared for the changes taking place and will simply not be able to make the leap.

Sixty-one percent of IT organizations lack comprehensive skill forecasts, and up to 80% do not provide training or coaching for critical skills. At more than 60% of IT organizations, talent recruitment, development, and retention are managed separately and usually at a very tactical level.

The Best CIOs Spend More Time on Talent Than on Any Other Activity

The highest-performing CIOs spend more time on talent development than on any other activity. This approach requires advising up-and-coming staff on how to boost their performance, brokering opportunities for them to gain new experiences, helping them learn from those experiences, and championing their careers with other stakeholders.

Getting IT Talent Decisions Right Will Create Meaningful Competitive Advantage

The benefits of getting talent decisions right are huge: companies with a strong leadership bench achieve material growth and profitability premiums relative to peers'. In fact, by getting talent right, organizations can see up to a 12% increase in revenue.

Top CIO Activities by Actual and Ideal Time Allocation

High-Performing CIOs		Other CIOs	
Actual	Ideal	Actual	Ideal
1. IT Staff Management and Development	1. IT Staff Management and Development	1. Day-to-Day Operational Management	1. Strategic Planning and Info Gathering
2. IT Project Execution Oversight	2. Strategic Planning and Info Gathering	2. IT Project Execution Oversight	2. IT Staff Management and Development
3. Strategic Planning and Info Gathering	3. CEO/Senior Executive Partnership	3. Strategic Planning and Info Gathering	3. CEO/Senior Executive Partnership
4. CEO/Senior Executive Partnership	4. IT Project Execution Oversight	4. IT Staff Management and Development	4. IT Project Execution Oversight
5. Day-to-Day Operational Management	5. Day-to-Day Operational Management	5. CEO/Senior Executive Partnership	5. Day-to-Day Operational Management

Source: CEB analysis.

IT Needs a Strategic Workforce Plan

Without a strategic workforce plan, CIOs will not be able to recruit effectively or develop needed competencies. Effective strategic workforce plans should include the following five steps:

1. Understand change drivers. Identify business goals and external workforce trends by borrowing strategy diagnosis and cascading techniques from the IT strategic planning process or by simply including workforce planning as part of the overall IT strategic plan.

2. Identify impact on IT talent. Establish the resulting talent needs by identifying IT's competency and skill requirements, mapping potential changes in IT roles, and determining whether certain roles can be outsourced.

3. Diagnose talent gaps. Identify gaps in the current roster of IT roles and shortfalls in the 12 competencies.

4. Attract the best talent. Describe how IT is going to combine tried-and-true sourcing channels with less traditional ones to attract high-quality talent, while also defining IT's employment value proposition.

5. Build the best team. Outline programs for high-potential employees; succession planning; and training, coaching, and mentoring.

Learn More About This Insight

Harnessing Business-Led IT

Rebalancing Roles and Capabilities in IT Strategy and Spending

Situation

Nearly two-thirds of business leaders feel that Corporate IT is not effective at providing capabilities for the collaboration, analysis, and mobility needed to improve productivity and achieve objectives.

Insight

Organizations can become more responsive by helping business leaders and employees become more proficient at leading their own technology projects, rather than trying to further increase IT's responsiveness.

Potential

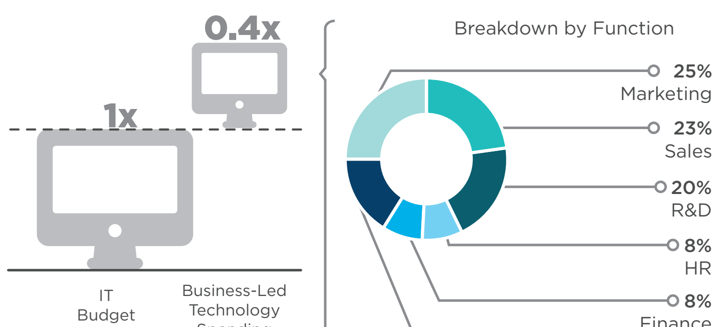
CIOs should treat business-led IT as another, often better, way to achieve the core goals of Corporate IT, allowing companies to exploit technology for competitive advantage like never before.

Business Leaders Looking for Greater Responsiveness from IT

Nearly two-thirds of business leaders feel that Corporate IT is not effective at providing capabilities for the collaboration, analysis, and mobility needed to make employees more productive and achieve objectives.

To achieve their objectives, business leaders are finding innovative new ways to use analytic, social, mobile, and cloud technologies. And as a result, they are reallocating significant shares of their own budgets to technology—up to another 40% on top of the CIO's budget—and blurring the boundary between IT and business responsibilities.

Business-Led IT Spending Equals 40% of the CIO's Budget
IT Spending Owned by Executives, in Addition to the CIO's Budget



n = 165 organizations.
Source: CEB analysis.

Business Led-IT Is Inevitable and a Critical Source of Responsiveness

We believe that the inevitable rise of business-led IT will be beneficial. Because information enables an increasing amount of business outcomes, more than 70% of executives are now willing to run their own technology projects. At the same time, supply-side changes challenge Corporate IT's monopoly as the internal arbiter of technology.

The division of technology responsibilities has blurred as business leaders take a greater role in managing information and as CIOs seek to expand IT's contribution and impact. Although this situation creates risk, it also offers opportunity. Company leadership teams must articulate and shape responsibility boundaries to simultaneously maintain flexibility and accountability.

Business-Led IT Can Be Another, Often Better, Way to Achieve IT's Goals

A lot of business-led IT spending is devoted to employee productivity, but it will yield little unless employees' skills and judgment also improve. CIOs should treat business-led IT as another, often better, way to achieve the core goals of Corporate IT.

They must equip IT employees to be technology coaches, consultants, and advisors and support business-led IT with strong integration and security foundations. All leaders in the corporate center must review their governance policies to reduce friction and better balance risk, cost, and benefit.

Companies that fail to do this will see waste, risk, and lost opportunities from business-led IT. But done well, these actions will allow companies to exploit technology for competitive advantage like never before.

Five Steps to Harness the Full Value of Business-Led IT

The entire corporate ecosystem must evolve to harness value from today's business-led IT. The best companies are taking the following five steps to harness the full value:

1. **Equip executives to exploit business-led IT.** Executives can no longer achieve their objectives without technology and information, so they must learn how to capture value and how to manage the costs and risks. Obtaining new technologies, even in the cloud, requires project and vendor management skills and a new concern for information quality and accessibility.
2. **Exploit innovation and information from partners.** Customers, suppliers, and channel partners all create new technologies and data, while startups offer new routes to market in social and mobile channels. Executives must take the lead in spotting opportunities and devising mutually beneficial ways to gain access to partner technologies and data.
3. **Ensure pervasive technology drives, and does not erode, employees' productivity.** Employees have an unprecedented number of technology choices, particularly when it comes to tools for collaboration, data analysis, and mobility. This abundance creates a workforce primed to experiment with new technologies.
4. **Position corporate IT to educate, integrate, and secure.** Corporate IT strives to help the company get as much value as possible from its technology. The emergence of business-led IT hasn't changed this goal, but it has refined the best way to achieve it. CIOs must refocus Corporate IT's role on educating executives to make the right decisions and on integrating and scaling the resulting capabilities.
5. **Reduce friction from Compliance, Procurement, and Finance.** In the past, functions such as Finance, Procurement, Legal, and Audit have partnered with Corporate IT to ensure technology use was cost-efficient and low risk. Despite these efforts, many companies have experienced cost overruns and data breaches. Although these objectives remain important, the approach must change.

Business Leaders Are Playing a New Role in Technology

"You can't be an effective business leader if you're not versed in technology. Managing technology is my problem, not IT's...just like hiring people is my problem, not HR's."

BU General Manager
Fortune 500 Company

Innovation & Strategy

Pressure for growth has renewed or increased many companies' focus on innovation, while organizations themselves have become more complex. Launching a product or strategy today requires employees to navigate new matrices and layers of internal business partners. To help employees work better individually and together, leading companies are concentrating on the skills and initiatives that help employees collaborate across functions and drive change when needed.

Closing the Strategy-to-Execution Gap

Situation

On average, companies lose nearly 40% of their strategic plans' value during execution. For large organizations, this means hundreds of millions, or even billions, of dollars left on the table.

Insight

The best companies improve execution by spending less time generating organizational buy-in for the strategy and more time unlocking the organizational capacity required to implement it.

Potential

Effectively unlocking capacity can drive 60% greater manager action to align with strategy and also increase execution outcomes by 31%.

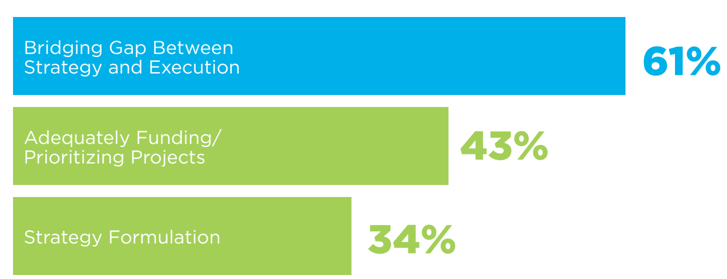
Capacity (ca-pac-i-ty) *noun*

The resources (time, assets, and people) needed to execute new growth initiatives

Poor Execution Puts Strategy Value at Risk

Most strategists cite the inability to bridge the strategy-to-execution gap as the primary reason for failure of new growth initiatives. As companies renew their focus on non-incremental growth within a rebounding economy, strategists must resolve or correct their execution issues or else risk losing ground to the competition.

Drivers of New Growth Initiative Failure
Percentage of Senior Executives Rating Poor Company Performance



n = 587
Source: Bloomberg; "Why Good Strategies Fail: Lessons for the C-Suite," *The Economist Intelligence Unit,* 2013, http://www.pmi.org/~/media/PDF/Publications/WhyGoodStrategiesFail_Report_EIU_PMI.ashx; CEB 2013 Aggregate Analyst Projections Report.

A number of issues and trends have prevented companies from executing effectively in recent years, but none more so than:

- **An Overemphasis on Quick Wins—**Market improvements could distract managers from long-term bets given the ease of "quick wins."
- **Less Employee Bandwidth and Discretionary Effort—**Employees have reported a significant increase in workload following the recession, reducing efforts dedicated to new growth.

Strategists recognize that these operational constraints, particularly at the manager level, are what make executing new growth initiatives difficult. Managers control the required resources and are ultimately responsible for executing a new strategy, but more than 70% of the CSOs we surveyed reported that they struggle to compel managers in their organizations to act on new strategy initiatives. And our research revealed that much of this difficulty stems from strategists approaching managers in the wrong way.

Capacity Is the Most Important Factor

When launching new initiatives, strategists typically see their role as one to generate buy-in and clarify strategic direction, relying on methods such as communication cascades, performance tracking, and deputizing change agents.

Unfortunately, these methods ignore what managers need most to execute a new initiative: capacity. Capacity is the time, assets, people, etc., that managers need to allocate or reallocate to make anything happen, but strategists rarely help managers make these kinds of trade-off decisions. As a result, new initiatives are either held up or abandoned altogether.

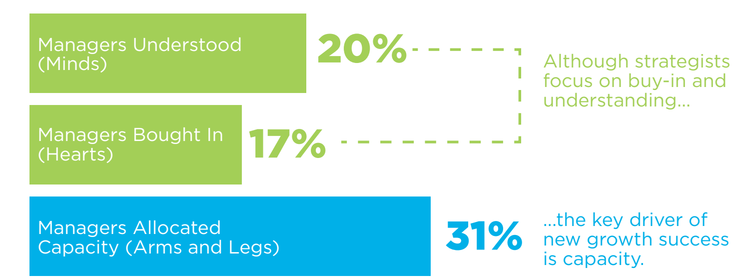
The more strategists can unlock capacity within the organization, the more likely they are to spur managers into action and ultimately get the most value out of their strategic initiatives.

Why Capacity Matters

Effectively unlocking capacity can drive 60% greater manager action to align with strategy and also increase execution outcomes by 31%.

No amount of manager willingness will compensate for fundamental capacity gaps. In a post-2008, resources-constrained world, managers will understand and allocate resources to an initiative only after the strategy team has enabled greater capacity for them to do so.

Drivers of Effective Growth Strategy Execution
Maximum Impact on Execution Success



n = 65.
Source: CEB 2014 CSO Survey.
Note: Percentages based on the percentage improvement in execution effectiveness (assessed based on a scale of 1–7 where 1 = far below expectations and 7 = far above expectations) for an organization moving from the bottom to the top quartile for each individual driver. Each is significant at 95% confidence.

Three Keys to Unlocking Organizational Capacity

To unlock capacity, strategists should focus on the following:

1. **Surface execution barriers at a lower cost.** The best companies leverage existing operational data to pinpoint and better understand the tactical, downstream capacity issues that can throw execution off course.
2. **Depoliticize resource trade-off decisions.** The best companies allow business unit owners to define their own terms of exit so they can make difficult "kill" and divestment decisions, which are necessary to free up capacity.
3. **Build strategic decision-making skills in the line.** The best companies embed the strategists' voice and strategic thinking ability throughout the organization to enhance the staff's ability to challenge assumptions and think strategically.

[Learn More About This Insight]

Unlock the Innovation Potential of Your R&D Workforce

Situation

Technical R&D staff differ in their ability to learn and apply soft business skills. As a result, training and development efforts often lead to a large population of technical problem solvers but few innovators.

Insight

Five behavioral markers can predict R&D staff's innovation potential, and the best companies use those markers to assess and develop their staff to build more effective R&D teams.

Potential

Companies with high-innovation potential R&D workforces have new product sales performance that is 77% better than other companies', on average. For a $10 billion company, that's $1.4 billion in additional new product sales.

R&D Executives Need More Innovators

R&D executives are looking to broaden the skill set of their workforce to deliver more value to the enterprise, but less than 20% of R&D leaders feel their teams excel at the key skills required for innovation.

Although technical expertise and passion for technology are relatively common in the R&D workforce, R&D leaders require more staff who can identify unarticulated customer problems and create novel solutions that resonate internally and in the market.

The challenge is that there is little clarity about what specific attributes are most important for innovation potential.

Five Distinct and Predictive Markers

R&D staff's innovation potential can be measured by assessing their performance on activities that are core to innovation: identifying unarticulated customer problems, developing differentiated solutions, and generating internal momentum for ideas.

Five distinct profiles—groupings of skills, knowledge, and behaviors—emerged from a CEB analysis of 1,900 R&D professionals at more than 40 companies. Each profile, or "marker," has a significant impact on the innovation potential of R&D staff, and collectively the five markers explain over 70% of R&D staff's innovation potential.

R&D staff with multiple markers have higher innovation potential, but they are rare. Fewer than 1 in 10 R&D staff excel at all five markers, and more than 60% excel at none of the markers. The good news is that behaviorally diverse teams—teams whose members collectively excel at four or more of the five markers—make individual staff members more innovative.

Innovation Potential
Staff's contribution to:

- Identifying big problems and high-quality ideas
- Creating differentiated solutions
- Building internal momentum for ideas

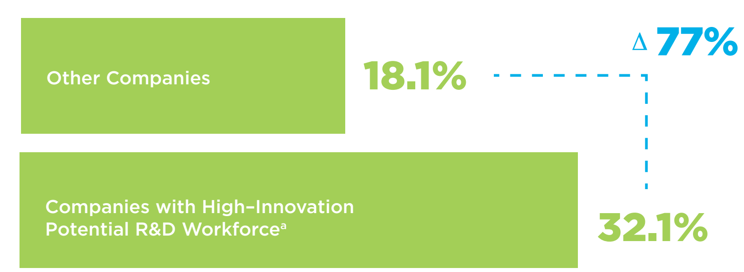
Source: CEB analysis.

To unlock the innovation potential of their workforce, R&D leaders must assess staff and design teams based on these five markers, and managers must continue to foster these behaviors.

Innovation Potential Tightly Linked to Business Success

Companies with high-innovation potential R&D workforces have new product sales performance that is 77% better than other companies', on average. For a $10 billion company, that's $1.4 billion in additional new product sales.

Vitality Index (Three-Year New Product Sales Ratio)
By Innovation Potential of R&D Staff



n = 52 companies.
Source: CEB analysis.
[a] High innovation potential refers to companies in the top quartile of the innovation potential index.

Three Keys to Unlock R&D Staff's Innovation Potential

To successfully unlock the innovation potential of the R&D workforce, R&D executives should focus on the following:

1. **Identify the five markers in the R&D workforce.** Be more systematic and targeted when measuring desirable skills and competencies.
2. **Use the five markers to design optimal teams.** Create incentives for team behavior and strengthening collaboration and diversity of behavioral competencies.
3. **Build an R&D leadership environment that nurtures innovators.** Provide R&D managers with opportunities to demonstrate leadership and neutralize their own behaviors that disempower innovators.

Learn More About This Insight

Building and Sustaining a Culture of Quality

Situation

Quality leaders are in a new era of risk, in which productivity demands make errors more likely to happen, and social media and increased regulatory oversight make those errors more likely to be noticed.

Insight

The best companies embed quality values into the underlying culture so that employees take more independent ownership of quality in their work. This approach both reduces the risk for errors and creates new value.

Potential

For every 5,000 employees in a company, building a strong culture of quality can result in savings of up to $67 million in the form of recaptured employee productivity.

"Do More with Less" Puts Quality at Risk

Mandates to "do more with less" have increased the likelihood of errors from strained employees trading off quality to meet productivity expectations. At the same time, social media and online review forums have given customers access to more information than ever before, which accelerates both the likelihood and speed of quality issues being exposed.

The conventional response to these trends has been to define quality rules and requirements for employees to follow using tools such as QMS or work process design. Although these approaches help employees follow procedures, they do little to motivate them to go above and beyond. As the scope of what companies and customers consider to be a quality error expands, it will become increasingly challenging to account for all scenarios—for all employees—in which quality may be important.

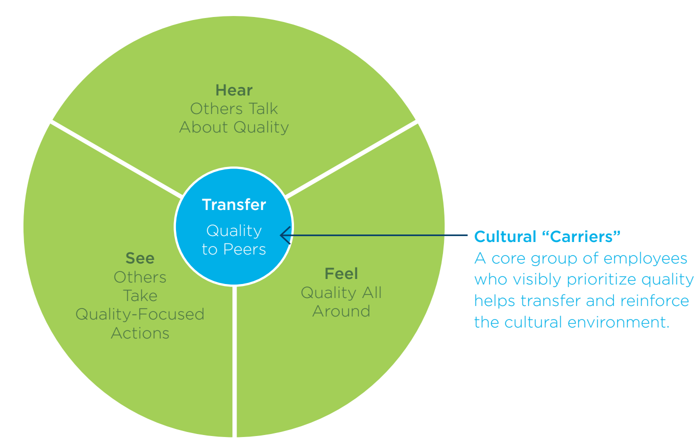
From Following Quality to Living Quality

To help employees independently meet higher expectations, Quality organizations need an environment where employees "live" quality in all of their actions, beyond what is directly prescribed for them.

To accomplish this, leading organizations ensure that quality is a strong element of the company culture; they build a culture of quality, which is defined by four characteristics:

1. Employees can **hear** others talk about quality.
2. Employees can **see** others take quality-focused action.
3. Employees can **feel** quality all around them.
4. Employees actively **transfer** the quality mind-set to others.

CEB's Culture of Quality Model



Source: CEB analysis.

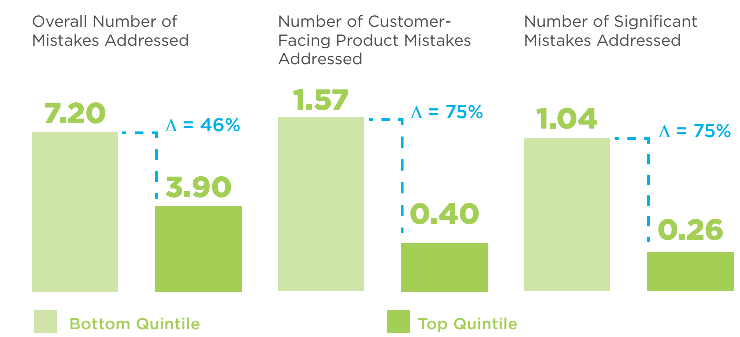
Unfortunately, most companies have a long way to go; 60% of surveyed Quality employees say they work in an environment with a weak culture of quality.

A Strong Culture of Quality Pays

For large organizations, the time and money spent on fixing errors can be significant. Within strong culture of quality environments, employees address 46% fewer overall mistakes, 75% fewer significant mistakes, and 75% fewer customer-facing product mistakes.

That means, for every 5,000 employees, building a strong culture of quality can result in savings of up to $67 million in the form of recaptured employee productivity.

Culture's Impact on Mistakes Addressed by Employees
Weekly Average per Employee



Source: CEB analysis.

Four Areas of Focus for Quality Leaders

To reduce the risk of quality errors, companies should invest in projects that support the key drivers of a strong culture of quality:

1. **Leadership Emphasis—**Partner with leaders to increase self-awareness of their quality behaviors and drive improvements when behavioral gaps exist.
2. **Message Credibility—**Put employees at the center of their quality messaging strategy, and appeal to employee motivations and preferences.
3. **Peer Involvement—**Highlight employee-led quality initiatives across the business to help maintain authenticity.
4. **Employee Ownership—**Provide targeted guidance, and clearly articulate the personal impact of a quality focus.

Procurement & Operations

As cost and productivity expectations persist, many functions are rethinking the way their work gets done to remain both efficient and innovative. But not all business partners may welcome these kinds of transformations. To stay progressive, the best companies enable employees to exercise greater influence over internal clients and alter the entrenched views their function.

Achieve More Consistent Procurement Influence

Situation

Procurement staff face an uphill battle when trying to influence stakeholders on noncore activities, such as innovation or penetration of more complex and emotional categories.

Insight

To increase influence, leading CPOs are shifting their focus not only to developing influence skills but also to making it easier for staff to apply those skills.

Potential

Procurement organizations in which staff can influence business partners realize 4.4x greater savings and execute a higher proportion of noncore procurement projects than the average function does.

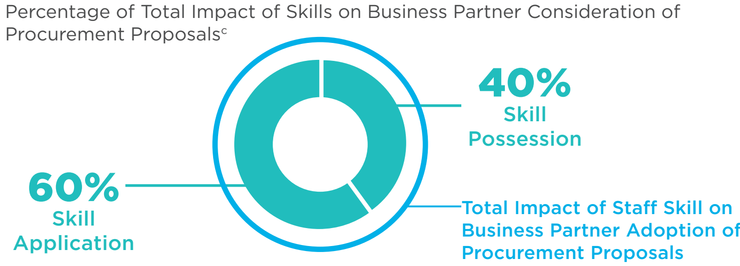
Perception Is Slowing Procurement's Progress

Business partners' dominant and prevailing view of Procurement as the purchasing and savings engine of the business continues to limit the scope of the function's influence. As CPOs and their staff seek to transition into more complex projects, the business often resists due to lack of awareness and skepticism of their capabilities. In fact, a CEB survey reveals that only 32% of business partners agree or strongly agree that they would consider unsolicited proposals from Procurement.

To increase Procurement's influence, CPOs primarily focus on skill upgrades and development to help staff build solid relationships within the business and the performance track record to sustain those relationships. The problem is that the development of influence skills makes up only 40% of Procurement's ability to get business partners to adopt its proposals. What truly makes the difference is procurement staff's ability to actually apply those newly honed influence skills.

Relative Contribution of Skill Possession[a] and Skill Application[b] to Business Partner Adoption of Procurement Proposals

Percentage of Total Impact of Skills on Business Partner Consideration of Procurement Proposals[c]



n = 146 procurement staff.
Source: CEB 2013 Procurement Influence Survey.
Note: Statistically significant at 99% confidence level.

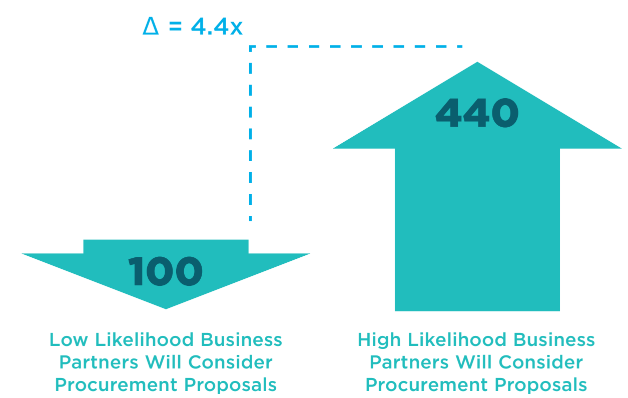
[a] Skill possession was measured using senior procurement executive classification of staff performance as high.

[b] Skill application was measured using procurement staff responses to the question, "In the past 12 months, approximately how many projects did you choose to not present to your internal business partners because you felt they would be unlikely to consider it in their decision process?"

[c] Staff skill can explain approximately 9% of a business partner's overall likelihood of adopting procurement proposals. Analysis was done using relative weight analysis, which captures the percentage each independent variable contributes to the overall R-squared explained by the two variables combined.

Savings Impact of Business Partners Considering Procurement Proposals

Indexed Annual Millions of US Dollars, Differences Between Median Reported Savings[a]



n = 59 senior procurement executives.
Source: CEB 2013 Procurement Influence Survey.
Note: Statistically significant at 99% confidence level.
[a] Statistically significant at 97% confidence level.

Internal Influence Requires Above-Average Effort

Procurement staff are more likely to have influence skills than staff in most other corporate functions due to the considerable time they spend crafting and selling strategies to internal and external parties. But given business partner assumptions about Procurement's role, gaining additional influence requires staff to put forth more effort than would typically be required to do their jobs well.

Unfortunately, data suggests that procurement staff are unwilling to exert this extra effort, particularly when the rewards for doing so are uncertain. If CPOs want to overcome their staff's low discretionary effort, they must shift or renew their focus on the managerial activities that best engage employees and support the application of their influence skills.

A Clear Payoff to Increased Influence

Procurement organizations in which staff can influence business partners realize 4.4x greater savings and execute a higher proportion of noncore procurement projects than the average function does.

Three Actions to Drive Staff Application of Influence Skills

Leading procurement organizations invest in three activities to reduce the effort required to engage business partners:

1. **Provide influence tools and support.** Craft priority maps and success stories to help staff prepare for discussions with stakeholders.
2. **Design staff roles to enable application and influence skills.** Mobilize staff to influence the business by aligning role requirements to skills and motivating staff to apply those skills.
3. **Cultivate a functional image that opens doors for staff influence.** Challenge business partners' perception of Procurement and target their objections by creating memorable images of the function that staff can easily reinforce.

Learn More About This Insight

Market Insights

In today's information-saturated environment, business partners make poor decisions 50% of the time. Market Insights can help, but current efforts are falling short. Leading functions assist business partners with multiple sources of data in a way that is more scalable and better suited to meet their needs.

The Future of Corporate Insights

Situation
Decision makers are casting a wider net to gather information that will provide them direction, but most struggle to make sense of the information they have access to.

Insight
Market insights functions can deliver more business impact through multisource synthesis and greater political navigation.

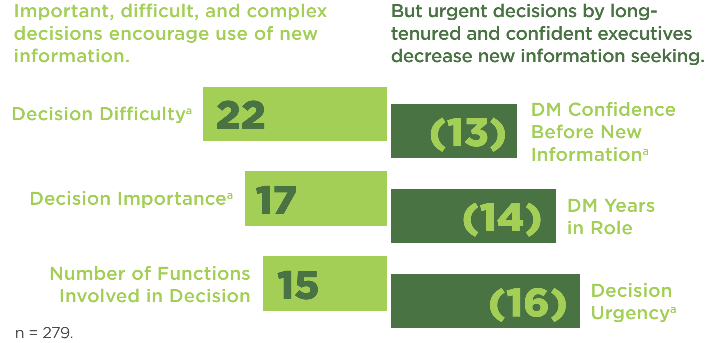
Potential
Better enable decision makers to act on a consistent, insightful understanding of customers and the marketplace.

Core Market Researcher Skills
- Insight Generation
- Business Problem Solving
- Influence
- Communications
- Synthesis

Information Overload
Market insights (MI) functions are delivering powerful insights but aren't achieving the results those insights deserve. For example, only 40% of senior executives say they have the information they need to be customer focused, and on average the most valuable insights yield only 37% of their potential benefit.

A few dynamics are making senior executives' job harder—notably, most customer-related decision making now happens on short notice outside the settings that MI professionals are used to. Further, although traditional MI functions are best positioned to answer important, difficult, and complex decisions, shorter-term decisions are made every day by executives using "found" sources. We discovered that the majority of decision makers considered eight or more sources for a given decision. In addition, the perceived number of individuals involved in decision making is increasing, adding to the complexity of insight activation for the function.

Drivers of and Barriers to Information Use
Change in Percentage of New Information Used in Decision



n = 279.
Source: CEB 2011 Customer Focus Survey.
[a] Assessed on 1 to 7 scale.

Learn More About This Insight

"I normally don't bother with research because most of my timelines are under six weeks. It's a shame, but it just won't come in any faster."

Director of Product Marketing
Financial Services

Boosting Impact
Across the next few years, the MI function should focus on three aspects to stay relevant and boost impact:

- **Multisource Synthesis Capability—**Responding to business partners' often unstated need for synthesis, MI teams must develop expertise in new sources and create processes for integrating them into their work, all while continuing to use traditional market research tools to a high-quality standard.
- **Insights with the Customer at the Center—**Most folks agree on the definition of "insight": finding the relationship or meaning with diverse sets of data that promises significant business impact. But you can't stop at developing a great insight; you must tell a story by putting the customer at the center. Push yourself beyond the observed behavior to really understand the underlying attitudes and beliefs of the customer.
- **"Activist" Role Within the Function—**The complexity of decision making in large organizations makes it exceptionally difficult to drive action on MI's most valuable insights. Improve your influence on the organization by understanding the politics of decision makers and taking an activist role to sell and defend your insights—even when they run counter to business partners' current understanding.

A Vision for Success
To be successful, MI functions must leverage data sources to provide the organization with a more integrated and comprehensive view of the customer and marketplace—all while supporting faster turnaround needs and aligning with the most strategic and valued organizational opportunities.

Where Insights Team Should Focus in 2015

Objective	Action
Capitalize on "found" sources of data to understand customer/market behavior.	Explore opportunities to leverage "big data" sources (e.g., analytics, social media, POS data).
Provide the organization with a more integrated and comprehensive view of your customer/marketplace.	Improve collaboration across organizational data source owners.
Get the most from past research investments and support fast turnaround needs.	Compile and package foundational knowledge.
Ensure the insight function aligns to the most strategic and valued organizational opportunities.	Build stronger business acumen across various organizational functions that benefit from inputs from Research.

Source: CEB analysis.

B2C Marketing & Service

Consumer preferences and trends are evolving rapidly. Many brands are struggling to keep up and are losing ground as consumers demand higher levels of service through a more digital experience. Making matters worse, these changes are driven by a massive generation that is notoriously difficult to engage. Winning consumers over today requires building new capabilities that make brands more agile and provides deeper, more intimate knowledge of buyers.

Rethinking the Live Service Interaction

The Hidden Side of Customer Expectations

Situation

Despite significant investments in improving the live customer interaction, service organizations are only keeping pace with rising customer expectations of service.

Insight

By focusing solely on the live interaction itself, service organizations are missing more than 50% of what drives positive customer outcomes. The best companies also examine and address what happened prior to the customer's call.

Potential

Companies whose service reps effectively surface and address pre-interaction factors, such as customer perception and past experience, can see a 40% or greater improvement in customer outcomes.

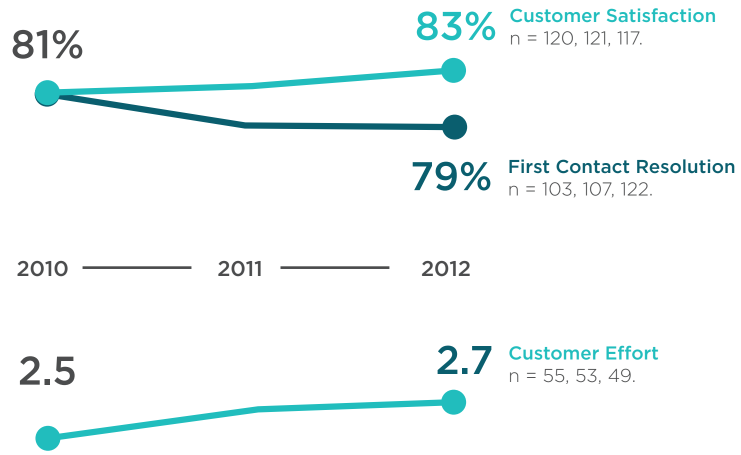
Service Organizations Are Just Keeping Up

Service organizations are increasingly using customer feedback and speech or text analytics to assess the quality of their live customer interactions, and they are investing in new processes, technology, or culture change initiatives to improve the experience for their customers.

Although these efforts have marginally improved customer outcome metrics (e.g., first call resolution, customer effort, customer satisfaction), customer expectations of service interactions have risen while issues have become more complex.

As a result, service organizations are simply keeping up with but not exceeding customer expectations.

Customer Experience Metric Trends
2010–2012



Source: CEB 2010–2012 Customer Contact Center Cost, Productivity, and Quality Benchmarking Survey.

Customer Baggage

A customer's past experiences, perceptions, or facts that occurred before the interaction

The Past Matters for Customers—a Lot

Customers do not begin each service interaction with a clean slate; they carry with them memories of past experiences and their own perceptions. We call this history "customer baggage," and it greatly colors the customer's expectations heading into a service interaction.

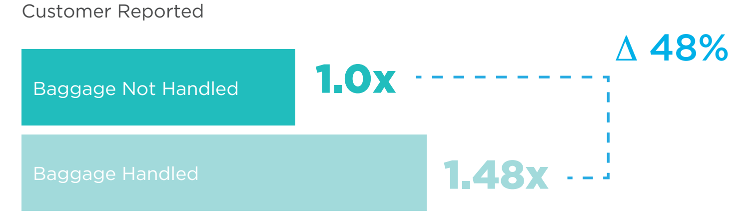
Customer baggage accounts for 53% of the customer's assessment of the live interaction, yet most companies still focus intently on improving the live service interaction. Instead, reps should be equipped to handle contributing factors, such as the customer's perceived value of the company or information the customer has already received about their issue.

The good news for contact center leaders is that many service reps already demonstrate baggage handling behaviors, whether they realize it or not, and say it is relatively easy and rewarding to do so.

The Return on Baggage Handling

Companies whose service reps effectively surface and address pre-interaction factors, such as customer perception and past experience, can see a 40% or greater improvement in customer outcomes.

Customer Interaction Outcome Index
Customer Reported



n = 1,202.
Source: CEB 2014 Customer Service Experience Survey.

Two Imperatives for Service Leaders

Although customer baggage occurs outside of the service interaction, reps can successfully leverage information about it to position and tailor their customer conversations. To improve the service experience, contact center leaders must:

1. **Enable reps to handle customer baggage.** Design internal systems to highlight relevant customer baggage information already captured by the company.
2. **Reinforce baggage handling as a standard activity.** Coach reps to use the information they have to tailor interactions, and create incentives to record surfaced information for future interactions.

Closing the Digital Gap

The Relevance Consumers Demand at the Scale Marketing Needs

Situation

Marketing's digital savviness is rapidly falling behind that of consumers.

Insight

Leading companies are rewiring their marketing systems, including core processes, the talent mix, and overall structure.

Potential

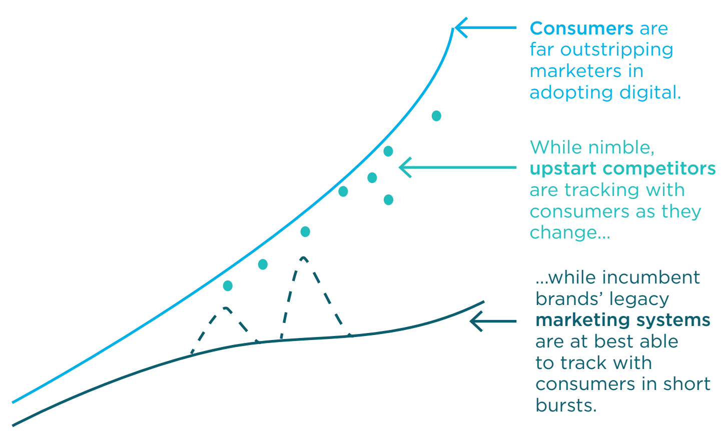
Brands are able to succeed in a fast-paced, networked world while still retaining the ability to scale.

A Different World

Consumers are engaging more with digital media than with traditional outlets such as television. We can expect consumers to lead marketers in technology adoption, but the gap between them has widened considerably in recent years. With their superior use of social media, fast-moving upstarts are building a deeper understanding of niche segments and picking them off—threatening incumbent brands' relevance, influence, and, ultimately, share.

Marketers are moving from digital marketing to marketing in a digital world. They know they need to break the trade-off between scale and relevance but are struggling to get there using their current marketing systems.

Digital Savviness Level, Consumers Versus Marketing
Illustrative



Source: CEB analysis.

> "We're great at being big—playing the mass game with big segments. We're not good at being small, and it's putting us in a tough spot with important consumer niches."

Chief Marketing Officer
Fortune 100 Consumer Goods Brand

The Failure of Bolt-Ons

Most marketing leaders are trying to boost their teams' digital capabilities with fresh talent and new processes. They're tapping specialist digital agencies to cover skill gaps and to respond more quickly to fast-changing opportunities. Progressive marketing leaders are discovering that despite skill and process upgrades, other aspects of the legacy marketing environment get in the way—from cumbersome agency interactions to complex internal dealings with consumer-facing groups in their firms. They're trying to transform the function's operating model to match today's faster-moving digital consumer by aggressively experimenting with new marketing models for faster execution and looking to consumers themselves for digital content creation.

A Fresh Approach

Our research uncovered a small set of marketing functions that are making real progress in keeping up with consumers. They are completely rewiring their marketing systems to capture scale through the extension of earned, shared, and owned media, with paid media playing a supporting role. These teams are changing their structure, planning, and ways of working to mesh with the uncertain, fast-paced, networked world while still retaining the ability to scale. These successful functions employ what we call a "discovery-based system" instead of the old delivery-based model to break the relevance-scale compromise.

The four elements of the discovery-based system—open creation, uncertainty management, "free" leverage, and shared vision—are the traits of the marketing systems we need to be building.

New Rules

Marketing System Element	Benefit	
Open Creation • Co-Creative Posture • Vibrant Partner Ecosystem	• Ability to combine scarce skill sets to create differentiated, relevant executions • Faster speed to market by removing guesswork and iterations • Higher authenticity via credible partners	Relevance
Uncertainty Management • Contingent Decision Making • Tolerance for "Good Enough" • Resource Mobility	• Ability to launch executions quickly, then react and optimize	Relevance
Shared Vision • Brand Shared Values • Common Waypoints (e.g., narrative arcs, tech roadmaps) • Group Mental Models	• Keeps an agile, fast-moving marketing system focused on the consumer and moving the needle for the business	Focus
"Free" Leverage • Consumer or Third-Party Mobilization • Automation	• Force multiplier that keeps costs down while delivering broad reach and deep impact	Scale

Source: CEB analysis.

Inside the Millennial Mind

Situation

Brands are finding millennials tough to engage, difficult to win over, and impossible to turn into brand loyalists.

Insight

Organizations need to tap into the core values that resonate across this highly varied spectrum of consumers.

Potential

Standing 80 million strong and just entering their years of peak purchasing power, millennials are either the lifeblood of a successful brand or will be very soon.

Missing the Mark

Organizations are closely watching the rapid rise of the millennial generation and recognize their growing influence in the marketplace. Although brands and agencies may already be aware of this segment's power, most are still missing the mark when it comes to execution.

Why Millennials Matter

Age: **19–36** in 2014

Ext. spending power: **$1.6** trillion

Market Size: **80** million

Ext. discretionary nonessential spending **$430** billion

While millennials may be a remarkably difficult cohort to capture, ignoring them just isn't an option. Standing 80 million strong and just entering a period of peak purchasing power, millennials are a successful brand's lifeblood, or they will be very soon.

Source: CEB analysis.

Making the Millennial Connection

Brands are simply trying too hard; emphasizing hype and overextending in areas that are not in sync with their unique value set. Millennials sift through the marketing hype and engage with brands that don't just complement but also add value to their current lifestyle. To succeed, marketers must address what millennials want. They search for brands that:

- **Help Them Do Something—**Act as a tool to enhance their lifestyle.
- **Positively Disrupt the Status Quo—**Step out of the box, but not simply for the sake of it.
- **Fold into Their Lifestyle—**Fit into their established lifestyle; don't push a lifestyle on them.
- **Encourage Participation—**Provide forums for consumer contributions without requiring it.
- **Engage Instead of Advertise—**Talk with consumers instead of at them.
- **Have an Authentic Brand Identity—**Know their brand values and stay true to them.

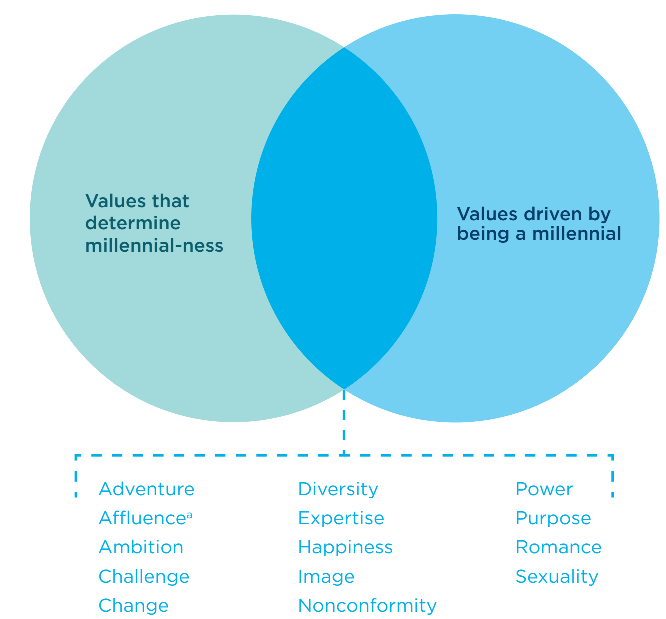
When brands market by addressing real consumer needs, it becomes easier to truly satisfy demanding millennials and also to transform them into powerful advocates.

Brands that let the millennial generation slip away risk losing touch with one-quarter of the US population—which now makes up the majority of first-time homebuyers and new parents and is responsible for approximately $1.68 trillion in annual consumer spending. Brands that default to stereotyping the millennial generation face the dual threats of irrelevance and outright backlash from this undeniably skeptical and socially vocal generation.

Embrace Specificity

The smartest way to market to the millennial generation—defined by its diversity—is to embrace specificity. Only by being hyper-specific in word (marketing messaging) and deed (product and service features) with an eye toward the underlying values and cultural forces common to all millennials can your brand convey the authenticity and honesty treasured by this demanding consumer cohort.

Millennial Core Values
List Based on Regression Analysis



Source: CEB 2013 Values and Lifestyle Survey.
[a] Our Values and Lifestyle Survey measures three types of affluence: luxury; pride and respect; and, safety and security. Affluence measured as pride and respect is a millennial core value.

Sales & B2B Marketing

As deal complexity has risen, so too has customers' risk aversion and the number of stakeholders dedicated to a given purchase. Leading marketing and sales teams build consensus among diverse groups by tapping into the right values and fostering an environment of collective learning.

Consensus Marketing

How to Motivate Buyers to Win Group Purchases

Situation
Marketers are pumping up their value propositions to build preference among all members of growing buying groups.

Insight
In large groups, desired purchases often fail because no one takes on the personal risk or effort of driving purchase consensus.

Potential
Demonstrating identity value to customers drives commercial outcomes more than any other type of B2B value.

A Complex World

Suppliers report a range of commercial problems, namely stalling leads, discounting, and low rates of cross-sell and upsell. The underlying reason is that bigger, more diverse buying groups can't agree. As a result, they either give up on making any purchase at all or default to the smallest change and the lowest cost.

Due to increased competition and better-informed customers, B2Bs also find it increasingly hard to differentiate their products. Business value only gets you consideration—not preference. Buyers consider only suppliers who meet a minimum level of business value, and they don't care about extra value beyond that.

The True Motivator

There are three types of B2B value:

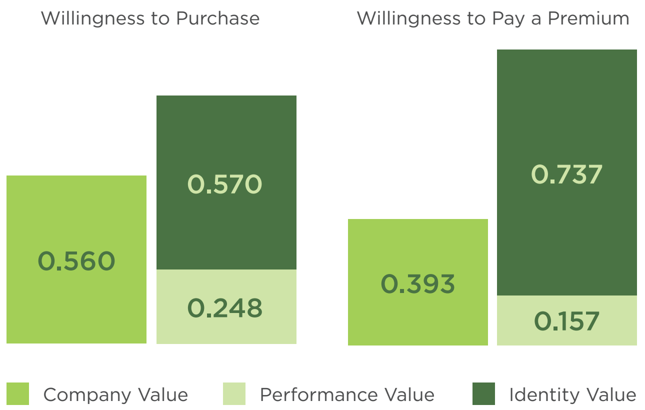
- **Company Value ("My Company")**
  This value for the organization justifies the business decisions.
- **Performance Value ("My Work")**
  Value related to the work experience
- **Identity Value ("Myself")**
  Value to "me" and others (e.g., social needs and the need for self-esteem)

Most suppliers focus on company value with recent moves toward performance value. Identity value remains largely untapped, yet it motivates buyers to drive consensus. That's because B2B buying is highly emotional: buyers take on a lot of personal risk and need a clear personal reward.

Identity Value

- Pride in my work
- Respect from others
- Career advancement
- Belonging to a community
- Popularity with team
- Helping team and pleasing others
- Optimism/happiness about work

Impact of Perceived Types of Value on Purchase and Premium
Buyers Who See Basic Company Value[a]



n = 1,047.
Source: CEB 2014 B2B Value Survey.
[a] Scores of six or seven out of seven for "This supplier is reliable," This supplier has the features we need," "This supplier meets industry standards."

The Path to Consensus

To combat purchase stalls and discounting, B2B suppliers must motivate buyers to advocate on their behalf by showing personal value for buyers as individuals, not just for their company (e.g., ROI, better business outcomes).

To drive preference, the best marketers are:

- Highlighting the personal impact of their commercial insights,
- Building experiences or add-on services that provide personal value for multiple purchase stakeholders, and
- Ensuring emotional consistency across early- and late-stage communications and brand experiences.

Demonstrating Identity Value

The best companies follow three key steps to demonstrate identity value:

1. Understand Identity Needs

- Prompt customers to open up.
- Use low-cost techniques to find shared identity needs.

2. Communicate Identity Value

- Test customer sensitivity to personal messages.
- Translate identity needs into appropriate business terms.

3. Delivery Identity Value

- Update the customer experience to address identity needs.
- Brainstorm add-on services that could provide identity value.

Throughout these steps, build identity needs into commercial insights through epilogue.

Creating Customer Consensus

Guiding Diverse Stakeholders to Recognize Greater Common Value

Situation

Today's B2B purchases are made by large groups of highly diverse stakeholders.

Insight

Dysfunction—not diversity—is the real problem plaguing today's B2B purchases.

Potential

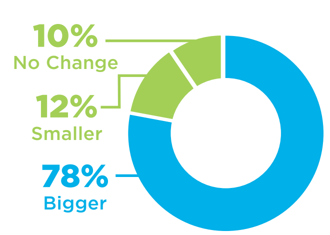
Reps who mitigate group dysfunction and facilitate collective learning are seeing a tremendous impact on winning high-quality deals.

More People, More Views

A growing number of more diverse stakeholders (e.g., different functions, agendas, goals, interests) is involved in making today's B2B purchasing decisions. The result is a dramatic rise in customer consensus requirements, which causes stalled deals, marginalized deals, and very conservative purchasing. The traditional approach to building consensus is 1) accessing stakeholders individually, and 2) positioning the supplier's offering to meet individual stakeholder needs.

As stakeholder diversity increases, customer buying groups become increasingly dysfunctional. They struggle to find commonality when deliberating a purchase and often default to the lowest common denominator or price in their evaluation. By appealing to each and every individual's needs in a purchase, sellers inadvertently drive stakeholders apart instead of together.

Change in Number of Customer Stakeholders Required to Close a Deal



n = 51.
Source: CEB 2013 Member Poll.

Q: "How Many People Are/ Were Formally Involved in This Purchase Decision?"

The average B2B decision-making group includes **5.34 buyers.**

n = 3,000.
Source: CEB/Motista 2013 B2B Value Survey.

Learn More About This Insight

Collective Learning

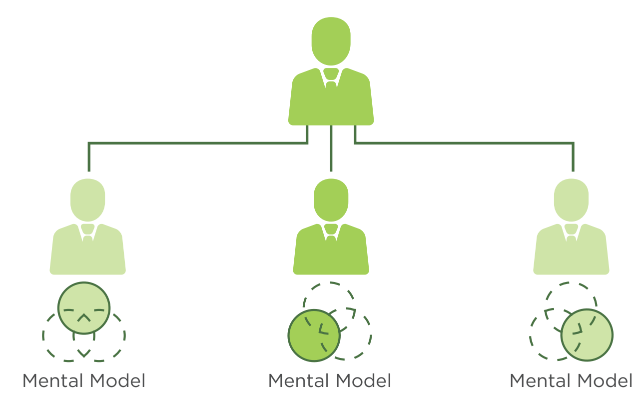
- Tremendous impact on winning high-quality deals
- Reduced group dysfunction by over 30%
- Fosters an environment for stakeholders to rally around a common goal or action

Building Consensus

Sellers must mitigate group dysfunction and create a shared vision among naturally diverse stakeholders. The healthiest groups exhibit "collective learning": a very open, healthy debate and exchanging of views, biases, and assumptions that help the group agree on an idea. The best sellers either:

1. Create collective learning for the customer or
2. Leverage a mobilizer within the customer account to create collective learning.

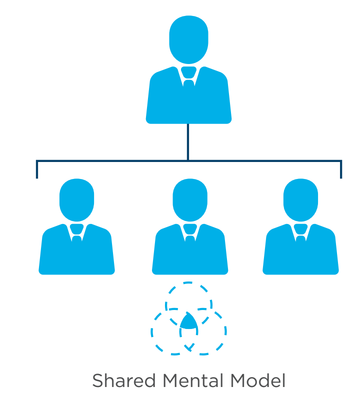
Traditional View of Building Consensus



Collection of "Yeses"

- Gain access to individual stakeholders
- Position offering to meet individual needs
- Leverage supporters to make the case and win over individual stakeholders

New View of Building Consensus



Collective "Yes"

- Enable reps to facilitate collective learning
- Arm and coach mobilizers to facilitate collective learning
- Engage and neutralize the impact of blockers in low-risk ways

Source: CEB analysis.

Communications

Influencing stakeholder perceptions has never been more challenging for communicators, who struggle to compete with an ever-increasing volume of voices, channels, and messages. To change critical perceptions, the best teams focus on strategic management of what happens after they break through the noise.

Changing Critical Perceptions

Creating Content That Influences Information-Saturated Audiences

Situation
Most teams are trying to connect with more audiences, in more ways, more often and are adding a wide variety of nontraditional channels—with little success.

Insight
Focus on listening and understanding stakeholders' motivations and information context to provide targeted content.

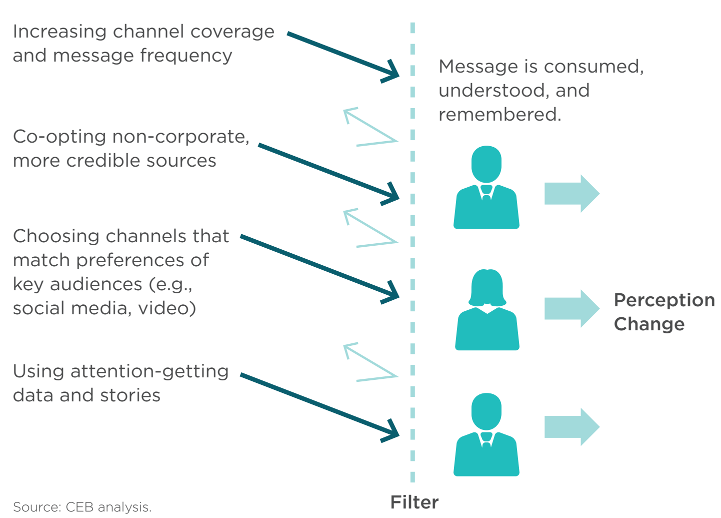
Potential
Effectively change perceptions and meaningfully shape the conversation.

Competing for Influence

In an environment full of "always on" information streams from more sources on more platforms, Communications' target audience is overwhelmed. And it can seem impossible for corporate messages to compete. Organizations are missing opportunities to shape the opinions of people whose behaviors can support (or derail) company performance.

To cope with the increase in competing messages and the difficulty in getting stakeholders' attention, communications functions are fighting to break through the noise. They are getting messages out faster, in more channels, and in more formats.

Trying to Break Through
Sample Communications Tactics to Change Perception
in an Information-Saturated Environment



Source: CEB analysis.

[Learn More About This Insight]

"We've cut down on press releases in favor of our blog and are getting more third-party endorsement through retweets and likes, but I'm not sure that it's making any difference."

Vice President,
Corporate Communications
Pharmaceuticals Company

Engaging Stakeholders

In their attempts to break through the noise, many communicators overlook what must happen next: effectively impacting the thinking of people who are time-pressed and generally apathetic to corporate messaging.

Research on information processing reveals three essential elements of a persuasive communication:

1. It's framed in terms that are immediately, personally relevant to the target audience.
2. It's simple for the target audience to digest.
3. It contains a logical argument backed up by evidence that makes sense to the target audience.

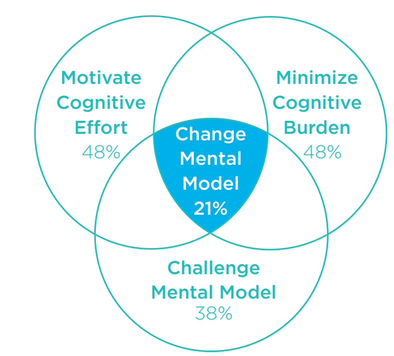
Changing Perceptions

Communicators need to manage three elements of their messaging to change perceptions:

- **Motivate cognitive effort.** Does our content resonate enough with stakeholders to prompt cognitive processing?
- **Minimize cognitive burden.** Is our position/argument stripped of extraneous information and presented in a digestible format?
- **Challenge mental model.** Do proof points and implications hold up to stakeholder evaluation, given existing assumptions and public conversation on the topic?

Our analysis of over 50 PR campaigns revealed that only 21% contained the elements essential for changing perceptions. When trying to change a perception, creating and distributing content lacking any one of these three elements is a waste of time and leaves the company vulnerable to misperceptions.

Percentage of Communications Campaigns with Key Elements[a]



n = 56.
Source: CEB 2014 PR Campaign Analysis.
[a] Campaign scored 3 and above on a 1–5 scale.

Legal, Risk & Compliance

Given the changing impact of information, traditional monitoring processes and technology advancements alone no longer deliver effective identification, management, and prevention of business risks. This change demands the need for early detection and root-cause analysis.

How Audit Can Improve Management of Information Security Risk

Strengthening Assurance Over Information Security Risk

Situation

The speed of information technology advances, ease of access to digital data, and rising, costly cyber attacks have significantly magnified the information risks for today's business landscape.

Insight

A large proportion of root causes that define information security failures can be linked to poor governance, insecure behaviors, and insufficient risk sensing across the organization.

Potential

Leading audit executives increasingly focus on identifying the root causes of uncoordinated governance and insufficient awareness of information risk—rather than the traditional method of only assessing IT technical controls and deficiencies.

What's at Stake

Information security budgets of large companies have allocated 21% to technology spending, yet only 2% to end-user awareness and training.

Forty-eight percent of security incidents are caused by human error.

Increased Information Access Demands Audit Focus

Several factors have amplified risk in today's business landscape including effortless access to digital data, the speed of technology innovations, and the number of increasingly costly cyber attacks.

A Rising Issue

Despite increased audit dedication to information security risks in recent years, 77% of audit executives reported substantial information security–related issues in 2013, coupled with a 40% increase of information security incidents from 2012 to 2013. Regrettably, only 14% of chief audit executives (CAEs) are strongly confident in management's ability to minimize these risks.

Most CAEs handle information security risks through audits of specific IT areas using deep, often co-sourced, subject matter expertise. These audits primarily focus on technical controls but often fail to assess the overall control environment and do not consider the full business cost of reducing risk.

Find the Vital Root Causes

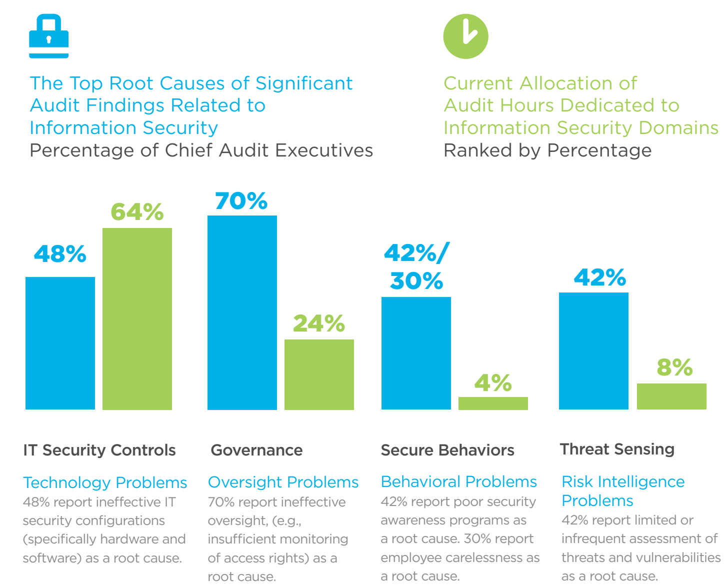
A large proportion of root causes that define information security failures can be linked to poor governance, insecure behaviors, and insufficient risk sensing across the organization.

Widen the Gap

Technical security controls often fail to offer effective protection because they have a short lifespan, do not match emerging threats, and are frequently circumvented by employees. Audit's fixation on the effectiveness of IT security controls largely misses the root causes of information security vulnerabilities.

> "Information security is no longer just IT security. Technology certainly matters, but for us to be resilient, better governance and a strong security mind-set will be critical."
>
> Chief Audit Executive
> Global Energy Company

The Resource–Root Cause Mismatch



Source: CEB 2014 IT Audit Benchmarking Survey.
Note: Totals do not add up to a 100%. Respondents were allowed to indicate their top three root causes.

Broaden Audit's Lens

Leading audit executives increasingly focus on identifying the root causes of uncoordinated governance and insufficient awareness of information risk—rather than the traditional method of only assessing IT technical controls and deficiencies.

Expand Coverage to Discover Correlation

The effectiveness of Audit's information security assurance is uncertain, raising important questions for CAEs. While technology controls cannot be ignored, an increased focus on overall information security risk management must be addressed.

Deliver Reliable Assurance

To successfully achieve increased focus on overall information security risk management, audit teams must:

1. Ensure proper information security oversight.

- Assess effectiveness of risk governance.
- Improve operational decision making (most notably for business-led IT).
- Drive consistency in security practices across the enterprise.

2. Assess employees' information security mind-set.

- Evaluate which secure behaviors matter most for your organization and how security awareness programs help drive responsiveness to the actual issues.

3. Improve emerging threat sensing and response.

- Validate the robustness of your company's risk sensing process and whether management's response plans strike the right balance between prevention and detection of a new threat.

Learn More About This Insight

Advance Identification and Prevention of Compliance Risks

Building Predictive Compliance Monitoring Program

Situation

Constant changes in business operations and growth strategies profoundly impact risk management and heighten the need for effective compliance monitoring.

Insight

The cost of noncompliance rises rapidly over time, making early detection through effective monitoring critical to a company's bottom line and overall reputation.

Potential

Leading compliance executives replace traditional activity-focused metrics with forward-looking key risk indicators (KRIs) to monitor the root causes of operational and behavioral noncompliance, yielding significant risk reduction.

Business Impact

Companies with the best compliance monitoring programs reduce employee observations of misconduct by 9% and increase employee reporting by 41%.

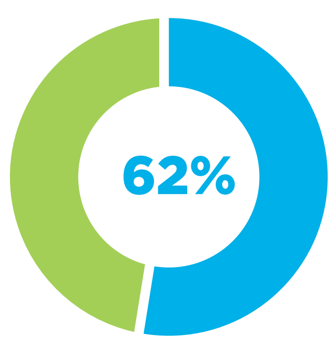
A Changing Business Landscape Calls for Improved Compliance Monitoring

There is an enhanced need for effective compliance monitoring due to steady changes in business operations and growth strategies which profoundly impact risk management.

Lack of Program Maturity

Only 33% of compliance executives believe their monitoring program effectively mitigates risk.

Most companies are good at tracking compliance activities and conducting periodic risk assessments, but such traditional monitoring efforts are ineffective at identifying employee susceptibility to noncompliance, compliance program strength, and emerging risks across the enterprise.



...of compliance executives believe strong compliance measurement and monitoring are essential to program effectiveness.

...possess consistently mature processes.

Source: CEB analysis.

[Learn More About This Insight]

> "It's easy to talk about risks in theory, but to accurately risk assess, you have to think about touch points in business activities where risk is likely to occur."

Senior Manager, Compliance Risk
Assessment and Risk Oversight
Pharmaceuticals and Biotechnology Company

Realizing the Cost of Noncompliance

The cost of noncompliance rises rapidly over time, making early detection through effective monitoring critical to a company's bottom line and overall reputation.

The Value of Prevention

The most significant instances of noncompliance exhibit early signs that went undetected or unheeded. This failure causes many organizations to incur heavy regulatory fines, internal remediation costs, legal fees, decreases in stock value, declined employee integrity, and reputational harm.

On average, preventing an instance of noncompliance saves a company $5.7 million in costs associated with fines and settlements.

Developing Leading Indicators to Advance Effective Compliance Monitoring

Leading compliance executives replace traditional activity-focused metrics with forward-looking KRIs to monitor the root causes of operational and behavioral noncompliance. They also use an early warning system to enhance real-time visibility, enable mid-course corrections, and support confident risk reporting.

Root Causes Are the Path to Prediction

Root causes are the most effective warning signals of compliance failures. They provide executives with early insight on the conditions that foster and enable risk events. Understanding the root causes of compliance failures is the foundation of a predictive monitoring system.

The most common causes of compliance risk include:

- Corporate culture,
- Process complexity, and
- Career moments (corporate/cultural, compensation, and role changes).

Adopt Four Core Capabilities for Successful Predictive Monitoring

Leading companies build a successful predictive monitoring system by harnessing four core capabilities:

1. Identify the root causes of risk.

- Conduct root-cause analysis of noncompliance, focusing on cultural risk drivers.
- Categorize root causes to prioritize the most significant risks.

2. Translate root causes into risk indicators.

- Create measurable KRIs by systematically translating root causes into specific, quantifiable metrics.

3. Embed risk indicators into existing workflows.

- Build information-sharing protocols among internal partners.

4. Drive business accountability for risk mitigation.

- Instill business leader support for KRI monitoring and mitigation by providing tools to ease the burden.
- Ensure efficacy of corrective action plans.

About CEB

CEB, the leading member-based advisory company, equips more than 10,000 organizations around the globe with insights, tools, and actionable solutions to transform enterprise performance. By combining advanced research and analytics with best practices from member companies, CEB helps leaders realize outsized returns by more effectively managing talent, information, customers, and risk. Member companies include approximately 90% of the Fortune 500, more than 75% of the Dow Jones Asian Titans, and 85% of the FTSE 100. More at cebglobal.com.

16,000+
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110+
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10,000+
Organizations

85%
of the FTSE 100

More than
75%
of the Dow Jones Asian Titans

300,000+
Business Professionals

Approximately
90%
of the Fortune 500

Products & Services

Best Practices & Decision Support

Thirty years ago, we realized that the most pressing challenges facing business leaders everywhere had often already been addressed—or were being solved—by other executives. That remains true today and is at the core of our business.

CEB offers more than 50 different memberships aligned to functional and key industry leadership roles. Our membership model is designed to deliver insights, tools, and advice that lead to transformative outcomes for your team and your company.

Leadership Councils

Leadership Councils are for innovative leaders who want to optimize the performance of their function—and business.

They provide on-demand access to best practices, easy-to-use analytic and implementation tools, and tailored advisory support—at a fraction of the cost of other professional advice sources. Our Leadership Councils help functional leadership teams benchmark their performance and execute effectively by applying insights from peer companies.

Unlike other resources, our insights and tools are intelligently sourced from a world-class member network, selected without bias, and proven effective through intensive quantitative analysis.

Features of Membership

Research and Insight: Our more than 200 unique studies published annually help business leaders evaluate new issues and challenges.

Proven Best Practices: Our more than 300,000 tested approaches to solving business challenges are derived from our network of more than 5,300 leading companies.

Advisory Support: Experts in more than 220 disciplines provide personalized guidance and project support for executives and their teams for pending decisions, new tactics, internal presentations, and other needs.

Decision and Diagnostic Tools: Analysis and support provide customized, actionable views of the most important performance metrics in your corporate function.

Peer Benchmarks: Relevant, quantitative data and analysis provide clarity on the most efficient resource allocation and high-impact areas of focus.

Executive Networking: On-request advice, feedback, and perspective comes from peer interaction with more than 15,000 leading executives as well as from online peer discussion groups.

Live and Online Learning Events: We offer a wide variety of events exclusively for senior executives as well as staff training and skill development opportunities.

Leadership Transition Support: Avoid the common pitfalls specific to your leadership transition. Rely on our transition expert advisors to navigate the transition period with objective third-party guidance, insight, and joint problem solving.

Talent Management

CEB knows talent drives corporate performance. Our stall points research showed that nearly all preventable performance stalls are caused by underlying talent-related factors. And as our new work environment research makes clear, the nature of business performance has changed dramatically, with work becoming more distributed, more diverse, and more interdependent. These factors converge to amplify the level of precision required for talent management decisions. Yet companies often manage this vital resource through–at best–intuition and local manager preference and–at worst–habit.

CEB aims to change that. We now offer a uniquely comprehensive and differentiated suite of insights, services, and technology solutions designed to help companies more effectively plan, recruit, assess, develop, empower, and engage employees.

Learn More

Dive further into these functional insights and download related resources at cebglobal.com/topinsights.

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