Nick's Corner

The Firm of the Future – Part 2
April 12, 2017 **Bain Brief** By James Allen, James Root and Andrew Schwedel

Our experience with clients in many industries around the world points to five emerging themes for leadership teams: **scale and customer intimacy; professional managers vs. mission-critical roles; assets vs. ecosystems; capital gets a reset; and Engine 1, Engine 2**. In each area, we see many examples of change today, but we view these merely as green shoots compared with what may come next.

Scale and customer intimacy. Some companies become synonymous with an era and help to define its characteristics. General Motors—exemplified the "professional management" era. GE, with its stock price rising nearly fortyfold under Jack Welch, typified the shareholder primacy era. Today, it is tech-based disrupters such as Google, Facebook, Tencent, Tesla, Alibaba and Amazon—as well more established companies like Vanguard, Starbucks, Haier and LEGO—that symbolize the emerging era. In their own ways, they each exemplify a new firm objective: **to compete using the benefits of scale and the benefits of customer intimacy**. This is a change from the past. A long-held central belief of strategy has been that you can be big and low cost, or you can be focused and differentiated—but not both. We have studied dozens of industries and found practically no correlation between scale leadership and leadership in customer advocacy. In fact, sometimes it's an inverse relationship—that is, the bigger the firm is in its industry, the less likely it is to be the customer advocacy leader. Today, new technologies and analytic techniques are making it possible to minimize or eliminate the traditional trade-off.

Although it is enabled by technology, this change is not just about the tech sector. Green shoots show that even established companies are learning to transcend the traditional split between scale and intimacy—and to master both.
Underlying the historic trade-off between scale and intimacy is another very real tension—this one between size and speed. A constant throughout all eras, especially the professional management and shareholder primacy eras, was that scale matters—particularly scale relative to your competition. Relative market share, properly defined, was highly correlated with profitability and return on capital in most industries.

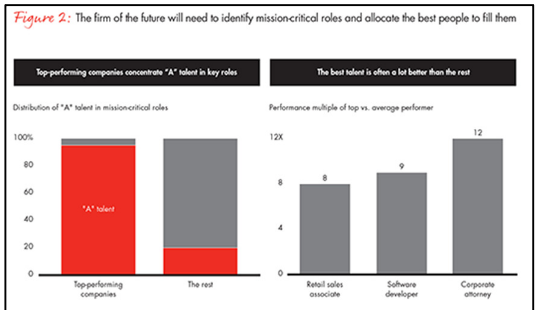
For firms of the future, scale will still offer potential benefits. But the dynamics of scale are changing. First, it is now possible even *for small firms to access the benefits of scale without owning assets or capabilities themselves*. Amazon Web Services, Salesforce, Workday and ServiceNow are at the forefront of a new wave of cloud-based capabilities that others can rent for a price. Second, the *importance of speed relative to scale* has increased across multiple fronts: time to market, time to gather and learn from feedback, time to make and execute decisions. **Speed is now essential to customer intimacy**. Third, just as digital technology and changing consumer expectations are pushing organizations to raise their metabolic rate, size often gets in the way. But firms of the future will have to develop a new kind of experience curve, one that takes speed as well as scale into account. They will need metrics that track their metabolic rate. They will need systems of operation that allow teams to work quickly on a specific problem, solve it and move on, rather than staying trapped inside annual planning and activity cycles.

What this could look like in 2027: Firms will combine big data, which will be pervasive, with human intelligence from frontline interactions with customers, and the resulting information will all be instantly visible throughout the company. Transactional activity will be almost entirely automated; algorithms and machine learning will simultaneously reduce the need for routine interactions while opening up new avenues for customer engagement. Cloud-based service firms will become the default providers of back- and middle-office functions, dramatically shrinking the size of the average firm. Some firms will create enormous variety, with each offering carefully tailored to target customers—who may not even know they are dealing with the same large company. **Products, services and experiences will blur**.

Professional managers vs. mission-critical roles. The best companies have articulated not just a higher purpose but also a bold, insurgent mission around how they will serve customers. This, too, is a central element in their business, culture and people strategies. Having defined a clear mission, a firm can then identify the roles that are most central to delivering it. We call these the mission-critical roles. At the home furnishings company IKEA, for example, the mission is to create well-designed products at breathtakingly low prices. The mission-critical roles include purchasing and product design. Such roles should include people who deliver the benefits of both scale and customer intimacy—the two sides of the organizational matrix that typically come together only at the executive committee level. These roles will be at the heart of the firm of the future, and they will be integrated much closer to the customer to shorten feedback loops and increase speed and agility.

This is a pronounced shift from the shareholder primacy and the professional management eras, both of which viewed professional managers as central to a company's performance. In the coming era, the priority will be to create communities of expertise within the firm or within its ecosystem. The payoff can be significant, as top talent can dramatically outperform average talent in these kinds of roles (see Figure 2).

Figure 2: The firm of the future will need to identify mission-critical roles and allocate the best people to fill them



Sources: *Time, Talent, Energy* (Harvard Business Review Press, 2017); Bain analysis

Teams are fluid, focused on specific projects and staffed through an internal market for talent. Properly designing and resourcing mission-critical roles will change the rest of the organization. Budgeting and planning will have to be revamped. Firms won't need as many professional managers as they commonly have today. Managerial spans will widen considerably as more information flows become peer-to-peer rather than hub-and-spoke. The definition of leadership will change, with multiple tracks available. Some tracks will recognize and reward the efficient management of routine processes, while others, just as highly prized, will value the coaching and development of apprentices as they migrate from one role to another. We will increasingly see continuous and public peer feedback and performance reviews, allowing internal and external markets for talent to clear fast. Already, firms such as GE, Microsoft and Adobe have dropped their formal performance-ranking systems.

What this could look like in 2027: With most activity automated or outsourced, almost all remaining roles will be mission-critical. Most work will be project-based, with Agile teams the dominant organizational unit; such teams will blend internal and external resources to provide the right skills as needed. Teams will be self-managed, leading to a vast reduction in the number of traditional managers. Employees will have no permanent bosses, but will instead have formal mentors who help guide their careers from project to project. Coaching and feedback will be real-time and continuous, with performance reviews transparent the way social media ratings are today.

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Client Services

Highlights from our last release:

- Asset Allocation file (accepting negative fields) is available for ManCo's to upload

- Recon file. It is a simple download which contains a consolidation of the CT and TR file and can be used to enable a recon process. The download is available under the "Download" tab on FinSwitch and is also available via Web Services. This file would be useful for Trustees

- There have been a couple of nice enhancements to Web Services, i.e. Product Providers can now download their trade file, which includes the unique FinSwitch reference number that FinSwitch assigns to each trade

Looking Ahead!

- FinSwitch will be making the following enhancements to the Confirmation file:
  - ✓ Rebates (SP), Re-investments (RE), Management fees and holding balances for non-trades funds will become mandatory
  - ✓ Performance fees will be added as an additional mandatory column

We do not yet have a date confirmed for these changes. We are creating awareness, as these changes will have a huge impact on the confirms file upload for the ManCo as well as the download for the Product Providers. Please pass this information to the relevant departments, so the necessary preparation can be made for the upcoming changes.

Best Wishes
Tasneem Gydien
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Application Desk

We are swiftly moving into the second quarter of a very exciting year. Similarly, we are hard at work planning our next release and will update you soon with the full list of development items. There will be the usual mixed bag of industry recommendations, tweaks, optimisations with some awesome new functionality to look forward to.

Just because I can't keep a secret let me tantalise you with a few:
- Bulk Investors being Transaction Request consumers and Confirmation of Transaction Request providers
- Consolidation of the Process log and Manage Page
- Allow single call by TPA Webservices user, to download a consolidated CT or Recon file

Stay tuned to our next segment, when we reveal more.
Cheers till later…

Best Wishes
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Manager: Application & Development