Why analytics is more than a tool for transformational change

Can you really meet your customers' needs without a chief commercial officer?

What's the secret behind true IT transformation?
EY has found that companies with more mature risk management practices generated the highest growth in revenue and earnings before interest, taxes, depreciation and amortization (EBITDA). But, for many companies, developing proper risk management is much easier said than done, and yet, done right, it can help companies have the confidence to take risk, rather than simply avoid it.

As companies strive to prove they are operating responsibly, we show how they are managing risk while simultaneously driving business performance. For example, “Behavioral change and a strong control environment,” introduces a new angle on which internal audit functions are increasingly expected to report. Cultural and behavioral auditing provides insight into environmental triggers and underlying motivators that influence individual performance and decision-making and, ultimately, the sustainability of the control environment.

We also have two articles that contrast differing aspects of IT transformation. One looks at how EY helped a Colombian conglomerate to overhaul its software and implement SAP with IFRS in five group companies against a very tight deadline. The other, “Change for success: the IT transformation,” explores the detail behind the purpose, goals and substance of IT transformation, as well as the key factors that lead to their success. The article also examines the role of the chief information officer (CIO) in facilitating transformations.

The CIO is one of a number of C-suite roles that is discussed in our article “New change, new roles, new C-suite?” Digital’s influence is pervasive, and this is reflected in the new roles that are appearing on the executive board. In particular, the rise of the chief commercial officer raises questions about how to meet the changing needs of commerce and customers.

Other articles examine the conflict faced by financial controllers when they have dual-role reporting responsibilities, how innovation portfolio management can realize shorter and leaner product development processes, and a case study of a Brazilian company that used a strategic management model to help improve performance.

I hope the articles in this edition of Performance provide valuable insight and information to help your business innovate, grow, optimize and protect.

Enjoy reading this issue!

Markus Heinen
Chief Patron, Performance

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1. Accelerating high-growth companies’ climb to the top: strong risk management practices and Internal Audit capabilities as drivers for growth, June 2014, ey.com/GRCinsights, accessed October 2014.
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Behavioral change for a strong control environment

Cultural and behavioral aspects are slowly becoming integrated into internal audit reporting. But there still remains widespread apprehension about how to report on the findings uncovered. Companies are also missing opportunities when it comes to improving on those findings and successfully making change happen in the organization. This article explains how to gain commitment from your people and thereby create a strong and sustainable control environment.
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It’s a tough landscape: a challenging economy, competitive pressures and increased regulation. Managers are expected to meet targets and keep costs low. The C-suite is under scrutiny from investors, regulators and the media. In the face of corporate scandals, such as frauds, unexpected losses, inappropriate revenue recognition practices, safety failures and more, companies are consistently striving to prove they are operating responsibly.

Internal audit departments are at the forefront of this drive to demonstrate compliance. They provide independent reassurance that day-to-day operations are running in accordance with established processes and protocols. But there is an aspect of their role that is relatively new and that many internal audit teams are struggling to address: cultural and behavioral auditing.

This is the reason why EY recently brought together a number of heads of internal audit to discuss how cultural and behavioral auditing can be successfully integrated into an organization’s audit methodology. This article highlights the issues discussed at that meeting and provides practical solutions to the challenges faced.

What is cultural and behavioral auditing?
There are a wide range of findings on which internal audit teams will report, from missing signatures or incomplete paperwork to individuals not performing their job. But sometimes, the underlying reason for a finding could be connected to the culture of a specific department within the organization. Or it could be that someone is behaving in an unexpected way, perhaps because they feel demotivated or undervalued. Until very recently, these cultural and behavioral influences have not been part of an internal audit. Indeed, for many companies, they remain unchallenged and unreported.

Why is this? The answers came out of that discussion with the heads of internal audit. One reason is the difficulties encountered in reporting these findings. The second reason is a concern over the competencies and capabilities of existing internal audit teams to deal with these often sensitive issues. We will examine both of these points in more detail and offer recommendations on how to address them.

BEAM provides a mechanism for people to articulate what is happening in the business, by asking some simple questions.
Creating a sustainable control environment

The bottom line is that it doesn't matter how good your policies and procedures are, people are also a part of the control environment, and if they are motivated to make poor decisions, then that environment will always be weak and fragile.

An important step forward is to recognize that the control environment needs to be sustainable as it evolves. So, even if policies and procedures become outdated at some point in the future, if you know your people will make the right decision at the right moment, then your control environment is sustainable.

Cultural and behavioral auditing provides insight into environmental triggers and underlying motivators, and consequently helps to provide insight into what factors drive behaviors and, therefore, how your people will respond.

By incorporating cultural and behavioral auditing into your internal audit methodology, it provides:

► A means by which you can articulate what’s happening in the business
► An understanding of current performance that allows you to prioritize better the steps to effect positive change
► Outputs that can be used across the business, not just in the areas that have been audited

Behavioral Engineering Auditing Methodology (BEAM)

How can audit departments successfully integrate cultural and behavioral aspects into their reporting? To address this question, EY has developed BEAM, a methodology that helps organizations identify and understand variances in performance. The model allows companies to analyze cultural and behavioral issues, thereby providing fresh insight into how to diagnose performance problems. It also offers a practical approach for the delivery of recommendations and improvement areas.

By using the model, companies are well placed to understand where the accountability for an issue lies: at an organizational or at an individual level.

BEAM is constructed around six critical behavioral success factors that may impact performance variance (see Figure 1):

► Three organizational factors, i.e., that organizational leaders can influence
► Three people factors, i.e., that are influenced by individuals, depending on their perception of the organizational factors

Figure 1. What is BEAM?
The organizational factors are readily identifiable and management teams feel comfortable talking in terms of information, vision, strategy and so on. If there’s a problem in these sorts of areas, it’s something that the company has direct control over and can, therefore, fix.

The individual factors, however, are far less obvious with regard to what do they actually mean in practical, solvable terms. Here's some examples of the kinds of issues that come under the three people factors:

► Competencies: what are employees capable of? How is their knowledge and training aligned with what they do?

► Application: what is management doing to make sure they motivate their employees in the right way? Do they coach them? Do they embed learning? Are they actually doing what they say, i.e., are they “walking the talk”?

► Motivation: how is management getting commitment from their employees to the targets set? If you set a goal, how do you make sure that your employees want to follow you?

These issues are less tangible, and if you need to describe a finding on them, as an internal audit department, that’s much more difficult.

Dedicate the time to follow up on the findings, reach out to employees to make it personal and ensure improvement.
<table>
<thead>
<tr>
<th>Organizational factors</th>
<th>Sample questions</th>
<th>Sample recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Information</strong></td>
<td>Do you feel information is widely communicated among divisions and across the organization?</td>
<td>Revise communication process</td>
</tr>
<tr>
<td></td>
<td>What is your understanding of risk management and how it impacts organizational activities?</td>
<td>Implement regular reporting mechanisms (e.g., team meetings, email sequence)</td>
</tr>
<tr>
<td><strong>2 Resources</strong></td>
<td>Are appropriate risk management and reporting resources available to the organization to achieve risk management objectives?</td>
<td>Implement logical storage and access to risk management documentation so that it is easy to obtain (e.g., shared drive, internet site)</td>
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<tr>
<td></td>
<td>Do you feel there is adequate staffing and resources to fulfill organizational requirements in line with policies and procedures?</td>
<td>Investigate resource requirements against current resources and communicate the outcome</td>
</tr>
<tr>
<td><strong>3 Incentives</strong></td>
<td>Are you driven to conduct high performance and, when achieved, is this formally rewarded?</td>
<td>Review incentive allocation process and confirm alignment with performance and risk management</td>
</tr>
<tr>
<td></td>
<td>Are incentives aligned to risk management expectations (i.e., compliance with policies and procedures)?</td>
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<tr>
<th>People factors</th>
<th>Sample questions</th>
<th>Sample recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4 Competencies</strong></td>
<td>Do you feel you have the appropriate skills, knowledge and training to complete your daily activities?</td>
<td>Review job descriptions, update as appropriate</td>
</tr>
<tr>
<td></td>
<td>Are the skills you require to complete daily tasks formally documented and communicated through job description documentation and reviewed in line for progression or promotion?</td>
<td>Review staff skill levels in line with job descriptions</td>
</tr>
<tr>
<td><strong>5 Application</strong></td>
<td>Does a mentoring process exist within the organization through which you can contact and liaise with colleagues to strengthen and grow your career development?</td>
<td>Introduce staff training on risk management process</td>
</tr>
<tr>
<td></td>
<td>Are you held accountable for non-compliance with organizational policies and procedures?</td>
<td>Implement formal mentoring process</td>
</tr>
<tr>
<td><strong>6 Motivation</strong></td>
<td>Do you feel committed and a part of the organization?</td>
<td>Introduce team-building initiatives</td>
</tr>
<tr>
<td></td>
<td>Do you feel proud to be associated with this organization?</td>
<td>Implement initiatives to strengthen and grow organizational commitment</td>
</tr>
<tr>
<td></td>
<td>Do you feel valued and that your contributions to the organization make a difference?</td>
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</table>
How to report on intangible issues

One of the reasons why audit departments struggle to report on the people factors is rooted in the psychology behind “finger pointing,” i.e., effectively accusing an individual of not doing their job properly. The individual concerned can become defensive, insulted or angry and may feel even more demotivated. Similarly, the audit team is unsure how to strike the right balance between reporting an important finding without wanting it to become a personal accusation aimed at a specific individual.

There are three main approaches that can be used to overcome these issues and successfully report on the people factors:

1. **Report on an exception basis**: cultural and behavioral findings are added to the existing findings. This avoids the feeling of it being a personal accusation. Instead, while describing the situation, reference is included to the fact that, for example, the decision made did not fit with the behavior that would normally be expected.

2. **Root cause**: often, cultural and behavioral issues are the root cause behind many internal audit findings, and an assessment of these issues could be incorporated as part of the root cause analysis for findings. In these situations, it is more likely that the cultural or behavioral issue relates not just to one person, but to a number of people who aren’t complying with policy. The fact that multiple people are involved helps to reinforce the relevance of the finding.

3. **Add a separate section to the report**: for example, a summary of the behavior or culture of the organization or department instead of a focus on the individual. In this way, the finding is reported, but it is done in a more generalized way. In so doing, this will weaken the finding, but it is an approach to be considered if the others are not viable options.

The BEAM approach offers a fourth variant to these three approaches. By following a practical methodology, audit departments are better equipped to include cultural and behavioral findings in their reports. The structured nature of the BEAM report provides a summary of the key identified behavioral drivers within each of the six success factors. For example, an organization-wide survey deployed in an Australian environmental organization found that, while staff were motivated to follow policy and procedures, they did not have sufficient information, resources and incentives to do so. These findings enabled the development of a targeted business transformation program.

**Recommendations are all well and good, but how do you change behaviors?**

It doesn’t matter how good the findings and recommendations are in the audit report, if management doesn’t agree with them, then transformational change will have failed before it’s even started. How can you ensure that your employees are committed to undergo the change that is required of them to perform the controls efficiently or in the right way?
When it comes to motivating employees, most organizations confronted with emotions tend to neglect the natural cycle of change (see Figure 2). One false expectation is that rational reasoning supported by a future state description will provide a desired shortcut. It won’t.

No matter how neutral a change may be, the way people (not organizations) react to it is always personal. It is much more common to hear statements such as “I don’t like it” or “I don’t get it” from affected teams, rather than rational comments about expected benefits and improvement to the bottom line.

Resistance to change is part of the transformation journey; things will get worse before they get better. The true change cycle will always include four major stages, whereas the fifth follows very rarely.
The challenge of change management is to move stakeholders up the commitment curve (see Figure 3) to the point where they are committed to the success of the program and are willing to alter the way they behave to support new ways of working. Communication forms a vital role in enabling positive movement along the commitment curve.

Nearly all companies, in response to audit department recommendations, will dutifully follow up on the findings by assuming that every manager or employee who reads the updated policy or procedure will automatically incorporate it into the way they do things.

But how can you ensure that change has truly been heard, understood and adopted? In order to be confident that it has been internalized to such an extent that it is an individual’s automatic response in a given situation, then organizations need to guide
their employees through the various phases of the commitment curve.

In the first instance, you start with contact: a change manager (not someone from the audit department, as the audit team must remain independent and impartial) will get in touch with the employee to discuss the findings. They will ask questions to check whether the employee agrees with the finding and believes change is necessary. Convincing people of the need for change can take a variety of forms, from individual interviews to more open workshops with a group of employees.

Then you move into creating awareness by explaining to the employee how their behavior impacts the process or control they're required to perform. Gradually, the employee begins to understand why change is needed and how they can make it happen. Once understanding is achieved, the employee is safely on the path to adoption and commitment.

**Upskilling the audit team**

An area of concern for heads of internal audit is whether their team members have the competencies and capabilities to conduct cultural and behavioral audits. If the team comprises individuals who have specialized in accounting, finance or tax - traditional areas for audit specialists - are they properly equipped to deal with what are arguably more psychological issues?

There are a number of solutions to this problem. Many companies, for example, are encouraging members of their audit teams to attend short courses on behavioral auditing. These are typically run by psychologists and provide training on how to structure relevant and effective questions to assess behavior.

Alternatively, companies can bring in external professionals to conduct specialty audits, i.e., behavioral-schooled experts who are experienced in asking the right questions.

Audit departments might also decide to recruit a generalist – someone who is not purely a financial or accounting expert. These individuals could, therefore, potentially specialize in behavioral auditing.

**Committed employees equals a very successful company**

Imagine how much more successful your organization would be if all your people knew, understood and really bought into their individual goals. This is the ultimate prize for integrating cultural and behavioral aspects into your internal audit reporting.

These issues aren't as intangible as they might first appear. With skill, it's simply a matter of asking the right questions and knowing how to implement the recommendations; understanding what makes change happen. Dedicate the time to follow up on the findings, reach out to employees to make it personal and ensure improvement. You have to be prepared to remind, remind, remind. Until, eventually, your people live and breathe the change you want to see.

And when that happens, you’re going to have a very successful enterprise indeed.
Boosting efficiency: building SAP systems into Grupo Argos

When a Colombian conglomerate decided it was time to overhaul the group’s software so that it had better control of its divisions’ financial data and reporting function, EY was brought in to help. This time-pressured but extremely successful project saw the implementation of SAP with IFRS in five group companies over a period of nine months.
Over the last 80 years, Grupo Argos has grown from a small cement producer into one of Colombia’s biggest conglomerates, with interests in real estate, energy, forestry, mining and agriculture. Its growth can be attributed to capitalizing on business opportunities, diversifying and, most importantly, constantly evolving to move with the times. The need to adapt to new trends, market forces and customers with ever-changing wants and expectations led Grupo Argos’ management, in mid-2013, to decide to make significant internal improvements.

Subsidiaries within the group were using outdated software systems, making it difficult for the holding company to find information quickly on projects, finances, logistics, purchasing and sales and assets for each business. In addition, from 2015, all Colombian companies will be required to demonstrate compliance with International Financial Reporting Standards (IFRS), and Grupo Argos saw this as an opportunity to ensure the group’s companies had already adopted IFRS.

After identifying the issues that needed addressing, Grupo Argos’ management turned to EY for help and support. We began by reviewing the group’s existing software and processes and assessing the areas that needed improving. We were also asked to help develop a strategy for introducing a more efficient and effective solution for compliance with IFRS across three of the group’s businesses: the executive jet operator (Internacional Ejecutiva de Aviación), the real estate business (Situm) and the group holding company (Grupo Argos).

Finding the right software and implementing it

The search for the right solution did not take long. EY is one of SAP’s global service partners, and we have significant experience in implementing its enterprise software, which helps to manage business operations and customer relations.
We proposed a “two-wave” strategy for the project. The first wave, to be completed in six months, involved implementing SAP in the holding company, business aviation and real estate subsidiaries. The second wave will see the implementation of SuccessFactors (cloud-based human capital management software) into the businesses over three months, Ariba Contract Management (cloud-based contract creation and management software) and the SAP ERP roll out for an additional two companies within the group.

With such tight timescales for both waves, we could not afford to waste any time. We immediately set about analyzing the business processes within the companies that were most representative of the group to understand how they worked. Using that information, we then created a model for configuring a SAP system that would enhance the processes and boost efficiency. As part of this, the team needed to migrate all the financial, logistics and business data from the old system to the new.

Several layers of internal security had to be accounted for when building the system, giving people at different levels within the companies the right level of access for their roles. The team also had to make sure that the software was secure from outside threats. Thorough tests were carried out to identify any potential security issues and ensure everything worked properly before the system went live.

Training was another aspect of the project that required attention during wave one. Once the SAP system was configured and migration of the business processes complete, we then worked with the company to train employees and senior management on how to use it. It was important to check if the end users were confident about using the system and whether they needed more time to learn about certain aspects.

When satisfied that everything was functioning properly, we could then start to think about wave two and building SuccessFactors into the new software system. The cloud-based HR application records all employees’ individual targets, tracks their progress and highlights personnel with the right skills and experience for internal vacancies. It also identifies people suited to training and personal development programs, and monitors staff who could be future business leaders.

While still in the process of implementing SuccessFactors in the three companies as part of wave two, the group asked EY to help roll out the SAP system to two more subsidiaries within Grupo Argos: forestry company Tekia and Ganaderia Rio Grande, an agricultural business. We had developed one operative model for the three companies in wave one, which was designed in such a way that it could be implemented quickly, thereby making things easier when it came to rolling out the system to two more businesses in wave two. From start to finish, it took only three months to complete the roll out.

Adding to the project’s complexity was the introduction of Ariba, another SAP software solution. The contract management system and real-time trading platform allows companies to buy and sell to each other at the click of a button. It was introduced in wave two to make business transactions quicker, easier and more efficient.

**Boosting efficiency and streamlining processes**

In wave two, processes and software were introduced to boost business intelligence (turning raw data into meaningful and useful information for analysis) across the holding company and the aviation and real estate subsidiaries. The result was a system that would provide key performance indicators and, in turn, more value to the company.
indicators and, in turn, more value to the company.

The management wanted to consolidate masses of financial information that was being generated by the three businesses that were part of wave one and the two involved in the second wave. Introducing SAP helped do that and also enabled improvements to the HR function by the addition of SuccessFactors.

SAP has made it far easier for Grupo Argos' management to keep track of financial information across several companies within the group. Checking sales numbers and general financial information isn't easy when each business is using non-integrated systems. But SAP allows visibility of specific transactions and can bring up data quickly and easily.

Building SuccessFactors and Ariba Contract Management (Ariba) into some of the group's subsidiaries and integrating them with SAP has also benefited the business. SAP is a user-friendly solution that can be aligned with a company's internal programs and IT solutions, as well as software such as SuccessFactors and Ariba, quickly and easily without disrupting daily operations.

SAP is forward looking; an early adopter of cloud-based solutions. The company is exploring alternatives to allow it to offer less expensive, better value options to its customers.

With waves one and two successfully completed, Grupo Argos has approved plans for a third wave, which will see EY implementing SAP HANA within the five businesses that were the focus of the previous two stages. It will also be rolled out to a mining company owned by the group. SAP HANA is an in-memory computing appliance that combines SAP database software with pre-tuned server, storage and networking hardware from one of several SAP hardware partners. The system will support real-time analytics and transactional processing within Grupo Argos.

Forging alliances: EY and SAP

During mid-2014, EY and SAP signed a formal SAP Global Partner services agreement that recognizes EY as a strategic alliance partner to SAP.

This means that EY is accredited as a certified professional that can help companies looking to transform and run their businesses using SAP solutions. With more than 4,000 EY SAP professionals worldwide, our experienced SAP practitioners work with businesses to rethink how to design, deploy and manage their SAP-related investments. What we do is help organizations to put innovative technologies into practice while optimizing legacy investments.

The alliance is an important component of our strategy to deliver world-class EY services and SAP products and solutions to our clients globally.
In the near future, Cementos Argos, a cement and concrete producer, and six other subsidiaries of the Grupo Argos group are planning to implement SuccessFactors. Work on wave three has already begun and is planned to be completed by the end of 2014.

The challenges of carrying out wave one and wave two
Working to a strict time line of six months and three months respectively was a big challenge for a project of this magnitude. To make sure everything was completed on time, EY and Grupo Argos had to collaborate on all aspects of the project and maintain clear lines of communication.

A project manager from our EY team worked closely with two Grupo Argos counterparts to implement all the software systems and make sure everything was functioning properly. With several teams working on different aspects of the project throughout waves one and two, the project managers needed an open dialogue to complete the work on time and within budget.

Key to this was the commitment of the Grupo Argos team and the discipline of the project managers. There was total dedication from both sides and we were in constant communication with each other. This speeded up the decision-making process significantly and meant we could address any issues or challenges throughout the project quickly and early on before they turned into bigger issues.

Introducing software that adheres to IFRS was another factor that needed to be considered. Given that all Colombian companies have to satisfy global financial reporting standards by 2015, we had to help Grupo Argos feel confident that the SAP system complied with the rules. Because the SAP software tracks all financial information within the group, this makes life much easier when it comes to digging out the necessary data for auditing. There was also the added bonus that SAP is very flexible and can be configured to meet all aspects of IFRS.

The nature of EY’s business is such that we have trained auditors in our assurance teams who completely understand IFRS. This in-house expertise means we have a deep working knowledge of global reporting standards, so when we implement SAP software, we always have compliance in mind.

The payoff for Grupo Argos
In a digital age, companies big and small have to move with the times to maintain their upward trajectory. The management at Grupo Argos recognized this and knew that internal business processes, software systems and functionality within certain subsidiaries needed updating.

With EY offering knowledge and expertise throughout an extensive project that took months of meticulous planning, close collaboration and hard work, Grupo Argos now has advanced SAP software for monitoring financial information across several businesses. The company also boasts a strong HR function and IT system that adheres to IFRS, making it a more effective and efficient operation in an increasingly competitive global market.
A new business landscape demands new tools, yet it also requires new executive roles, organizational models and management skills. Some are fads, but these new executive roles (chief digital officer, chief data officer, chief commercial officer, etc.) serve a purpose. They challenge dated views on leadership and empower a generation of creative thinkers to break into the C-suite (in both start-ups and mature organizations). This article explores how these new roles develop and examines what skills are needed for today’s new C-suite.
The exponential cadence of this digital economy makes it challenging to gain an edge, and keep it. If the new basis for competition is agility (and speed), what are the implications for leadership roles and models?

Networks that connect people, and things, are forming (and failing) so quickly today; the proverbial curve that we all aspire to stay ahead of requires a commitment to reading blogs and headlines that is difficult to sustain. One can almost be sentimental for the days when product development cycles — reflective of broader buying patterns and marketplace trends that set the pace of business — were measured in years, not minutes.

Indeed, in some cases, in digital terms, product innovation cycles have reduced to seconds. Some leading e-commerce companies use real-time data on user interactions and third-party consumer data to “create” new offerings on the fly, bundling products and deeply personalized discounts, which, rather than being calculated by a team the week before, are computed by an algorithm in a fraction of a second.

The immediacy of the digital world demands a different approach, and part of this change entails exploring new leadership models.

A mindset for change: the digital-ready CIO

Long gone are the days when CIOs just manage help desks and data centers; those stuck in that mode are increasingly diminished or moved out. Some find themselves uncomfortably “coupled” with a younger, more design-oriented “digital” executive, who probably talks fast, is always posting pictures of their lunch on Instagram and rarely sticks to meeting agendas. Rather than be threatened however the strategic CIO sees the opportunity for advancement by demonstrating how technology in the digital era can help run the business while also simultaneously growing it, transforming operations, fortifying the culture, redefining the workplace and enhancing the customer experience.

A Forrester Research Inc. report found that CIOs are now viewed as the most important senior leaders in driving business transformation and innovation. Its survey of US and European business change consultants saw 29% cite the CIO as the prime mover, with 24% backing the CEO.\(^1\)

A recent study by International Data Corporation (IDC) predicts that, in the next two years, CIOs’ main responsibility will evolve from directly managing IT to becoming innovation partners. It argues that their existing technology management role will expand to absorb the direction of innovation, information intelligence, customer experience and digital business presence.\(^2\) The opportunity to emerge as an innovation leader will only be realized, however, by those technology leaders with innovation traits, such as the agility to pause and pivot when a project is on budget but behind in user experience objectives.

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EY research\(^3\) shows that CIOs who will help lead their companies into the digital age need six core traits:

► Have a strategic vision of how technology will transform the business — and know how to implement it
► Be relentless innovators — seeing discovery and experimentation as necessary steps toward disruptive value creation
► Focus on driving growth — and the relationships they need to support this
► Ensure their vision is understood — mindful of the need for and power of multichannel communications to drive their presence both internally and externally
► Move beyond operations and infrastructure — placing more attention on issues such as enhancing business processes and preparing their organizations for change (while continuing to ensure smooth operational running)
► Be courageous risk-takers — celebrating successful failures as opportunities for learning and improvement

Other new breeds of technological expert are also joining the top table, with titles such as chief digital officer (CDO) and chief analytics officer. In January 2014, research company Gartner identified that “there are more than 100 CDOs serving in large organizations today, which is more than double the number in 2012.” Moreover, it predicted that, “by 2015, 25% of large global organizations will have appointed CDOs.” Such roles are challenging established remits and responsibilities. As Gartner comments: “CIOs should view the CDO as a peer and partner who can manage data and who has the knowledge, background and skills to do so, which allows CIOs to focus on the more-than-full-time job that they already have.”\(^4\)

New research explores the DNA of C-suite sales and marketing leaders

Despite examples of excellent practice, many chief marketing officers (CMOs) focus too little on understanding the customer or on enhancing customer experience. And many chief sales officers (CSOs) emphasize short-term targets to the exclusion of strategy and innovation. These are some of the findings of a new EY survey.

*Competition, coexistence or symbiosis? The DNA of C-suite sales and marketing leaders* examines the changing role of the CMO and CSO as digitalization, proliferating channels and growing customer power transform global commerce.

Drawing on a survey of 800 sales and marketing leaders and C-suite executives, plus a further 20 in-depth interviews, the report offers valuable insight into what it means to be a sales and marketing leader today. It considers:

► How CMOs and CSOs view their key relationships, measure personal success, rate their core competencies, assess their contribution to the business, progress through their careers and define the ideal marketing, sales or commercial leader
► How other C-suite members perceive the sales and marketing leader role, what they believe CMOs and CSOs can contribute to the business, and what their own responsibilities are when supporting sales and marketing leaders
► How the sales and marketing roles might evolve — including the recent emergence of commercial leaders who head both sales and marketing

Companies today are at a crossroads, and the path they take will determine their future success. Businesses must act now to transform their organizations so as to provide customers with the products and services they want, delivered in the way they prefer. Those organizations that embrace a truly customer-centric approach will be the ones that thrive.

Find out more at ey.com/dna-csmo.
The rise of the chief commercial officer

The impact of digitalization is pervasive across the enterprise and extends far beyond IT leadership roles. The sales and marketing function is also being radically reconfigured, notably with the appearance of the role of chief commercial officer (CCO).

CCOs, as the title suggests, lead a company’s commercial functions. Sales and marketing form the cornerstones of the role, although some CCOs head additional departments, such as customer service, innovation, analytics strategy and R&D. The emergence of the CCO reflects businesses’ growing awareness of the need to integrate customer-facing operations. This need is, in great part, a direct product of digitalization: the informed customer who can easily flit between off-line and online sites demands a smooth purchasing journey and sees at a glance when companies falter. The drive to provide a seamless customer experience, e-commerce’s tendency to use the same channel to market and sell, and the need to pool all available data requires the value chain to act in partnership. Increasingly, customers are looking to buy an outcome. Companies must integrate all their operations, including sales and marketing, to deliver a truly differentiated and positive purchasing experience.

What does a CCO look like?

Strategic oversight

When it comes to what makes their job worthwhile, strategic management is the top priority for CCOs, whereas it is second for CMOs and fifth for CSOs.

Customer focus

Seventy-three percent of CCOs feel very sure that they add value by “using customer feedback to help develop the business” (CMO: 58%; CSO: 68%).

Job satisfaction

CCOs are the most satisfied with their role, with 60% particularly happy with their “ability to influence broader company strategy and vision” (CSOs and CMOs: 49%).

Board relationships

CCOs are emphatic that they have good relationships with the CEO and COO – and the C-suite agrees. Yet, fewer than half (49%) feel they have good relations with the CIO (CMO: 47%; CSO: 58%).

Career path

Around one-third of the C-suite (34%) thinks there is a significant chance that the CCO will be CEO within five years (CSO: 13%; CMO: 11%).

The emergence of the CCO reflects businesses’ growing awareness of the need to integrate customer-facing operations.
Bridging the commercial divide

One CCO, Mohammed Al Bulooki, from the Abu Dhabi Airports Company, believes the post can help create this “positive purchasing experience.” He says, “The role makes sure all revenue-generating businesses talk to each other. It was created here to give one person responsibility for taking an aerial view and for making decisions holistically rather than, as is common in some companies, having teams challenging or competing with each other.”

Competition has, indeed, often marred relationships between sales and marketing. Moreover, the rising importance of big data and analytics in both functions has created a new reliance on and, in some instances, increased tension with, CIOs. Separated by conflicting aspirations—with marketing focusing on long-term brand building, sales on short-term targets and IT chiefly on keeping the systems running smoothly—the various functions frequently work in silos toward distinct objectives, though, increasingly, they are inter-dependent.

Indeed, recent EY research shows their interaction is still marked more by competition or passive coexistence than symbiosis. For example, CSOs tend to keep marketing at arm’s length. They rate “working with different departments” as way down on their list of what makes work worthwhile (far lower than where CMOs rank it). Meanwhile, only 59% of CMOs believe the two teams share the same corporate vision, and just 54% say they “work well together in tasks and initiatives.” The CCO role could serve as a valuable bridge to cross the divide.

Figure 1. Extent to which CMOs agreed with the following statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>ALL CMOs</th>
<th>B2C</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and marketing are in regular contact about innovative ideas and strategies</td>
<td>63</td>
<td>73</td>
<td>61</td>
</tr>
<tr>
<td>Sales and marketing have clear and distinct responsibilities</td>
<td>59</td>
<td>69</td>
<td>54</td>
</tr>
<tr>
<td>Sales and marketing share the same vision for the company’s future</td>
<td>59</td>
<td>67</td>
<td>54</td>
</tr>
<tr>
<td>Sales and marketing work well together in tasks and initiatives</td>
<td>54</td>
<td>58</td>
<td>52</td>
</tr>
</tbody>
</table>

(Percentage of respondents who have chosen 8, 9 or 10 on a scale from 1 = entirely disagree to 10 = completely agree)
New change, new roles, new C-suite?

Risk comes of age

Another relative newcomer to the C-suite, the chief risk officer (CRO), came of age this year. In August 2014, it was 21 years since GE Capital’s James Lam became the corporate world’s first CRO. Since then, the role’s prevalence and remit has really grown. Originally rooted in banking and, to a lesser extent, insurance, the role is now common in many other industries, including energy, oil and gas, large multinationals and government organizations. And whereas, originally, CROs focused on financial risk, now increased regulation, technological development, digital transformation, the impact of reputational damage and increasing demands for executives to be held accountable for corporate failure have widened their mandate. This remit looks set to evolve even further as business itself continues to develop: Gartner predicts that, “by 2017, one-third of large enterprises engaging in digital business models and activities will also have a digital risk officer role or equivalent.”

The CRO’s place on the C-suite has been challenged. Critics have said that, as CROs do not “own” business risks and are not experts in all risks, executive team representation is unnecessary. However, with pressured CEOs and CFOs lacking the time (and, in many cases, the expertise) to lead the risk charge, more and more CROs are reaching the top table. An EY survey in 2013 found that 25% of CROs in insurance companies report directly to the CEO, with 45% reporting to the CFO. The report observes: “CEOs are engaging CROs to help them address the issues across the full range of functions, product lines and operations. More than any other executive, CROs have the tools, analytical abilities and enterprise-wide perspective to shed light not just on individual risks, but on the complex and interdependent risk mosaic faced by insurers today.”

Increasingly, customers are looking to buy an outcome. This means companies must integrate all their operations, including sales and marketing, to deliver a truly differentiated and positive purchasing experience.

5. Competition, coexistence or symbiosis? The DNA of C-suite sales and marketing leaders, EY, 2014. ey.com/dna-csmo.
More female representation needed

Executive boards may be evolving to reflect business drivers, but in certain respects, they are proving stubbornly resistant to change.

Despite research that shows that companies with higher numbers of female board members do better against a range of financial indicators, women are universally outnumbered on top teams. In 2013, for the eighth consecutive year, there was no significant change in the number of female members of US corporate boards, with women holding 16.9% of board seats, compared with 16.6% the previous year. When it came to executive leader positions, the shift was similarly small, with the percentage of female executive officer positions rising from 14.3% to 14.6%.8

In Europe, the situation is similar: in 2013, the overall number of women on boards increased from 15.8% in 2012 to 16.6%. Breaking down those figures, 17.7% were non-executive directors and 11% were executive officers.9 This is still better than in Asia, which has a regional average of just 7% of board places being held by women. Of Asian countries, Japan – with its “bamboo ceiling” – has between 0.7% and 1.3% of female board members.10

Frustrated with business’ slowness to act, increasing numbers of countries, from Dubai and Malaysia to Norway and France, now require companies to meet set quotas of women on boards.11,12
Despite the fact that innovation portfolio management is an important driver of innovation excellence, it has been relatively overlooked by many companies. Yet, by employing it, firms may realize shorter and leaner innovation processes, thereby strengthening their competitive position. This article explains the key steps that managers can take to implement or enhance their organizations’ innovation portfolio management.
Many firms increasingly rely on innovation in order to gain superior performance and, especially, to sustain that superior performance over time. This growing focus on product innovation can be observed in manufacturing companies across a range of industries, such as automotive, chemicals, electronics, machinery and semiconductors. In particular, firms in Western countries concentrate on innovation as a core strategic means to cope with the growing price-based competition from emerging countries. The strong managerial attention to innovation draws on the insight that the novelty of product innovation activities, by definition, involves uncertainty and risk. Nonetheless, managers can enhance their firm’s new product performance based on establishing proficient innovation management processes.

In this respect, many manufacturing companies have concentrated on implementing systematic new product development processes in order to manage product innovation from idea to launch. As a consequence of most firms’ focus on managing this idea-to-launch process for individual new product development projects, another important element for enhancing new product performance has received surprisingly little attention from many firms: innovation portfolio management. The activities associated with innovation portfolio management focus on a firm’s entire portfolio of ongoing new product development projects, thus exceeding the single project focus of the idea-to-launch process. As such, innovation portfolio management is an important complement to the typical systematic new product development process associated with firms’ attempts to achieve product innovation excellence.

Specifically, innovation portfolio management is directed at the optimization of a firm’s innovation portfolio. Thus, it goes beyond the selection of individual new product projects; rather, it describes a dynamic decision process that is continuously updating the list of ongoing projects and the allocation of resources to them. Hence, the innovation portfolio management process involves the assessment and prioritization of new projects as well as the acceleration and termination of active projects. Accordingly, it includes essential project decisions, especially in the early stages of the innovation process. Consequently, innovation portfolio management aims at “managing the right new product development projects,” whereas a systematic idea-to-launch process aims at “managing new product development projects right.”

What objectives do firms pursue?

The specific characteristics of product innovation make innovation portfolio management a major challenge. In particular, companies need to take risky and future-directed project selection and resource allocation decisions in a dynamic environment with high degrees of uncertainty and scarce resources. At the same time, the design of new product portfolios is an essential means for implementing a firm’s corporate strategy, which underscores the importance of innovation portfolio management. Firms typically pursue four major objectives in innovation portfolio management. These four objectives cannot usually be pursued in isolation. Instead, there are multiple interdependencies among the objectives, each with positive and negative synergies. Thus, companies often need to find a
balance between emphasizing some of the following four objectives while de-emphasizing others (Figure 1):

1. **Value maximization:** firms typically attempt to optimize the value of their new product portfolios; in this regard, firms try to focus on profitable projects with potentially high returns.

2. **Portfolio balance:** innovation portfolio management is further directed at balancing the mix of different types of projects, such as long-term and short-term projects or incremental and radical ideas.

3. **Strategy alignment:** companies need to align their innovation portfolios with their corporate strategies to achieve strategic fit concerning investment decisions and strategic priorities.

4. **Project number:** innovation portfolio management includes continuous decisions about portfolio size, i.e., the right number of active projects relative to the available resources.

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What activities need to be considered?

Similar to a systematic idea-to-launch process, firms typically distinguish multiple phases with different activities of the innovation portfolio management process. Basically, the activities need to be tailored to the particular company characteristics, but there are some general activities that can be distinguished. In general, the specific number of phases of the innovation portfolio management process (e.g., five, four or three phases, potentially with sub-phases) is not critical. What is critical is the establishment of a systematic innovation portfolio management process. Further, this process needs to be aligned with the firm’s remaining organizational processes, especially with new product development, and it needs to be clearly communicated throughout the organization. Hence, embedding the innovation portfolio management process in the firm is an important driver of proficiently managing the innovation portfolio. A typical systematization of the process includes the following groups of activities in five phases that illustrate the nature of innovation portfolio management as a dynamic decision process (Figure 2):

1. **Strategic direction**: firms first need to align their innovation portfolio management with their corporate strategy and innovation strategy. These activities are essential to ensure sufficient strategic fit and direction of the innovation portfolio management decisions regarding the initiation and termination of new product projects.

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2. **Information generation:** the second group of activities primarily focuses on the collection and generation of relevant information for innovation portfolio management. The relevant information comprises data about individual new product projects as well as firm-level information, such as data about available resources.

3. **Information evaluation:** the third set of activities is directed at the evaluation of the pieces of information that have been collected. In particular, this step involves the accumulation, aggregation and analysis of information. In this stage, the particular tools for innovation portfolio management, which are discussed in the next section, play a prominent role.

4. **Information communication:** after evaluating the information, the results have to be communicated to all relevant players in the organization. In addition, this fourth phase involves the support of the portfolio management decisions, for instance, resource allocation decisions that may lead to the prioritization or termination of new product projects.

5. **Regular adaptation:** the fifth and final phase of the innovation portfolio management process is directed at a continuous update and adaptation of the portfolio management activities. This includes a regular monitoring of ongoing projects as well as reconsidering prior decisions that may be necessary in response to emerging trends.

**Figure 2. Innovation portfolio management process**
What tools can managers use?
Managers can use a variety of tools to support their firms' innovation portfolio management. In particular, these tools are helpful in the information evaluation phase because they allow for aggregating and visualizing information as well as comparing data from multiple new product projects. Hence, the use of suitable tools is an important step in firms' pursuit of the four major objectives of innovation portfolio management. Firms with proficient innovation portfolio management processes typically use multiple tools simultaneously. Each tool has particular strengths and weaknesses, and is especially useful for achieving one or several (but not all) of the four major goals. Accordingly, there usually is no one overall best tool for innovation portfolio management. Instead, a combination of multiple tools helps managers to take into account the different aspects of innovation portfolio management. To arrive at a systematic overview, the tools for innovation portfolio management may be classified into five groups. This list of groups is not comprehensive, but the following five groups include the most popular tools for innovation portfolio management (Figure 3):

1. **Plot diagrams**: this group of tools comprises bubble diagrams and priority-risk diagrams. Many bubble diagrams can be traced back to the traditional Boston Consulting Group matrix, and they often involve two axes with dimensions referring to risk and reward. The size of bubbles typically indicates the number of projects in a given group. Priority-risk diagrams extend bubble diagrams with risk mitigation logic to estimate the portfolio risk and to consider the effects of adding new projects to the current innovation portfolio.

2. **Decision systems**: this set of tools includes decision trees and artificial neural network systems. Decision tree analyses often use financial value and risk data to generate future scenarios. In particular, decision tree models allow for considering multiple possible outcomes and for taking into account several sequential decisions. Artificial neural network systems constitute decision support systems that predict financial and technical success for new product projects to arrive at clear portfolio decisions concerning the initiation or termination of specific projects.

3. **Scoring approaches**: this collection of tools comprises scoring models and analytical hierarchy processes. Scoring models refer to ranking projects on various dimensions, e.g., risk, competencies, strategic fit and competition, which are weighted and aggregated to arrive at an overall score for each new product project. Scoring models enable managers to rely on a detailed list of criteria in a systematic way. Analytical hierarchy processes combine a scoring approach with constrained optimization logic to support complex decision-making.

4. **Program illustrations**: this group of tools includes strategic road maps and product innovation charters. Road maps refer to graphical illustrations of information to support long-term technology and market planning. Road mapping may further enhance communication and organizational

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**Figure 3. Innovation portfolio management tools**
learning because it helps to integrate the perspectives of multiple organizational departments, such as R&D and marketing. In addition, product innovation charters indicate target business areas as well as specific objectives and development programs to ensure active innovation strategies.

5. Expenditure analyses: this set of tools involves strategic buckets and sensitivity analyses. Strategic buckets describe top-down strategies for innovation expenditures to ensure simultaneous and balanced investments in different project types, e.g., radical and incremental ideas, in line with corporate strategy. Sensitivity analyses help to compare the maximum and minimum values of new product projects relative to a base value. Thus, these analyses help managers to deepen their understanding of project and portfolio outcomes under different internal and external conditions.

How to start implementation

Innovation portfolio management is an important driver of innovation excellence, but it has been relatively neglected by many firms. This article allows managers to immediately take important steps to implement or to enhance their firms’ innovation portfolio management. Based on the four major objectives, firms can establish a particular direction and focus for their innovation portfolio management. The process segmentation has further underscored the more important activities of systematic innovation portfolio management. In addition, the brief overview of tools provides a starting point for establishing specific means to support innovation portfolio decisions. As such, a suitable use of several tools helps managers to achieve the variety of benefits associated with proficient innovation portfolio management. These benefits comprise a more effective and efficient use of scarce resources in firms’ innovation portfolios. Consequently, firms may realize shorter and leaner innovation processes, and they may strengthen their competitive position concerning new technologies, patents and markets.

In conclusion, managers may want to consider putting sufficient emphasis on innovation portfolio management and, by doing so, achieve a clear leverage that enhances their firms’ product innovation outcomes. In particular, it often provides many new opportunities that substantially exceed the opportunities from systematic idea-to-launch processes in new product development. Accordingly, analyzing the current innovation portfolio in light of a firm’s corporate strategy and the four major objectives of innovation portfolio management is a good starting point for systematizing innovation portfolio management and advancing toward product innovation excellence.

Firms may realize shorter and leaner innovation processes, and they may strengthen their competitive position concerning new technologies, patents and markets.


Managing by Results: creating a clearer vision

The launch of a new company into a highly competitive market brings its own unique set of challenges, but with these, also, come opportunities. This case study examines the first year of operations of a float glass company in Brazil that chose to work with EY in implementing a strategic management model to help it embed its strategy, monitor performance and generate the return on investment expected by shareholders.
Starting a new business or business operation is a challenging process, especially when entering an already competitive market. In order to succeed, strategies, structures and behaviors must be established quickly. Such endeavors are undoubtedly challenging, but they also present a great opportunity: the chance to put in place a complete and well-aligned strategic management model for the entire organization.

Such was the situation facing a float glass company based in the northeast of Brazil that has recently been launched by a well-established Brazilian business group with activities in areas such as electricity generation, real estate development and cement. The new company has entered an exceptionally competitive environment: for example, its three largest competitors together control more than 80% of the national market.

The only float glass company that is 100% Brazilian owned, it was established with a US$500m investment and a large workforce of more than 400 new employees. The fact that there was such a significant number of people from day one meant that the organization had to establish a unified business strategy and culture within a very short space of time. And having built one of the most modern and advanced glass plants in the world, the company aims to do more than just survive; the target is to become a major player in the market – a very big ambition.

To achieve this goal, the company needs to operate competitively across the entire country, but having its plant in the northeast of Brazil presents a number of serious challenges. The region is one of the less economically developed, far from the main areas of high consumer demand in the south and southeast.

Recognizing the scale of the task, the company hired EY to assist it with implementing its strategy for its first year of operations, i.e., identifying and generating areas of competitive advantage and embedding a company-wide management system. Figure 1 shows the company’s ambitious road map for its first year of operations.

What is float glass?
Float glass is a type of sheet glass. It is made by floating molten glass over a layer of molten metal. The float glass process is the most popular method for producing sheet glass across the world. It produces very clear, very consistent glass, which is used mainly in the construction and furniture industries.
How to move from strategy to results
To help the company define and implement strategic objectives for its start-up year, we used a strategic management model, Managing by Results (MbR). The advantage of this model is that it brings together different management tools into one methodological approach (see Figure 2). MbR focuses on a number of key aims:

► Validating and communicating a clear strategy for the organization

MbR has helped the company articulate and communicate its strategic objectives and provided a strong link between these and actionable items with measurable KPIs that everyone has bought into.

Figure 1. Road map for first year of operations

Added value

Business alignment

2012-13  2013-14

Drive performance and manage risk

Focus on MbR

Alignment of priorities

Business priorities
- Supply chain – site location
- Contract risk services
- Financial managing and forecasting

Foundational
- Internal controls
- Internal audit
- Labor compliance

Today
Managing by Results: creating a clearer vision

Using MbR, we helped the organization to devise, validate and communicate its strategy. To do this, we conducted a series of meetings and workshops with senior management and the C-suite. By the end of this part of the process, 64 strategic initiatives, aligned to the company’s mission and vision, had been defined.

► Unfolding the strategy throughout the entire organization
Once defined, this strategy was then embedded throughout the organization. For example, the 64 strategic initiatives cascaded to become 195 action items to be implemented in 2014. The development of strategic initiatives and action items ensures that the whole organization is working to achieve its strategic goals – both quantitative and qualitative – relating to profitability, productivity, process and technology integration, people, learning and culture.

► Linking the strategy clearly to day-to-day results
A common methodology for measuring results was established, with a rigorous range of metrics for all levels of the organization. Key to this was the importance of the regular and consistent measurement of KPIs for all business areas.

► Providing visibility over results
This was achieved via a process of cascading sets of meetings, on a monthly basis, starting at middle-management level, ascending through to the C-suite and, eventually, the CEO and board. The purpose of the meetings was to track progress via the established KPIs and generate action plans for when performance diverged from the target.
Creating accountability at all levels

Individual responsibility was apportioned for all targets and KPIs. This, along with the continual tracking of performance and a focus on ongoing improvement and innovation, meant that it was possible to establish a truly meritocratic culture, with results against targets being used for staff reviews and, potentially, for variable compensation.

Finding a differentiated competitive strategy

The company’s plant is one of the most advanced in the world, and it has a mining operation close by offering high-quality raw materials. So it seemed natural that the company should differentiate itself in the marketplace by promoting its product as of a higher quality than that of its competitors. However, analysis of consumer research indicated that the business would not be successful if it based its appeal to customers solely on quality.

Rather, the main concerns of the company’s target customers were about receiving the product they ordered, with the correct specification (covering different types of glass, size, color and shading) and at the correct time.

So, to generate a competitive advantage, the company needed to focus its attention on the quality of its customer service, for example:

► Speed of delivery to customers
► Speed of response to customer enquiries
► Quality of response to customer enquiries

A focus on logistics

To create a competitive advantage from its ability to deliver the right product at the right time, the company needed to work hard to get the best from its logistics.

For businesses aiming to compete across the country, Brazil’s transport infrastructure (roads, rail and shipping) presents a number of challenges, particularly so for the company, because its main plant in the northeast of Brazil is far away from the areas of high consumer demand in the south and southeast, areas that also have more highly developed infrastructure.

Added to this were the logistical issues posed when dealing with a product as fragile as glass. One of the biggest and most common challenges to delivering on time is breakages. Since glass cannot be repaired, the only way to fulfill an order after a breakage is to make it again.

To help the company achieve its high performance goals, we assisted in developing KPIs for the entire logistics cycle, from the receipt of the client’s order to the moment the client took the delivery of the product. For example, they included metrics on the time it took from receiving the order to manufacture, the amount of breakages, and the time it took for the product to go from the plant to the distribution center and then to the client.

The aim of these KPIs was to measure the efficiency and effectiveness of the logistics process, thereby encouraging the delivery of accurate orders, on time, with the lowest possible breakage levels and at the lowest possible cost. In addition, they have helped the company to develop several initiatives to increase the efficiency of its outbound logistics processes.

Creating a cost-control mindset

The MbR approach helped to establish a cost-control and cost-reduction mindset throughout the company. Strategic initiatives were created and assigned across the organization in order to create a robust control framework and communication process focused on reducing cost levels as much as possible. In all areas of the business, KPIs were created to:

► Monitor actual results against production costs and sales and administrative expenses
► Identify potential savings
► Track the results of loss-prevention initiatives

From manufacturers to consultants

The company had established a successful and efficient logistical operation and it realized, from consumer research and discussion with EY, that a future core element of its strategy should be to offer consultancy services to its clients.

The float glass company sells to distributors — larger companies that cut
A common methodology for measuring results was established, with a rigorous range of metrics for all levels of the organization. The results speak for themselves. It is still too early in the company's development to say that it has achieved its ambition of becoming a major player in Brazil's glass industry. What is clear, however, is the success and impact of MbR as a strategic management model. As part of the project, we carried out a survey of the company's management staff and their responses show how well the whole organization has taken to the MbR approach:

- 97% of survey respondents know the KPIs in their areas of the business.
- 97% have a clear idea of their roles and responsibilities in MbR meetings.
- 89% either agree or totally agree that, in their area of the business, MbR is improving the company's performance.
- 91% either agree or totally agree that the strategic initiatives they are involved with are helping the company to achieve its objectives for its first operating year.

For this reason, the company has started to develop programs that focus on how its clients can better manage their own businesses: for example, managing their products more efficiently and thereby understanding how to profit from the often sizable offcuts produced when processing the glass.

But these programs also offer support to help companies better manage their finances and their management structures. For example, many of the businesses the company deals with are family owned, so the company is considering presenting a series of workshops and training sessions about how to optimize the management of a family-owned business, focusing on challenges such as how to get the most out of business relationships and how to prepare for succession.

By improving the entire chain, making their clients' businesses more lucrative and efficient, the company will, in effect, be helping itself. And it will have the added benefit of encouraging its clients to see the company as a partner and to regard it as their preferred provider, which is vital for a new player in a competitive market.
MbR has helped the company articulate and communicate its strategic objectives and provided a strong link between these and actionable items, with measurable KPIs that everyone has bought into.

**What does the future hold?**

The company regards EY as a significant strategic collaborator and believes our approach will help it achieve its ambitious goals. MbR has empowered the organization, enabling this new venture to start with a robust and responsive management model.

For the duration of our work with the company, one of its employees has been embedded within our team to help give them and the company the expertise to continue operating MbR when the engagement ends.

Because every organization exists in its own unique set of circumstances, the application of MbR will necessarily be different for different companies. But the approach will be of interest to any organization that needs to establish a whole new strategic management structure and business culture: for example, companies expanding into a new country or region, or those facing major disruptions (challenging conditions or increased competition) in their markets. MbR can also be used for companies that lack a formal strategic process plan and for companies that wish to implement or standardize their use of management tools.

The benefits of MbR, as described in this case study, are clear: a firmly embedded and aligned strategy, a consistent and coherent monitoring of performance, a meritocratic culture promoting continuous improvement and innovation, and a clear focus on generating the profit and return on investment expected by shareholders.

MbR is a complete end-to-end solution that supports companies in structuring, monitoring and achieving their potential results linked to the overall business strategy.
Controllers are increasingly expected to perform a dual role whereby they still retain their traditional bookkeeping and transaction processing responsibilities, but are also required to act as more strategic business partners. This causes a conflict that, up until now, has been often overlooked. In this article, we explain the underlying issues, drawing on a recent study of Dutch controllers who experience this dual-role conflict. We also present some practical solutions.
The role of finance has been changing during recent decades. Originally, controllers' main focus was on their "scorekeeping" role, i.e., activities such as bookkeeping and transaction processing. Since the 1990s, however, scientific literature has been emphasizing the emerging business partner role of controllers. This refers to the requirement for controllers to act as value-adding business advisors to the decision-making process.\(^1\)

This shift in what is expected from controllers is also apparent in practice. Nowadays, organizations are looking for an effective controller: a person who can communicate with the business, knows the key challenges of the company and is able to translate this into propositions that originate in finance but are relevant for the whole business. Controllers need to be the eyes and ears of the CFO and a sparring partner to the business unit manager. This often requires them to perform both scorekeeping and business partnering tasks. To help controllers articulate their roles, EY developed a framework to address the range of activities in which controllers can be involved. Figure 1 shows the typical tasks associated with controllers' different roles. As can be seen, the decision-support activities (associated with the business partner role) are much more focused toward the business in comparison with the transaction processing and control activities, which are more support functions of corporate finance.

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Becoming business partners: the existence of dual roles

The transition toward business partnering activities and the need for financial control from the finance function requires controllers to perform a dual role in which controllers find themselves performing a wide variety of activities with responsibility toward both the CFO and the business unit manager. We refer to these activities as financial and business control.

The shift that scientific literature suggests is not a change in role focus, but rather the addition of business-oriented tasks to the controller’s original role, creating reporting lines to both the business and corporate finance. Figure 2 shows the reporting lines for a controller with a dual role. It is worth noting that the reporting line to corporate finance asks the controller to retain their independence, while the business unit requires the controller to perform an involved role.

To address the contrariety of performing both financial and business control, Sathe developed the term strong controller to describe a controller that is required to be actively involved in the decision-making process while retaining their objectivity and independence from the affiliated management. In addition, he named the independent, involved and split controller. For split controllers, financial and business tasks are divided between two different people. Sathe argued that a strong controller has benefits in the sense that the business partner role provides the controller with sensitive information that contributes to the performance of their scorekeeping role. However, strong controllers deal with a dilemma between independence and involvement in which they want to contribute to the business as much as possible but, simultaneously, need to remain objective toward it.

The current trend in business environments is that organizations would like to have strong controllers, but may not realize the conflict associated with a dual role. In the remainder of this article, we explore whether controllers experience increased role conflict when they are performing a dual role (scorekeeper and business partner) and how this conflict can be reduced.

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**Figure 1. Examples of different controller activities**

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<thead>
<tr>
<th>Reporting</th>
<th>Decision support</th>
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<tr>
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<td>Monitoring business performance</td>
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<td>Financial control framework</td>
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<td>Finance and administration</td>
<td>Treasury and tax planning</td>
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Role conflict arising from dual reporting lines

Controllers with two roles can experience role conflict because of their attachment to the business. The business partner role causes them to feel part of the business team with which they work: for example, sharing in the incentive compensation plan of this particular team. However, the scorekeeper role requires them to independently report to corporate finance on the measures that the business team they are part of will be judged on. Figure 3 details the different activities of controllers with a dual role. Next to financial and business control activities, they are also often involved in accounting, reporting and non-finance-related activities.

The following example from Lambert and Sponem highlights the conflict that controllers experience when performing these dual roles:

“A sales manager may come to ask the controller if they can use their advertising budget not to promote the products to final customers, but to ease commercial relationships by offering retailer discounts.

Figure 3. Activities of a controller with a dual role

“If the controller agrees to offer these discounts, he becomes partly involved in accounting manipulation. However, refusal causes the risk that the sales manager will conceal information in the future, viewing the controller as a ‘bureaucratic bookkeeper with no understanding of market constraints and reality.’”

As a result, controllers with a dual role allow greater tolerance of misreporting as a dysfunctional way of dealing with their responsibility toward both the business unit and corporate finance. This is because their primary responsibility is to their business unit.6
Research into role conflict among controllers in the Netherlands

We conducted research to assess if controllers experience more role conflict when they are performing dual roles. The sample consisted of 93 Dutch controllers from several multinational organizations in both service and product sectors. The research was conducted by means of a survey, during the last quarter of 2013. Respondents were asked to indicate, on a scale from one to five, to what extent they agreed with statements concerning their role duality and the role conflict they experienced in their day-to-day activities. The results indicate that role conflict is more apparent for controllers with a dual role.

Controllers with a single-role focus, on average, showed lower amounts of role conflict compared with controllers with a dual-role focus, who often felt that they lacked the required resources to perform their roles.

For controllers to successfully be the eyes and ears of the finance function and a sparring partner for the business, they need to have very good soft skills. They need to be involved with the business, looking ahead instead of looking back, which tends to be a characteristic of financial controllers who have a more conformist approach. Respondents indicated several improvement opportunities to reduce the role conflict they experienced:

► Ensure all relevant information is made available in relation to the expected tasks
► Provide learning and training to develop the skills applicable to the role of business partner
► Clarify, by means of clear job descriptions, all the activities relevant to the task to be performed
► Build an environment that allows and encourages interaction with the business, creating market knowledge that enables controllers to translate business intelligence into hard finance and vice versa

A key question to be addressed when examining dual-role conflict is: how can the value for both the business and finance be optimized? The challenge for organizations that seek to answer this question lies in providing a finance operating model in which the controller is able to focus on adding value to the business without the omission of financial control. The next section will elaborate on the possibilities of providing such an environment.

Implications for future role design

The finance operating model (FOM) is used by organizations to define the roles and responsibilities of their finance functions. In the FOM, the diverse set of tasks associated with the controller’s role can be divided among multiple individuals in order to create more role clarity (see Figure 5). By splitting the scorekeeper and business...
A clear alignment between the strategy, key value drivers and the value-added role of the local business controllers was achieved.

At EY, we have worked on many projects where the role of the controller within the organization is central. In the majority of these projects, the goal was to further enhance the value-added role of the controller toward the business. The first step in this process is to remove the more administrative tasks from the local organization and place these in a shared service environment. This enables local controllers to spend more time on their control tasks. Next, the split between financial and business control needs to be made. This way, local business controllers are able to focus much more fully on providing added value to the business and

Figure 5. Creating clear roles and responsibilities within the FOM

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developing their skills as business partners.

Figure 5 shows an efficient FOM in which a clear split of roles and responsibilities enables controllers to effectively perform the role assigned to them (as either business partner or financial controller).

Here’s an example of a project that EY performed for an international client, where local controllers’ roles and responsibilities were reconsidered in a rule-based control environment. The objective was to improve the efficiency and quality of the finance function by harmonizing, automating and migrating rule-based controlling processes to a shared service center. In addition to further reducing the controlling cost and improving the internal control system, the aim was to increase the focus of the local finance function on value-adding activities for the business.

Taking the business’ strategy as a starting point, the key value drivers were identified and then linked to the activities performed by controllers. By listing all the activities performed by local controllers (including accounting, financial control and business control tasks) and linking them to the value tree of that specific business model, we could identify the tasks that could be defined as “rule-based.” These tasks required no face-to-face contact with the business or, indeed, a high level of business knowledge. They were routine in nature and could be captured in step-by-step, documented instructions. As such, these rule-based activities could easily be placed in a shared service environment, which meant the local controllers gained more time to spend on analysis and decision-support activities for the business.

As a result, a clear alignment between the strategy, key value drivers and the value-added role of the local business controllers was achieved. Furthermore, this led to controllers experiencing less role conflict because of the increase in focus and time spent on the business partner role.

**Conclusion**

In writing this article, our aim has been to present our study examining whether controllers experience more role conflict when they perform a dual role. We also wanted to offer some solutions to overcome this conflict. Mixed responsibilities, i.e., where controllers find themselves having to report both to the business unit and corporate finance, cause difficulties when controllers try to perform their required duties, resulting in loss of financial reporting quality.

The results of our study demonstrate that controllers do experience more role conflict when they are both a scorekeeper and a business partner. However, companies can use their finance operating model to alleviate this conflict by clearly defining the roles and responsibilities of different controller types.

Providing distinct and well-articulated role descriptions allows controllers either to focus on their business partner role (thereby adding value to the business) or operate as scorekeepers with hierarchical reporting lines to corporate finance (thereby guaranteeing financial control). The solution, therefore, lies in creating an environment in which both value can be added to the business and solid financial control can be assured.
By harmonizing and migrating rule-based activities to a shared service environment, the local controller got more time to spend on analysis and decision-support activities for the business.
Change for success: the IT transformation

This article explores in detail the purpose, goals and substance of IT transformations, as well as the key factors that lead to their success. We also look at the role of chief information officers (CIOs) in facilitating transformations, and give an example of what a successful IT transformation looks like.
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A changing world market, tighter regulation, the rise of digital and a host of other factors are putting business plans today under more pressure than ever before. And strategies are subject to constant change as a result. Because IT is the primary support function of almost all firms, IT departments are also under pressure to change.

Of course, all business functions must continually adapt to remain relevant. But this article explores the role of large, far-reaching IT transformation (ITT) in business today.

An ITT will bring about a sweeping change in the operation of an IT department and is closely linked to a company’s business model. Well-managed transformations enable IT to address new situations and become more closely aligned with business processes. Therefore, the success of an ITT is measured by its contribution to the success of the company as a whole – and not just in terms of the IT function.

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What is an ITT?
An ITT is a company-wide initiative, designed to secure a substantial and sustainable increase in value for a firm. It will have a clear medium- and long-term focus supported by well-defined short-term milestones. The transformation will lead to a structural or operational change for an organization and will actively support business strategy. An ITT is usually initiated in response to a fundamental change in a company’s operating environment, and it will be implemented and driven by management and executives.

Other changes in IT departments often get called transformations, but they are not true ITTs. An ITT is not a standard improvement initiative or a process of incremental development. It is also not an initiative that is designed only to reduce costs or increase revenue. Furthermore, an ITT does not originate from and is not limited to a single area of the business, and it does not focus exclusively on short-term results.

Organizations undertaking successful ITTs expect to achieve some or all of the following:
► Professionalize IT processes
► Optimize IT capabilities
► Maximize value-chain coverage
► Restructure the organization of IT services
► Improve the technology and application landscape
► Relocate IT facilities

Having a solid understanding of exactly what an ITT is before initiating one is an essential part of ensuring that the changes wrought are sustainable.

The purpose of an ITT
Effective IT departments are always evolving in order to provide the best possible service. However, under certain circumstances, this continual process will not provide sufficient change. At this point, an ITT is required. The aim of the transformation will be the structured implementation of substantial changes to the organization of IT.

Major ITTs are usually triggered by a change in business; for instance, a realignment of business areas or a sustainable optimization of the cost structure. If the structural and procedural organization of a company changes, IT must adapt so that it remains aligned with the business, and necessary IT services are still accessible.

Often, a transformation project is focused on cost optimization. Such initiatives usually require IT departments to redefine their processes, services, employees and skills. But, in addition, IT will typically have to redefine their value-chain coverage, and this means that the relationship between business and IT is fundamentally altered.

Reducing costs is not the only reason for initiating ITTs. Often, the need to optimize a sourcing model is a trigger — whether that means outsourcing IT or reintegrating the service within the organization. In addition, ITTs are also frequently instigated when competitors have become more efficient. Finally, a new company strategy, accompanied by structural and procedural changes in a firm’s business model, may well require an ITT.

Although digital innovation makes the headlines every day, it is not typically a trigger for an ITT. Of course, new technology, such as cloud computing and big data, is having a huge impact on IT, but it can usually be accommodated by the everyday change process, rather than a transformation.

Running a successful transformation
ITTs are complex and demanding projects. However, with careful planning, they can run smoothly and be delivered on time and to budget. But it is important that organizations ensure that they focus on the following priorities, which are crucial to success.

► Business case
The business case should be the first stage of any ITT. It will outline the ITT’s rationale, explain what it will entail, and provide
measurable aims and targets. A good business case is usually crucial to securing the support of stakeholders. It should also identify how and where the ITT will deliver improvements and demonstrate its financial benefits.

An ITT usually involves several interconnected areas. The business case should track all of these issues – and model how delays or problems arising in one area could affect the project as a whole.

Finally, it is important that the business case is seen as a dynamic brief and that it is managed and tracked throughout the course of the ITT.

► **Customer focus**
Any business embarking on an ITT must ensure that it does not lose focus on customers – internal or external – during the long adjustment process. After all, if customer relationships are damaged during the transformation, then the anticipated benefits of the ITT could be compromised.

Internally, the burden of the transformation can put a strain on working relationships. Management must make sure that different areas of the business continue to operate effectively together.

► **Leadership responsibility**
During a transformation, members of the leadership team must assume responsibility for their respective business areas. CIOs should ensure that their teams set a clear direction, as substantial changes are stressful for employees.

► **Project planning**
Transformations require experienced project-management teams who can drive the ITT forward over an extended period, accounting for external pressures and the need for flexibility in the original plan.

► **Change management**
Effective change management is always an important part of major transformations, especially in the dynamic IT environment. A successful transformation can only be achieved if the changes at individual and organizational levels are addressed simultaneously. Detailed, target-oriented communication, adapted to each stage of the process, is a core element of effective change management.

► **Stakeholder management**
Naturally, different stakeholders have different reasons for supporting an ITT – and different expectations of the outcome. Like any major project, an ITT will often fail without stakeholder support. Stakeholder and change-impact analyses should be conducted at the outset. And the support of stakeholders must be maintained throughout the transformation. A well-managed steering committee can contribute to good stakeholder management.

► **Program management**
Deviations from initial plans are to be expected in ITTs. A transformation should not therefore be seen as something fixed, but rather as a dynamic process subject to constant change – though, of course, this revision cannot go on indefinitely. It is down to the project management team to define in advance the scope of potential amendments and to coordinate these as they occur.

### The role of the CIO
CIOs should assume overall responsibility for ITTs, overseeing the facilitation and implementation of all key elements, the production of a business case and project road map, and the establishment of a steering committee. Beyond this, the key role of the CIO is to sell the ITT to the company’s executives as a necessary element of a broader transformation, spelling out the benefits it will bring to the company’s strategy.

The CIO should take direct responsibility for managing the ITT’s strategic fit, scope, targets, requirements and budget. This means that the CIO must play a leading role in the steering committee. However, the operational, day-to-day project management should be delegated to a dedicated IT project manager, so that the CIO can maintain oversight of the project.

Nevertheless, the CIO must also be responsible for ensuring that everyday IT services for the company are maintained throughout the transformation. Facing limited resources, the CIO will have to make tough decisions about which IT services to prioritize during the ITT – to do this effectively, the CIO must consult other departments. In turn, this can be part of the ongoing process of designing the ITT so that it is aligned with and complements the whole business.
The key role of the CIO is to sell the ITT to the company’s executives as a necessary element of a broader transformation, spelling out the benefits it will bring to the company’s strategy.

How leading CIOs are preparing for a digital transformation

A recent Performance article¹ examined how digital technologies represent an enormous opportunity for CIOs to forge a new role as drivers of transformational change in their organizations. Based on new research,² the article explains the six crucial characteristics of digital-ready CIOs, i.e., those who are already engaged in the strategic elements of their role and are determined to embrace the shift to digital.

1. A strategic vision for how technology will transform the business, and a road map for implementing that transformation
2. A relentless commitment to innovation
3. A close focus on how IT can drive growth — and strong relationships with business partners, such as the front office, that enable this
4. An ability to communicate the potential of IT to key business partners
5. A determination to move beyond the operational elements of the CIO role
6. The courage to take calculated risks

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¹ “Born to be digital: how leading CIOs are preparing for digital transformation,” Performance, Volume 6, Issue 1, February 2014.
² Born to be digital: how leading CIOs are preparing for a digital transformation, EY, 2014, ey.com/born-digital.
It became clear that minor adjustments to the company’s existing IT strategy would not be able to accommodate the remodeling nor contribute the desired value to the implementation of the new business model.

Case study
An ITT in the life sciences sector

At the end of 2011, a publicly listed life science company set out its new strategy for 2020, which included key business model changes. It became clear that minor adjustments to the company’s existing IT strategy would not be able to accommodate the remodeling nor contribute the desired value to the implementation of the new business model. Therefore, the firm decided that a full-scale ITT was required. The company then planned the four-phase transformation process detailed below.

Phase 1
Planning

As a first step, the company established four key focus areas for the transformation, as well as the benchmarks that would provide goals and measure success:

1. **Improved agility**
   Goal: more than 50% reduction in the speed of response to business requests.

2. **Increased flexibility**
   Goal: a 75% reduction in the number of top-priority jobs declined or delayed.

3. **Lower costs**
   Goal: a sustainable reduction of more than 25% in running costs compared with 2012.

4. **Better project support**
   Goal: improvement in project support, the timely provision of experts and a capacity increase of 20,000 person-days per year.

Phase 2
Visibility and control

It is crucial that IT leadership is closely involved in all aspects of an ITT – particularly where management’s own roles and responsibilities are being adjusted. It is also essential that the leadership team shares a common understanding of core and non-core activities as they are defined within the ITT.

Phase 2 will:
1. Ensure that the company’s board and IT management team have a shared understanding of the transformation
2. Provide inclusive and consistent communication between management and employees
3. Enable in-depth and validated transparency within the IT department concerning:
   - Costs
   - Projects
   - Employees
   - Customer satisfaction
   - Application and infrastructure landscape
4. Establish temporary structures for monitoring the whole corporation
5. Develop a detailed procedure model for the entire ITT
6. Prepare sourcing activities to reduce value-chain coverage
Phase 3
Cost reduction and new capabilities

This phase focuses on increasing agility and flexibility, improving support for the project and sustainably reducing IT operating costs. It will:
1. Build a business structure with no overlap in responsibilities or duties and align the global organization with a clear supply and demand structure
2. Analyze the abilities of the current IT workforce and identify areas for development
3. Implement a consistent demand-management system in combination with group-wide portfolio management
4. Implement a global service-management organization to manage third-party services
5. Align the supply function primarily with supporting business projects
6. Develop and implement a consistent IT process model to support the new organizational structure
7. Construct consistent, global IT governance
8. Outsource operational activities achieving a sustainable cost reduction of more than 25% and improving the availability and quality of services
9. Consolidate project-support service providers and conclude global framework agreements with a sustainable cost reduction in daily rates of around 25%

For success in this phase of an ITT, it is important that the development of the process model incorporates any existing employees who will be retained in the new organization. Current leading practices should also be carried forward into the post-transformation IT service.

In addition, it is crucial that desired financial savings are defined and approved by the management board in advance. The board should also consider any potential costs of an expanding workforce. If a company is outsourcing work, this creates some breathing space, meaning that it will not be forced to choose the cheapest supplier.

Phase 4
Sustainability

The final phase will:
1. Establish instruments for knowledge management and ongoing improvement
2. Conclude the ITT change-management process and establish a culture of continuous optimization and improvement in the company’s organization
3. Phase out external support without disturbing the IT department’s new structure and ethos

If the transformation project is to be successful and sustainable, once the ITT has been designed, it is imperative that leadership follow its plan. Executives must also involve and integrate staff throughout the project.

Ensuring the ITT will last

ITT has become something of a buzzphrase. Nowadays, many individual IT projects — from updating network infrastructure to consolidating databases — are called ITTs. Of course, these processes are transformations in a sense and are certainly complex procedures. But they are not the comprehensive, business-aligned ITTs that we have been discussing in this article.

Having a solid understanding of exactly what an ITT is before initiating one is an essential part of ensuring that the changes wrought are sustainable. In the end, sustainability is the real test, because, as we’ve seen, an ITT affects all areas of IT services — from organization, roles, positions, responsibilities, technology and external partners, through to interaction with the company structure.

Finally, perhaps the most important factor for a successful ITT is that leadership takes a thorough and rigorous approach to the transformation, and maintains a clear focus on the final goal.
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