

# Business Pulse

Exploring dual perspectives  
on the top 10 risks and  
opportunities in 2013  
and beyond

## The COO perspective



Building a better  
working world

## The COO perspective – at a glance

Your time is precious. In order to get you the insights you need, as quickly as possible, we designed *The COO perspective* – a series of short executive briefing papers that provide a quick overview of the main findings of recent EY reports, with a particular emphasis on the relevance for you.

The role of the COO is hugely diverse, changing markedly from one company to another and across varying industries. Accordingly, in compiling *The COO perspective*, we have sought to highlight insights of relevance to one or more of the six fundamental components of the COO role, as illustrated by our wheel model that we believe collectively encompasses the full extent and potential of the COO role.

## What is *Business Pulse: exploring dual perspectives on the top 10 risks and opportunities in 2013 and beyond* about?

**In a sentence: the changing business risks and opportunities facing global companies in 2013 will set the agenda for COOs as they work with fellow executives to develop and execute the business strategy.**

COOs play a crucial role in shaping their businesses' readiness for the future. Their assessment of how best to structure the organization and its business model to provide protection from expected risks, and the ability to capitalize on anticipated opportunities, is a vital determinant of the company's success.

To help identify those risks and opportunities for EY's *Business Pulse: exploring dual perspectives on the top 10 risks and opportunities in 2013 and beyond*<sup>1</sup> report, we conducted more than 600 interviews with executives in 21 countries across various industry sectors.

The 10 risks and opportunities are divided over four clusters, based on their relevance to each, and discussed in that context:

- ▶ **Operational agility** – improving organizations' ability to deliver in a quickly changing market
- ▶ **Cost competitiveness** – sustaining companies' economic viability
- ▶ **Stakeholder confidence** – enabling firms to build stronger relationships with stakeholders
- ▶ **Customer reach** – maximizing potential market opportunity for products and services

<sup>1</sup> *Business Pulse: exploring dual perspectives on the top 10 risks and opportunities in 2013 and beyond*, EY, 2013.

# The top 10 risks and opportunities identified

A snapshot of the top 10 risks and opportunities is captured within the two radar charts below, with those risks and opportunities bringing the biggest impact located closest to the center of the charts. The arrows indicate the extent to which the relative ranking of each is expected to increase, decrease or remain the same between 2013 and 2015.

## Top 10 business risks



## Top 10 business opportunities



For COOs, the operational agility and cost-competitive clusters are the two areas that affect their agendas most clearly. In short, it is within these areas that their decisions and actions will typically have the biggest impact. As such, this *COO perspective* focuses primarily on these two areas.

# Operational agility

## The linchpin for survival

Operational agility remains crucial to survival in today's volatile business environment and it is heavily represented in this year's global top 10 risks and opportunities.

The good news for COOs: much of what is most relevant to them falls into the opportunity category. Four key areas of opportunity come into focus: investment to improve productivity, improvement of strategy execution, investment in IT and global optimization. By contrast, in the risk column, there is just one key issue – talent management and skill shortages – which is ranked number five in this year's report.

### **1. Opportunity: Investing in process, tools and training to achieve greater productivity**

Productivity is a vital area where many companies feel there is much room for improvement: COOs are the best placed to identify where internal investment will be of greatest value to the organization.

Their intricate understanding of the levers that drive the business will be crucial. They are able to assess where there is room for process improvements, what level of spending on new tools and training is necessary to produce productivity returns, and how the company's strategic assets can be made to work harder. As the ultimate owners of many of these processes and assets, COOs also have the power to influence change.

But they must balance the need for operational improvements with the ongoing pressure on costs. COOs who understand where the emphasis should be placed can genuinely help to drive their businesses forward.

New models of provision that use technology solutions, such as the possibility of remote diagnosis in the health care sector, may enable companies to improve productivity while simultaneously paring back costs. COOs will want to play a leading role in assessing whether investments in such technologies will produce genuine dividends – and how they are likely to impact the company's ongoing operations.

### **2. Opportunity: Improving execution of strategy across business functions**

COOs ensure that the strategies agreed by the C-suite are effectively executed. Not only do COOs play their part in setting such strategies, but also the barriers to execution very often turn out to be organizational in nature and therefore within the purview of the COO. The first challenge is communication: ensuring that different business functions understand the company's strategy and work together to achieve its goals, putting all available resources to work. Quality of leadership is also crucial, along with the organization's culture and its business processes. In each case, COOs must be key figures, evaluating the company's talent management strategies and the extent to which rewards and performance are aligned. They must establish clarity and accountability, and constantly evaluate organizational design and management processes.

For strategy and execution, the role of the COO represents the company's best chance of establishing feasible objectives and to deliver them. Businesses increasingly recognize that improving execution requires a constant process of adaptation, with practices tweaked in line with the evolving needs of the organization, rather than any single one-off change. COOs are likely to be central drivers of that process, exploiting their close working relationships with every part of the business.

### **3. Opportunity: Investing in IT**

Businesses need to make investments in IT that will drive improvements in both their analytical and administrative processes; but with limited budgets, they must be sure to choose the right tools and technologies. While CIOs have superior technical knowledge, COOs often have a better understanding of the needs and opportunities in every part of the organization, as well as a holistic view of how those parts work together. IT integration across a global organization is one area that COOs are well placed to help on. Another is cloud-based computing, where organizations are still trying to work out the operational challenges and opportunities of incorporating this technology into business models, innovation networks and core services. Cloud technology is one thing, but operational issues such as privacy, vendor risk management, user provisioning and customer reassurance are important factors to consider too. Furthermore, cybercrime is an increasing danger to which COOs must be alive.

It's crucial for the COO to be involved in achieving balance between immediate IT spending and evaluation of potential opportunities. Many successful organizations are now making significant investments in staying on top of technological advances that might boost growth and efficiency in the future. COOs can help to determine what applications such advances might have to their own organizations, as well as providing input on the balance between investment for today and investment for the future.

### **4. Opportunity: Global optimization and relocation of key functions**

While operational practices such as outsourcing and offshoring are decades old, the world's biggest companies have only very recently begun to move toward specialist multifunctional shared services centers. These provide support such as finance, IT, HR, marketing and R&D to the rest of the business from single locations. This enables businesses to move many functions to wherever is most cost-effective, but also to drive productivity improvements through a focus on cross-functional end-to-end processes.

COOs are often to be found at the head of these centers, driving a trend that can deliver cost savings and greater operational efficiency. At the same time, COOs are focusing more closely on supply chain issues: creating global supply chains that can fully service rapid-growth markets, while also achieving benefits of scale or process.

The location of the organization's global headquarters is another issue to consider, and more companies are now doing so. Moving the headquarters is partly an operational question – there may be a desire to be closer to an organization's most important markets – but also brings with it political and other risks. At the very least, COOs of multinational companies will need to ensure their organizations' decision-making processes are standardized and integrated – and that lines of command are absolutely clear.

## **5. Risk: Managing talent and skills shortages**

Organizations need the right people to implement and maintain changes, and to execute agreed strategies. In a global marketplace, competition for staff has increased and, despite an overall increase in global talent, demand appears to be running ahead of supply, particularly in certain rapid-growth markets. COOs are partly on the frontline of confronting this risk, because they have an important role to play as they work across the organization to help build an understanding of those operational areas where talent shortages are most pressing. They are able to encourage consistent approaches to recruitment and retention in different business units. And they may also be drivers of more agile working practices, encouraging the development

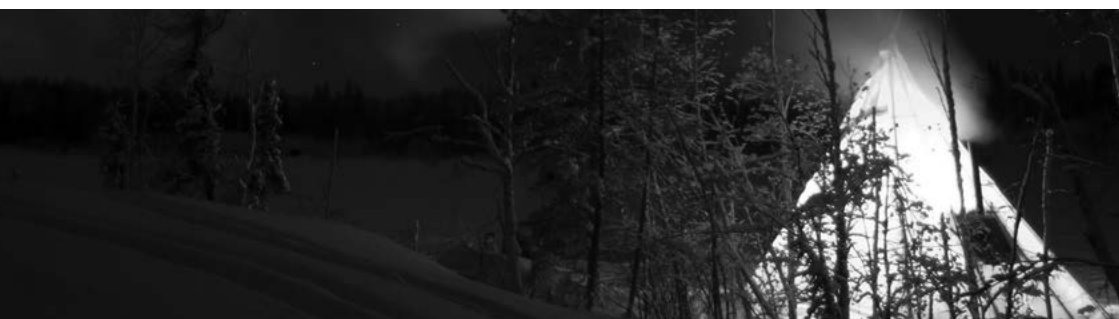
of multi-skilling programs that enable organizations to plug talent gaps more quickly. Furthermore, the COO should ensure that the organization puts in place a robust set of operating-model principles that define the processes, systems, competencies and profiles for its efficient operation and successful development.

## **Cost competitiveness**

### **Facing up to the new reality**

As the global economy continues to battle to recover from crisis, companies have reached two conclusions. First, they cannot afford to sit it out until mature markets rebound, as no one knows when that might happen. Second, volatility has become a constant. To succeed, companies must plan around this new reality. And given their visibility across the organization, it will very often be the COO who must drive such planning.

COOs should know that the cost competitiveness cluster is all about risk. Global companies have identified six specific risks to focus on over the next two years, including macroeconomic risk, the fear of sovereign debt defaults and further political shocks, all of which pose severe challenges. But there are three further cost competitiveness-related risks that will be most pressing for COOs:



## **1. Risk: Pricing pressure**

Factors ranging from emerging market competition to regulatory action to rising commodity prices are exerting pricing pressure. COOs must focus on improving productivity through technological innovation, flexible working practices, and a reshaping of products and services. COOs will play the key role in identifying sustainable cost savings in the supply chain that will support margins and help pay for growth elsewhere. And while there may be scope for further aggressive price cuts, COOs will need to ensure that their organizations understand pricing trends in the market and are working with business units to keep a close eye on competitor activity.

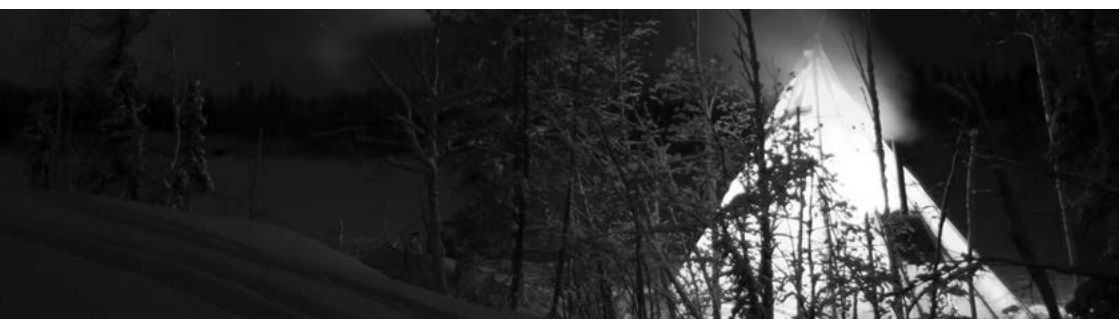
## **2. Risk: Cost cutting and profit pressure**

With the quick wins on costs now achieved, many companies are finding it difficult to make further savings without damaging performance. COOs must instigate processes that enable all capital investment to be vigorously challenged in the context of the overall business strategy. Part of the

challenge is to recognize that costs have to be optimized over the longer term – it may be 6 or 12 months before the payoff of particular initiatives become apparent. Still, profit pressure can also be an opportunity for the COO, who may find it harder to refocus the organization and improve processes when the external environment is less threatening.

## **3. Risk: Market risks**

Volatility in commodity prices and exchange rates, for example, is a major driver of margin pressure. Though the worst of this volatility may now have passed, at least in the case of commodity price risk, COOs will need to continue to monitor the business impact. Moreover, with other risks coming into play, new challenges are emerging – interest rate risk is to the fore, for example, with governments unable to exert fiscal policy levers. And while developing markets are replacing their developed counterparts as the primary source of high growth, refocusing the business toward these emerging countries, meanwhile, brings a different range of operational issues for the COO to consider.



## A COO checklist for business risks and opportunities

- How do you minimize variability in your supply chain while introducing more cost-effective processes and solutions?
- How do you ensure you have the right solutions, and integrated systems and processes in place to increase collaboration?
- How do you plan and prepare for the increased volatility of the market in which you operate?
- What risk-assessment measures for innovations do you undertake?
- What systems and processes can you establish to grasp the economic and political risks better that will shape your planning on cost competitiveness?
- Do you regularly conduct market technology scans to identify new tools to protect critical systems and data? And how well do you collaborate with your CIO on such issues?
- Have you given greater thought to where your core business functions can be best located to compete in a globalized world?
- What does analysis of your business processes reveal about optimal performance (i.e., analyses of marketing spend and supplier spend)?
- Have you effectively consolidated and standardized global activities – including using a shared service center?
- How well do your information security and compliance functions perform and efficiently integrate with other risk functions?
- How do you ensure you have the right people with the right skills in the right roles? Are you working effectively with HR to proactively identify the gaps here?
- How do you continuously improve service levels and meet ever-greater business demands, while optimizing IT service costs?

### Further reading

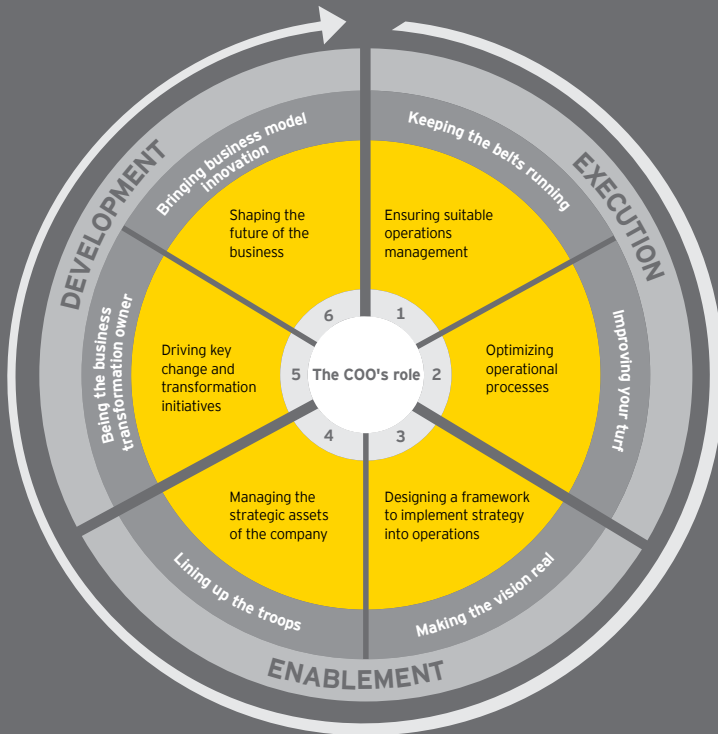
- ▶ *EY Eurozone Forecast, Spring edition*, EY, 2013.
- ▶ *Turning risk into results: Managing risk for better performance*, EY, 2012.
- ▶ *Growing Beyond*, EY, 2012.

**For a copy of the full report, please visit: [ey.com/businesspulse](http://ey.com/businesspulse).**



# Alignment to the COO agenda

*Business Pulse: exploring dual perspectives on the top 10 risks and opportunities in 2013 and beyond* has a strong relevance for the COO's role. The yellow wedges highlight those areas that are influenced most strongly.



For more on these insights, please go to [ey.com/coo](http://ey.com/coo), email to [coo@ey.com](mailto:coo@ey.com) or contact your local EY representative.

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