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newsletter

Nick's Corner

The Firm of the Future – Part 1

April 12, 2017 **Bain Brief** By James Allen, James Root and Andrew Schwedel

In the world of the firm, something is changing. It's not that your local bookstore went out of business. Or that your taxi driver now rates you on a 5-point scale. Or that anything can now be outsourced, allowing even the smallest firms to rent capabilities on demand. It's more profound than these.

The prevailing paradigm that has underpinned business for the past 50 years is under review. The simplest version of that paradigm is that firms exist first and foremost to deliver returns to their shareholders' capital—and the sooner they deliver it, the better.

Strategy Organization. What we learned from looking back was that, similar to other human endeavors, the idea of a business has evolved slowly but profoundly through a series of what we can now see as definable eras: periods when particular strategies, corporate forms and styles of management became the dominant norm. We have observed five distinct eras since the industrial revolution. These eras include the current period, which we call the "shareholder primacy" era.

Transitions between eras play out over decades. The shareholder primacy era, for example, retained and enhanced several features of the previous period, including the importance of professional managers and the pursuit of scale to achieve leadership economics. But companies in the current period refocused on their core businesses, shed noncore assets, outsourced more and more functions, and made their remaining assets sweat harder. That focus, combined with a high rate of mergers and acquisitions, fostered increasing concentration within industries. CEOs and management teams, often holding significant equity stakes designed to align their interests with those of other shareholders, dedicated overwhelming attention to delivering shareholder returns. The ones who succeeded earned substantial rewards.

Today, the shareholder primacy era is under pressure from multiple sources. Technologies, markets and customer expectations are all changing rapidly. To cite just a few examples:

- As the economy has become more service-oriented and increasingly digital, the importance of speed has increased dramatically. Those who can't keep up fall by the wayside. For instance, five-year survival rates for newly listed firms have declined by 30% since the 1960s, according to new research from the Tuck School of Business at Dartmouth College.
- Capital is superabundant. Global financial assets are now 10 times global GDP, making talent and ideas rather than capital the binding constraint on growth in most large companies.
- Industries have become more winner-take-all. A Bain study of 315 global corporations found that just one or two players in each market earned (on average) 80% of the economic profit.
- The pursuit of shareholder value itself increasingly focuses on the short term, driven by shorter management horizons and greater pressures from activist investors. Leverage, buybacks and dividends are up, while long-term investments in growth have lagged.

Within the firm, it feels harder than ever to translate strategy into rapid and effective execution. In our conversations with CEOs, we consistently hear how difficult it is to free up trapped resources to mobilize against important challenges and opportunities, despite the obvious and growing need for speed. Many companies are stuck in a resource-allocation doom loop that, despite best intentions, allocates next year's resources more or less in line with this year's revenue. It's a formula for incremental improvement, not one for reacting to new competitive threats or new customer needs—or for proactively creating new demand.

Meanwhile, many younger employees, who now form the largest generational cohort in the workforce, are increasingly skeptical about corporate career paths. Some prefer the gig economy of Uber, TaskRabbit or Amazon's Mechanical Turk. Others join corporations but plan on staying for only a few years. Though we can't yet know how this generation's work lives will play out, many of its members today place a higher value on new learning and new experiences than on traditional incentives such as moving up the corporate hierarchy.

Many of these younger employees, along with many older ones, also want to work for a company that pursues a higher purpose in addition to profits. CEOs have become acutely sensitive to this concern; in conversation after conversation with leaders, we are struck by how quickly the talk moves to how a company can engage and inspire team members with a vision of making a difference in the world.

Jack Ma, founder and executive chairman of Alibaba Group, puts it clearly: **"Customers are No. 1, employees are No. 2, and shareholders are No. 3."** Even Jack Welch, the shareholder primacy era's greatest maestro as CEO of General Electric, has more recently reflected, "Shareholder value is a result, not a strategy…. Your main constituencies are your employees, your customers and your products." A growing number of CEOs see a higher purpose not as a side issue or fluffy topic but rather as a central element of their culture, people and customer strategies.

Externally, governments and public opinion have become more activist, whether through regulation, the courts or simply exerting pressure on CEOs. Critiques of inequality and the role of the modern corporation in feeding it have increased. Productivity in most developed countries is stagnant, as are most households' incomes, leading to a global backlash against trade and immigration. Large companies don't necessarily create new jobs in their home markets; job growth in the US and other developed nations comes almost entirely from young, small businesses, and the rate of new business formation has been steadily falling in recent years.

The cumulative impact of these pressures has already set in motion another profound shift in eras, which, over the next 10 years, will result in the biggest change in business since the 1970s. The fundamental goals of strategy will not change: Companies will still win by achieving a lower or better cost position, delivering superior customer experiences, or controlling an industry standard. But virtually every element of how firms pursue these strategic goals will look quite different.

What will be different about the firm of the future? **See next FinSwitch News Letter**

Client Services

Good Day

Welcome back and Compliments of the season to all as this is our first Newsletter for the year. The next Operations Committee meeting will be held on Tuesday, 13th March 2018. Details have been emailed, please RSVP. We are looking forward to seeing everyone there.

A reminder of the ASISA Operations Committee request to upload your Asset Allocation files at the end of March in preparation for the go live in September.

Thank you!

Best Wishes
Tasneem Gydien
Manager: Client Relations

Application Desk

We are in the process of finalising our first release of the year and will communicate the release date shortly.

New Feature
We are introducing a daily recon file on trades and are very excited about this added feature.
With the introduction of added functionality, you will now be required to update your *.WSDL file to use these via webservices. This being the *Daily Recon file* and *Preview of FS reference numbers*.

Important
We are in an environment of an ongoing demand for effective cyber security and the reduction in the risk of cyber-attacks.
To ensure that FinSwitch is able to continue updating its security technology stack, it is recommended that your Internet Explorer are patched and on the latest version. Our application supports IE v 10 and above. We would like to encourage you to use our UAT environment for validating your browser configurations.
For a list of features in the new release, contact Client Services for more details.

Cheers for now…

Best Wishes
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Manager: Application & Development

B-BBEE Certificate

You can download our certificate by clicking here.