Second Quarter 2021
The Decision-Making Revolution

A Blueprint for Decision Confidence During Rapid Change
It’s Time to Disrupt Decision-Making Culture
How to Succeed at Optimizing Business Costs
Machine Customers Will Decide Who Gets Their Trillion-Dollar Business
Why Do Executives Move Forward with Strategic Initiatives Even When They See Pitfalls Ahead?
The Whiteboard: Big Questions to Ask as You Recalibrate Plans to Reopen
Leaders in function after function tell us in survey after survey about their growing doubts that they can make wise choices and tough calls. They say they need to make bigger decisions and faster decisions than just two years ago; they say they must involve more colleagues. They acknowledge the importance of data yet admit to relying on their gut. They say they seek out evidence their bosses want to hear.

This is an unhealthy state of affairs. Just as machine learning needs algorithms, people need systems and frameworks that support higher quality decision making. And organizations must retool their cultures to make these processes more transparent, more collaborative, more timely.

The short articles inside will offer help. You’ll learn the five markers of decision-making excellence and tips for attaining each one. You’ll get advice for spreading data literacy. And you’ll read about an emerging market—products that order their own refills and repairs—that you can capitalize on only once you understand how machines decide what to buy.

You’ll find real-world experience shared by leaders at an international group of organizations, large and midsize, private and public, including CHS, DSM, Danfoss, Dropbox, Bose, Benco Dental, UnitedHealth Group and Froedtert & the Medical College of Wisconsin.

GBQ advises you on aligning with others and reaching peak effectiveness, so your organization can achieve its goals, be bold and principled, and bring employees, investors and the public along for the ride.

Our standing departments keep you up to speed — Cutting Edge, a look at provocative new data, and Briefs, short takes about smarter spending and planning, talent and culture, growth and innovation, and data and technology.

We welcome your feedback. Please contact me at judy.pasternak@gartner.com.

— Judy Pasternak
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Finance leaders can tap technical staff to help decision makers understand the oft-neglected balance sheet. Three tactics, distilled from interviews with a CFO, a former finance executive and three researchers, help the middle office overcome limited experience interacting with the business.

Impose Constraints to Make Better Decisions Faster
To achieve better outcomes with less effort, define limitations around decision making to create structure, urgency and efficiency.

The Whiteboard: Big Questions to Ask as You Recalibrate Plans to Reopen
A six-month-old playbook for reopening the workplace is probably out of date already. New developments — such as the vaccine rollout, changing COVID-19 science, and a year’s experience with mass remote work — require a broader rethink. It’s time to head to the whiteboard and sketch out how to envision the future of work.
For Most CEOs, Taking a Public Social Justice Stance Seems Risky

Only 39% are confident that commenting externally is good for business and that their employees mostly agree on the issues. For their companies, the value of expressing a position outweighs the possibility of a negative reaction from customers, investors or talent. That leaves 61% of CEOs still tiptoeing carefully.

CEO and Senior Executive View on the Company Taking a Public Stance on Social Justice Issues

<table>
<thead>
<tr>
<th>Employees Are Mostly of One Mind</th>
<th>Employees Are Split on the Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good for Business</td>
<td>39%</td>
</tr>
<tr>
<td>Damaging to Business</td>
<td>8%</td>
</tr>
</tbody>
</table>

n = 464
Source: 2021 Gartner CEO and Senior Business Executive Survey
Note: 17% no opinion on one or both areas.
A Majority of CEOs Anticipate an Economic Boom and Set Their Eyes on New Markets

Most CEOs have become more optimistic since the announcement of the first vaccine in November 2020, and anticipate a fast, sharp recovery.

To drive growth over the next two years, CEO focus on incremental sales fell while interest in new markets grew. They most often say they’ll prospect for new market segments such as a different generation or company size. A year ago, only 20% of chief marketing officers were looking to new markets.

Economic Recovery Expectations

<table>
<thead>
<tr>
<th>Economic Recovery Expectations</th>
<th>Pre-9 November 2020</th>
<th>Post-9 November 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don't Know/No Opinion</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Economies Will Be in Stagnation for Several Years</td>
<td>49%</td>
<td>36%</td>
</tr>
<tr>
<td>An Economic Boom Will Start Within the Next Two Years</td>
<td>0%</td>
<td>60%</td>
</tr>
</tbody>
</table>

n = 354
Source: 2021 Gartner CEO and Senior Business Executive Survey

Business Priorities for the Next Two Years

Percentage of Mentions Within the Growth Category

<table>
<thead>
<tr>
<th>Business Priority</th>
<th>2021</th>
<th>2020</th>
<th>More of Same Not Delivering</th>
<th>New Sources Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unspecified</td>
<td>17%</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographic</td>
<td>16%</td>
<td>16%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>15%</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Markets</td>
<td>7%</td>
<td>12%</td>
<td>More of Same Not Delivering</td>
<td>New Sources Needed</td>
</tr>
<tr>
<td>Market Share</td>
<td>7%</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>6%</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

n = 402 (2021), 403 (2020)
Q: To start, please tell us about your organization’s top 5 strategic business priorities for the next 2 years.
Source: 2021 Gartner CEO and Senior Business Executive survey, 2020 Gartner CEO and Senior Business Executive survey
CEOs Have Quietly Reduced Their Digital Business Ambitions

CEOs increasingly use the word “digital” in describing their business priorities. But when they get specific about technology-related agendas, they reveal a shift away from business model innovation to a pragmatic emphasis on operations. Compared with last year, mentions of digital transformation halved, digitalization tripled, and e-commerce and digital commerce quadrupled.

Unprompted Use of the Word “Digital” When CEOs State Their Top Business Priorities

Business Priorities for the Next Two Years
Percentage of Mentions Within the Technology Category

Q: To start, please tell us about your organization’s top 5 strategic business priorities for the next 2 years.
Source: 2021 Gartner CEO and Senior Business Executive Survey

Q: To start, please tell us about your organization’s top 5 strategic business priorities for the next 2 years.
Source: 2021 Gartner CEO and Senior Business Executive survey, 2020 Gartner CEO and Senior Business Executive survey
To Executives, Stakeholder Capitalism Still Means “Investors First”

CEOs and senior executives are split on whether investor needs are primary or all stakeholders are equal. Since last year, the balance has tipped slightly towards investors.

Importance of Customer, Employee, Supplier, Community & Shareholder Needs

 CEOs around the world anticipate investor expectations for 2021-2022 to focus on better profit returns; mentions of environmental and social changes are a long way behind.

Biggest Shift of Investor or Owner Expectations in 2021-2022

Coded Responses

On average CEOs expect +3% in EBIT over two years from digital change efforts.
Another survey of corporate executives shows that 93% of respondents who engage in sustainability beyond just meeting compliance objectives expect to boost these investments by 2023, with an average projected increase of 5.7%. They expect to spend some of the money on sustainability initiatives that lead to new products and services or new business models.

**Top Priority Sustainability Initiatives**

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Lower Maturity</th>
<th>Higher Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protecting/Improving Enterprise and/or Brand Reputation</td>
<td>82%</td>
<td>81%</td>
</tr>
<tr>
<td>Ensuring Compliance</td>
<td>74%</td>
<td>75%</td>
</tr>
<tr>
<td>Improving the Sustainability Related Performance/Profile of Existing Products/Services</td>
<td>63%</td>
<td>64%</td>
</tr>
<tr>
<td>Increasing Material/Resource Efficiency</td>
<td>60%</td>
<td>75%</td>
</tr>
<tr>
<td>Valuing Externalities (e.g., Ecosystem Services)</td>
<td>54%</td>
<td>62%</td>
</tr>
<tr>
<td>Creating New Sustainable Products and Services</td>
<td>53%</td>
<td>74%</td>
</tr>
<tr>
<td>Developing New Sustainable Business Models</td>
<td>52%</td>
<td>71%</td>
</tr>
<tr>
<td>Linking Your Digital Business Strategy and Sustainability Strategy</td>
<td>38%</td>
<td>43%</td>
</tr>
</tbody>
</table>

n = 83-89 Lower Maturity; 89-94 Higher Maturity.
Source: 2020 Gartner Sustainability Survey

Executives of organizations that invested in such transformational projects achieved better business outcomes than the rest. When asked the top three benefits, they cite:

1. Resource efficiency (49%)
2. Innovation and new product development (37%)
3. Improved customer satisfaction/engagement (30%)
4. Reduced costs (27%)
5. Value proposition of products (21%)

n = 183
Source: Gartner 2020 Sustainability Survey
The Decision-Making Revolution

A high-quality decision drives strategic value, represents the best alternative and can be resourced. What can senior leaders do to repeatably reach good conclusions — even as the conditions shift for making them? We investigated, using R&D leaders and the innovation portfolio as a proxy. (Given the general emphasis now on breakthrough innovation over incremental growth and the many departments involved, this seems apt). Five markers of decision-making excellence emerged from our study (see Figure 1). The more of these markers present, the higher decision quality soars. Outperforming competitors on all five translates into a nearly 100% likelihood of outperforming on decision quality — yet only 1% of organizations do this (see Figure 2).

A Blueprint for Decision Confidence During Rapid Change

by Atul Dighe

In 2021, functional leaders are data rich but decision poor. Access to an ever-increasing volume of information has not translated into a corresponding boost to the quality of actions taken. This gap is particularly alarming at a time when 56% of CEOs are focusing on growth, 36% mention technology-related priorities and another one-third expect major structural and directional changes to the business — all priorities that require decision making excellence. In the face of these expectations and pandemic-fueled disruption, executives acknowledge that instead they’ve gone with their guts and “decided up” — seeking findings that support stakeholder’ preferences.

Strong Decisions Translate Into Robust Innovation Pipelines

Why does this matter? To paraphrase the philosopher Jean-Paul Sartre, we are nothing else but the sum of our actions. And portfolio health is nothing else but the sum of portfolio decisions. Here’s the evidence: Compared with R&D teams that show low decision quality, those at the 85th percentile experience 70% more investment in transformational growth opportunities. They are also 38% better at reallocating resources from incremental opportunities to transformational ones and significantly better at maintaining these investments (see Figure 3).

In short, great decision-making capabilities help your business win the future.
**Figure 1. The Five Markers of High-Quality Decision Making**

<table>
<thead>
<tr>
<th>Marker</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic clarity</td>
<td>Decision makers understand what the portfolio seeks to accomplish when choosing what to include and what to leave out, setting funding levels and selecting measures of success.</td>
</tr>
<tr>
<td>Assessment rigor</td>
<td>Decision makers believe in the importance of considering alternatives and use market or value chain scenarios to stress-test portfolio decisions.</td>
</tr>
<tr>
<td>Information quality</td>
<td>Decision makers believe they have timely, adequate, relevant and accurate information.</td>
</tr>
<tr>
<td>Process quality</td>
<td>Decision makers establish and adhere to a well-defined decision-making process with agreed-upon metrics to track progress and clear assignment of decision rights.</td>
</tr>
<tr>
<td>Stakeholder coaching</td>
<td>Decision makers have access to the right resources and people to provide guidance in their selections.</td>
</tr>
</tbody>
</table>

Source: 2020 Gartner Portfolio Decision Making During Disruption Survey

**Figure 2. Presence of Decision Quality Markers and the Likelihood of Outperformance**

- **Percentage of Respondents With a Particular Number of Markers**
- **Likelihood of Competitors Outperforming on Decision Quality**

<table>
<thead>
<tr>
<th>Number of Markers</th>
<th>Percentage of Respondents</th>
<th>Likelihood of Competitors Outperforming on Decision Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Markers</td>
<td>34%</td>
<td>0%</td>
</tr>
<tr>
<td>1 Marker</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>2 Markers</td>
<td>27%</td>
<td>32%</td>
</tr>
<tr>
<td>3 Markers</td>
<td>17%</td>
<td>62%</td>
</tr>
<tr>
<td>4 Markers</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>5 Markers</td>
<td>22%</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1%</td>
</tr>
</tbody>
</table>

n = 282 R&D leaders

Source: 2020 Gartner Portfolio Decision Making During Disruption Survey

Note: Percentages may not add up to 100% due to rounding.
Attention to the Five Markers Is Urgent Right Now

Under any circumstances, those crafting the portfolio face demands to weigh and counterweigh the long term and the short term, walking the line between experimental frontier research that drives innovation and product-oriented development work that creates revenue. The push and pull become more pronounced in a disruptive environment, whether changes are thrilling (e.g., new technology) or chilling (e.g., budget cuts). During the upheaval of 2020, more than eight in 10 R&D leaders told us that high-level management and boards scrutinized the product pipeline more closely. About the same number told us they experienced an added emphasis on speed. And six in 10 said the seniority of people who wanted a say in the portfolio was higher than the year before (see Figure 4).

The result: 46% of R&D leaders admitted to discounting data from another source if it conflicted with the first, and half said they overweighted intuition. Seven in 10 acknowledged seeking results that supported the options they preferred or the outcomes influential stakeholders wanted to see.

Under these circumstances, it’s no surprise R&D executives say their companies’ innovation portfolios are ailing:

- Only 12% say their collection of projects is not mired in delay.
- Only 31% say they have balanced risk, value and time horizons.
- Only 41% say they’ve included a number of very-high-value initiatives.

There’s even a shortfall on the basics: Just half say their spending matches business strategy, and only slightly more than half (56%) say their portfolios are aligned with enterprise objectives. This is not a good place to be.

Functional leaders should use the following five markers as the blueprint for increasing confidence in their choices amid a rapidly changing world.

1. Strategic Clarity: It’s Not Enough on Its Own

If everyone in your enterprise posted your strategy on social media, how tightly aligned would the messages be? Unfortunately, over one-third of organizations lack a clearly articulated and broadly understood strategic game plan. But those that do see a 34% boost to decision-making quality.5

Because this marker is so important, if you think you’ve already achieved it, double-check your belief. And for the 38% who say they haven’t yet, take immediate action.

Case in point: As the adage states, the best way to learn something is to teach it. So the insurance giant MetLife asked decision makers to help create a visual depiction of the company’s strategy and hired a graphic artist to turn it into...
62% indicate the seniority of R&D portfolio decision makers has increased.

78% indicate the stakes for portfolio decisions have increased.

50% went with their “gut instincts” most of the time when the data analysis seemed ambiguous.

46% discounted data from a different source most of the time when it conflicted with the first source.

71% searched for findings to support a preferred decision.

78% indicate the pressure the R&D organization feels from business partners or the board to make faster decisions has increased.

79% indicate the pressure to increase short-term profitability that R&D feels from business partners or the board has increased.

n = 282 R&D leaders
Source: 2020 Gartner Portfolio Decision Making During Disruption Survey

a jigsaw puzzle. Involving stakeholders helped them comprehend the full picture as well as how the individual pieces and projects fit together. The corporate strategy team then took the puzzle to an interactive workshop for the broader employee base to learn while playing with it.

High-quality decisions need strategic clarity, but strategic clarity alone is not enough. Of the 62% of organizations that outperform their peers on strategic clarity, only 18% outperform on decision quality.5

2 Assessment Rigor: Consider Designating a “Devil’s Advocate”

Only 11% of organizations outperform their competitors on productive challenges to data, assumptions, options and eventual decisions using tools such as megatrend analysis, scenario planning and targeted tough questions about what’s believed to be true.

Case in point: The global health sciences company DSM assigns an informed and objective skeptic to challenge the most critical assumptions underpinning the decision at hand. First, DSM’s development team documents its assumptions, each one supported by data and insights and including a forecast for the “likely case” scenario. Next, comes a review by the designated “challenger” — an experienced leader with no vested interest in the outcome. The challenger’s job is to assess which, if any, strategic pillars need rethinking in light of an alternative scenario or interpretation. If there’s disagreement, the team must reevaluate.

3 Information Quality: Learn When Enough Is Enough

Over 70% of organizations believe they have poor information quality and “multiple versions of the truth” in their data. Thus they continue to gather data even when they have enough to make an informed decision. Progressive leaders must decide when enough is enough.

Use the TARA test: Is the information timely, adequate, relevant and actionable? If so, move forward. (Gain consensus on what these requirements mean before your assessment begins.)

Case in point: Decision makers at Bose were information addicts, seeking more and more. To overcome this insatiable desire, the R&D team built what it called a minimum viable knowledge plan. They asked questions upfront of stakeholders: What would validate the assumptions? Where should we seek the information? How much effort should we exert?

This collaboration demonstrated that the amount of data decision makers needed was far less than they might think. And the R&D team could point to this written agreement when executives raised doubts that they’d reached the point of sufficiency.
**4 Process Quality: Maintain Consistency**

Don’t — we beg you — create process for the sake of process. But you do need to make high-quality decision making more systematic and repeatable. To that end, clarify the roles, responsibilities and decision rights. Measure and set targets for the time it takes to make decisions according to their level of importance; stop wasting hours on considerations of little to no consequence.

**Case in point:** Engineering company Danfoss took a page from the M&A team as part of its overall portfolio selection process. A due diligence panel (including executives from finance, legal, engineering and manufacturing) examines a slate of potential projects for inclusion. This group evaluates the business case for each against the others to provide a prioritized set of recommendations in the form of a scorecard. Finally, for accountability, the due diligence team literally signs off on the validated business cases.

**5 Stakeholder Coaching: Help Eliminate Blind Spots**

Only one in five organizations outperforms its competitors in helping stakeholders understand the implications of trade-offs and the risks associated with decisions. Without formal mentorship from more experienced leaders, how can they be expected to act quickly and boldly?

**Case in point:** One global manufacturer told us that decision makers had trouble understanding how funding certain projects would affect opportunities for important research. To spark coaching conversations with the CFO, chief technology officer and business unit leaders, the R&D team converted the scorecard concept into a visual graphic that uses both technological and market-based criteria. R&D plots several opportunities against each other, showing a downside, a best guess and an upside scenario for each element (see Figure 5). Projects with the

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**Figure 5. Benefits of a Portfolio-Level, Scenario-Based Balanced Scorecard**

**Illustrative**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Rating Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Technological maturity</td>
<td>□</td>
</tr>
<tr>
<td>Technological Dependence</td>
<td>□</td>
</tr>
<tr>
<td>Degree of Disruptiveness</td>
<td>□</td>
</tr>
<tr>
<td>Degree of Differentiation</td>
<td>□</td>
</tr>
<tr>
<td>Regulatory Environment</td>
<td>□</td>
</tr>
<tr>
<td>Megatrend Addressed</td>
<td>□</td>
</tr>
<tr>
<td>Degree of Disruptiveness</td>
<td>□</td>
</tr>
<tr>
<td>Market Adoption Time Horizon</td>
<td>□</td>
</tr>
</tbody>
</table>

- **Identify Areas for Learning**
  Wide uncertainty ranges indicate that further learning may be valuable for multiple projects in the portfolio.

- **Expand the Consideration Pool**
  Reviewing uncertainty ranges rather than averages helps expand the consideration pool to include opportunities that may not have passed traditional scoring hurdles.

- **Test for Diversity**
  Highlighting opportunities with similar uncertainty profiles helps R&D leaders see pockets in potential overcorrelation of the portfolio.

Source: Adapted From CitrusAce*

* Pseudonym.
greatest spread from downside to upside could help the company learn for the future and develop important capabilities. Projects with similar profiles highlight areas where the portfolio might tilt too much toward the same level of risk.

**Assess Your Status for Each Marker, and Shore Up Weak Points**

Excelling at more than three markers will at least double your chances of outperforming competitors on decision quality. To get there, it’s best to begin wherever you find yourself today and build on your strengths.

Identify a set of important decisions to be made over the next six months, and check where you stand with each element. If your organization does not have a clearly defined and articulated strategy, start there. Add the other markers along the way.

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1. 2021 Gartner CEO and Senior Business Executive Survey. CEOs and senior executives cited these priorities among their top three. Gartner conducted this research from July through December 2020, with questions about the period from 2020 through 2023. One-quarter of the sample was collected in July and August, and three-quarters in October through December. In total, 465 actively employed CEOs and other senior executive business leaders qualified and participated. The research was collected via 390 online surveys and 75 telephone interviews.

**Disclaimer:** The results of this study are representative of the respondent base and not necessarily business as a whole.

2. We tested over 40 drivers of decision quality in the 2020 Gartner Portfolio Decision Making During Disruption Survey. The survey received responses from over 280 R&D executives in all major industry categories and geographies. Those determined to have no statistical significance in improving decision quality include clear communication and surfacing dissent and constraints to moving the decision along. This may be because such drivers are basic requirements in decision making and using the five markers we identified as significant adds rigor to those activities that makes the difference.

3. The five markers of high-quality portfolio decision making have each been shown to have a statistically significant impact on portfolio decision quality. When moving from the 15th to the 85th percentile in terms of performance, the maximum impact of each marker on improving decision quality is as follows:
   - Thirty-four percent for strategic clarity
   - Seventeen percent for assessment rigor
   - Fourteen percent for information quality
   - Fourteen percent for process quality
   - Seven percent for stakeholder coaching


5. 2020 Gartner Portfolio Decision Making During Disruption Survey.
The ancient Greek historian Herodotus recorded that the Persians, who were very fond of wine, would often drink while they discussed important matters. But they would withhold final approval for anything they’d settled until after a sober review.¹ In modern organizations, functional leaders also take action within the context of their customs. A new era is arriving, though, and the predominant culture has failed to keep up. It needs an overhaul.

Right now, executives struggle with the way they make choices. Sixty-five percent of the 147 business leaders we surveyed in 2020 told us the decision-making process has grown more complicated; more stakeholders are involved and more options are available than just two years ago (see Figure 1). About half say they have to justify more of their judgments and that they have to make more of them. In a separate poll of 200 leaders, about six in 10 said that, since the pandemic began, they’ve had to make faster decisions — and bigger ones.²

**Figure 1. How Decision Making Has Changed Over the Past Two Years**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Decisions I Make Are More Complex (e.g., More Stakeholders Involved, More Choices)</td>
<td>5%</td>
<td>30%</td>
<td>65%</td>
</tr>
<tr>
<td>There Is a Higher Expectation for Me to Be Able to Explain or Justify My Decisions</td>
<td>5%</td>
<td>42%</td>
<td>52%</td>
</tr>
<tr>
<td>I Am Making More Decisions</td>
<td>5%</td>
<td>45%</td>
<td>50%</td>
</tr>
<tr>
<td>I Am Expected to Make Decisions More Quickly</td>
<td>6%</td>
<td>48%</td>
<td>46%</td>
</tr>
<tr>
<td>The Personal or Organizational Implications of a Bad Decision Are More Significant</td>
<td>3%</td>
<td>54%</td>
<td>43%</td>
</tr>
</tbody>
</table>

n = 147

Source: 2020 Gartner Reengineering the Decision Research Circle Survey

Q: “How much do you agree or disagree with the following statements regarding making decisions in your role today compared to two years ago?”

Note: Percentages may not add up to 100% due to rounding.

Gartner Business Quarterly
Buying new technology solutions is simply not enough to meet this moment. To cope with more complexity, functional leaders must reorient how they think about decisions and the degree to which machines should be involved in each one. To manage the need for more collaboration, they should set up new teams and roles. To move faster and to gather strong evidence, they must share data more freely with others and take steps to spread data literacy.

Indeed, when assessing challenges in decision making, more executives cite organizational and cultural obstacles than data obstacles (see Figure 2). But you and your colleagues can revamp the culture so decision making is:

- More connected (more inclusive and transparent)
- More contextual (more trustworthy, accurate and personalized)
- More continuous (faster, more scalable and more flexible)

If you do that, decision making can be a competitive differentiator, underpinning all your efforts to turbocharge business performance.

**Change the Way You Categorize Decisions**

Stop thinking about decisions as strategic, tactical or operational; any decision, after all, can have strategic, tactical and operational consequences. Examples include:

- Expanding into a new market on an e-commerce platform (strategic and operational)
- Pursuing an acquisition to gain more knowledge about digital markets (strategic and tactical)
- Vying for scarce talent (tactical and operational)
- Crisis management (all three)

**Figure 2. Biggest Challenges for Decision Making**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Cultural Challenges</th>
<th>Data Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Clarity or Shared Understanding of Decision Authority or Decision Rights</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Too Many People Involved in the Decision</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Lack of Clarity or Shared Understanding of Organizational Strategy or Principles</td>
<td>40%</td>
<td>33%</td>
</tr>
<tr>
<td>Key Stakeholders Not Involved in the Decision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of the Right Type of Data</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>Poor Data Quality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Messages of the Data Analysis Were Not Clear</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Insufficient Sample Size</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>The Analysis Was Not Insightful</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Information Overload</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

n = 143-147, excluding “not sure”

Source: 2020 Gartner Reengineering the Decision Research Circle Survey

Q: “How much of a challenge were the following organizational issues for the decision? How much of a challenge were the following data and analysis issues for the decision?”
Instead, consider the right ratio of machines and data to humans and judgment for each choice. The mix can also change depending on the stage of the decision-making process (see Figure 3). It’s up to decision owners and business leaders to determine the right combination for each one (see Figure 4). For example, when deciding whether to refund a returned product, a machine can analyze the product and the reason for return, apply a rule, and reject or accept the claim. Human judgment can consider the context of the return (e.g., whether the customer is highly valued). For some decisions, like how to respond to a contentious societal issue, automation is not only unnecessary but also undesirable.

Establish New Roles for Decisioning and Design

Though they recognize the need to collaborate, executives report that too many stakeholders and unclear decision ownership cause problems and delays in taking action. One solution is to give someone responsibility for managing how decisions get made.

In 2018, the Dutch industrial giant Philips reorganized its finance analysts to create “decision engineer” roles. Instead of supporting multiple decision types for a single business unit, these analysts supported a specific decision type, such as cost management or product improvements, in a number of business units.

**Figure 3. Perspectives on How Much Each Stage in the Decision Process Can Be Automated**

<table>
<thead>
<tr>
<th>Percentage of Respondents Favoring Each Option</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Flagging Opportunities or Problems That Will Require a Decision to Be Made (n = 146)</strong></td>
</tr>
<tr>
<td>Entirely Human</td>
</tr>
<tr>
<td>16%</td>
</tr>
<tr>
<td><strong>Providing Context and Insight Around This Decision (n = 146)</strong></td>
</tr>
<tr>
<td>Entirely Human</td>
</tr>
<tr>
<td>16%</td>
</tr>
<tr>
<td><strong>Identifying the Likely Outcomes of Possible Actions (n = 144)</strong></td>
</tr>
<tr>
<td>Entirely Human</td>
</tr>
<tr>
<td>17%</td>
</tr>
<tr>
<td><strong>Selecting the Right Decision (n = 146)</strong></td>
</tr>
<tr>
<td>Entirely Human</td>
</tr>
<tr>
<td>28%</td>
</tr>
<tr>
<td><strong>Tracking and Analyzing the Results of Decisions That Have Been Made (n = 147)</strong></td>
</tr>
<tr>
<td>Entirely Human</td>
</tr>
<tr>
<td>12%</td>
</tr>
</tbody>
</table>

Source: 2020 Gartner “Reengineering the Decision” Research Circle Survey

Q: “What extent of automation do you feel is appropriate for each of the following stages of making a decision within your organization?”

Note: Percentages may not add up to 100% due to rounding.
These analysts also tracked decision outcomes and looked for ways to improve the process. Monitoring the results of decisions is something only one in five companies does today. At Philips, the finance team held an annual meeting to review whether each decision adequately considered the financial implications. Finance could then identify decision-making teams in the business with a low success rate and provide more help.

Philips found that these tailored roles raised decision quality, netting the company €18 million in additional value from improved sales success rates during the four months of the pilot phase. And the analysts liked it because they built useful expertise.

**Build New Organizational Structures for a Collaborative Culture**

Chief data officers rank cultural resistance to change as the top roadblock to their team’s effectiveness. More specifically, they say stakeholders are reluctant to share data; after all, information is power. But analytics groups that share data internally are more successful as a team than those that don’t, and those that share data externally see better enterprise performance.

Collaboration doesn’t happen naturally; functional leaders need to support and spread data and analytics insights throughout the organization. A hybrid structure, in which a centralized team works closely with decentralized business unit teams, is most effective. Consider the following options:

- **The franchise analogy** — A data and analytics center of excellence establishes “franchises” in different functions. The central team creates a consistent and shared process while giving local analytics teams freedom to interpret data in the most relevant ways for themselves.

- **The resource center model** — A central team of decision engineers offers support to decentralized teams.

- **Empowered domain teams** — Even when decision-making processes must be the same throughout the organization, functions can take the lead in their areas of expertise. For example, HR can be in charge of reengineering talent decision-making processes, and finance can do the same for financial decision-making processes.
Help Humans Use Data Correctly

Poor data literacy doesn’t always mean being data-avoidant — although it can. A lack of knowledge about metrics can also lead to an overreliance on, or misuse of, data. The problem is persistent. Studies based on surveys in 2014 and 2019 found that bad (or no) use of data can cost your company 1% of revenue or five days of productivity per worker per year. Yet chief data officers were still telling us in 2019 that a lack of data understanding was a top obstacle for their teams’ success.

Employees must become informed skeptics who can balance data considerations with their own judgment and experience. Centralized training is one of the quickest ways to help them. This program should teach workers and leaders the language of data as well as how to connect information, analysis and value. If they can understand these relationships, they’ll be better prepared to judge how much to rely on data for each decision.

Aim to make data literacy part of the culture. For example, Froedtert & the Medical College of Wisconsin sought to improve data-driven decision making through four incentives: psychological, economic, social and organizational.

Leaders at the regional health organization realized that middle managers could exert the most influence on data literacy because they interact with both senior management and their own teams. Therefore, as they got better at making data-driven decisions, their examples would influence those above them as well as those below them on the org chart. As a result, the organization saw better senior leader engagement with dashboards and real-world improvements, including a reduction in the average length of patients’ stays and reduced patient readmissions.

2 2021 Gartner Audit Business Partner Panel Survey. Respondent demographics included department head/directors, division heads/vice presidents, senior vice presidents and executive vice presidents.
3 2020 Gartner Reengineering the Decision Research Circle Survey.
4 2019 Gartner Fifth Annual CDO Survey.
5 2014 Gartner Decision Maker Information Survey.
6 The Human Impact of Data Literacy, The Data Literacy Project.
How to Succeed at Optimizing Business Costs
by Srinath Sampath

The pandemic and its economic reverberations led 90% of organizations around the world to hit the brakes on spending in 2020. But while three in 10 executive leaders report a significant negative impact on their revenue and ability to fund new initiatives, about the same proportion saw an improvement in their brand propositions and customer demand for products and services. Effective cost management may have given the best performers a leg up in preparing for recovery. In addition, the underlying key to success has been a common enterprise-wide framework for deciding how and where to cut — and how to use the savings.

Cost management framework: A set of cost categories formally used in budgeting, target setting and reporting on costs.

Only 35% use the same spending and investment principles consistently across different functions (see Figure 1). Compared to those that don’t, these organizations were:

- More likely to achieve their cost management goals prepandemic
- Less likely to report a budget cut or cost cut in response to the pandemic
- More likely to use clear metrics that define success
- More likely to experience stronger cross-functional collaboration on cost management

**Figure 1. Usage of Cost Management Frameworks**

- 35% Yes, the Entire Organization Used the Same Cost Management Framework Consistently
- 8% There Was No Framework Used to Manage Costs
- 57% Cost Management Frameworks Used Differed By Functional Areas

n = 312, all respondents, excluding "not sure"

Q. Prior to the COVID-19 pandemic, did your organization consistently use a framework for cost management?
Source: 2020 Gartner Business Cost Optimization Through a Crisis Study
Cost Management Effectiveness Portends Enterprise Success

Applying lessons learned about getting cost management right is critical even as this round of upheaval ebbs — because there will always be another disruption, and the impact of the choices made each time will last for many years. Organizations that succeeded according to their own predetermined measures before the COVID-19 outbreak were 40% more likely than their peers to engineer a positive impact on their enterprise performance as the virus spread (see Figure 2).

A similar scenario unfolded during and after the financial crisis of 2008 through 2010. In that period, the actions of the executive team created the ability to gain ground among a select group — just 5% of the 1,200 largest publicly traded corporations in the world. And those organizations stayed in the forefront for another decade. Their moves through the recession determined their destiny over a longer term.

COVID-19 Reactions: Wide Cuts Versus Targeted Savings

In their cost management responses to the pandemic, only 10% of our respondents were in the fortunate position of not having to cut at all. Sixty-seven percent responded with savings plans targeting specific cost centers, while 23% cut costs equally across the board. Interestingly, organizations that avoided across-the-board cuts in the face of crisis were twice as likely to anticipate spending increases (18% versus 9%) in the subsequent months.

Functional budgets weren’t spared from the chopping block either, but the pain wasn’t shared equally. Ninety percent of marketing respondents say they were asked to cut costs, compared to only 60% of IT respondents. For some organizations, in the specific context of COVID-19, on-street and commuter marketing may not make sense during lockdowns, whereas investment in IT to enable work from home or pursue digital revenue would. But on the other hand, some organizations (for example, those providing teleconferencing services) may need to increase their marketing budgets to get the word out.

Figure 2. Likelihood of Achieving Positive Impact on Enterprise Business Performance Areas

Other drivers include:
• Using reserve budget to avoid making cuts to high-value functions
• Collaboration between functions in support of cost management

Barriers
• Function-level cost/budget cuts in response to COVID-19

n = 313; all respondents, excluding “not sure”
Base: Results of driver analysis on achieving top quartile scores on the 0-100 index outcome variable, based on the following question
Q: In the following performance areas, how would you assess the impact of COVID-19 on your enterprise?
Source: Gartner 2020 Business Cost Optimization Through a Crisis Study
Executive leaders must shift their organizations’ mindsets away from cost-cutting as a one-off cost management exercise and toward an ongoing discipline. They can do this by communicating to their colleagues (especially the skeptics) the importance of effective cost management in maintaining business performance reliability.

**Three Simple Yet Effective Ways to Improve Cost Management**

1. **Apply Consistent Frameworks Across Functions**

Almost two-thirds of organizations either don’t use a cost management framework at all or use multiple frameworks across different functional areas (see Figure 3).

This variance in the way functions categorize and allocate costs creates basic translation issues in their efforts to collaborate on optimizing business costs and prevents the organization overall from achieving one version of the truth.

**Recommendations to executives:**
- Create a shared understanding of cost-to-value relationships by harmonizing cost categories across the organization.
- Evaluate initiatives using a systematic approach that weighs factors such as potential benefit, customer impact and degree of organizational risk.
- Engage peers and budget analysts in the process of identifying and prioritizing cost optimization initiatives.

2. **Clearly Define Cost Management Success**

It’s hard for organizations to know if or when they’ve been successful at cost management if they don’t define what success looks like. Only 48% of our respondents strongly agree they had clear measures in place to track the success of their cost management initiatives in 2019 and earlier (see Figure 4).

**Figure 4. More Than Half Don’t Have Clear Measures of Success Assigned to Their Cost Management Initiatives**

Percentage of Respondents Who Had Defined, Clear Measures of Cost Management Success

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Neither Agree Nor Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>45%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Q: Thinking about your organization’s cost management initiatives prior to the COVID-19 pandemic, to what extent do you agree or disagree with “We had clear measures put in place to measure the success of our cost management initiatives”?

Source: 2020 Gartner Business Cost Optimization Through a Crisis Study

---

**Figure 3. Cost Management Frameworks Used by Organizations**

<table>
<thead>
<tr>
<th>Cost Management Framework</th>
<th>Functions Most Often Using It</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed vs. Variable Costs</td>
<td>Finance (accounting, FP&amp;A); business units</td>
<td>Identify opportunities for sustained cost reductions in fixed costs.</td>
</tr>
<tr>
<td>Revenue-Driving vs. Non-Revenue-Driving Costs</td>
<td>Finance; business units</td>
<td>Analyze revenue drivers to budget and forecast for growth.</td>
</tr>
<tr>
<td>Strategic vs. Nonstrategic Costs</td>
<td>IT</td>
<td>Align IT spend with strategic priorities, and clarify business cases for IT investments.</td>
</tr>
<tr>
<td>Incremental vs. Next-Generation vs. Breakthrough Costs</td>
<td>Research and development</td>
<td>Align innovation spend with strategic priorities, and clarify business cases for research and development investments.</td>
</tr>
</tbody>
</table>

Source: Gartner
That slim minority, however, was 2.6 times more likely to report succeeding at cost management compared to those who didn’t.¹

Most organizations do try to evaluate the performance of their cost management initiatives in one way or another. However, they typically concentrate on how they limit spending. The most popular measure of a win (at 66% of all respondents) was setting a target for specific currency savings (e.g., cutting $1.5 million in costs over a six-month period).¹ Yet even by that standard — or perhaps because they’re using that as the standard — only 39% say they were successful. The rate of positive outcomes is lower still for other widely used measures (see Figure 5).

Those who track these hard-to-attain goals may be looking in the wrong place or simply neglecting important context. The focus on spending limits is a symptom of how organizations often pursue cost reduction to the detriment of overall business performance.

**Recommendation to executive leaders:**

- Move beyond rudimentary cost-to-revenue and raw-cost-savings measures, and instead track metrics that tell you the true value of cost management initiatives, such as:
  - Operating leverage
  - Marketing ROI
  - IT spending as a percentage of revenue
  - HR functional cost per employee

**Figure 5. Metrics Used to Assess Cost Management Success**

<table>
<thead>
<tr>
<th>Success Metrics Used for Cost Management Initiatives Prior to COVID-19</th>
<th>Effectiveness at Achieving Cost Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage Selecting Each Outcome Metric; Multiple Responses Allowed</td>
<td>Percentage Rating Themselves as Highly Effective at Achieving Their Cost Management Goals</td>
</tr>
<tr>
<td>Achieving Specific Predetermined Cost Savings</td>
<td>39%</td>
</tr>
<tr>
<td>Cost Productivity/Yield Metrics (Output per Unit Cost)</td>
<td>34%</td>
</tr>
<tr>
<td>Sustaining the Cost Improvements Over Time</td>
<td>29%</td>
</tr>
<tr>
<td>Other</td>
<td>42%</td>
</tr>
</tbody>
</table>

n = 313; all respondents, excluding “not sure”

Q: Prior to the COVID-19 pandemic, how did your organization define success at cost management initiatives?

Source: 2020 Gartner Business Cost Optimization Through a Crisis Study

n varies; organizations define success at cost management initiatives

Q: In 2019 and earlier, how effective was your organization at achieving the following results of its cost management initiatives?

Source: 2020 Gartner Business Cost Optimization Through a Crisis Study
3. Build Cross-Functional Collaboration

The presence of functional silos that create misaligned incentives was cited among the top three challenges preventing the achievement of cost management goals before COVID-19. We asked our survey respondents their perceptions of how well they worked toward these goals with specific other functions. Large discrepancies exist across various pairings (see Figure 6). Enterprises with better cross-functional collaboration in cost management were 1.5 times more likely to report higher achievement on indicators of enterprise performance through the crisis.

In aggregate, finance functions enjoy a favorable perception in the minds of their peer cost management executives. Sales and marketing functions share the dubious distinction of being perceived as the worst cost management collaborators.

Recommendation to executives:

• Drill deeper to understand which functions absolutely must work together, and make sure those partnerships are smooth. To identify the most important areas for collaboration, you’ll need to understand your organization’s underlying cost drivers, the functional areas that influence those drivers and where the spans of influence intersect for multiple functions.

  – For example, supply chain and human resources need a better relationship if the former manages temporary labor contracts. Temporary labor can be a huge source of cost (contingent or contract workers make up over 20% of the entire workforce for some), but they’re not always under the purview of HR. Similarly, given how much marketing spends with outside agencies, you would want to see supply chain really leaning in to help with good procurement practices.

Figure 6. Cross-Functional Cost Management Collaboration Matrix

Percentage of Respondents Rating Their Cost Management Collaboration as High

<table>
<thead>
<tr>
<th>B's perception of collaboration with A</th>
<th>Finance n = 39</th>
<th>Supply Chain n = 36</th>
<th>IT n = 40</th>
<th>Customer Service n = 32</th>
<th>Marketing n = 40</th>
<th>Sales n = 37</th>
<th>Human Resources n = 40</th>
<th>Operational Roles n = 40</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>-</td>
<td>69%</td>
<td>83%</td>
<td>81%</td>
<td>65%</td>
<td>65%</td>
<td>78%</td>
<td>74%</td>
</tr>
<tr>
<td>Supply Chain</td>
<td>55%</td>
<td>-</td>
<td>58%</td>
<td>62%</td>
<td>42%</td>
<td>54%</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>IT</td>
<td>51%</td>
<td>42%</td>
<td>-</td>
<td>66%</td>
<td>48%</td>
<td>30%</td>
<td>68%</td>
<td>55%</td>
</tr>
<tr>
<td>Customer Service</td>
<td>50%</td>
<td>31%</td>
<td>62%</td>
<td>-</td>
<td>48%</td>
<td>44%</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>Marketing</td>
<td>47%</td>
<td>31%</td>
<td>55%</td>
<td>32%</td>
<td>-</td>
<td>58%</td>
<td>38%</td>
<td>40%</td>
</tr>
<tr>
<td>Sales</td>
<td>43%</td>
<td>33%</td>
<td>53%</td>
<td>43%</td>
<td>54%</td>
<td>-</td>
<td>32%</td>
<td>38%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>59%</td>
<td>42%</td>
<td>60%</td>
<td>53%</td>
<td>45%</td>
<td>54%</td>
<td>-</td>
<td>50%</td>
</tr>
<tr>
<td>Operational Roles</td>
<td>67%</td>
<td>75%</td>
<td>68%</td>
<td>59%</td>
<td>51%</td>
<td>41%</td>
<td>65%</td>
<td>-</td>
</tr>
</tbody>
</table>

n varies, excluding “not sure”

Q: How would you rate the level of alignment and collaboration between your function and each of the following functions in support of cost management?

Source: 2020 Gartner Business Cost Optimization Through a Crisis Study
The Road Ahead

When they peered into the future, respondents were pessimistic, on average, about the state of spending over the next 12 months. Eighty-four percent expected that spending levels wouldn’t increase. (Fifty-five percent expected reductions, and 29% thought spending will remain flat.)

Interestingly, organizations that cut costs across the board in response to the pandemic were more likely to anticipate a spending decline over the next 12 months. Fifty-seven percent of respondents believed continued sluggishness in demand for products and services will be the biggest driver of risk to their cost structures in 2021.

As we entered 2021, CEOs were deprioritizing cost management and focusing mainly on growth, especially through digital business investments — although they still ask their CFOs to focus on cost. This will be an important dynamic to watch, as any gains made through getting costs right can help fund those critical digital initiatives.

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1 The 2020 Gartner Business Cost Optimization Through a Crisis survey examined how cost management practices before and during the COVID-19 crisis prepared businesses for rebuilding. The research was conducted online from August through October 2020 among 314 respondents from North America, Europe and APAC. These participants represented IT, HR, finance, supply chain, marketing, sales, customer service and operational roles in organizations with annual revenue of at least $250 million among all industries except government. Respondents were screened for involvement in enterprisewide cost management in their organizations. The study was developed collaboratively by Gartner analysts and our primary research team. Disclaimer: Results of this study do not represent global findings or the market as a whole but reflect the sentiments of the respondents and companies surveyed.

2 “Capital IQ,” Standard & Poor’s; n = 30 efficient growth companies, 30 control peers.

3 Gartner’s annual CEO and Senior Business Executive Survey examines the current major business concerns and priorities of large-company CEOs and other C-level business executives. The 2021 Gartner CEO and Senior Business Executive survey was conducted from July through December 2020, with questions about the period of 2020 through 2023. One-quarter of the sample was collected in July and August, and three-quarters in October through December. In total, 465 actively employed CEOs and other senior executive business leaders qualified and participated.
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Machine Customers Will Decide Who Gets Their Trillion-Dollar Business

by Don Scheibenreif and Mark Raskino

Machine customers represent the biggest new growth opportunity of the decade, but they don’t make decisions the way humans do. As more increasingly smart devices are connected to the internet and more people use intelligent virtual assistants such as Siri and Cortana, the commercial possibilities are staggering. Trillions of dollars will progressively slide into the hands — or should we say processors — of nonhumans.

When this market matures, an autonomous car will know when it’s got a flat tire, find the nearest repair shop, book a service and send the store all the relevant details about itself. When you realize you won’t get home in time to make dinner for your family, the car will ask if you want to place an order from your preferred restaurant and send a text to your family saying you will be late. This is the promise of machine buyers that operate in connected digital marketplaces. They no longer provide only process support or channel technology; for the first time in history, companies will manufacture customers.

In fact, the machine customer era has already dawned. Today, there are more machines with the potential to act as buyers than humans on the planet. There are over 7 billion phones, tablets, PCs, smartwatches, smart speakers, and connected personal and commercial printers. Each of these has a steadily improving ability to analyze information and make decisions.

A machine customer is a nonhuman economic actor that obtains goods or services in exchange for payment.
By 2030, executives believe at least 25% of all consumer purchases and business replenishment requests will be substantially delegated to machines (see Figure 1).

That would suggest a market shift roughly twice as large and twice as fast as the historical arrival of e-commerce.

Today, services such as HP Instant Ink, Amazon Dash Replenishment and Tesla’s automobiles can automatically perform limited functions as a “co-customer” on the owner’s behalf. People set the rules, and the machine executes them within a specific and prescribed ecosystem. These machines are therefore “bound customers,” and they represent the first in a three-phase evolution (see Figure 2).

In the second, emerging phase, people still set the rules for machines as “adaptable customers,” although AI technology can choose and act on behalf of a human with minimal intervention for select tasks. Examples include robotrading, the Staples Easy System and financial “roboadvisors” such as Betterment, Free2Spend and Wealthfront. Autonomous vehicle systems from Google, Tesla and Toyota also fit here.

### Figure 1. When CEOs Expect Machine Customers to Become Significant

*Percentage of CEOs Selecting Each Time Period*

- **2020**: 5%
- **2025**: 22%
- **2030**: 49%
- **2035**: 12%
- **2040**: 5%
- **Farther Into the Future**: 5%
- **Never**: 2%

By 2030, machine customers are expected to drive a mean of 22% of total revenue.

**n = 419 total respondents answering, excluding don’t know**

**Q**: “When do you think a machine customer’s demand trend will become significant in your industry?”

**Source**: 2020 Gartner CEO and Senior Business Executive Survey

### Figure 2. Three Phases of Machine Customers’ Evolution

1. **Bound Customer**
   - Purchases specific items as defined by rules
   - *Today*

2. **Adaptable Customer**
   - Makes optimized selections among competing products based on rules
   - *2026*

3. **Autonomous Customer**
   - Infers customer needs based on rules, context and preferences; also has its own needs
   - *2036*

**Source**: Gartner
In the final phase, these new economic actors are “autonomous customers.” They have enough intelligence to act independently on behalf of humans with a high degree of discretion and own most of the process steps associated with a transaction. This is not a sentient machine, but it will have its own needs to meet as well, such as maintenance and software updates, which it will address on its own. Aidyia, an AI-enabled automated hedge fund that can operate with complete autonomy from human intervention, according to company engineers, is an example of an autonomous machine customer. Aidyia reads news, analyzes large amounts of economic data, identifies obscure patterns, makes predictions about market trends and makes investments accordingly.

What the machine customers from each phase have in common is that they will make decisions differently from humans in three ways. These differences have significant commercial and operational impacts:

- **They are transparent — to a point.** Machines are logic- and rule-based. Their motivation is to solve a problem. Their assumptions will be visible in their rules and queries as well as the decisions they make. Humans often keep their intentions hidden during the buying process. Machines can’t have a “poker face” in the traditional sense. They will focus on solving a problem, but how they do it may not be clear, especially when complicated algorithms are involved. In these instances, the opacity surrounding how the machine makes decisions can be an issue and has caught the attention of regulators that are enforcing accountability measures.

- **They can process large amounts of information to make a decision.** With that ability, they will carefully collect and weigh the data to make an informed choice without being influenced by emotion.

- **They don’t need to be delighted.** Machines focus on completing tasks efficiently. You can’t wine and dine a machine to win its loyalty, and you don’t need to. It’s more likely to commit to a supplier if the sales and fulfillment process works smoothly and simply meets the requirements of the service-level agreement.

Companies playing to win must decide on a corporate strategy and a business model that fits into this new world. As part of this evolution, the sales, marketing, and data and analytics practices will transform how they work; in some instances, people will take a back seat to sophisticated gadgets. Business leaders need to understand and prepare for these overhauls.

**Evolve Your Corporate Strategy and Business Model to Account for Machine Customers**

New combinations of value exchanges between businesses, consumers, machine customers and AI-driven algorithms (the first is physical and the last is virtual) will give rise to many new kinds of business model categories and new ways to make money (see Figure 3).

**Figure 3. Business Model Space**

<table>
<thead>
<tr>
<th>Red Ocean</th>
<th>Customer Entity</th>
<th>Value Creator/ Provider Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>B = Business</td>
<td>B2B</td>
<td>B2T</td>
</tr>
<tr>
<td>C = Consumer/ Individual</td>
<td>B2C</td>
<td>B2A</td>
</tr>
<tr>
<td>T = Thing (IoT)</td>
<td>T2B</td>
<td>T2T</td>
</tr>
<tr>
<td>A = AI Entity/ Assistant</td>
<td>T2C</td>
<td>T2A</td>
</tr>
<tr>
<td>A2B</td>
<td>A2C</td>
<td>A2T</td>
</tr>
</tbody>
</table>

**Parameters of Blue Ocean Spaces:**
- Almost Unexplored
- Machine Customer
- Future Business Model Spaces

Source: Gartner
Organizations should evaluate whether machine customers and AI-algorithms represent growth, stagnation or destruction for their markets.

First, enumerate and explore what kinds of bots could become buyers for your products and services. Think of market-growth additions, not just substitutions. Also, consider whether they will liaise between you and your human shoppers, like financial roboadvisors do. If so, they might remove today’s intermediaries or become the new ones of tomorrow.

Just as important, consider these strategic questions about what type of player you want to be in a machine customer world:

- Will you manufacture them?
- Will you create a platform to serve them?
- Will you join a marketplace to sell to them?
- What capabilities will you need in any case?

Leading global organizations in the manufacturing, financial services and consumer products industries tell us they are preparing for this new market by becoming exceptional at digital commerce and getting their data in order to join digital ecosystems. These businesses realize that automated buyers will transact through digital platforms at greater speeds, in greater numbers and with more specific information needs than their human predecessors. One company hopes to become a leading trust broker with machine customers to verify their identities and facilitate buying from and selling to them. Another is developing its own bot framework to converse with virtual assistants, such as Siri, to negotiate prices for its goods.

Prepare for How Machine Customers Will Change Your Operations

Machine customers will also affect the way your business operates, especially customer-oriented functions.

Sales Shifts From People to Programming

Management and influence of the logic and algorithms machines use to make their purchases will increasingly drive sales strategy. However, people will still sell to B2B, large accounts and other clients where it becomes essential to understand the human responsible for the purchase.

Moving forward, salespeople should study machine behavior to identify patterns that could inform their commercial tactics. For example, a sales organization might have its own bots to sell to machines. Sales executives should partner with their customer experience teams to develop new machine-centric customer journey maps based on different human-machine journeys. They should also plan to evolve the applications underlying their traditional training, incentives, compensation, operations and customer satisfaction systems to support selling to machines.

Marketing Evolves to Delivering Automated, Data-Driven Experiences

Marketers should focus on what information machines need and make it easy to discover. For example, if a bot wants to purchase toilet paper on behalf of a human, its data needs may go beyond price and availability to include factors such as environmental impact, hard water performance and cost per foot. To make all that information easily accessible and current, invest in a better digital commerce platform.

Marketers will still have to navigate the needs and behaviors of humans, but they will also have to consider how machines fit into the customer journey. To prepare for the future, marketers should also master machine learning to help spot patterns in machine buying behavior.

Data and Analytics Must Provide High-Quality Intelligence to Support Machine Interaction

Providing high-quality intelligence to power interactions with machine customers will be critical to success when nonhuman actors drive sales. The advanced analytics and AI of today that personalize marketing offers, products, services and content for people will need to adapt for machines. For example, improving B2B sales forecasting (a necessary tool for predicting and qualifying leads) and process automation will depend on disciplined data management yielding high-quality information. Data and analytics leaders will also need to improve their capabilities to support machine-driven sales.

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1. 2019 Revision of World Population Prospects, United Nations Department of Economic and Social Affairs Population Dynamics.
2. 3Q19 Gartner Device Forecasts.
Why Do Executives Move Forward With Strategic Initiatives Even When They See Pitfalls Ahead?

by Marc Kelly

Executives bemoan the slow pace of business change, yet nearly two-thirds of those who head transformational initiatives tell us that half (or more) of the issues causing hold-ups were no surprise when they arose. Why do teams allow so many known sources of disruption into their projects? In a word, overconfidence. They believe they can course-correct their way out of trouble when they fall into predictable traps. But they are wrong.

Over 70% of initiative leaders said their top reason for moving forward despite the risk of delays was faith that they were nimble enough to handle whatever might come up, such as stakeholder conflict or resource logjams. But despite the belief in their, or their company’s ability, these leaders faced as much initiative-crippling drag as others (see Figure 1). This held true regardless of the rigor applied to upfront planning or performance management practices.

Figure 1. Impact of Drag on Initiative Outcomes

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Somewhat High</th>
<th>Neither High Nor Low</th>
<th>Somewhat Low</th>
<th>Low</th>
<th>No Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible Resourcing and Budgeting Processes</td>
<td>Clear Mitigation Plans to Address Execution Barriers</td>
<td>Nimble Business Operations and Initiative Teams</td>
<td>Strong Governance and Escalation Processes</td>
<td>Forward Visibility of Potential Issues</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

n = 303 long-term initiative leaders
Source: 2020 Gartner Long-Term Initiative Design Panel Survey
The issues that can delay initiatives, well known and recognizable as they are, reduce the odds of success down to barely better than a coin flip (see Figure 2).

*Figure 2. Long-Term Initiative Success Rates*
Percentage of Respondents Reporting Each Success Rate Range

- 8% 90% or Higher Success Rate
- 12% Less Than 50% Success Rate
- 36% 70%-89% Success Rate
- 44% 50%-69% Success Rate

n = 131 large enterprise strategy leaders
Source: 2020 Gartner Long-Term Initiative Resourcing Benchmark Survey

When Nimbleness Isn’t Enough

When asked why initiative drag was greater than anticipated, initiative leaders predictably cited a number of coordination challenges such as stakeholders downplaying conflicts, input being misinterpreted and individual impact on business partners (see Figure 3). These issues outnumber other reasons for reported project problems.

With coordination being such an obvious point of contention, companies have rushed to increase stakeholder inputs, develop more governance bodies and increase initiative oversight. Initiative and/or business flexibility then becomes the main focus as business leaders attempt to rearrange processes, resources and decision rights to bolster initiatives’ chances of success.

On the face of it, this seems like a winning approach, and it is replicated across numerous companies. But the results are hard to isolate. A careful look at the relationship between a company or project team’s coordination and the ability to reduce execution drag on long-term initiatives reveals no significant impact. Those who believed themselves nimble enough to elude major hang-ups were just as likely to experience execution challenges than all other respondents.

When expected relationships between coordination efforts and the drag experienced by an initiative start to break down, it becomes more likely that coordination is only a symptom of a deeper issue. It’s likely flat out compatibility issues between what organizations are trying to do and what they do now.

### The True Cause: Business Model Incompatibility

The U.S. healthcare system epitomizes the misalignment between new capability development and current business models. At the onset of the COVID-19 pandemic, hospital systems scrambled to introduce telehealth to safely treat patients for issues where an initial in-person visit wasn’t necessary. It took the novel coronavirus to shift this offering from “nice to have sometime in the future” to “critical immediate necessity.” The problem is that what feels like an incremental, customer-facing option results in significant business model problems.

*Figure 3. Top Five Reasons Initiatives Encountered Drag*
Percentage of Respondents Citing Each as a Barrier

- Negative Response to Conflicts From Other Projects 50%
- The Impact of Our Initiative on Current Business Operations 46%
- The True Cost of Initiative Requirements 45%
- The Personal Impact on Business Partners 44%
- The Difficulty of Utilizing Needed Skills and Resources 43%

n = 303 long-term initiative leaders
Source: 2020 Gartner Long-Term Initiative Design Panel Survey
Most integrated healthcare systems center their business models on total patient care. After an initial visit, hospitals rely on patients who need additional treatment or diagnostics to complete those at the same facility. A patient who initially visits a provider's physician for shoulder pain, for example, might then head down the hall for an MRI or X-ray. But with remote visits, there is a greater chance that, instead of visiting the hospital of their primary care doctor, patients will visit another provider at a more convenient location. (This approach is only made easier by electronic health record sharing.)

With two models coexisting this way — in-person and virtual visits — one of three possibilities will unfold:

- The company will adjust its legacy business model to incorporate the new reality of virtual care.
- The company will strike a compromise and manage the two systems simultaneously, accepting the inefficiency caused by a stream of virtual care appointments.
- The virtual channel will be starved and begin to decline once the company’s focus on driving performance wanes.

For a strategic initiative like telehealth, the second and third scenarios lead to outcomes that range from mild dissatisfaction to complete disappointment. In all cases, however, progress against company objectives is sure to feel very slow.

Given the pace of change, most organizations will have plenty of opportunities to experience business model tension similar to the healthcare industry’s dilemma. In response to shifts in their own industries, many companies are executing more large-scale, cross-enterprise initiatives; they are pushing decision making further down into the organization while accelerating digital investments. To facilitate their planning, companies should probe for two markers of the outer limits of flexibility.

1 Patterns of Past Initiative Success and Failure

New initiatives that attempt to stretch the business model often fall into recognizable patterns, and they typically fail in the same way. Perhaps a company is trying to engage customers in a particular way, or a new service offering keeps getting bolted on to existing products. In any case, failure patterns throughout the organization can help define business realities that are better left untouched.

Jabil, a manufacturing services company, analyzed high-impact decisions, isolating about 20 that were most at fault for downstream strategy issues. The strategy team then trained business unit leaders to spot and avoid these flawed choices.

2 Congruence of Initiatives and Business Value Networks

In “The Innovator’s Dilemma,” Clayton Christensen shed light on a major inhibitor for data storage companies in competing down market: incompatibility of the technologies underlying an incumbent’s success with the emergence of upstarts. When your organization wants to go beyond just adding another product line in the same market, the problem gets exponentially worse. But you may be able to illuminate pending conflicts by comparing sketches of how value is created for the business (such as revenue, learning and experimenting, and heading off competition) and how value is created by the initiative.

Conducting this type of analysis can seem daunting, given the total number of technologies, processes, governance structures and resource types that represent a company’s operating model. You can simplify the effort, however, by bringing in outsiders. Knowledgeable external experts can provide a more unbiased view than stakeholders prone to excessive caution or turf wars.

The chief strategy officer at UnitedHealth Group seeks help from industry experts, customers, suppliers and other value chain partners to assess the company’s capabilities. The diverse set of internal and external perspectives helps challenge ingrained assumptions and balance out conflicts. Getting encouragement to proceed with an opportunity from a broad group of trusted external partners creates tremendous confidence for executives to approve the project.

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1 2020 Long-Term Initiative Design Panel Survey.
2 2019 Gartner Strategy Execution Benchmark Survey.
Top Priorities for IT: Leadership Vision for 2021

Emerging trends, expected challenges and decisions for CIOs in 2021

Amid uncertainty and digital business acceleration, the role CIOs and IT leaders play in making critical business decisions is more crucial than ever.

To seize this momentum, this e-book will inform CIOs and IT leaders on:

- Three trends making the highest impact on the role
- Two challenges to begin strategizing for
- Two actions to take to move the organization in the right direction

Learn how to make better decisions despite uncertainty.

Download E-Book
The Decision-Making Revolution

Map Your Way to Leaner Big-Bet Proposals

by Meaghan Kelly

When executives try to evaluate the cost of unfamiliar initiatives that push the outer limits of their experience, they enter the Tower of Babel. People speak, but they don’t understand one another. As a result, business leaders approve projects and then inadvertently underfund them. In fact, only 28% of strategy leaders agree that these proposals are adequately resourced throughout their life cycles.1 To make better decisions about how to design and fund them upfront, executives need to speak the same language. That way, they’ll understand the plan’s financial needs from the outset.

As a competitive necessity, companies are taking on more transformational ventures. Even before the pandemic, in 2019, 86% of strategy leaders were actively pursuing business model overhauls,2 and the pressure to do so continues after the upheaval of 2020. Unfortunately, when a proposal is new to the business, the traditional tools used to evaluate cost considerations are ineffective at spotting potential overruns or inefficient design. As these projects emerge, stakeholders request additional information to explain them, but lengthy business cases littered with unfamiliar metrics confuse more than they illuminate.

While strategy and finance may take the lead in evaluating new initiatives, the outcomes affect the company’s bottom line and are therefore an issue in which all business leaders have a stake. So for cross-functional and transformational projects, executives shouldn’t rely on conventional methods, such as business cases, to assess them.

Instead, try a picture; it can be worth 1,000 words. One pharmaceutical company developed a way to give everyone involved an image of how a proposal would work and a review process corresponding to that visual. Its two-step analysis dissects the proposal through a lens everyone can understand: desired outcomes. The company examines how it will help the company meet its goals, whether that’s by making a profit, breaking into a new market or learning a new technology. Stakeholders could thus identify faulty assumptions about resource requirements before they became a problem, helping them design leaner, more efficient products and services.
**Use Visuals to Reveal a Design’s True Cost**

To drive more thoughtful cost identification, the pharmaceutical company asks initiative sponsors to map out their planned designs, tying resources, capabilities, assets and internal processes to how the proposal will help meet organizational goals (see Figure 1).

This exercise comprises three steps:

1. Starting in the center of the map, sponsors explicitly state the value they intend to create. Moving outward, they described the critical requirements they need to succeed.
2. Then, sponsors plot the resources they plan to use. Internal resource examples include assets, capabilities, processes and teams. External resources might include suppliers and partners.
3. To complete the map, sponsors note how individual resources relate to one another. For instance, a certain capability depends on an inexpensive price point from a particular supplier.

To understand how this process would work with an actual product, consider a healthcare executive interested in producing implanted automated medicine pumps that treat chronic diseases, such as diabetes. At the center of the map, the value would be addressing the needs of the patient population in a profitable way. This desired outcome is likely to be similar across healthcare services and products and is part of what creates a common language for the stakeholders to discuss it. What differs in each map is how the sponsor plans to attain this goal.

For the pump to address patient needs, critical requirements could include an effective, affordable digital operation platform. To meet that requirement, the sponsor would map out the series of processes, capabilities and partnerships needed to create the platform. This might include a partnership with a web app firm and capability to produce next-generation sensors that automatically trigger insulin infusion.

**Figure 1. Initiative Value Map**

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Source: Adapted From ReadyAlly*

* Pseudonym
Test the Cost Assumptions With Three Levels of Review

To keep the analysis thorough and systematic while moving quickly, a cross-functional board comprising strategy, finance, subject matter experts, operations and the project sponsor examines each part of the map separately (see Figure 2). Asking questions about the requirements as they relate to goals creates a common vocabulary (see Figure 3). Because stakeholders collectively home in on value, they can apply their experience, even in a new terrain, to identify and pressure-test the most granular assumptions about what is truly needed and why.

Figure 2. Layers of Assumption Testing

<table>
<thead>
<tr>
<th>Layer 1: Critical Requirements</th>
<th>Layer 2: Individual Drivers</th>
<th>Layer 3: Relationships</th>
</tr>
</thead>
</table>

Figure 3. Sample Questions From the Cross-Functional Board

<table>
<thead>
<tr>
<th>Layer of Review</th>
<th>Example Questions</th>
</tr>
</thead>
</table>
| Value Creation Requirements — To test the necessity of requirements | • Why is this required to create value?  
• What evidence do we have to suggest these are essential?  
• Are any other requirements more important? |
| Individual Value Drivers — To understand the contributions of individual resources | • What is this resource’s primary contribution?  
• Is it critical to the initiative? Why?  
• How could we achieve the value requirement if we cannot access this resource?  
• What would we lose if we cut this resource or replaced it with a cheaper alternative? |
| Relationships Among Value Drivers — To evaluate critical connections between resources and requirements | • How and why are these resources linked?  
• How critical is this link for success?  
• What are the risks of overreliance on Supplier A?  
• Does Partner B have sufficient access to internal information to fulfill its contract?  
• Do partners have an avenue to ask questions? |

Source: Adapted From ReadyAlly*  
* Pseudonym
Equipped with an in-depth understanding of how the plan should contribute to company objectives, the review board can then determine the validity and financial cost implications of the assumptions behind it. Early identification of unnecessary costs or inefficiencies allows the proposal’s backer to seek and track preventative remedies, ultimately resulting in a leaner design.

With an implanted automated medicine pump, for example, stakeholders may realize during the review process that not all the value requirements were indeed required. Instead of creating a new mobile app to explain how to operate the pump and its maintenance needs, reviewers might identify less expensive ways to communicate this information. Such insights change the design (see Figure 4).

Figure 4. Leaner Initiative Design

Original Initiative Design

New Initiative Design

Source: Adapted From ReadyAlly*

* Pseudonym

1 2020 Gartner Strategy Long-Term Resourcing Survey
2 2018 Gartner Strategy Digital Disrupter Model Survey
ERM Teams Help Stakeholders Make Sense of Risk Information to Combat Overload

by Jonathan Keeney and Peter Young

Whether you are scrolling through online reviews before making a dinner reservation or scanning airline schedules for your next getaway, everyone can relate to feeling paralyzed by too much information. And it’s the same at work. Despite near-universal complaints about having too much to sift through, the default is still to inundate stakeholders with data points, take-aways, lists and memos.

Delivering more may improve understanding overall (if anyone pays attention), but it will not improve decision quality. There’s a better way to educate, simplify and lead to better choices. We call this form of support “sense making” and have documented the benefits of this technique in B2B sales, procurement and — most recently — risk management.¹

Sense making involves:

- Curating information before it reaches decision makers
- Teaching executives to independently understand and apply relevant inputs
- Creating organic demand for support

Enterprise risk management (ERM) offers an example of how this theory works in practice. Any risk team wants its corporate colleagues to consider threats and opportunities — and then take the next step of selecting the best possible course of action. ERM executives can undermine their own influence by contributing to overload (see Figure 1).

Within the risk management context, sense making helps educate while also improving decision quality by 38% (see Figure 2).² In addition, sense making makes it easier to reach a conclusion, decreasing the feeling of information overload by 17%.³

Curate Risk Information for Decision Makers

Stakeholders receive risk guidance from all over, including legal and compliance, third-party experts and consultant reports. And, making matters worse, most of these sources are outside ERM’s control.

One way to overcome this issue is to coordinate more effectively with other functions that provide similar counsel. You might not be able to convince them to scale back, but you can at least understand what others are sending, attempt to eliminate redundancies and send signals that help executives know which source to use when. One global bank succeeded with a process in which business leaders respond to a few simple diagnostic questions; the answers trigger the most relevant considerations for a given situation. This tactic radically reduced the amount of tangential and redundant information employees were exposed to.

Another notable technique is to create something better. That’s what the risk team at one large utility company did, resulting in a one-stop shop for emerging risk information that was so compelling it became the main source of trusted insight for decision makers.
The risk team partnered with subject matter experts (SMEs) in the business to develop, validate and synthesize a watchlist of emerging themes. The process starts with SMEs who cluster the broad trends into categories. ERM then validates their work with partners both inside and outside the organization. Once the themes are verified, ERM and the SMEs work together to determine a range of possible outcomes for each emerging theme (e.g., remote talent management), and identify potential risks and opportunities associated with those outcomes (e.g., retention, culture). They also assess the potential impact of these trends in a variety of scenarios.

The full process gives business leaders a “house view” they can apply to strategic priorities within their units. In early results, 15 separate house views have been developed to support business units refreshing their risk profiles. The reports also helped create a common language and shared perspective during strategic business reviews.

---

**Figure 1. Information Overload Undermines ERM’s Input**

- **Current Approach:** Provide more risk information.
- **Needed Approach:** ?

**Figure 2. Impact of Sense Making on Decision Process and Quality**

<table>
<thead>
<tr>
<th>Risk-Informed Decision Making</th>
<th>Decision Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing More Information</td>
<td>+31%</td>
</tr>
<tr>
<td>Sense Making</td>
<td>+28%</td>
</tr>
<tr>
<td>Providing More Information</td>
<td>+38%</td>
</tr>
<tr>
<td>Sense Making</td>
<td>+0%</td>
</tr>
</tbody>
</table>

n = 370 executive decision makers
Source: 2021 Gartner Risk Panel Survey
Teach Decision Makers to Make Sense of Risk Information Independently

The truth is, corporate functions can’t feed everyone advice specific to every decision, but ERM can teach decision makers to fish on their own. You can use experiential learning opportunities designed to help leaders practice sense making in a realistic, safe-to-fail environment.

ERM at CHS Inc. developed training in which teams try to handle risks based on a variety of scenarios — like a combination of the board games Risk and Life. Before participants start to play, ERM does some coaching. They learn about the four pillars underpinning the firm’s risk appetite: (1) people and environment, (2) compliance and integrity, (3) brand and reputation, and (4) financial health. For each pillar, the trainer shares one question to consider before making a decision. This step is important because it primes everyone in the game to ask and answer the same four questions before choosing what to do.

Each group receives a budget and must decide at the beginning how much to spend to deal with known risks. The goal is to advance the furthest while preserving the most money. Players can be as conservative or as bold as they want. Everyone gets one take-back but must live with the rest of their choices. The facilitator spins a dial to determine when risk events “occur.” When that happens, groups draw cards that demonstrate the impact ranges. All teams see the same event, but the consequences will vary based on the choices made by each at the beginning (see Figure 3).

After the game ends, ERM facilitates a discussion comparing different groups’ decision-making processes and outcomes, which helps everyone internalize sense-making techniques. Collaborative competition helps the players understand the fallout when they don’t adequately consider important concepts. It also encourages ongoing self-evaluation as participants try to apply the same principles to their daily choices after the workshop. A scenario-based game is most effective for this purpose. “Quiz-type shows being used for learning are really enjoyable at the time, but they’re not memorable,” Kristin Rebertus, director of ERM at the global agribusiness, told us.

![Figure 3. Experiential Learning for Decision Makers](image-url)

**Source:** Adapted From CHS Gartner Business Quarterly

**Decision:**
Team attempts to apply risk consideration norms to known risks.

**New Risk:**
Team attempts to apply norms again for a new, unfamiliar risk.

**Reassessment:**
Team revises its initial decisions in light of learned experience.

**Consequence:**
Risk event reveals the effects of the team’s initial decisions.

**Finish:**
Team assesses its overall performance relative to others in the workshop.
To create an experience-based game at your organization, “start with very clear learning objectives,” Rebertus said. “Don’t try to ‘boil the ocean’ with every single risk concept that you can possibly think of, or else it becomes overly complicated.”

Kristin Rebertus
As director of ERM at CHS, Kristin Rebertus oversaw the implementation of an experiential learning initiative that improved decision makers’ ability to weigh risk information.

Create Organic Demand for Sense-Making Support
Decision makers don’t necessarily know when they need help; they’re too busy being overwhelmed. And they are unlikely, in any case, to turn to ERM because they often see the function as slow and bureaucratic.

To solve the first issue, highlight gaps between individuals’ tendencies and the organization’s stated goals. For instance, ERM at one insurance company conducts a series of polls that helps quantify whether the organization is taking more or less risk than leaders would like it to. When ERM communicates the results to senior leaders in the business, a simple risk IQ self-assessment helps them see for themselves where their own decision making is misaligned with the ideal risk tolerance. This technique has pushed those making choices to see the need for support — increasing requests for ERM guidance by 400%.

If stakeholders are aware they should get help but won’t come to ERM, it’s best to make support as convenient and actionable as possible. One option is to integrate risk advice into existing channels in regular use. ERM at St. James’s Place Wealth Management did this by embedding a user-friendly platform into Office 365 (see Figure 4).

The platform pairs general risk information with actionable guidance on how to manage threats and stay within the firm’s risk appetite. In addition, staff have direct access to a chatbox where stakeholders can seek help from ERM at any time. Since the launch of this platform about 12 months ago, the ERM team has addressed approximately 350 questions posed there. In addition, the team has noticed that internal auditors are recommending fewer high-priority actions in response to bad decisions concerning risk.

1 Sellers using a Sense Making strategy were much more likely to close a high-quality, low-regret deal than those who provided customers with more information or told them what they needed to know (2019 Gartner Buyer Survey). In procurement, information navigators increased the value obtained from buying decisions by 58%, while those who just provided more information didn’t affect that metric at all (2019 Gartner Procurement Business Partner Sound Buying Model Survey).

2 For the purpose of this study, we defined a high-quality decision as one for which decision makers, with the benefit of hindsight:
   • Are confident they made the right decision
   • Do not regret the choice they made
   • Believe they made the best possible decision from among the alternatives

3 2021 Gartner Risk Panel Survey.

Figure 4. Risk Guidance Integrated Into Familiar Channels

Source: Adapted From St. James’s Place Wealth Management
Finance Can Help the Business See Beyond P&L With the Aid of Accounting and Treasury Staff

by Jessica Kranish

Accounting and treasury staff have important expertise that can help prevent business units from spending too much in pursuit of revenue. These employees have a deep understanding of a tool that is too often overlooked: the balance sheet. But they rarely get a chance to show executives how to consider it when making decisions.

Finance typically relies on financial planning and analysis (FP&A) staff to liaise with the business, but FP&A is more familiar with and focused on profit-and-loss (P&L) topics, such as revenue growth and margin performance. P&L is important but insufficient on its own to maintain financial health. Balance sheet insight — a snapshot of how much cash the organization has at its disposal or the financial worth of its assets relative to its current liabilities — provides a valuable additional view (see Figure 1).

Figure 1. Considerations Required for Financially Sound Operational Decisions Illustrative

Source: Gartner
Even before COVID-19 hit, companies had been reinvesting their capital poorly, failing to maximize the performance of their long-term assets, such as equipment and intellectual property (see Figure 2).

As a result, only one-third of companies make enough in profits to justify the ballooning costs of these assets (see Figure 3).

Company executives actually want more balance sheet insight and analysis; 67% of them indicated as much in a 2020 poll.¹ Finance leaders should meet this demand by tapping accounting and treasury employees to help. These experts could take on a more business-facing role or contribute indirectly by assembling relevant data and analysis for finance business partners in the front office.

When enlisting accounting and treasury employees, finance leaders must also set them up for success. Three tactics, sourced from a CFO, a former finance executive and three researchers, can accelerate the contributions of these employees to informed decision making.

Give Accounting and Treasury Business-Facing Opportunities

At U.S. dental distributor Benco Dental, CFO Karen Friar is “recognizing where [accounting and treasury staff] often took a back seat and allowing them to drive strategy,” she said.

For instance, finance takes responsibility to review monthly financial results with business managers. The team’s FP&A director typically represents finance at these meetings. But Friar has started asking for the treasurer as well as the controller to lead. This is helping both of them build connections with the business they did not have before, which means that now, when these members “have great insight, people tend to listen more,” she said.

Friar continues to offer other finance function leaders to join meetings that, previously, only FP&A staff attended. The idea is to “help elevate those members through other business units where they don’t naturally get the opportunity” because “FP&A is often looked to first,” she said.

During the COVID-19 crisis, accounting and treasury staff made headway demonstrating their balance sheet expertise with business

---

Figure 2. Performance on Growth, Profitability and Investment Efficiency
Change From 2010-2018, Indexed to 100, S&P Global 1200.

- Reinvestment Efficiency: ▼ 8%
- Growth: ▲ 25%
- Long-Term Value: ▼
- Profit Margins: ▼ 1%

n = 1,142
Source: “Capital IQ,” Standard & Poor’s
Note: Reinvestment efficiency is sales divided by invested capital; profit margins are earnings before interest and taxes divided by revenue; growth is revenue growth.

Figure 3. Firms Earning Returns Above the Cost of Capital
Percentage of S&P Global 1200 Earning ROIC Greater Than WACC

- 2010: 38%
- 2018: 31%

n = 1,142 S&P Global 1200 companies
Source: “Data: Current,” Damodaran Online
ROIC = Return on invested capital
WACC = Weighted average cost of capital

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partners because “cash was king throughout the pandemic,” Friar said. This made her see that “we haven’t tapped our talent to the fullest potential.” Exposing business leaders to these accounting and treasury leaders can help reduce skepticism about working with finance employees beyond their usual front-office contacts. It then opens up new opportunities for everyone to work on larger initiatives. These accounting and treasury members also work on stretch projects they may not have led in the past. In addition to reviewing financial results, members are leading long-view analytics projects, board-level presentations and strategic business cases. And they’re taking a seat at the table for companywide strategic teams, where a few short years ago they did not. Friar’s treasurer now sits on one of these teams that is looking at creating a new sales channel; before, this role would have gone to FP&A. Participation provided that leader with an opportunity to better understand the business and thereby provide better decision support. The aim is to give accounting and treasury staff “vast opportunities that showcase their talents and, in turn, grow their capabilities,” Friar said.

Choose Strong Communicators and High-Potential Employees

Finance leaders should consider “middle office” staff members who display the most potential, rising managers and those already fielding balance sheet questions from finance business partners. If you “hand-select the messengers,” you’ll have the greatest impact, said Bryan Lapidus, director, FP&A, at the Association for Financial Professionals.

In a former finance role, Lapidus recognized that the popularity of the company’s higher-risk credit card products led to earnings growth but also tied up a significant amount of cash in potentially unsafe investments. He alerted the business.

Lapidus and his treasury team appointed a small group of employees to meet with relevant leaders to explain those risks. The employees rehearsed their delivery and anticipated questions ahead of time. He recognized that this was a “development opportunity as well as recognition of who is most capable.”

The right candidates will “naturally emerge by their curiosity and their entrepreneurial spirit,” according to Julian Jones, a senior lecturer in management accounting at Alliance Manchester Business School.

Help Staff Make Relevant Metrics Easy to Understand

Given their technical proficiency, treasury and accounting employees often default to opaque financial jargon. But Kristof Stouthuysen, associate professor of management accounting at Vlerick Business School, thinks they also have “a very important responsibility in translating what finance measures could mean for people in the business.” To avoid disengaging the business, help these employees understand how to present information and recommendations in a way stakeholders will easily grasp.

Otherwise, those without accounting experience may struggle with terms accountants use regularly — “even day-to-day, very popular metrics, like the acid-test ratio,” said Ataur Rahman Belal, a professor of accounting at Sheffield University Management School. That metric “basically tells you how liquid the business is.” Belal recommends telling middle-office staff to keep these two principles in mind:

• **Use clear language over confusing technical terms.** For example, accountants could explain the acid-test ratio by simply saying the metric shows the relationship between liquid assets and liabilities to determine whether the company can cover its most pressing financial obligations. This principle could also mean selecting balance sheet metrics that are more intuitive to business leaders, such as the average number of days it takes a company to collect payment (days sales outstanding).

• **Explain high-level findings, not detailed calculations.** Lapidus also took this tack when discussing the higher-risk credit card products. “Our goal was not to overwhelm with data but to be ready in case the business did want to dive into the details. We had a simple message, a few key facts and lots of information in our ‘back pocket’ if called upon.” Encourage middle-office staff to walk business leaders through the connections between the presented metrics to explain every potential option.

¹ 2020 Gartner Finance Business Decision Maker Survey.
Don’t let digital ambitions stall

The technology-driven innovations that were transformational in the past are now table stakes for staying in business. It’s no longer enough to execute on a digital transformation at the speed of business. You now need digital acceleration.

Our new e-book helps C-suite leaders:

- Prioritize what to accelerate
- Unlock resources for digital investments
- Create a new employment deal
- Champion agile learning
- And more.

Download the full e-book to help your organization make faster digital progress: [gartner.com/en/digitalacceleration](gartner.com/en/digitalacceleration)
Impose Constraints to Make Better Decisions Faster

by Kristiina Kinnunen

You may think the best way to make decisions during a period of significant change is to align with stakeholders on goals and collaborate more. But those tactics take too much time and don’t actually lead to better conclusions. Because the pace of business disruptions is expected to increase nearly fivefold by 2023,² it’s crucial for organizations to speed up decision making and simultaneously improve the quality of their choices. Otherwise, organizations risk missing out on opportunities to achieve their objectives. The most effective way for businesses to do this: Place restrictions on the time, the amount of information, the number of people involved in the decision-making process and the escalation procedures.

Making tough calls that are fast and right, even under pressure, is a challenge that vexes leaders from all corners of the company — from IT to R&D to marketing and so on.²³⁴⁵ For the supply chain function, which must keep the business running through natural disasters and political turmoil alike, the problem is especially acute: Over 80% of supply chain professionals admit they could make faster, more accurate and more cost-efficient choices.²

But only 6% of the 600 respondents to our survey had experienced decision constraints,² so there is great opportunity for improvement. This method boosts speed and accuracy, reduces cost and leads to a 50% increase in decision quality (see Figure 1); other C-suite leaders and their teams can adapt tactics from supply chain. Successfully implementing this model could make an outsize difference; supply chain organizations making high-quality decisions during disruptions do a better job:

• Maintaining business continuity
• Generating more value for the business
• Gaining a competitive advantage
• Exceeding business expectations (see Figure 2)

This model works because it creates structure, urgency and efficiency, which is often lost if decision-making processes are not defined.
Figure 1. Maximum Impact of Supply Chain’s Approaches on Decision Quality

Maximum Impact of Supply Chain’s Approaches

- Business Continuity Planning: 0%
- Collaboration With Internal and External Stakeholders: 0%
- Alignment on Supply Chain Goals and Objectives: 8%
- Accessing and Sharing Information: 13%
- Decision Constraints: 50%

Constraints on Decision-Making Inputs:
- Time
- Information
- Escalations
- People

n = 606 supply chain professionals

Source: 2019 Gartner Responding to Disruptive Changes Quantitative Initiative

Maximum impact shows the percent increase in decision quality as a result of moving from the 25th to the 75th percentile performance in each of the supply chain approaches. The R-square for the model is 40%.

b Denotes no statistical significance.

Figure 2. Business Outcomes Resulting From Improved Decision Quality

Percentage of Supply Chain Professionals Affirming Their Decision Achieved Each Business Outcome

- Helped Maintain Business Continuity: 34% Low, 84% High
- Generated More Value: 29% Low, 78% High
- Helped Gain Competitive Advantage: 18% Low, 67% High
- Exceeded Business Expectations: 7% Low, 27% High

n = 606

Source: 2019 Gartner Responding to Disruptive Changes Quantitative Initiative

a High decision quality are the companies in the 75th percentile of the decision quality index. Low decision quality are companies in the 25th percentile of the decision quality index.
How to Implement Constrained Decision Making

Knowing how to put guardrails in place and why these limits are effective (see Figure 3) will help functional leaders take advantage of this method.

Let the problem guide which restrictions you implement, rather than constraining everything by default. The latter isn’t always necessary.

To implement decision-making constraints, it’s important to understand the different levers involved and the three steps to putting it in action:

1. Identifying which decisions to constrain
2. Setting up the limits
3. Incorporating flexibility into the process

Identify Which Decision Inputs to Constrain

Start by analyzing how your team makes decisions to find out where inefficiencies occur.

Supply chain leaders at Colgate-Palmolive, a global household and consumer products company, reviewed previous decisions that took too long to identify the most common areas of congestion. Then, they conducted a three-step analysis:

1. Leaders examined possible causes of the bottlenecks, such as competing priorities or uncertainty about data.
2. They asked questions to determine which processes contributed to the delay, such as, “Did we have the right people and the right number of them involved?”
3. They debated how to adapt ways of working to prevent recurrences of the issues they uncovered.

This exercise surfaces the most common causes for delayed decisions. In Colgate-Palmolive’s case, it was excessive escalations.

Figure 3. How Decision Constraints Address Common Problems in Decision Making

<table>
<thead>
<tr>
<th>Decision Making Input</th>
<th>Time</th>
<th>Information</th>
<th>Escalation</th>
<th>People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical situation where no constraints are in place</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision makers spend too much time discussing options and not enough deciding.</td>
<td>Decision makers have a hard time pinpointing which data is most important.</td>
<td>Decision makers pass decisions on to someone else.</td>
<td>Multiple stakeholders are involved, causing the decision-making process to slow down.</td>
<td></td>
</tr>
<tr>
<td>Implementing decision constraints</td>
<td>Limit the time allotted for:</td>
<td>Limit the amount of data used by:</td>
<td>Put limits on:</td>
<td></td>
</tr>
<tr>
<td>• Gathering information</td>
<td>• Synthesizing information for decision makers</td>
<td>• Formal escalations</td>
<td>• Who is involved</td>
<td></td>
</tr>
<tr>
<td>• Deliberating in meetings</td>
<td>• Helping decision makers make sense of the data</td>
<td>• Informal escalations</td>
<td>• The number of people involved</td>
<td></td>
</tr>
<tr>
<td>• Reaching a decision</td>
<td></td>
<td></td>
<td>• Who is accountable</td>
<td></td>
</tr>
<tr>
<td>Why constraints work</td>
<td>Setting limits on the time allotted for meetings, deliberation and deciding helps create urgency and structure for reaching a decision.</td>
<td>Decision makers can make sense of data faster and make an informed decision more effectively.</td>
<td>These limits empower decision makers to make decisions at their level and move on to solving the problem.</td>
<td>Decision makers can decide faster and are more likely to come up with more innovative ideas than a larger group.</td>
</tr>
</tbody>
</table>

Source: Gartner
Set Up Decision Constraints

Once you have identified where you need to set boundaries, define how the limitations will work to make them repeatable and scalable.

At Eastman Chemical, a company that makes fiber, plastic and other materials for everyday products, the involvement of too many people was slowing down the decision-making process. As a result, company leaders wanted to place restrictions on the number of stakeholders.

To figure out who should get a say, Eastman segmented prospective participants by how much they know about an issue and how it affects them. The result was two decision-making teams with an average of five members total. Both teams were responsible for making the decision, but they had different roles that complemented one another: One focused on execution, and the other on guidance (see Figure 4).

The execution team at Eastman made and carried out the decision by gathering information, identifying response options and creating the implementation plans. All the while, the guidance panel helped make sure the execution team’s decision fit the broader supply chain context. The panel evaluated response implications, pressure-tested options and communicated with excluded stakeholders to prevent unanticipated side effects.

The payoff: Eastman cut down the average number of stakeholders involved in responses by half — from 10 to five — and boosted internal commercial partner satisfaction by 10%.

Figure 4. Defined Criteria Limits Excessive Involvement
Eastman’s Cross-Functional, Two-Pronged Decision Teams

Source: Adapted From Eastman Chemical
Incorporate Flexibility Into the Decision-Making Process

Make sure staff feel comfortable by enforcing the use of constraints but allowing for flexibility. Schneider Electric, a multinational energy company, designed an adaptive process that enables employees to act quickly but adjust later (see Figure 5). This process differs from typical decision processes in two main ways:

• The time to make the initial decision is severely limited — as little as one-third of the typical time allowed. Employees therefore focus on making the best possible decision with the least amount of information necessary.

• A built-in buffer enables adjustments to a decision as it is being scaled; the team makes an initial judgment call, but if team members are feeling uncertain about it afterward, there is an opportunity to make fixes. While the effects of the decision begin to play out in reality, the team gathers information and makes changes as needed.

Decision makers feel empowered to act faster and make riskier choices when they know that, if they make a mistake, they can easily amend it before they scale.

After transitioning to this process, Schneider Electric saw significant improvements in its operations. As a result of its quick decisions, its projects closed twice as fast. Additionally, average capital expenditure costs fell by 40% because the company decided not to scale some of the choices it had approved and avoided fully investing.

Figure 5. Adaptive Decision Process Is Fast and Flexible

How Schneider Electric’s Adaptive Decision-Making Process Differs From Typical Processes

---

Typical Decision Process

Research and deliberate to make the optimal decision with complete information → Initial Decision → Implement and Scale → Fully Scaled

Adaptive Decision Process

Research and deliberate to make best decision with minimum viable information → Initial Decision → Begin to scale and test decision → Decision Finalized → Finish Scaling → Fully Scaled

---

Source: Adapted From Schneider Electric

---

1 “Capital IQ,” Standard & Poor’s.
2 2019 Gartner Responding to Disruptive Changes Quantitative Survey.
3 2020 Gartner Reengineering the Decision Research Circle Survey.
4 2020 Gartner Portfolio Decision Making During Disruption Survey.
5 2020 Gartner Customer Loyalty and Relationship Management Marketer Poll.
Drive Business Performance With Strategic Cost Optimization

Despite overwhelming evidence that effective cost management supports enterprise performance, more than 50% of organizations have yet to establish clear measures of success for their strategic cost initiatives.

Download our guide to learn how you can accelerate business performance by focusing on the three key pillars of strategic cost management:

01 Define clear measures of success
02 Adopt a consistent framework
03 Leverage cross-functional collaboration

Download Guide
A six-month-old playbook for returning to the workplace is probably out of date already. New developments — such as the vaccine rollout, changing COVID-19 science, geographic differences in the course of the pandemic and a year’s experience with mass remote work — require a broader rethink.

It’s time to head to the whiteboard and sketch out how to envision the future of work.
of HR leaders expect a segment of workers to sometimes work remotely.\(^1\)

of hybrid offsite/onsite or fully remote knowledge workers say their expectations for working flexibly have increased.\(^2\)

of remote/hybrid knowledge workers say whether or not they can work flexibly would affect whether they stay at their organization\(^2\)

of employees will work remotely at least some of the time (versus 31% prepandemic)\(^3\)

After the pandemic ...

Here are four ways of working in a hybrid model.

<table>
<thead>
<tr>
<th>Co-Located</th>
<th>Distributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Together, Together</td>
<td>Working Together, Apart</td>
</tr>
<tr>
<td>Working Alone, Together</td>
<td>Working Alone, Apart</td>
</tr>
</tbody>
</table>

Synchronous Work | Asynchronous Work
Employees reporting culture improvements since going remote have ...

... **2.4x** more high employee engagement

... **2.7x** more high discretionary effort + intent to stay

... **3.5x** more high inclusion

---

### How do we manage our calendars?

#### Employee A (SF Bay Area)

<table>
<thead>
<tr>
<th>PST</th>
<th>Monday</th>
<th>Tuesday</th>
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<tbody>
<tr>
<td>5 a.m.</td>
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<td>9 p.m.</td>
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<thead>
<tr>
<th>EMEA Meetings</th>
<th>Exercise</th>
</tr>
</thead>
</table>

#### Employee B (New York)

<table>
<thead>
<tr>
<th>EST</th>
<th>Monday</th>
<th>Tuesday</th>
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</thead>
<tbody>
<tr>
<td>8 a.m.</td>
<td>Exercise</td>
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<tr>
<td>9 a.m.</td>
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<tr>
<td>10 a.m.</td>
<td>Asynchronous Work/“Flex for Friends”</td>
<td>Asynchronous Work/“Flex for Friends”</td>
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<tr>
<td>11 a.m.</td>
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<tr>
<td>12 p.m.</td>
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<td>America Core Collaboration Hours</td>
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<td>12 a.m.</td>
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</tbody>
</table>

| America Core Collaboration Hours | America Core Collaboration Hours |

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**Set Collaboration Hours**

**Employ Non-Linear Scheduling**

**Block Time For Focused Work**

*Source: Adapted From Dropbox*
40% of employees experience burn out.\textsuperscript{5}

Goodway Group tackles these kinds of employee challenges by **empowering them to speak up and take action.**

Goodway Group researched critical behaviors for remote teams to create **Goodway Behaviors**, actionable guidance for how employees and teams across the organization work together and live the company culture.

<table>
<thead>
<tr>
<th>Heart</th>
<th>Smart</th>
<th>Grit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead with empathy.</td>
<td>Continuously improve yourself.</td>
<td>Be an owner, not a renter.</td>
</tr>
</tbody>
</table>

“**Our relationships go deeper than simply being coworkers. Be invested in the well-being and success of each other.**”

“**Growth only happens when we stretch ourselves. Challenge yourself to take smart risks and get uncomfortable.**”

“**Don’t sacrifice long-term value for short-term results. Take ownership of every action and interaction with colleagues and customers.**”

---

Goodway Behavior Impacts

1. Categories give common language for team discussions.
2. Descriptions guide teams to embody the behaviors.

Foster trust and psychological safety.

Connect behaviors to measurable team outcomes: **Trust, cohesion, performance and accountability.**

Guide employee behaviors to **knit the culture** throughout the company.

Source: Adapted From Goodway Group
What’s Our Vision for the Future Workplace?

Some unconventional metrics for the big decision: when?

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>What Positive Change Means</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public transit ridership</td>
<td>Mobility trends for public transport hubs (% change from baseline)</td>
<td>People are commuting to work more</td>
<td>Google COVID-19 community mobility reports</td>
</tr>
<tr>
<td>Dining</td>
<td>Number of OpenTable seated diners</td>
<td>People are eating more in restaurants that require reservations</td>
<td>OpenTable</td>
</tr>
<tr>
<td>Retail</td>
<td>Number of outlet mall visits</td>
<td>People are shopping in person more</td>
<td>ShopperTrak RCT Corporation</td>
</tr>
<tr>
<td>Air Travel</td>
<td>TSA checkpoint traveler throughput</td>
<td>People are traveling more for work or leisure</td>
<td>Transportation Security Administration</td>
</tr>
</tbody>
</table>
Office tenants have leverage now to negotiate lease clauses covering wellness amenities.

If lots of people are working from home more — what’s the point of our office?

**Some possibilities:**

1. **Innovation Hub**
   - Video walls
   - Huddle rooms with interactive whiteboards
   - Advanced video conferencing

2. **Learning and Coaching Center**
   - Classrooms
   - Library spaces
   - Meeting and social spaces

3. **Client and Customer Interaction Headquarters**
   - Showrooms
   - Demo spaces

4. **Destination Workplace and Wellness Retreat**
   - Dining
   - Games
   - Gym and spa facilities

---

*A seat at Google’s "campfire" for everybody, no matter where they are.*

Source: Cayce Clifford/The New York Times/Redux
How do we adjust comp policies if we offer location flexibility?

Adjusting based on relocated cost of living:
- Are we risking higher turnover if employees who move to a lower cost area are upset about being paid less?
- Will that kind of policy spur employees who move to more expensive places to seek raises for consistency?

Pay scale based on a national cost of labor?
- Will we lose control of budgets when paying more to those in lower cost areas?
- How can we pay fairly if we don’t account for different costs of living?

Considerations in Determining Pay for Employees Doing Similar Work Across Different Locations and Markets

Percentage of Organizations, Multiple Responses Permitted

- Cost of labor for where the company is located: 44%
- Cost of living for where the employee is located: 30%
- Cost of labor for where the employee is located: 36%
- Average Cost of labor for all markets in which the organization employs staff for a given job: 26%
- Cost of living for where the company is located: 30%
- Cost differential of changing an employee’s pay if they relocate: 24%
What about setting up **regional office hubs**, (or leasing shared offices) to serve dispersed employees?

... but are we ready?

**How do we keep employees healthy and safe?**

- **Pros**
  - Helps us reopen quicker if most employees are vaccinated
  - Protects and reassures customers and workers who are face-to-face

- **Cons**
  - Isolates employees who are wary of taking vaccines
  - More legal risks when tracking vaccine status

**Mandate** or encourage employees to get the vaccine? Buy shots or organize on-site vaccinations?

- Years left on our current leases — how are we going to pay for more?
- What’s the threshold for deciding to open a new office? Number of employees per area? Number of senior leaders? Number fulfilling high-value work?

Work, social and collaboration space for employees who relocated during the pandemic.

Broadens our recruitment options for in-demand skills and diversity goals.

*2Q21 61*
Vaccines are unsafe and infringe on my human rights. There is no proof of their success!

I am not vaccinated yet and I will keep my employer informed of my health status.

I am vaccinated but my family members are not. I am not sure if it is safe for me to return to the office.

I want to get vaccinated and I need my employer to help me get access.

**Tech options for contact tracing and safety:**

- **Existing WiFi or Bluetooth to track phones and laptops** *(not that accurate)*
- **Wearable tags or wristbands + transmitter system** *(more accurate)*

**Artificial intelligence to analyze video** — we can adjust office design/schedules if people are getting too close to each other.

*They can use the new App to get in or around the building.*

*Touchless coffee anyone?*

---

1. Gartner Workplace Reopening Amid Vaccine Rollout Webinar Poll, 16 March 2021, (n = 227 HR leaders)
2. 2021 Gartner Hybrid Work Employee Survey, (n = 2,410 hybrid/remote knowledge workers)
3. 2021 Gartner Hybrid Work HR Leader Survey, (n = 75)
4. 2020 Gartner Improving Employee Engagement Survey (n = 5,000 full-time employees)
5. 2021 Gartner Inclusion Initiatives Employee Survey (n= 3,001 employees)
Prepare for a Hybrid Future of Work

Think a hybrid workforce model is not sustainable? Think again.

Many C-suite executives have been surprised by how successful remote work has been during the pandemic. Yet many question the long-term value of a hybrid workforce model.

Our research shows the power of the hybrid workforce, dispelling myths such as:

- Our existing remote work strategy can work for a hybrid workforce.
- We need in-person contact to sustain our culture.
- Our jobs just can’t be done remotely.

Learn how to build a more adaptable and resilient organization in a rapidly changing environment.

Download E-Book
Smarter Spending & Planning

How to Sustain Efficiency Gains in the Post-Pandemic Era

The global COVID-19 outbreak and ensuing economic slowdown meant cuts to functional budgets, typically by 5% or more. Consequently, leaders were forced to reimagine how they did business — and devised some surprising efficiencies.

Yet many of those same functional leaders now seek to resume earlier spending levels. Reintroduction is a delicate matter; while finance does not want to stifle operations, it cannot allow returning costs to erode profit margin.

Don’t make the mistake of bringing back costs by recovered revenue, based on outdated assumptions about the relationship of spending to the top line. Instead, review 2020’s lessons learned to ward off cost creep and reinvest in new initiatives that strengthen margins long-term.

In practice, this means:
1. Parse where reductions are sustainable and where continuing them will pose a risk — a scorecard can surface where maintaining a freeze can offset adding back spend elsewhere.
2. Reclassify and group budget line items according to strategic value — seek to maximize those that differentiate your enterprise, set a satisfactory level for those enabling critical operations and minimize those that any rival can incur.
3. Trace the impact of spend on customer and employee sentiment — check where legacy capabilities are still essential.

— Marco Steecker

Controlling Your Own Semiconductor Chip Destiny

Manufacturers of autos, PCs, smartphones and other consumer products are negotiating daily on allocation and delivery issues with their suppliers of semiconductor chips. With a global chip shortage caused by the U.S.-China trade war, the rise of 5G, pandemic-related supply chain disruption and wafer facilities shut down by Texas storms, all have come to recognize that semiconductors are the critical foundation of their products.

Vehicle factories, for instance, have been idled for weeks. Sticking with just-in-time lean inventory practices despite last year’s uncertainties was a mistake (Huawei, by contrast stockpiled chips before the U.S. ban). Delivery of a $50,000 car is stopped in its tracks without a chip worth 50 cents.

Besides paying more, companies can control their own chip destiny by changing their previous supplier-buyer relationships into partnerships:
1. Qualify alternative chip suppliers and double order chips.
2. Adopt a “companion model” to negotiate with business partners’ chip suppliers or upstream vendors.
3. Prepay to secure allocation of future chips.
4. Consider designing their own chips for differentiation and secured supply (Apple does this for iPhone; Google, Amazon, Microsoft and Facebook are dealing directly with wafer foundries for their own data centers).
5. Make ownership investment in chip suppliers.

— Samuel T. Wang
Stop Force-Fitting an Old Work Design to a New World

You may think knowledge workers are burning out from their remote jobs — but the root cause of fatigue is not the change of setting. The problem is the way organizations have tried to replicate the physical office in a work-from-home world:

1. To mimic office-centric practices (think whiteboarding), employers add tools and technology — but employees who experience high levels of virtualization are 29% more likely to feel they are working too hard.

2. To compensate for the lack of serendipitous encounters, employers encourage more virtual interactions — but employees who spend more time in meetings are 24% more likely to feel emotionally drained from their work.

3. To regain the visibility they have into onsite work patterns, employers track productivity in new ways — but employees who feel monitored are 94% more likely to display behaviors of “presenteeism,” such as pretending to be busy.

The resulting pressure to be “always-on” is damaging: physical and emotional exhaustion can reduce employee performance up to 33%, effective team collaboration by 38% and intent to stay by 54%. If the future is hybrid (and HR leaders say it is), drop your outdated work design and create a human-centered path of flexibility and trust.

— Alexia Cambon

Should Algorithms Make Pay Decisions?

Only 40% of employees believe their pay is fair — despite all the efforts made to improve pay decisions and communications.

Artificial intelligence can address persistent pay challenges in ways humans cannot. However, 60% of total rewards leaders fear employees, including managers, will respond negatively, and 68% worry AI will not capture employees’ unique contributions.

Still, the few that have tried using algorithms to make pay decisions say they see promising results:

1. 79% report they have been able to standardize pay decisions
2. 72% report managers have more time to focus on high-value activities (e.g., coaching employees on how to increase pay)
3. 57% percent report improved efforts at pay for performance

To explore AI for making pay decisions, organizations should:

1. Identify, given the organization’s risk tolerance, which pay decisions can be automated first (for instance, short-term incentives or hiring pay).
2. Develop a standardized method to be sure the algorithm accounts for intangibles (e.g., an employee’s impact on the success of teammates).
3. Establish safeguards to avoid bias in automated inputs or decisions.
4. Invite a cross-sectional group of employees to be involved in the design of the pay automation and corresponding communications.

— Carolina Valencia
**Growth & Innovation**

**Live Commerce — A New Way to Drive Online Sales**

Live commerce uses real-time video streaming to demonstrate products and allow interaction with shoppers, typically through a mobile app. This tactic for encouraging purchases was a big success in China during the pandemic while stores were closed. A department store there reported the same number of visitors in a three-hour streaming session as it would have seen in six months in its brick-and-mortar store. In the U.S., cosmetics brand Bobbi Brown saw an uplift of 3 percentage points in its average conversion rate for those watching livestream sessions in May 2020.

The trend is just starting to spread. Global platforms such as Facebook, Instagram and Google have launched live shopping functions, and technology vendors are offering the solution, though the functionality is quite rudimentary and adoption outside China is relatively low.

Digital commerce leaders who want to get started should:

1. Identify use cases where livestreaming can add value. Examples include brand marketing, pre-sale consultancy and after-sales service.
2. Work with marketing, merchandising and supply chain to design scripts, curate products and estimate supplies.
3. Design mechanisms to retain shoppers and encourage upsell, cross-sell and repeat purchases beyond live sessions.
4. Train employees on operations and align incentives to encourage active participation.

— Sandy Shen

**High-Tech Firms Racing for Growth in 2021 Must Understand Their True Starting Position**

Business competition is not a race with each contender at the same starting line — even in the high-tech sector, which fared comparatively well through 2020. Tech firms performed unevenly managing remote work and revamping go-to-market, marketing and sales processes, according to our survey of 206 general managers.

So they started 2021 in staggered positions:

1. Resilient companies (37%) met or exceeded precrisis 2020 revenue goals, partly with above-average internal effectiveness. They can extend success through transformation — attracting new customers and deploying new products and services.
2. Fortunate companies (18%) generated the revenue they sought, courtesy of those customers coping with crisis: remote work, digital customer engagement and cloud. But they have below-average internal effectiveness. They must avoid a false sense of growth and recognize reality: getting to new customers will be tough.
3. Hardworking companies (21%) did not meet their original objectives, but not for lack of internal effectiveness. They can thus reposition with above average interest in M&A and R&D.
4. Challenged companies (18%) did not meet precrisis revenue levels and have below-average internal effectiveness. They should make careful choices about where to compete.

— Mark P. McDonald
Data & Technology

Digital Health Status Requirements Are Here to Stay

As COVID-19 vaccines roll out around the world, it’s time to apply early lessons to the future state of public health. Digital health status requirements are not going away. Whether the mission involves boosters to prolong immunity or emergence of a new health threat, technology is critical for saving lives.

With an eye to the horizon, governments, healthcare, pharmacies and technology providers should develop (and fund) a reusable model:

1. Co-create a consumer centric public health, business, IT strategy that is data-driven.
   - Prioritize at-risk groups and address the underserved with outreach and sites where they reside.
   - Provide intuitive, reliable web portals and call centers for consumer tasks.

2. Address supply and demand equilibrium.
   - Develop dashboards that provide local visibility for supply and demand
   - Monitor equity and reaching the last 20% to 30% of the population.

3. Prepare the data and analytics ecosystem.
   - Broker data sharing agreements for consumer information such as claims and census data; utilize health information exchanges.
   - Preload systems with data sources. Rely on low code and APIs.
   - Establish build versus buy rules respectful of your organization’s technical limits.

— Donna Medeiros

The California Effect— New U.S. State Privacy Measures Mirror Those in the Golden State

As the playing field on global privacy law moves to the U.S., California sets the standard. The Golden State’s landmark privacy act and a ballot initiative passed by voters to amend the original law have essentially acted as a blueprint for other states.

To save time, focus compliance efforts on areas of overlap between 26 new state proposals and these two laws: the California Consumer Privacy Act (CCPA), which took effect in 2020, and the California Privacy Rights Act (CPRA), which takes effect in 2023 — the same year that the Virginia bill, which has passed, will come into force.

Commonalities include:

1. Data subject rights — These include the right to delete information and the right to correct inaccurate information. The latter will come to California via the CPRA and is in Virginia’s law — and in a proposal in New York.

2. Accountability — Virginia’s law follows California (and the EU’s earlier General Data Protection Regulation) in requiring organizations to collect data for a specific purpose and not use the information for other reasons.

Don’t overlook important differences, though. Minnesota and New York proposals would give consumers the right to sue organizations that fail to safeguard information.

— Laura Cohn