UCD Michael Smurfit
Graduate Business School

The Executive Agenda

A report prepared by Professor Patrick Gibbons, Jefferson Smurfit Professor of Strategic Management and Dr Ciaran Heavey, Associate Professor.

Methodology

We employed a mixed methods approach that involved two phases. In Phase 1 we conducted in-depth, open-ended interviews with CEOs and other c-suite executives to identify the main opportunities and challenges on their strategic agenda. In Phase 2, we conducted a large-scale survey of c-suite executives to examine the generality of the themes identified in the first phase of the study.

Phase 1 - Interviews

(June-September, 2016)

In constructing a sampling frame for our interviews, we adopted two core sampling principles. First, we aimed to capture a representative sample of leading firms competing in sectors that are of strategic and systemic importance to the Irish Economy, including food, financial services, technology, life sciences, and leasing. For this reason, we sampled firms primarily from the Irish Times Top 1000 Companies database, a listing of public, private, and semi-state firms ranked by turnover (and assets in the case of financial services). Second, to maximise variance, we aimed to capture a diverse range of firms in terms of size, type, growth rate, and sector. We initially identified a sampling frame of 47 companies that met these sampling criteria.

We wrote to each of the CEOs of the firms in our sampling frame, explaining the nature of the study, and promising to follow-up with a telephone call in the following weeks. We followed up with all the CEOs in our sample to gauge their interest in the study and availability. For a variety of reasons, a small number of firms were dropped from the sample. Two firms were dropped because they were headquartered, and largely operated, outside the Republic of Ireland. We also dropped a number of firms experiencing significant upheaval, either in the executive ranks, or throughout the company in the form of restructuring or downsizing. For the firms remaining in our sample, we followed up with a phone call within two weeks of sending a letter to the CEO. In many cases, it took several rounds of follow-up, by telephone and email, to determine the CEO's interest in the study.

All told, we received an effective response rate of approximately 50 percent, with 31 executives from 23 companies participating in our study. While this sample is by no means representative of the broader population of firms, it does capture the issues facing corporate executives from a variety of firm types across five major industries: financial services, aircraft leasing, food, technology, and life sciences. As shown in Table 1, the sampled firms vary not only by sector and size, but also in terms of their ownership structure (public, private, semi-state, and subsidiary).

In total, we conducted 31 semi-structured interviews. On average, the interviews ranged from 40 to 60 minutes in duration. Most interviews were conducted in person at the respondent's office or at a meeting point, but four interviews were conducted by telephone, in all cases because the respondent's office was located outside Dublin. To ensure maximum reliability, and following best practice, all interviews followed a protocol of questions. To ensure that each respondent had sufficient time to reflect upon the questions, we emailed the interview protocol between five and seven days in advance of the interview. In many cases, we followed up these questions with more detailed probing questions during the interview. We generally desisted from recording the interviews to ensure full disclosure. We found it more useful to take contemporaneous notes.

Table 1

Profile of Respondent Companies and Executives

Respondent	Executive/Position	Positional Tenure	Company (Pseudonym)	Sector	Company Type
Executive #1	CEO	5 years	Alpha	Aircraft Leasing	Public (Irish)
Executive #2	CFO	6 years	Beta	Energy	Semi-state (Irish)
Executive #3	Company Secretary	14 years	Beta	Energy	Semi-state (Irish)
Executive #4	Executive Director	1.5 years	Beta	Energy	Semi-state (Irish)
Executive #5	Executive Director	3 years	Beta	Energy	Semi-state (Irish)
Executive #6	Executive Director	4 years	Beta	Energy	Semi-state (Irish)
Executive #7	Managing Director	1.5 years	Gamma	Energy	Semi-state (Irish)
Executive #8	CEO	9 years	Delta	Real Estate	Subsidiary of Public Company (British)
Executive #9	Head of Corporate Affairs	> 1 year	Epsilon	Banking	State-owned Irish Company
Executive #10	Head of Strategy	> 1 year	Epsilon	Banking	State-owned Irish Company
Executive #11	Managing Director	3.5 years	Zeta	Technology	Subsidiary of Public Company (US)
Executive #12	CEO	11 years	Eta	Food	Private (Irish)
Executive #13	Senior Executive	7 years	Theta	Banking	Public (Irish)
Executive #14	CEO	7.5 years	Theta	Banking	Public (Irish)
Executive #15	Head of Retail	4.5 years	Theta	Banking	Public (Irish)

Table 1 - (Continued)

Profile of Respondent Companies and Executives

Respondent	Executive/Position	Positional Tenure	Company (Pseudonym)	Sector	Company Type
Executive #16	Finance Director	3.5 years	Iota	Life Sciences	Subsidiary of Public Company (US)
Executive #17	CEO	30 years	Kappa	Real Estate	Private (Irish)
Executive #18	Non-Executive Director	2 years	Lambda	Life Sciences	Public (Irish)
Executive #19	CEO	34 years	Mu	Real Estate	Private (Irish)
Executive #20	CFO	3 years	Nu	Food	Public (Irish)
Executive #21	Managing Director	15 years	Xi	Technology	Subsidiary of Public Company (US)
Executive #22	CEO	1 year	Omicron	Technology	Subsidiary of Private Company (US)
Executive #23	CEO	8 years	Pi	Food	Public (Irish)
Executive #24	CEO	12 years	Rho	Aircraft Leasing	Private (Irish)
Executive #25	CEO	5 years	Sigma	Investment Management	Private (Irish)
Executive #26	CEO	0.5 years	Tau	Insurance	Public
Executive #27	CEO	8 years	Upsilon	Diversified	Public (Irish)
Executive #28	Head of Corporate Governance	10 years	Phi	Financial Services	Withheld due to non-disclosure agreement
Executive #29	CEO	2.5 years	Phi	Financial Services	
Executive #30	Managing Director	10.5 years	Chi	Life Sciences	Subsidiary of Public Company (Swiss)

Phase 2 - Survey

Survey (January-February 2017)

We constructed a random sampling frame of 2,595 c-suite executives across 539 companies located in the Republic of Ireland and Northern Ireland. The frame was constructed by randomly selecting 539 companies from the Irish Times Top 1000 companies list. In early January 2017, we wrote to each executive in our sampling frame inviting them to participate in our study. The letter explained the purpose and motivation of the study and included a link to complete the survey (administered using Qualtrics software). Approximately four weeks after the first letter, we sent a follow-up letter to executives who had not responded to our invitation. Following the mailings, we received 117 returned envelopes where the executive had departed the firm, or in instances in which the firm was no longer located at the address. This reduced our effective sampling frame to 2,478 c-suite executives across 520 companies. All told, we received responses from 225 executives across 180 companies, including both complete and partially complete surveys. This represents a response rate of approximately 35 percent at the company level.[1]

Figure 1:
Percentage of Respondents by Industry

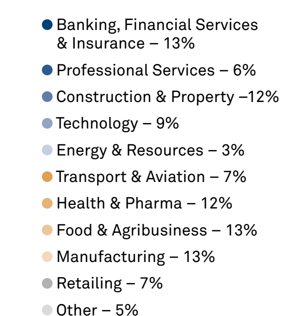
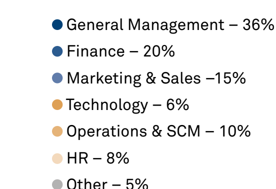


Figure 2:
Percentage of Respondents by Functional Background



The average (median) company in our sample had sales of €111 million, employed 380 employees, and had been in operation for 35 years. The sales ranking of firms, according to the Irish Times, ranged from #5 to #982. Thus, our sample captures a wide spectrum of firms in terms of their sales revenue, relative ranking, size, and age. In terms of the executive respondents, while only a minority were founders of the company (4.9 percent), quite a significant proportion did have a shareholding in the company (36 percent). On average, the executives were tenured in their current position for 7.6 years, in their current company for 13 years, and in their industry for 18.9 years.

A breakdown of the percentage of respondents by industry and functional background is provided in Figure 1 and Figure 2 respectively.

[1] The number of complete responses ranged from 145 to 166, due to some respondents not fully completing the survey.

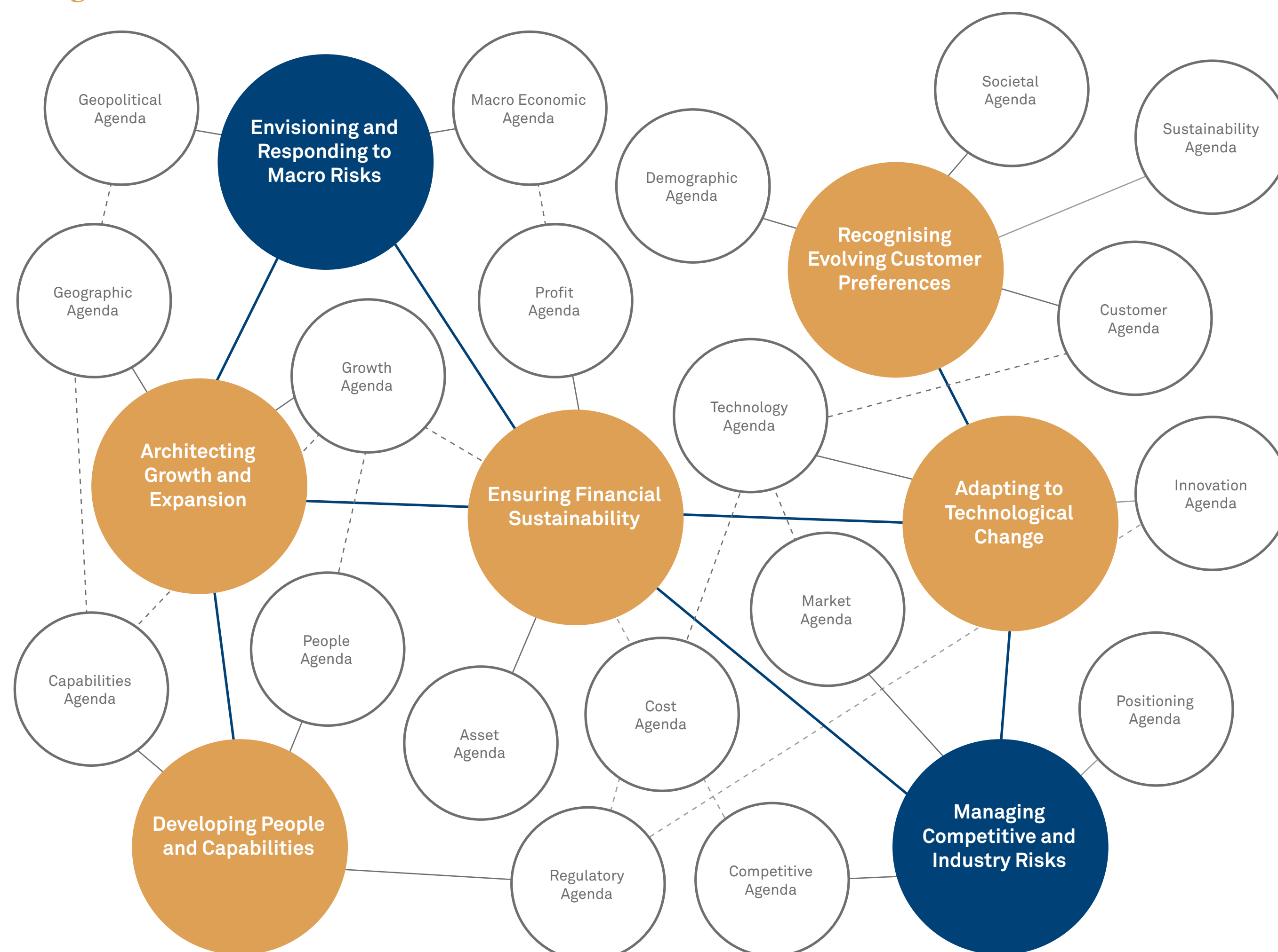
Framework and Findings

Based on Phase 1 of our research, we developed a framework of the main risks and priority issues on the strategic agenda of c-suite executives in our sample. As shown in Figure 3, there were seven themes:

1. Envisioning and Responding to Macro Risks
2. Managing Competitive and Industry Risks
3. Recognising Evolving Customer Preferences
4. Architecting Growth and Expansion
5. Ensuring Financial Sustainability
6. Adapting to Technological Change
7. Developing People and Capabilities

We discuss the results of our interview and survey with respect to each of these themes in turn.

Figure 3: A Framework of C-Suite Executive Theme



Risk
Strategic Priorities

Risks

The first two themes centred upon executives' assessment of risks in the macro and industry environment. Our approach to the assessment of these risks was to ask executives to evaluate each risk class in terms of their likelihood and impact. We also gauged executives' preparedness towards these risks by asking whether contingency plans were in place.

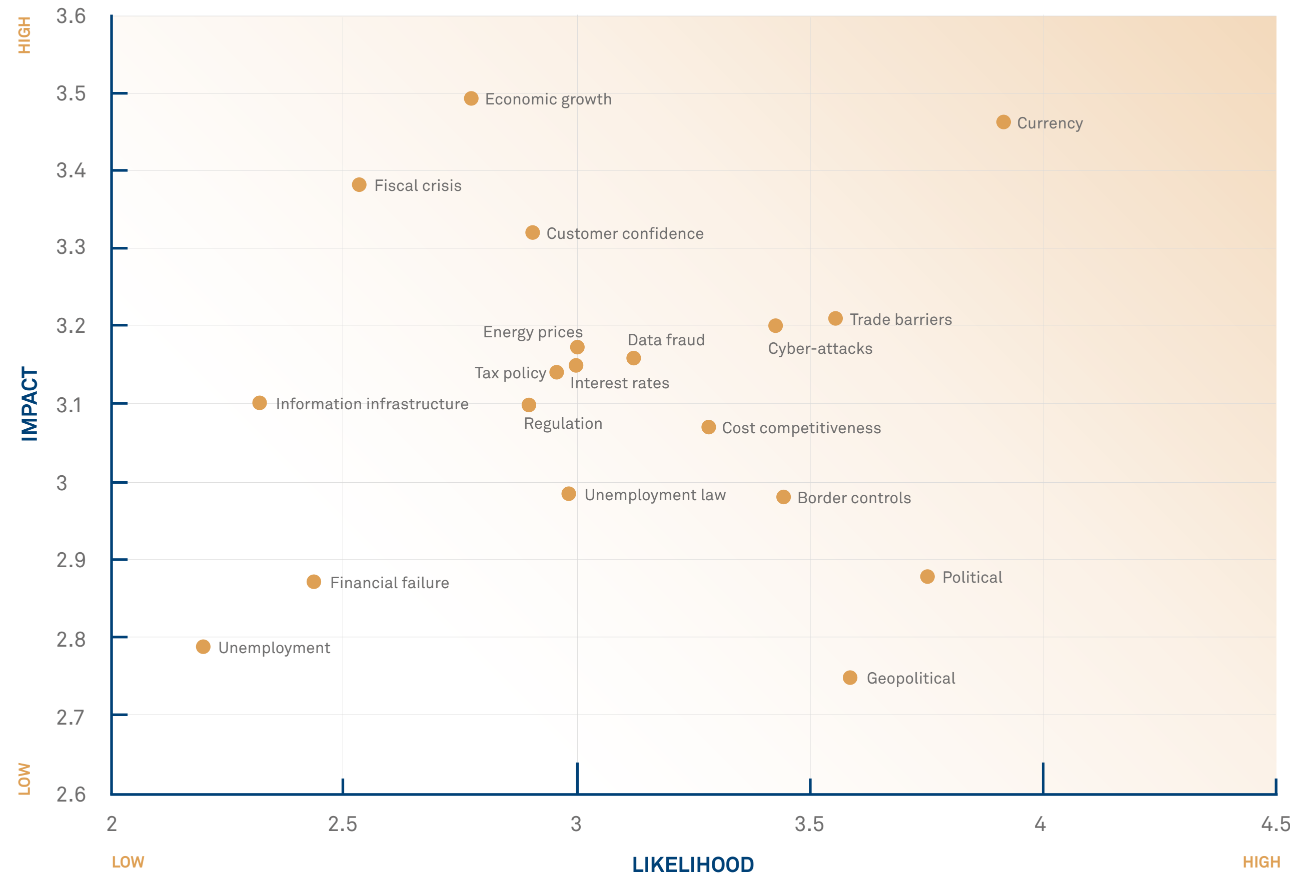
Theme 1

Envisioning and Responding to Macro Risks

We presented respondents with a list of potential macro risk events, ranging from geopolitical tensions and currency fluctuations, to fiscal crises and cyber-attacks. For each risk statement, we asked respondents to rate the likelihood of the event (1 = Very unlikely to 5 = Very likely) and if the event were to occur the impact of the event on the company's performance (1 = Very low impact to 5 = Very high impact). We calculated the mean likelihood and impact and plotted and juxtaposed them in the form of a risk matrix, presented in Figure 4. Based on the combined magnitude of likelihood and impact, the five biggest risks as perceived by our respondents are:

1. Unpredictable currency swings and shifts
2. New barriers to international trade
3. Large-scale cyber-attacks
4. Tightening of border controls
5. Deterioration in national cost competitiveness

Figure 4: Macro Risk Matrix

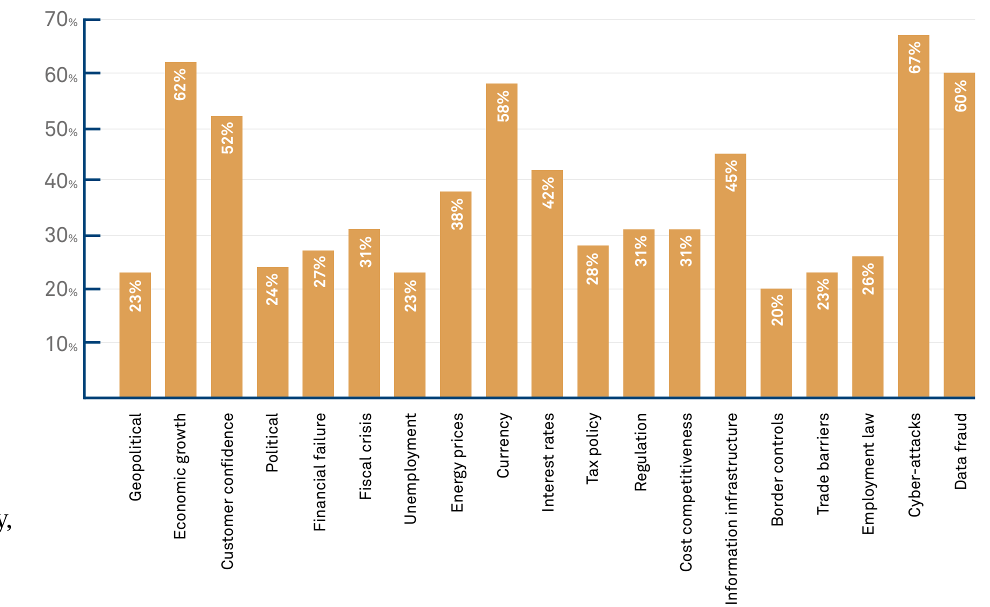


A close examination of Figure 4 reveals a number of insights. First, the range of our impact scale is quite restricted, with most observations falling between 2.7 and 3.6, which indicates a moderate to somewhat high impact. The absence of risks at the very high end of the impact scale is surprising. Second, there are a lot of risks competing for managerial attention in the middle of the likelihood-impact spectrum. One might wonder whether the clustering of these risks might reduce their salience and lead to potential blind spots.

For each of the risks identified, we asked respondents to indicate whether their company had a contingency plan in place to manage the risk. The percentage of firms with a contingency plan for each risk type is presented in Figure 5. The risks for which firms are most prepared include: large-scale cyber-attacks, slowdown in economic growth, a massive incident of data fraud/theft, currency shocks, and dampening customer confidence. But aside from these areas of preparedness, we were surprised that the firms in our sample are woefully underprepared for some real and tangible risks, such as geopolitical tensions, political uncertainty, border controls, trade barriers, tax policy, and regulation. It is alarming that only one in five firms in our sample have a contingency plan in place for the tightening of border controls, and that one in four have a contingency plan in the event of the erection of new trade barriers. Additionally, only a quarter of the firms in our sample have a contingency plan in place in the event of political or policy uncertainty, and less than a third have a contingency plan in the event of a fiscal crisis, a significantly tighter regulatory regime, or a deterioration in cost competitiveness.

There are a number of possible interpretations for this pattern of results. First, one interpretation is that firms have prioritised their contingency planning around issues that they can directly control, such as hedging currency risks and protecting their firm's data from cyber-attacks. Second, because executives are

Figure 5: Contingency Planning for Macro Risks



"boundedly rational" and tend to "satisfice", a logical interpretation is that they have concentrated their company's planning processes on the risks perceived as being of greatest priority. Indeed, an examination of Figure 4 supports this interpretation. The low priority attached to geopolitical and political risks is probably a direct function of the low perceived impact of these risks relative to other risk classes. Third, given the high level of confidence that executives have expressed in their ability to achieve sales projections, it is possible that executives are underestimating the likelihood and impact of certain risks, believing that they know how to handle such events without the need to engage in contingency planning. The restricted range of the impact dimension, may signal that some executives underestimate the potential impact of external events on their firm's strategy and performance.

Our interviews with executives is generally consistent with this pattern of findings. In particular, we found that geopolitical and macro-economic issues were most frequently cited by executives as areas of risk. We elaborate upon these two themes below:

Geopolitical Issues

The major issue on the macro agenda for Irish corporate executives is the geopolitical environment, both regionally and globally. This issue came up as a main agenda item in ten of the companies we interviewed – but it loomed large in the background of many other agenda items including regulation, growth, cost, and internationalisation. Brexit, not surprisingly, dominated the geopolitical agenda. In particular, Brexit emerged as an issue for companies that operate both North and South of the border, that have operations in the UK, or plan to expand within Northern Ireland or the UK.

The implications of Brexit for the executives in our sample are multifaceted. At the broadest level, Brexit is contributing to uncertainty that threatens to dampen demand and investment. For example, an executive in a financial services firm indicated that loans by businesses (for capital expenditure) were being deferred – effectively "kicking the can" down the road until the implications of Brexit become clear. There is also a widely held concern that Brexit will add complexity to business transactions and reduce flexibility, particularly around cross-border transfers of people, products, and resources. Another executive in a financial services company commented that Brexit has the potential to disrupt partnerships the company has developed within the UK. In terms of specific operations, a number of executives spoke of the implications of Brexit for staffing and procurement. For example, the CEO of a company that employs a large international workforce is concerned about the erection of potential mobility barriers, and the implications this may have for manufacturing. A senior executive in another large public company expressed concerns about the potential impact of Brexit on its supply chain, given the internationally dispersed nature of its operations and procurement.

Given the level of uncertainty surrounding Brexit, it was hardly surprising that our analysis revealed different approaches to dealing with Brexit. While the exploratory nature of our study limits our ability to inductively develop a typology of responses, and mindful that most of our interviews took place in the weeks before and immediately after the Brexit vote, our analysis revealed two recurrent themes that may capture approaches to Brexit. The first dimension reflects underlying beliefs about Brexit, and in particular whether its implications are manageable or inevitable. In some respects this dimension reflects a "strategic locus of control" – a belief about whether the environment is controllable or not. The second dimension reflects a firm's approach towards managing Brexit, which we observed as ranging from "passive waiting" to "strategic realignment". Juxtaposing these dimensions revealed different patterns of approaches (see Figure 6 over). At one extreme, we interviewed the CEO of a technology company who, although identifying Brexit as an agenda item, decided not to invest resources because the implications will largely be inevitable – and did not want to waste time or resources considering scenarios that may never materialise. The next level up is a company that invests some time in contemplating different scenarios – but doesn't commit substantial resources – in effect, actively waiting. A senior executive of another company indicated that each business unit was charged with engaging in contingency planning with respect to Brexit. This requires more time and commitment than considering scenarios. One food company took a joint approach – a tactical approach to managing transactional risks and a strategic approach in examining and rebalancing the portfolio. And a senior executive in a financial institution we interviewed indicated that the

"geographic profile and shape of the group" was being reviewed in light of the Brexit vote.

Macro-Economic Issues

The macro-economy emerged as an important issue for a small number of firms in our sample. There were a number of ways in which the economy – nationally, regionally, and globally – fed into the corporate agenda. First, for some companies in our sample, there is a systematic relationship between the performance of the economy and company performance. Several firms in our sample used Irish economic growth as a benchmark for their own growth rates. In a number of different firms, most notably in financial services, technology, and aircraft leasing, the rate of growth in the economy has a key influence on market demand. For one technology firm, in particular, the macro-economy occupied three agenda items, primarily because the segments it is targeting (e.g. foreign direct investment, government and small-to-medium sized firms) are sensitive to the performance of the economy. Thus, this firm views the economy as a key risk factor in its business model and engages in contingency planning. A change in economic fortunes would require searching for additional revenue streams.

Second, the global economy shapes the risk profile of investors. The CEO of an investment management firm commented that the state of the broader macro-economy has a big influence on whether investors have a "risk-on/risk-off" attitude.

Finally, a small number of executives, primarily in the technology sector, raised the competitiveness of the Irish economy as an agenda item. The key issue here is the availability of a talent pool with the appropriate mix of skills, as well as access to key infrastructure such as broadband. For one company access to broadband is critical to implementing its business model. For another firm, a subsidiary of a US corporate, competitiveness is a strategic issue because the corporate parent evaluates each country subsidiary on the basis of country-level competitiveness. Thus, not surprisingly, cost competitiveness emerged as a key risk factor in our analyses.

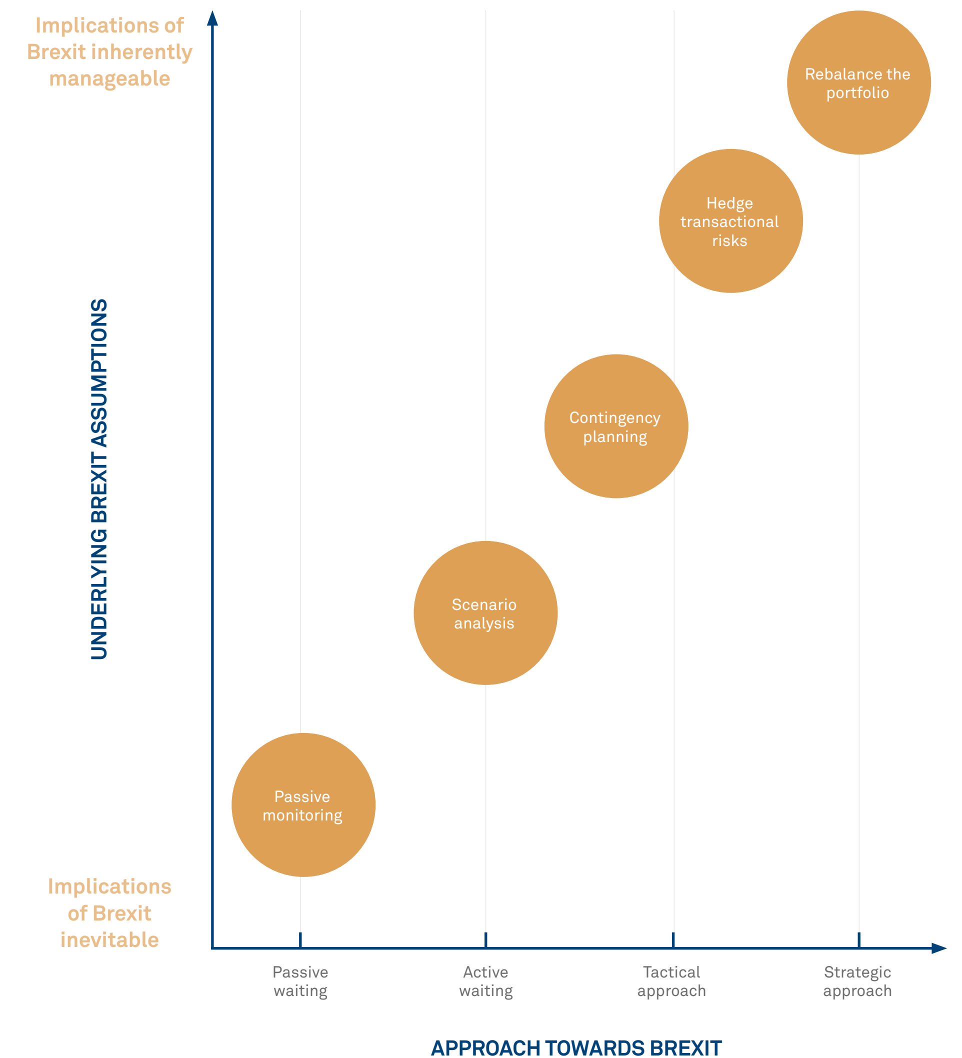


Figure 6: A Typology of Approaches to Brexit

Theme 2

Managing Competitive and Industry Risks

We also asked the executives in our sample to evaluate the likelihood and magnitude of 12 different industry risks. For each risk statement, we asked respondents to rate the likelihood of the event (1 = Very unlikely, 5 = Very likely) and if the event were to occur the impact of the event on the company's performance (1 = Very low impact, 5 = Very high impact).

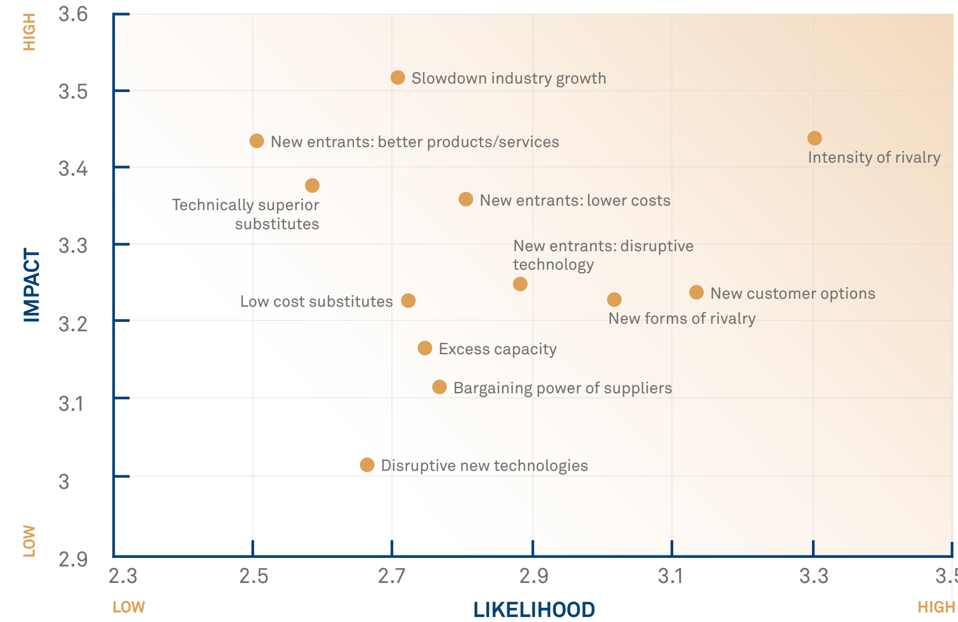
As shown in Figure 7, the top five risks, based on combined likelihood and impact are:

1. Significant increases in the intensity of competitive rivalry
2. Significant increases in options for customers
3. Major shifts in the basis or dimensions of competitive rivalry
4. Significant slowdown in industry sales growth
5. Entry of new competitors with significantly lower costs

Interestingly, the risk perceived as lowest in combined likelihood and impact is the potential introduction of new technologies that will significantly disrupt the industry. This finding is counter-intuitive in light of the growing disruptive role of technology in industries such as financial services, retailing, manufacturing, and transport. Respondents also rate the risk of the entry of new competitors with significantly better products/services and a significant rise in the bargaining power of suppliers as relatively low in combined likelihood and impact.

For each of the 12 industry risks, we asked executives to indicate whether their firm has a contingency plan in place to manage the risk. The percentage of respondents reporting the presence of a contingency plan for each risk is displayed in Figure 8 (over). First, compared to macro risks, firms seem to be engaged in more contingency planning with respect to

Figure 7: Industry Risk Matrix

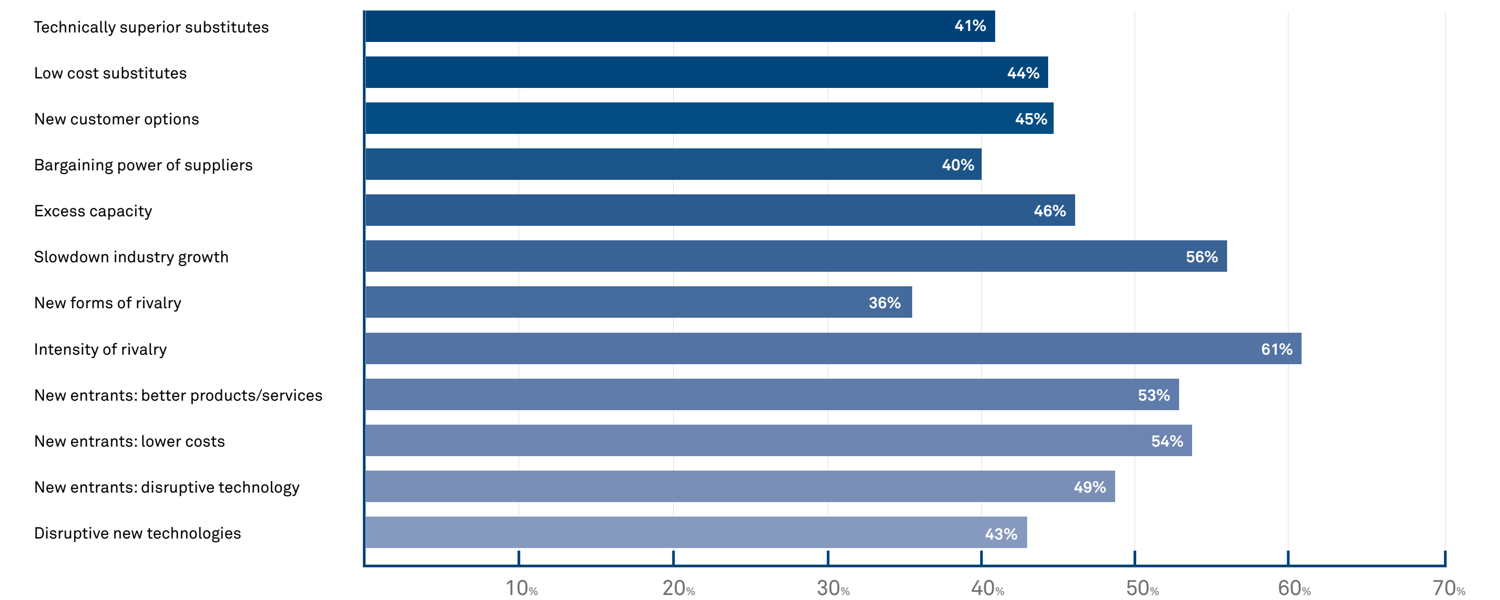


industry risks. This is consistent with our interpretation that firms focus their planning resources around events that are perceived as impactful upon performance but also controllable. This is evidenced by the fact that 61 percent of firms have a contingency plan in place to deal with the biggest industry risk – potential increases in rivalry. In contrast to contingency planning for potential increases in the intensity of rivalry, less than four in ten executives

are prepared for potential shifts in the basis or dimensions of competitive rivalry. Second, less than half of the firms in our sample are prepared for the emergence of disruptive technologies, the entry of competitors with disruptive business models, significant increases in customer options, the emergence of low-cost and technically superior substitutes, increases in the bargaining power of suppliers, and excess capacity.

Our interview data lends insights into the substantive nature of the competitive and industry-related risks facing the executives in our sample. A number of these were evident. First, a dominant theme across executives interviewed was the growing complexity of markets, which necessitate major investments. This issue is particularly acute within the energy industry, wherein the integration of energy markets on a European-wide basis poses significant challenges. Beyond the energy industry, growing market complexity and shifting dynamics was a theme in the real estate and technology industry. In real estate, the growing sophistication

Figure 8: Contingency Planning for Industry Risks



of the market requires investments in advanced analytics and forecasting. In a technology company we interviewed the challenge is slightly different – it is about developing the sophistication or "maturity" of the market for advanced technology solutions, in particular the shift from in-house storage to cloud storage solutions. The top executive of this company explained that increasing the maturity of the market represented a big opportunity for their firm, and they were playing an active role in developing the market through engaging with lead users and opinion leaders, building awareness through PR, and leading by example.

Second, although competition didn't emerge as a top five item for most executives interviewed, it did often appear as an agenda item in the guise of technology – in industries such as financial services ("Fin-techs"), insurance ("Insure-techs"), real estate, and investment management, technological developments are giving rise to a new breed of competitors. The main issues that arose under the competitive agenda were falling barriers to entry, pricing pressure, and market consolidation. One senior executive raised the issue of competition from a capital market perspective – in terms of the firm's inability to raise capital at a lower rate than competitors.

Strategic Priorities

Whereas the first two themes dealt with risks – macro and industry – the remaining five themes deal with the strategic priorities of executives. We asked the respondents in our sample to rate the strategic priority of over 30 strategic activities and initiatives, using a six-point scale (1 = Not a priority, 6 = Very high priority).

Strategic Priorities

In accordance with the themes outlined in Figure 3, we assessed strategic priorities across five thematic areas: *customers, growth, financial sustainability, technology*, and *people and capabilities*. Before we turn to an assessment of each theme, we first examine the pattern of strategic priorities across themes. As shown in Figure 9a, the highest strategic priorities for firms in our sample included servicing the increasing demands and expectations of customers (customer agenda), searching for opportunities for top-line growth (growth agenda), developing a senior leadership team that is alert to growth opportunities (growth agenda), retaining talent (people agenda), and improving the profitability of existing customer relationships (customer). There appears to be equal emphasis attached to exploiting existing products, assets, and technologies, while also exploring new products, assets, and technologies.

The areas of least priority for executives is displayed in Figure 9b. The areas of lowest priority include entering into entirely new international markets and territories (growth agenda), entering entirely new and unfamiliar markets (growth agenda), increasing presence within international markets (growth agenda), diversifying the company's revenue streams and cash flows (financial agenda), and finding ways to lower the cost of capital (financial agenda).

Figure 9a: Top Ten Strategic Priorities

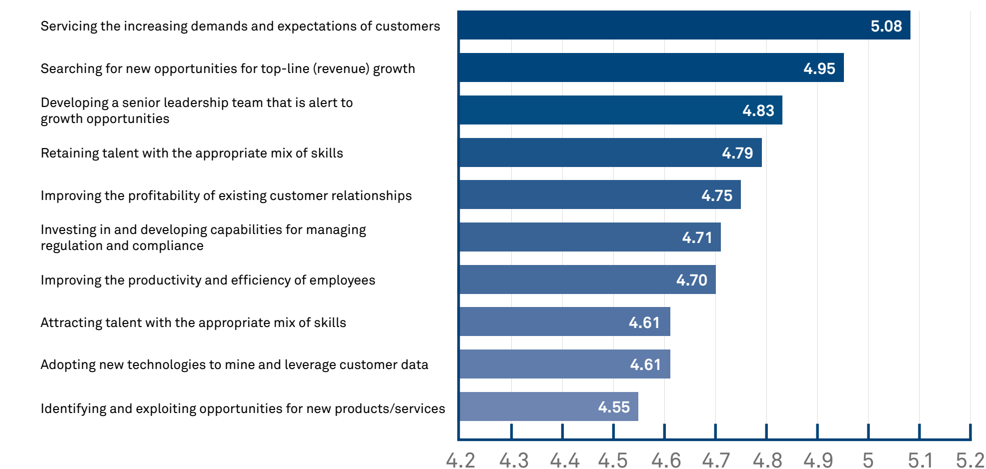
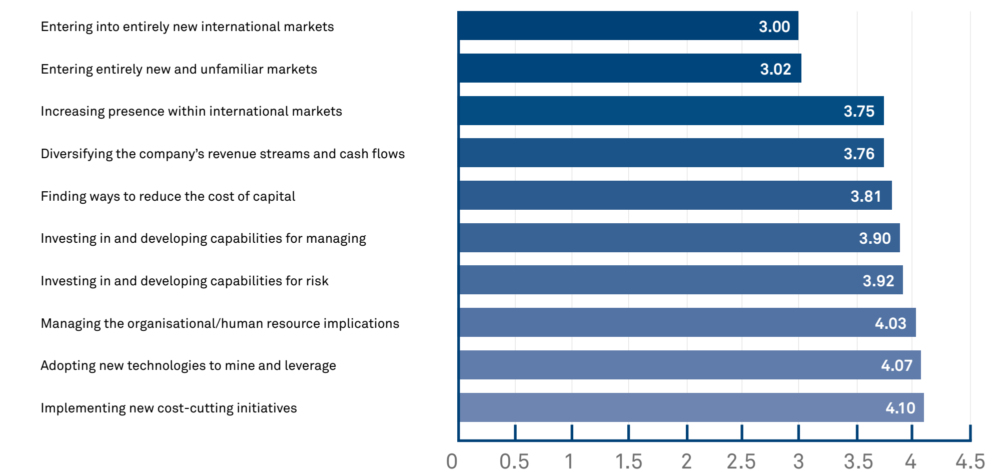


Figure 9b: Bottom Ten Strategic Priorities

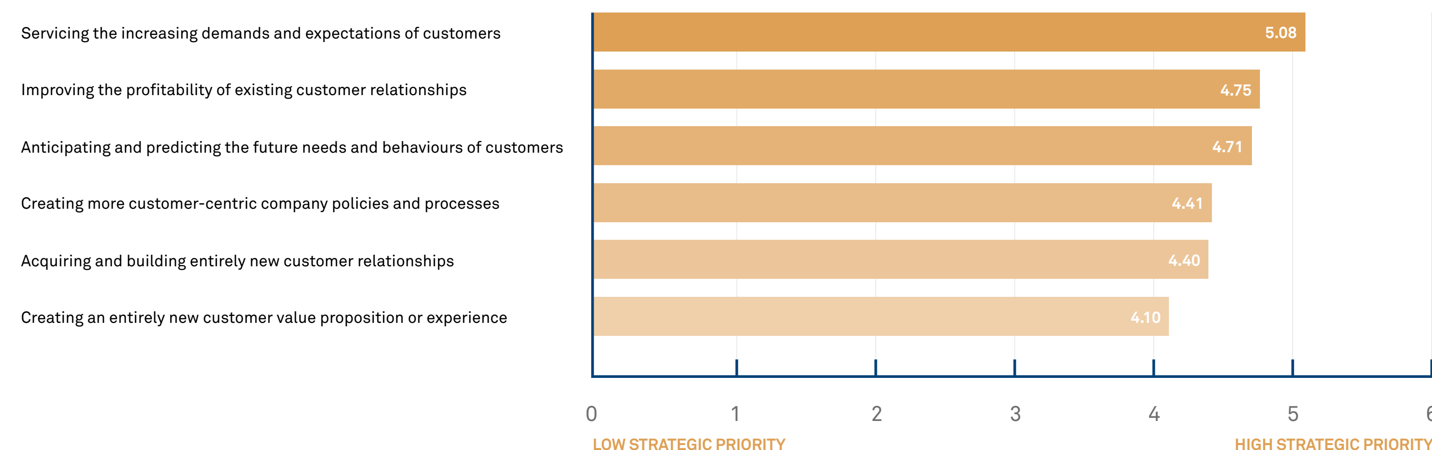


Theme 3
Recognising Evolving Customer Preferences

In terms of customers (Figure 10), there is a clear priority in favour of exploiting existing customer relationships rather than exploring new customer relationships and customer value propositions. In fact the biggest priority of the executives in our sample across all priority domains is serving existing customer relationships.

In keeping with the survey data, a common theme across many of our interviews was the changing behaviours and preferences of the customer, due to demographic and social changes, as well as due to the changing nature of the customer-firm interface. In particular, three central agenda items emerged from our interviews: the demographic and societal environment, the changing customer requirements, and sustainability.

Figure 10: Recognising Evolving Customer Preferences



The Demographic and Societal Environment

The main issue on the demographic and societal agenda for corporate executives is the impact of millennials. As consumers, millennials are posing strategic challenges. For example, in the banking industry, banks have historically traded on inertia with customers rarely changing banks and displaying risk averseness to new financial products. However, as one senior executive in a bank commented, millennials are different; they are more likely to change banks than other demographic cohorts, and they are more willing to experiment with non-traditional banking substitutes. This poses a huge challenge to the model of customer lifetime value (CLV). In the real estate sector too, one executive commented that millennials wish to interact with the company in new ways, which has necessitated investments in mobile technology as well as virtual reality technology that allows property viewings to be conducted remotely. Similarly, in the food sector, one executive remarked that millennials are growing more and more concerned about not only what is in the product, but how the product is produced.

For pharma and life science companies, the key demographic trend is the ageing population and associated implications for healthcare costs. As it presently stands, the current healthcare model is not sustainable given rising costs. One of the pharma executives we interviewed indicated that their company is partnering with healthcare companies and with the government to develop a sustainable healthcare model and long-term strategy.

Changing Customer Requirements

Often driven by demographic, technological and social changes, changing customer requirements was on the agenda of seven companies we interviewed. In some cases the customer agenda was about the ability of subsidiaries to meet the demands of internal customers. More often though, it reflected an awareness of the need to adapt to changing customer expectations. This was most notable in the case of a financial services institution that is undergoing a renewal agenda to become more customer-centric. One senior executive, in particular, commented that customers are not as loyal as they were in the past, and there is a need to change the organisational culture to make strategic decisions from the vantage point of the customer. This company is in the process of becoming more "customer-centric" and is re-envisioning and re-engineering customer journeys. The company is also investing in customer analytics to better grasp evolving customer behaviour.

Similarly, a senior executive in a major food company we interviewed suggested that changing customer trends around diet represents both an opportunity and a risk. The company in question has experienced rapid growth in demand for one of its core food products, but this could be easily reversed if customer sentiment changed. To offset this risk, the company has a very structured strategic planning process that is focused on the major changes coming down the track. The company also has a very strong R&D capability and is willing to provide seed capital for R&D into products that could serve as a substitute.

Sustainability

Sustainability was strongly driven by the need to meet increasingly demanding customer expectations. An executive in one company explained how the firm's sustainability agenda, particularly around community initiatives, is partly motivated to increase consumer loyalty. Because it is relatively easy for customers to change suppliers, getting customers to stick represents a key challenge on the company's agenda. The company has found that a sense of community is important and it has thus embarked on a series of initiatives in the hope that customers that value such initiatives will remain loyal to the company.

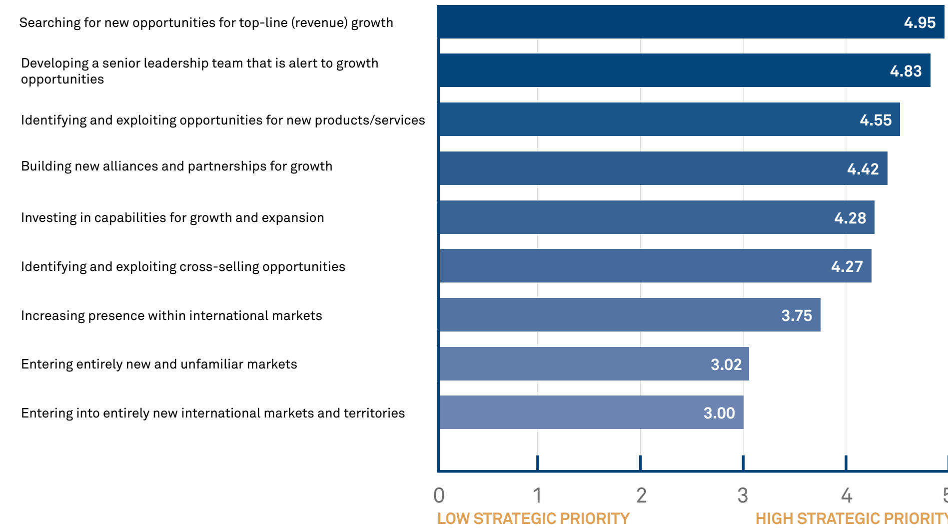
Theme 4

Architecting Growth and Expansion

The pattern of priorities identified by executives in the growth domain is intriguing (Figure 11). Executives identified finding opportunities for top-line revenue growth as their biggest strategic priority, together with developing a senior leadership team that is alert to growth opportunities. While this is as expected, what is unusual is that the only direct vehicle for such growth seems to be the development of new products and services. Executives attached a low priority to increasing presence within new product and geographic markets, and increasing penetration within already established geographic territories. Given that the average rate of growth is estimated at about 10 percent, it seems that the lion's share of this will come from the development of new products and services, and to a lesser extent, alliances and partnerships.

The interview data was similarly intriguing. Although we asked all respondents a question on the firm's growth aspirations and plans, we were surprised that growth emerged as an agenda item in only six companies. Perhaps this is in part because growth is taken for granted. The executives that identified growth as a priority generally had a well-defined strategic intent in mind, either in terms of increasing market share, rebalancing the company internationally over the medium-term, or balancing transactional and non-transactional revenues. While it is difficult to infer given the size of our sample, the drivers of growth were quite mixed. For some companies, growth was driven by competitive pressure and technological opportunity. For example, an executive at a food company we interviewed identified rivalry from the lower end of the market as a key impetus for growth.

Figure 11: Architecting Growth and Expansion



In some cases, growth was driven by economies of replication – an effort to emulate the success a company had built up in one country in another. In other cases, firms had reached a saturation point in existing segments or markets and was seeking new revenue streams.

A small number of companies in our sample were quietly rethinking the scope and shape of the geographic profile of their operations. Although this issue emerged as an agenda item in only two companies, we suspect that it would have arisen more frequently if more of our interviews had taken place after the Brexit vote results in the UK. For example, an executive of a major financial institution we interviewed was in the process of reviewing the geographic scope of its operations, particularly in the UK market. A senior executive in a food company revealed that the company is currently in the process of rebalancing the international portfolio. Specifically, the company wishes to "re-weight itself geographically" so that it can replicate the size of another geographic market in which it currently competes. One of the challenges of managing international growth is developing a talent pool that will support and adapt to international growth, a point we return to under the people agenda.

While some firms are reconsidering the scope of their geographical operations, further analysis of our survey data revealed an inertia in the geographic aspirations of firms in our sample. We asked respondents to breakdown their sales revenue by geographic region over two time periods – their estimate of sales revenue over the past two years (i.e. 2015 and 2016) and their projection of sales revenue over the next two years (i.e. 2017 and 2018). The average percentage of revenue attributable to each region is displayed in Figure 12.

From Figure 12, it is clear that there is virtually no change in the envisioned distribution of revenue across geographic regions. Consistent with this trend, one of the least important strategic priorities for the respondents in our sample is entry into new markets and geographic regions. Thus it seems, at least initially, that economic uncertainties within Europe and the United States have halted the geographic expansion activities of the firms in our sample, at least in the short-term. We examined whether this trend was also evident across industries. For example, Figure 13 shows the average percentage of sales revenue generated from the Republic of Ireland, both past and projected. While the level of geographic diversification varies considerably across industries, the trend of inertia is evident across every industry category.

Figure 12: Sales Revenue by Geographic Region

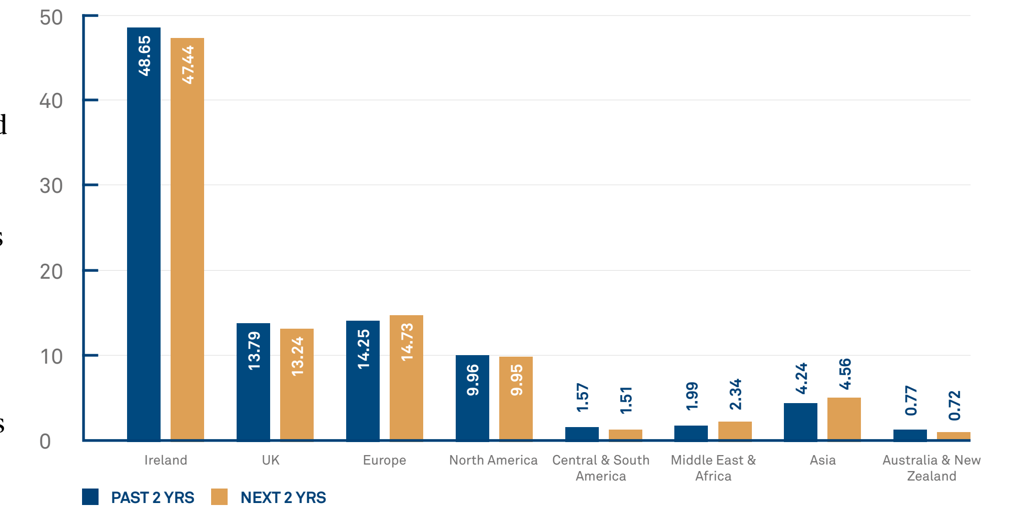
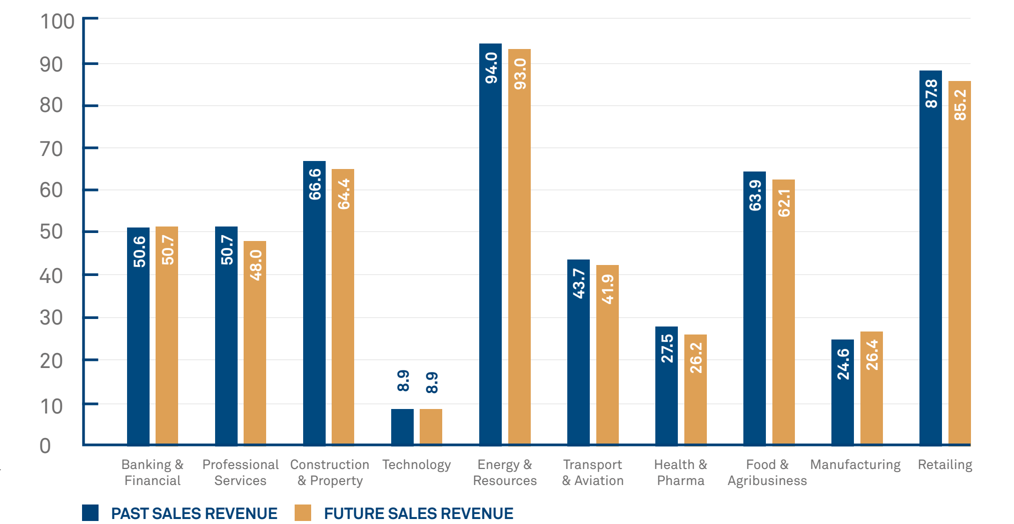


Figure 13: Past and Future Sales Revenue from Republic of Ireland



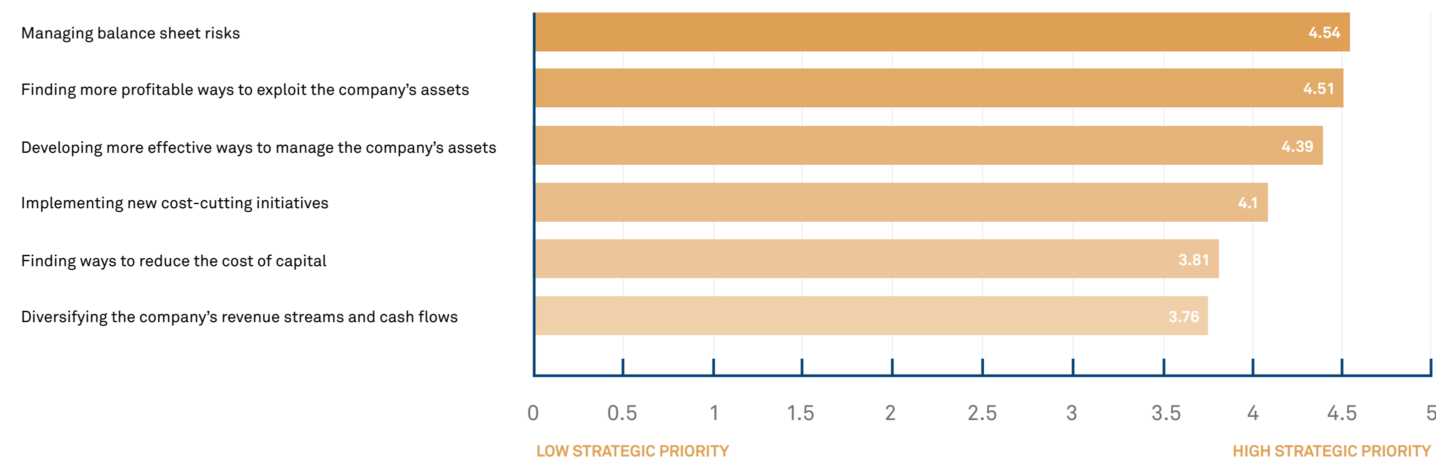
Theme 5

Ensuring Financial Sustainability

In terms of financial sustainability (Figure 14), the dominant priority is exploiting existing assets, in terms of managing balance sheet risks, finding more profitable ways to exploit the company's assets, and developing more efficient ways to manage the company's assets. Far less priority is attached to finding new, lower sources of capital and diversifying the firm's revenue streams and cash flows.

In our interview data, three themes emerged on the topic of financial sustainability – managing profits, costs, and assets – each of which we discuss in turn below:

Figure 14: Ensuring Financial Sustainability



Managing Profits

Although profit is largely taken for granted, it emerged as a specific agenda item in six companies in our sample. In most of these cases, there were real or potential threats to profitability. For example, in the banking sector, profiting in a low interest-rate environment was an item high on the agenda and minds of executives. One of the banks we interviewed indicated that there was little or no profit to be gained from current and deposit accounts. For these companies there are two fundamental levers to improve profit potential. The first, and biggest lever, is cost containment and running the company as efficiently as possible (a point we return to next). The second lever is revisiting the product proposition and broader business model. For example, the company is considering developing wealth management services for high net worth customers.

The other area in which profits are threatened is the trade-off between growth and profitability. As one executive of a technology company put it: "There is an inevitable trade-off between growth and profit in that gaining market share requires investment."

Managing Costs

Given the improvement in the economy and the fact that many companies are investing heavily in growth, expansion, and innovation, the cost agenda did not feature prominently among the companies we studied. The issue of cost emerged as an agenda item in two different sectors in different ways. Firstly, in banking, cost is a definite strategic issue due to the challenges of operating in a low interest-rate environment. But it is also an issue because advancements in technology will make it possible to perform operations and processes with lower staff levels. Although other financial service firms didn't identify cost as an agenda item, they are nonetheless investing in technologies to simplify organisational systems/processes.

Managing Assets

Managing the firm's assets as an agenda item arose in a total of nine of the companies we studied. For the majority of the companies that identified managing assets as an agenda item, the predominant focus was on managing and strengthening the firm's balance sheet. For the firms in the aircraft leasing sector a strong balance sheet to fund investments in assets and capital expenditure is essential to expanding in line with market growth (and beyond). Similarly, for the energy company in our sample, a key challenge is to maintain and strengthen the balance sheet, since the company must manage a portfolio of long-term assets, engage in intensive capital expenditure, and allocation of capital among different future capital projects. Since many of the assets in the portfolio have a very long life and a slow investment recovery cycle, it requires ongoing balance sheet management. For banks, the issue of balance sheet management looms especially large and particularly in managing non-performing loans.

The issue of managing physical assets was also an issue on the asset agenda, albeit not as pronounced. For banks in particular the question of how to leverage the branch network is a key issue. Interestingly, one bank we interviewed has introduced experimental branch formats and concepts. The new branch concept, which is entirely self-service, consists of a foyer that is designed for events and a work bench which is a dedicated space where entrepreneurs can work. The other bank in our sample has similar branches.

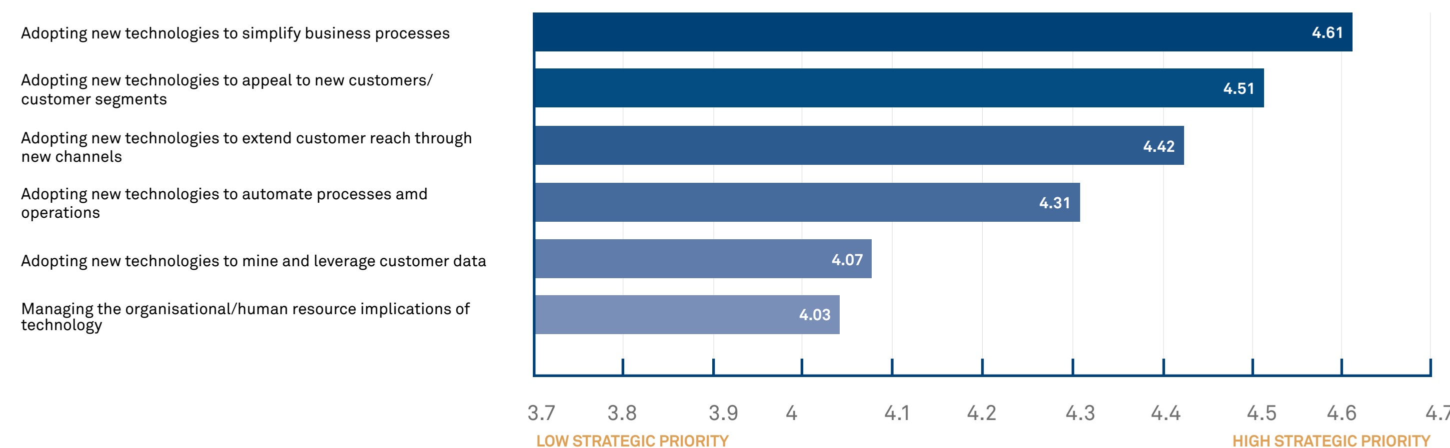
Theme 6

Adapting to Technological Change

With respect to technology (Figure 15), the highest priority of executives is adopting new technologies to simplify business processes, followed by adopting technologies to appeal to new customers/customer segments. Interestingly, respondents attach less priority to mining and leveraging customer data and managing the human resource and broader social implications of technology.

New and developing technology arose as a key agenda item for eight of the companies we interviewed. We also asked respondents to assess which technologies were likely to have the greatest (disruptive) impact on their industry over the course of the next three years. While the exact nature of technological change varied by firm and industry sector, the role of digital technology emerged as a common agenda item. In most cases the technological agenda was linked with the firm's innovation agenda.

Figure 15: Adapting to Technological Change



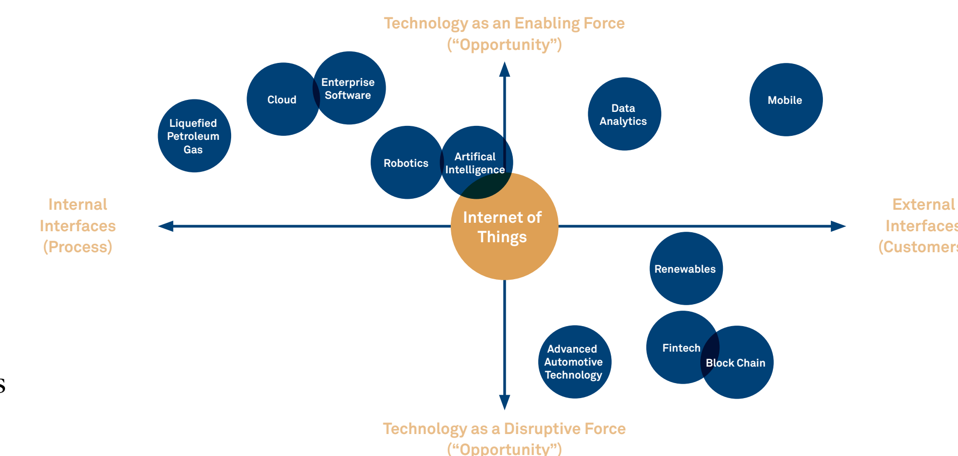
To gain a better understanding of the role of changing and new technology, we synthesised the interview data to distil the major considerations facing executives. At the risk of simplifying some of the nuances, we deduced two core dimensions that capture executives' assessment of the role and impact of technology. The first reflects executive beliefs as to whether technology is an enabling force and provides an opportunity to create value – either by allowing them to get closer to the customer, or save costs – or whether new technologies represent a disruptive force to be reckoned with. The second dimension represents where the executives envision the potential scope for technological change, or in what arenas the implications of technological change unfold. In simplistic terms, does the technology impact the external interface with customer or internal processes and systems?

Juxtaposing these two dimensions – and superimposing the technologies mentioned upon this framework – yields a number of key insights (see Figure 16 over). First, it appears that "beauty is in the eye of the beholder" – technologies are neither objectively disruptive nor enabling; their potential impact seems to depend on the mechanics of the company's business

model, and the outlook of individual executives (which can differ even within the same company). Many executives we spoke to consider the internet of things as an opportunity – but some see it as a threat, in that it potentially destabilises the customer relationship. Perhaps the more nuanced interpretation is that with appropriate investment and strategy, it represents an enabling force and a business opportunity (i.e. smart metering), but without investment a threat as new entrants emerge to fill the void. Similarly, renewable energies are a double-edged sword for electric utilities. On the one hand, some offer a strong potential for cost competitiveness and growth (e.g., solar), but as more and more electricity is generated off the grid, it dampens demand, which limits the ability of energy companies to invest in new technologies. Since the level of "on-grid" demand is critical to the future investment capacity of utilities, off-grid generation and consumption poses a challenge.

In terms of the response to new technology, firms appear to be taking a multi-layered approach, or as one executive termed an "end-to-end" digital strategy. The first layer is exploiting new digital technologies to improve the customer interface and/or to streamline customer journeys. Many of the banks and financial institutions we studied are already exploiting such technologies. An insurance company we interviewed explained how they had introduced a new technological platform that reduces the number of steps it requires to take out insurance. At least four respondents, across three different companies, spoke about the need to reinvent customer journeys given advancements in digital technologies. The second layer of the technological initiatives of the firms in our sample is mining and leveraging the data that new technologies make available – analysing, manipulating, and making sense of this data. While the first layer has likely been already addressed by many companies, several respondents suggested that "attacking" the second layer is now a strategic focus. Several respondents spoke of the challenge of using this data to understand new patterns of consumer behaviour. As one CEO countered, "This is not merely

Figure 16: The Role of Technology on the Executive Agenda



a challenge for the IT department – it is a challenge for the entire organisation." The final layer is the improvement of organisational processes and systems using technology. In many of the companies studied, this involves using technology to streamline, and in some cases, automate processes. A senior executive in one financial institution revealed how the company was making significant investments in artificial intelligence and cognitive robotics. An executive from another company claimed to be investing tens of millions in the simplification of processes and the optimisation of systems.

Our interviews also touched upon, albeit briefly, how firms are building capabilities to adapt to new technologies – whether at the customer, data, or process level. While some companies are making investments themselves, the more dominant approach is to partner with technology providers and experts. For example, a CEO of a major financial institution used the analogy of airlines when it comes to making technological investments; airlines don't build planes but rather buy them and adapt them to their needs. Other companies have adopted a similar approach – relying on strategic alliances with technology and consulting firms.

Theme 7

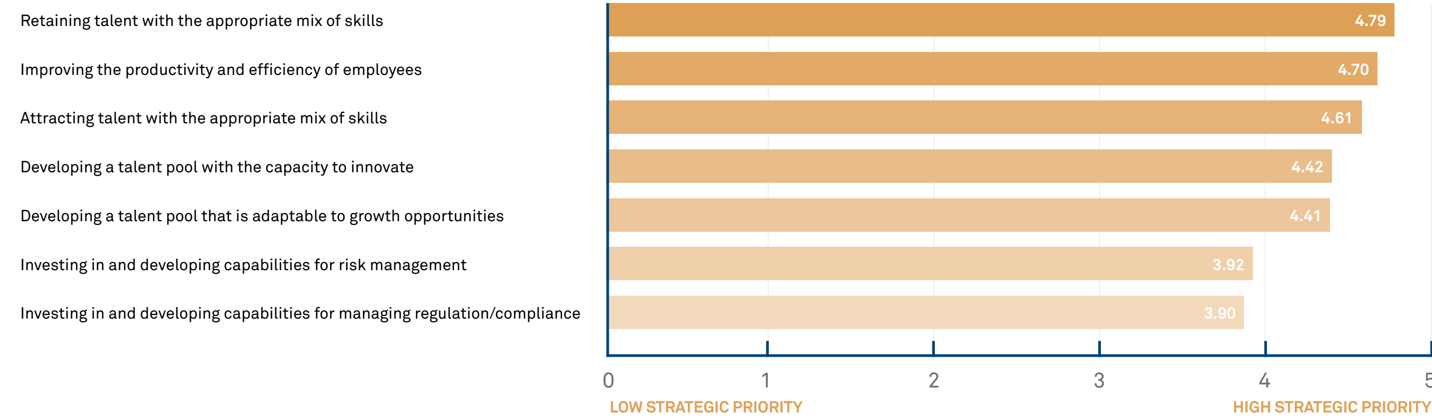
People and Capabilities

As shown in Figure 17, the biggest priority for executives under the people and capabilities agenda is retaining talent, followed by improving the productivity of employees, and attracting talent. Executives attached less importance to developing capabilities for risk management and regulation/ compliance.

The people, or talent agenda, also emerged as the most frequent item on the agenda of corporate executives, with the issue arising in 14 of the 23 companies we studied. While the people agenda emerged across all sectors, it was particularly salient in the financial services, real estate, technology, aircraft leasing, and life science industries. The common challenge, across almost all firms, is the ability of firms to recruit, appropriately incentivise, and retain staff with the appropriate skill mix. The issues vary slightly by sector and firm type. In a bank we interviewed, the key challenge is that the cuts in salaries and pensions in recent years together with the lack of performance bonuses is now giving way to an economy in which it is more difficult to retain staff without performance incentives. Similarly, the executives of one company we interviewed are trying to move from a "communist incentive regime" to a "market incentive regime" to attract and retain talent. For most sectors, the key issue is the competition to attract and retain talent. Several executives referred to a "war for talent" and that they are competing with technology giants and private equity firms to retain talent. Even some of the technology companies we spoke to struggle. One executive opined that it was difficult to find talent with the right mix of skills, including language skills, technical and engineering skills, and problem-solving skills. Yet for others the challenge is to invest in employees in a low margin environment.

The people challenge is not limited to recruiting and retaining talent; a broader challenge we encountered among the executives interviewed is developing a versatile talent pool that can readily adapt to the evolving organisational and environmental context, and that aligns with the firm's strategic priorities. Several executives spoke about the need to "bring people with us". This is particularly the case in firms that are pursuing aggressive growth strategies, pursuing an international strategy, or that are undergoing a significant business or cultural transformation. As one executive explained, as the "speed of change increases it is necessary to bring people with you and develop adaptability to change". Similarly, a technology executive we interviewed spoke about developing a "growth mind-set" among employees, where they view their talents and creative abilities not as static traits but as abilities that can be developed and improved through experience and learning. In keeping with this observation, some of the executives in our sample, particularly those operating in more mature industries, spoke about the need to maintain "freshness" in their talent pool.

Figure 17: People and Capabilities



Closely associated with the people agenda is the issue of developing organisational capabilities. The issue of capabilities as an agenda item arose in seven companies. A common issue on the capability agenda of the executives is developing an organisation and talent pool that is adaptable to the opportunities and challenges the company is facing. Although it is difficult to infer the different patterns of capabilities given the limitations of our sampling approach, we have attempted to array the types of capabilities issues that arose (directly and indirectly) along a continuum as shown in Figure 18. The capability focus of executives ranges from developing technical excellence in individual capabilities and processes to developing an agile organisation. Many of the companies we studied discussed initiatives to achieve excellence in key processes; although only one identified this as an agenda item. At the other extreme, one of the executives in our sample identified agility as a key strategic priority. In between these extremes, typical agenda items included aligning existing functional capabilities with key strategic imperatives such as growth and internationalisation, as well as building higher-order "dynamic capabilities" such as strategic planning or strategic leadership.[2]

Figure 18: The Capabilities Continuum

[2]Dynamic capabilities refer to the "antecedent organisational and strategic routines by which managers alter their resource base – acquire and shed resources, integrate them together, and recombine them – to generate new value-creating strategies" (Eisenhardt & Martin, 2000: 1107, Strategic Management Journal). Agility refers to the ability of firms to combine speed and stability in their operations (Bazigos, De Smet, & Gagnon, McKinsey Quarterly, May 2015).

Notes

Notes

Notes

UCD Michael Smurfit
Graduate Business School

The Executive Agenda

December 2017

UCD Michael Smurfit Graduate Business School,
Carysfort Avenue,
Blackrock, Co. Dublin

Website: www.smurfitschool.ie
Phone: +353 (0) 1 716 8934
Email: smurfitschool@ucd.ie