Gartner Business Quarterly

Fourth Quarter 2023

» How to Cope With Global Digital Divides

» The Case for a Corporate Foreign Policy

» Lessons Learned for Managing Employees Through Geopolitics and War

New Operating Models for a FRACTURED WORLD

New Operating Models for a Fractured World

Letter From the Editor

Like tectonic plates that drift and grind to open canyons and move mountains, shifts in global politics reshape the world – only much more swiftly. For businesses used to relying on ever-faster access to raw materials, talent, data and markets, new fault lines and high tensions require a reset. And they don't have much time to adjust.

Executive leaders tell us they aren't sure how to diagnose what the rise of ideology-based blocs means for their organizations. But they recognize the change — expressed through laws, social expectations and, yes, through armed conflict — will affect every aspect of an enterprise.

This issue of *Gartner Business Quarterly* helps the whole C-suite blend on-the-ground intelligence with central guidance in cost-effective ways. One common thread: Relying on core principles and strategy serves you better than trying to predict or swing with jolts. In a series of short articles, we'll show you why and how to apply these lessons — in corporate org design, resilience, tech infrastructure and ESG goals.

We also provide counsel for protecting employees in times of geopolitical stress, including war. After all, only 28% of chief HR officers are confident they can handle that type of crisis, compared with 65% who say they're certain they can respond to a natural disaster.

You'll learn from the real-world experiences of an international group of organizations including ASR, Cisco, Ericsson, ING, Loblaw and Siemens.

GBQ helps you and your team align with others and reach peak effectiveness, so your enterprise 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. The Cutting Edge is a look at provocative new data. Briefs offer 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*

Gartner Business Quarterly

Proven Guidance for C-suite Action

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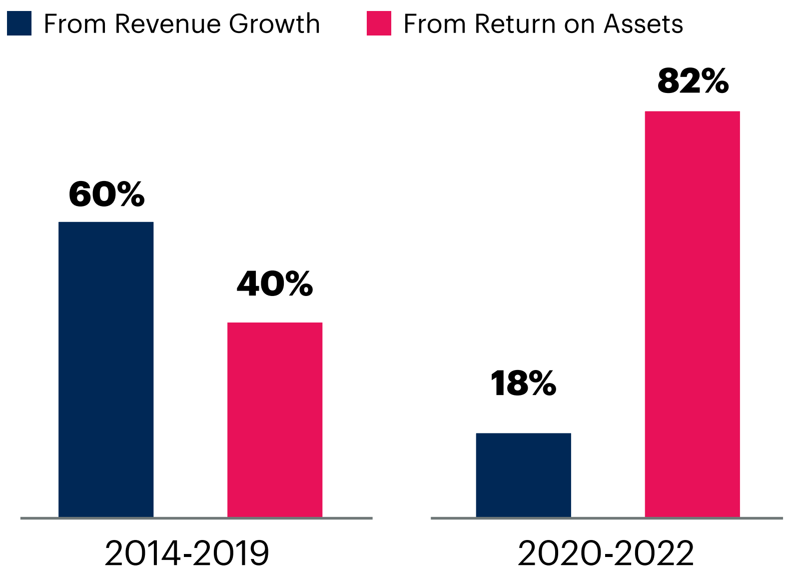
The Cutting Edge 4Q23

Cool New Data Points
Compiled by Steve Shapiro

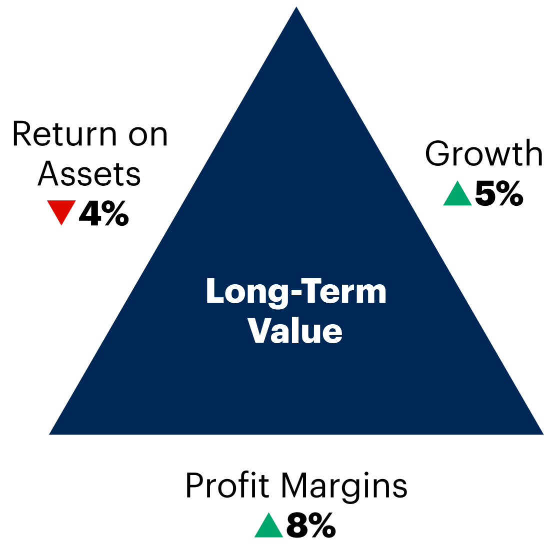
Companies Underperform on the Biggest Driver of Total Shareholder Return
Return on assets (such as IP, financial investments and machinery) has contributed more to TSR than revenue growth and margin since 2020, yet has declined by 4% on average since 2014.

Relative Share of TSR Impact[a]



EBITDA Margin **outperformance** relative to sector peers does not have a statistically significant effect on TSR performance in either period.

Median Change, 2014-2022
"Value Triangle" Performance Trend



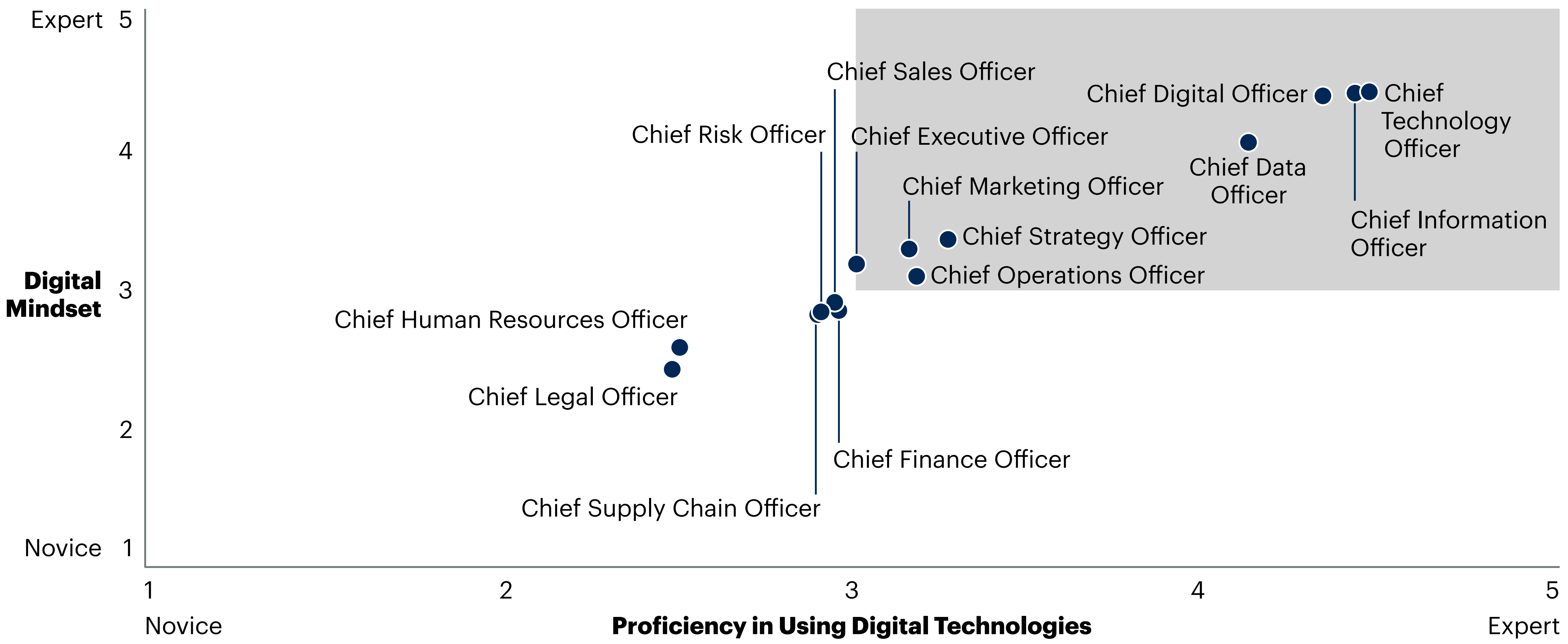
n = 867 companies; S&P 1200 non-financial with complete data.
Source: Gartner analysis of S&P Capital IQ data
[a] Relative weights when the model contains only these variables.

How Tech Executives Rank Other C-suite Leaders' Digital Skills and Mindset

They give the highest marks for proficiency and mindset (the ability to imagine digital solutions) to chief marketing, strategy and operations officers and CEOs among non-tech roles – and rank legal and HR leaders lowest, on average.

Executive Leaders' Current Level of Digital Proficiency and Digital Mindset

Mean Scores (Rating Scale 1 = Novice "Have No or Limited Skills" to 5 = Expert "Have Master Level Skills")



n = 154-252; technology executives and their direct reports, excluding "Not Sure" and "We don't have this role"

Q: How will you rate each of these executive leaders on their current level of proficiency in using digital technologies at your enterprise relative to the desired level?

Q: And how will you rate each of these executive leaders on the current level of their digital mindset at your enterprise relative to the desired level?

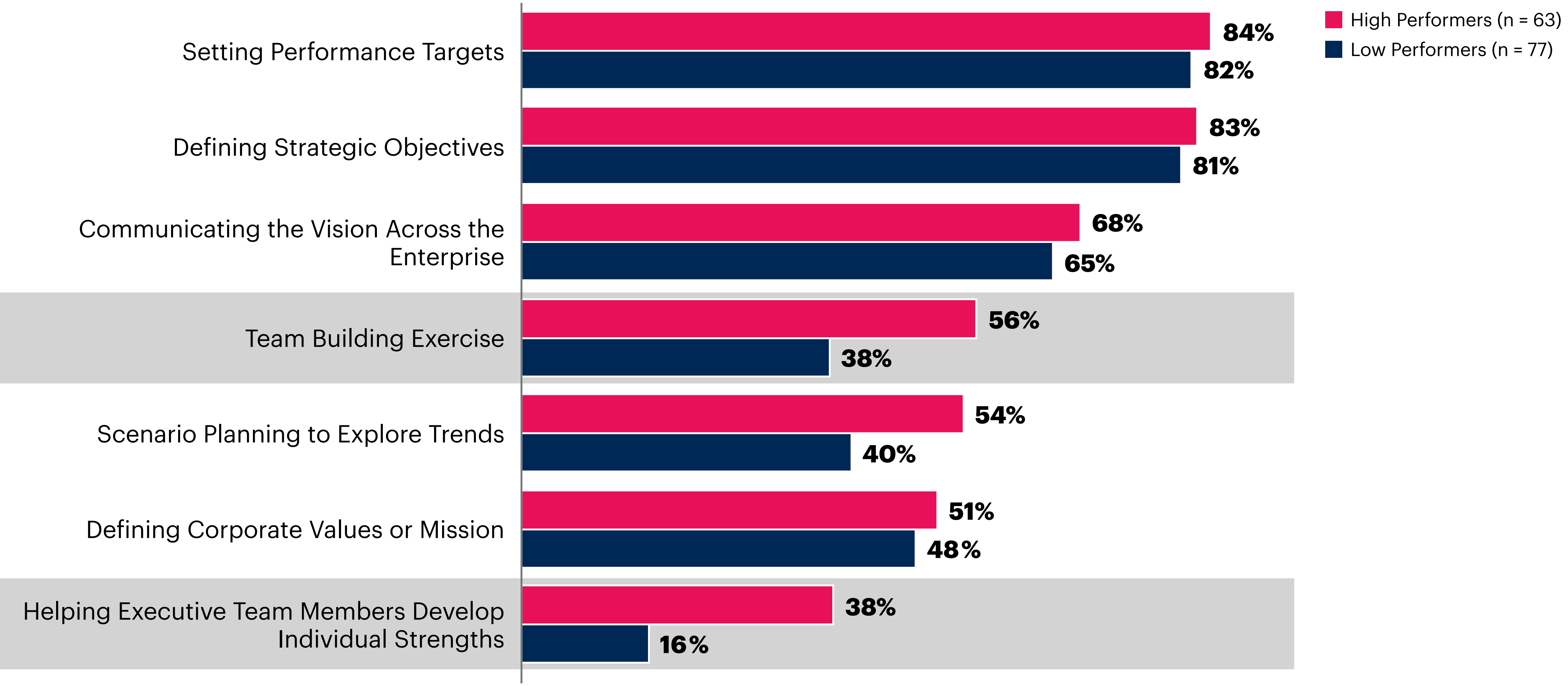
Source: 2023 Gartner Enterprise Culture Change Survey

Focus on Building Strength Differentiates Leadership at High-Performing Companies

While a third of executive leadership team members say they spend too little time learning, those in high-performing organizations are more likely to team build and develop individual strengths than their lower-performing peers.

Activities Worked on by Executive Leadership Team in Last 12 Months

Percentage of Respondents, Multiple Responses Allowed



n varies by cohort; executive leadership team members

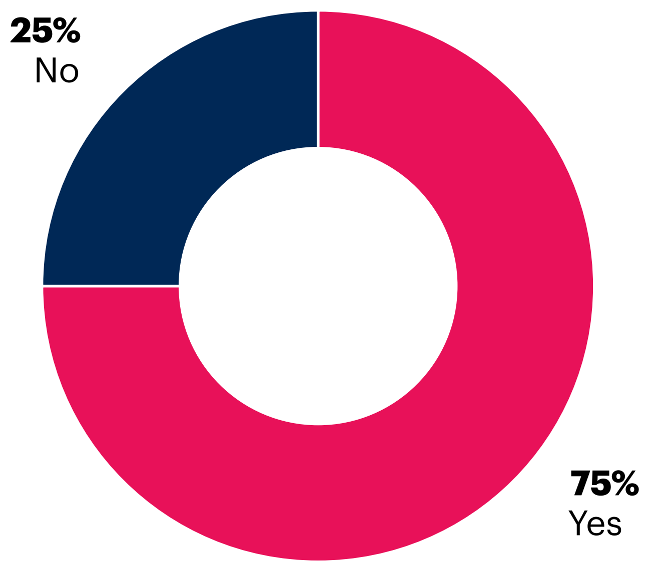
Q: Which of these activities has your enterprise's executive leadership team worked on together in the last 12 months? (Multiple responses)

Source: 2023 Gartner Executive Leadership Team Dynamics Survey

Three-Quarters of CEOs Have Tried ChatGPT Since Its Launch

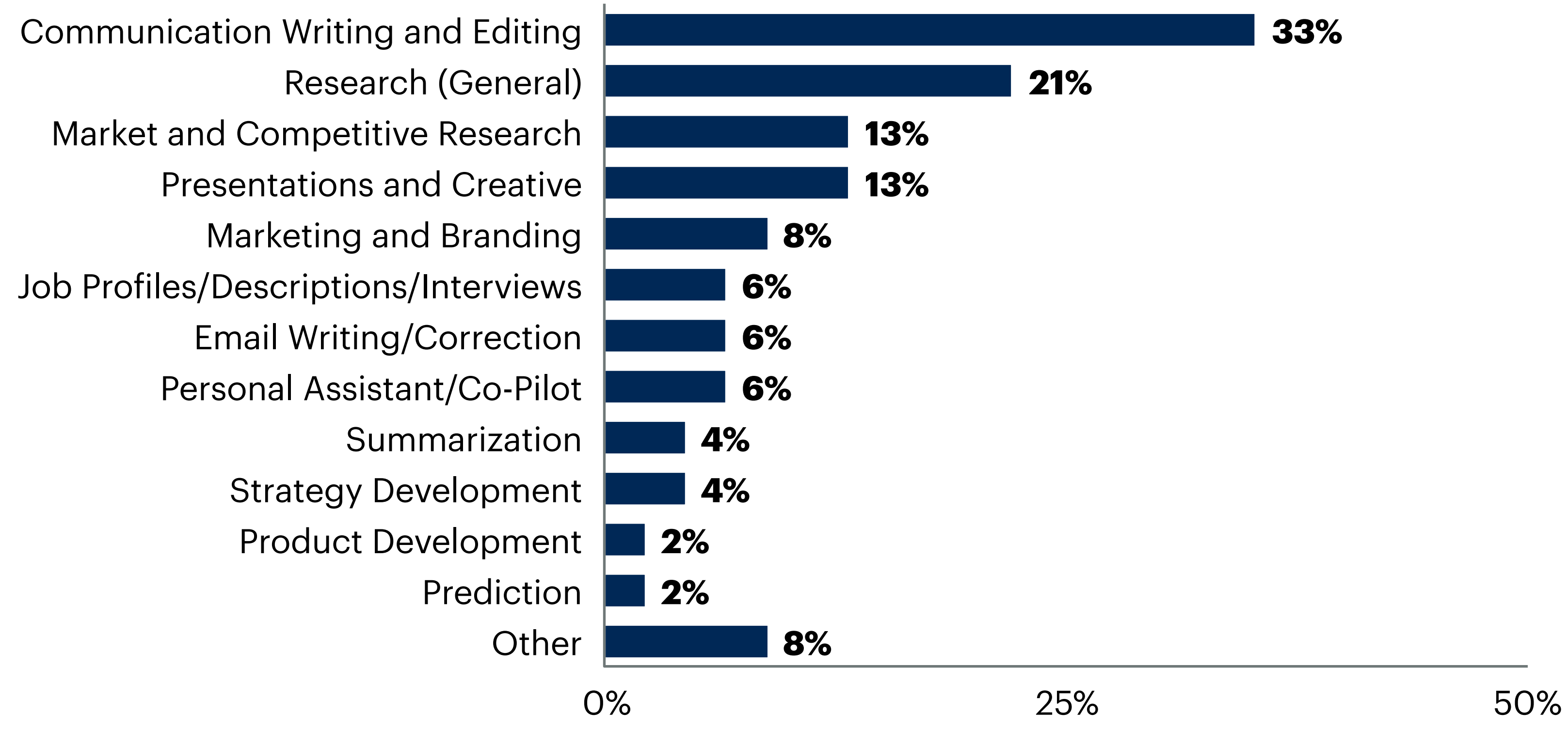
A third of chief executives who have used the tool for work used it for writing and communication.
More than 20% have employed it for general research, followed by market research and presentations (13% each).

CEOs' Use of ChatGPT
Percentage of Respondents



n = 109; all respondents
Q: Since it was publicly launched in November 2022, have you personally tried out ChatGPT yourself?
Source: Mid-2023 Update Gartner CEO and Senior Business Executive Survey

CEOs' Use of ChatGPT for Work
Coded, Multiple Responses Allowed



n = 48; respondents who have used ChatGPT for work, excluding Don't know/No answer
Q: Please specify what have you used ChatGPT for in your own job.
Source: Mid-2023 Update Gartner CEO and Senior Business Executive Survey

As Executives Laud AI, Consumers in the U.K., Canada and U.S. Express Fear
More than half of consumers in all three countries chose “complex” and “threatening” to describe AI, while “effective” was the least-selected word.

Words Consumers Associate With Artificial Intelligence
Ranking of Words by Country

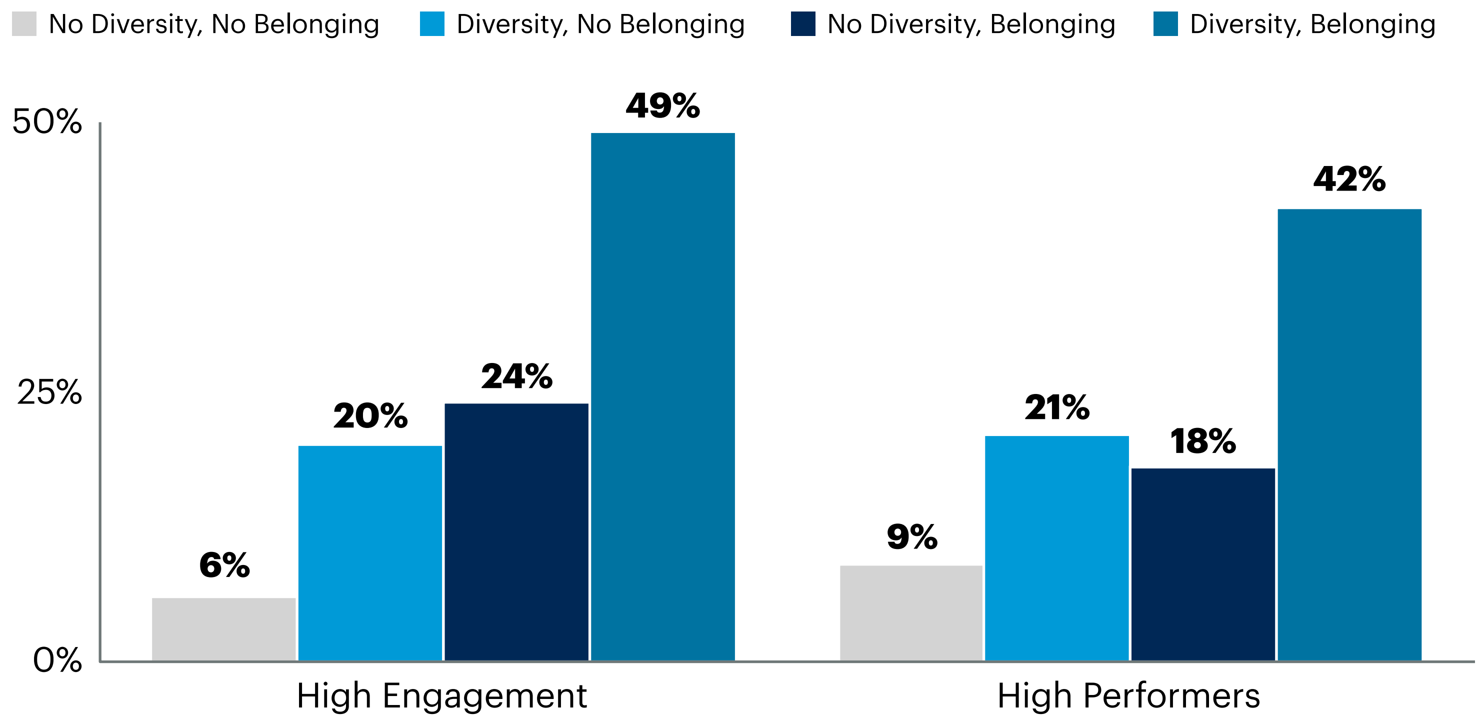
	U.K.	Canada	U.S.
Complex	1	2	1
Threatening	2	1	2
Fascinating	3	3	3
Impressive	4	4	4
Convenient	9	6	5
Efficient	5	5	6
Confusing	7	8	7
Exciting	6	7	8
Unnecessary	8	9	9
Effective	10	10	10

Selected by >50%
Selected by 25-50%
Selected by <25%

n = 4,017 (U.S.), 1,008 (Canada), 1,015 (U.K.); consumers ages 15+
Q: Please select all the words from the list below that describe your general impression of generative AI.
Source: 2023 Gartner Consumer Values & Lifestyle Survey

Belonging and Diversity Together Create the Best Employee Outcomes
Taken alone, creating a sense of belonging (employees feeling cared for) or increasing diversity improves employee engagement and performance. But the real impact comes when both exist side-by-side.

Change in Employee Outcomes When Organization Has Both Diversity and Belonging
Percentage of Employees Scoring High on Engagement and High on Performance



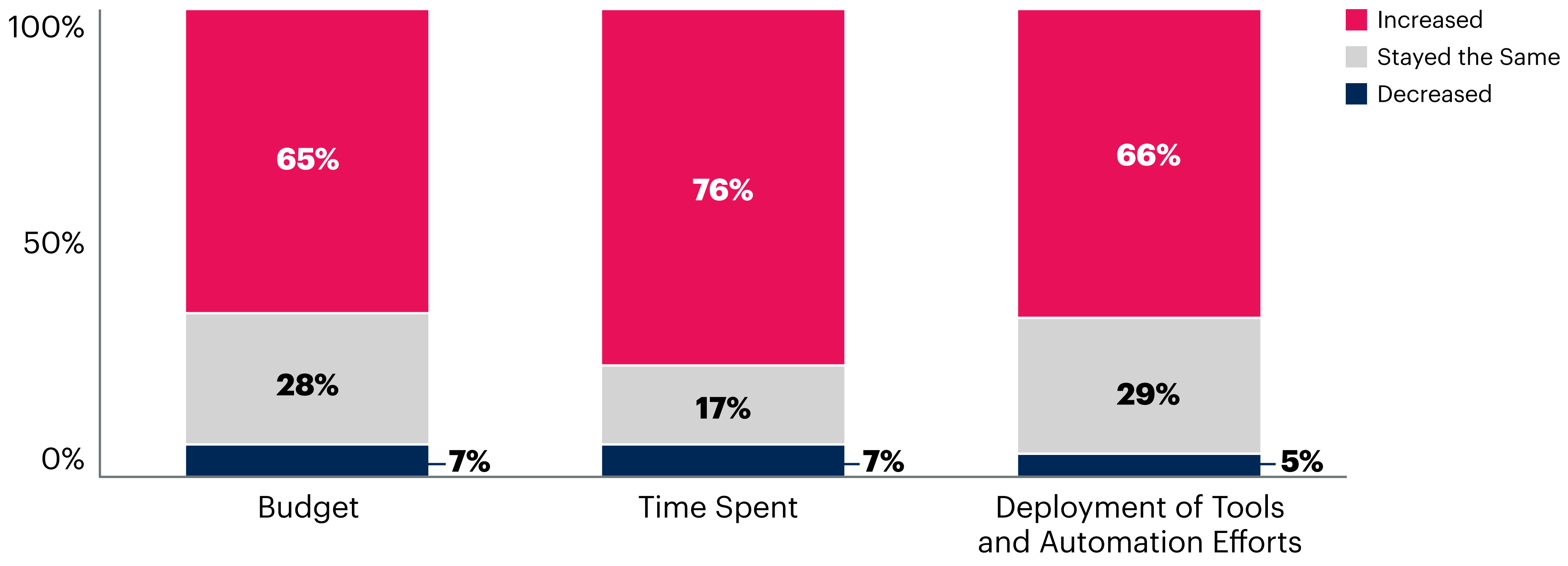
n = 3,594 employees
Source: 2023 Gartner Drivers of Global Belonging and Inclusive Culture Survey.

Third-party Cybersecurity Risk Management: More Investment, More Interruptions

As third-party networks become larger and more complex, enterprises are spending more to manage cybersecurity risks. However, the problem is getting worse for almost half of organizations.

Enterprise Investment in Third-Party Cybersecurity Risk Management (Compared to 2021)

Percentage of Respondents



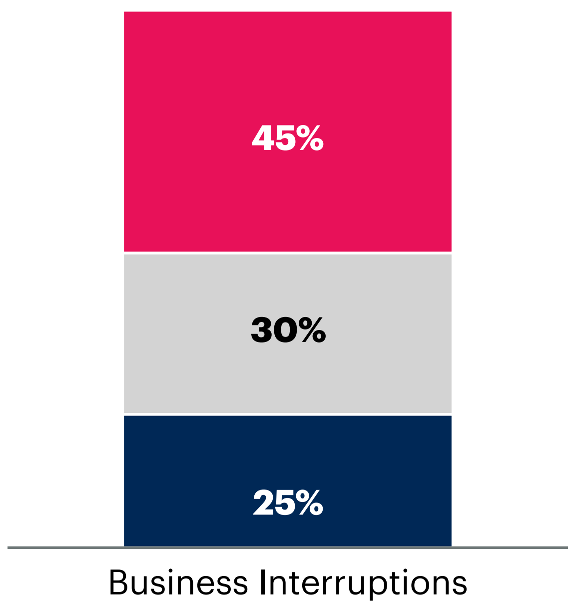
n = 376 respondents

Q: Compared to 2021, how has your enterprise's investment in the following activities related to third party cybersecurity risk management changed?

Source: 2023 Gartner Reimagining Third Party Cybersecurity Risk Management Survey

Business Interruptions Due to Third-Party Cybersecurity-Related Incidents (Compared to 2021)

Percentage of Respondents



n = 376 respondents

Q: How have third party cybersecurity related incidents that resulted in the following changed since 2021?

Source: 2023 Gartner Reimagining Third Party Cybersecurity Risk Management Survey

Build a strategic plan that works — even in volatile times!

Only 29% of strategists say their organizations change plans fast enough to respond to disruption.

In an increasingly volatile and uncertain world, strategy and its execution can quickly go off course. Use the Gartner one-page Strategic Planning template to:

- **Set clear, strategic objectives** for your organization.
- **Combat seven mistakes** common to strategic planning.
- **Capture and communicate** your plans with an **exclusive one-page template.**

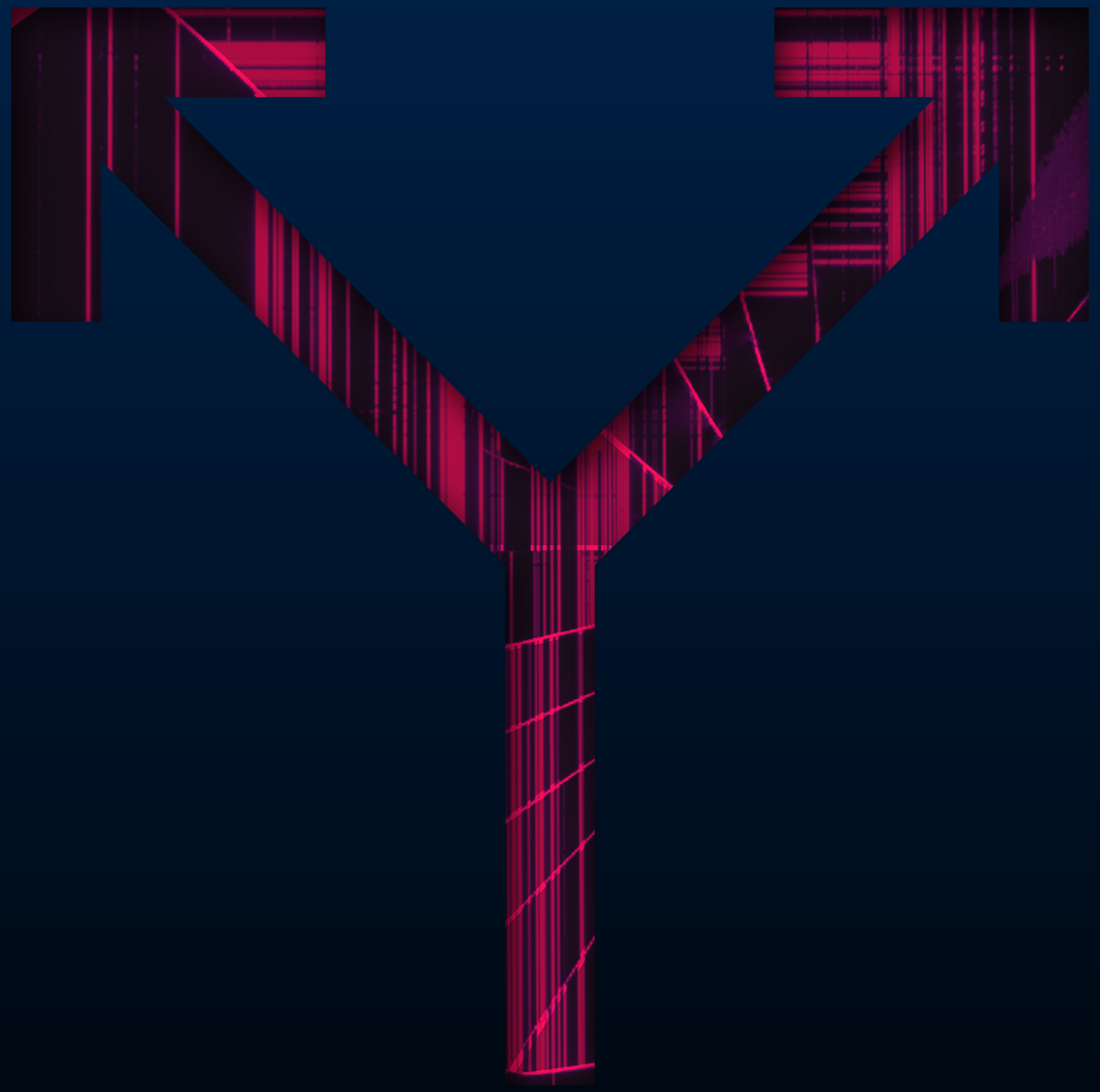
Download the Strategic Planning guide for your function.

Source: Gartner

Gartner

How to Cope With Global Digital Divides

by Tsuneo Fujiwara, Andrew White, and Brian Prentice



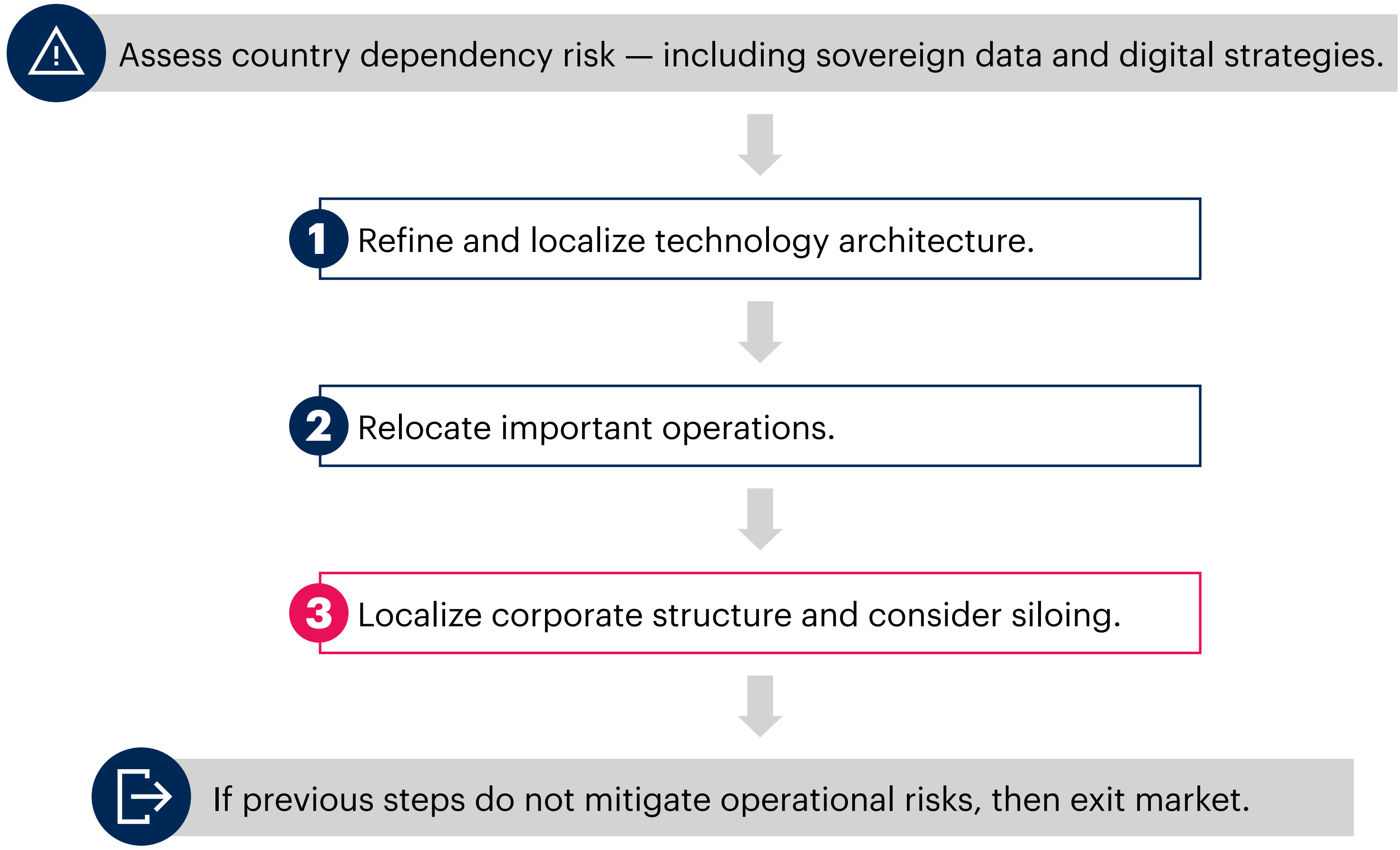
At least four digital infrastructures are emerging as ideology splits the world — in China, the U.S., the EU, and Russia. After three decades of global consistency for multinational companies, this shift has radical implications for business.

The number of national policies restricting data flows or access more than doubled from 2017 to 2021.[1] With AI regulation following the same path, hoping this divided world will "return to normal" is futile. And a purely tactical C-suite response to one digital policy at a time is too costly.

To reduce risks to growth, executive leaders should instead view geopolitical and digital tensions strategically while reacting to measures in specific jurisdictions. That means:

- Adjusting local enterprise technology architectures, operating models and corporate structures as needed
- Exiting the market as the final resort if following the steps outlined in Figure 1 does not sufficiently mitigate operational risks.

Figure 1. Steps to Mitigate Operational Risks in a Country



Source: Gartner

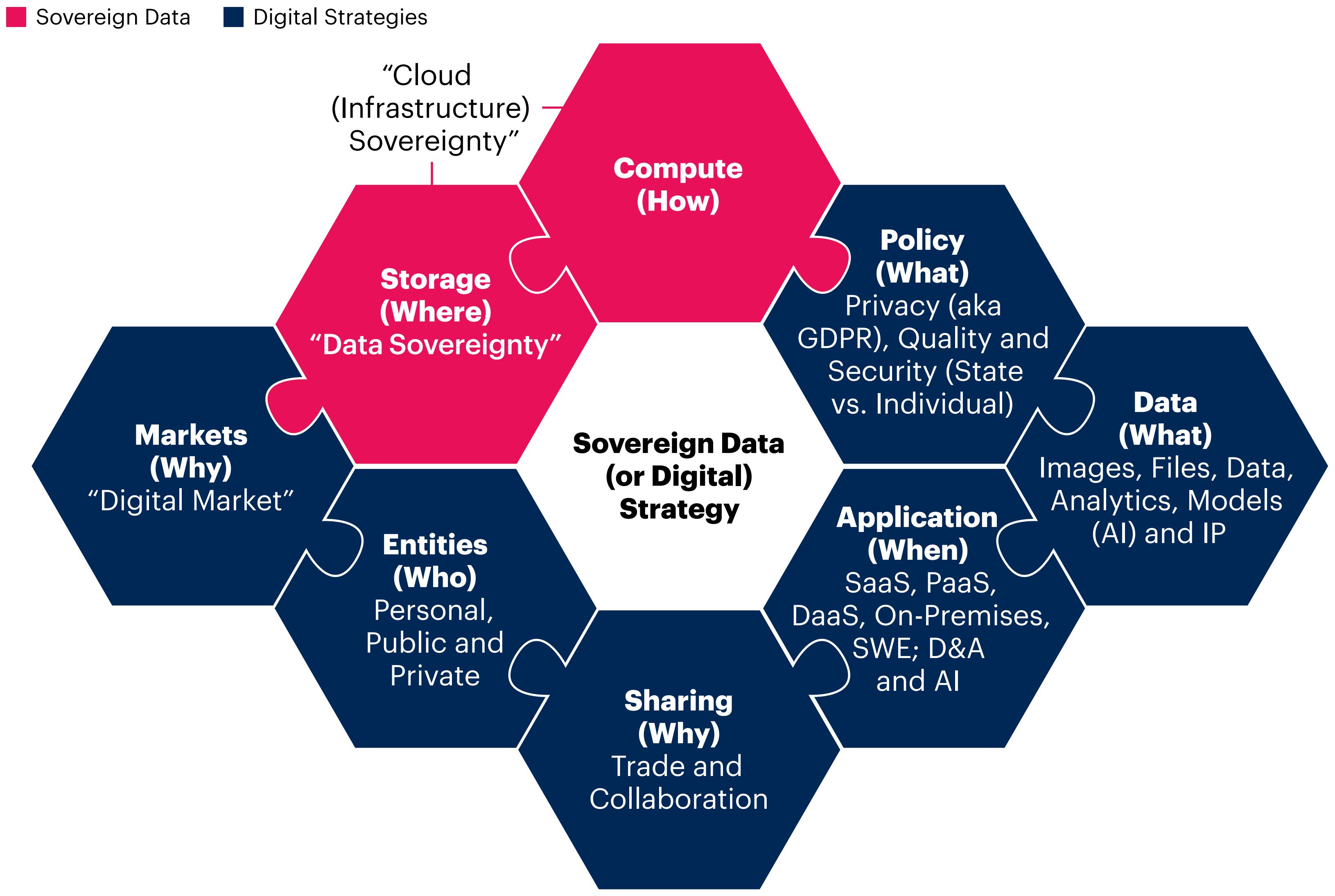
Assess Country Dependency Risk — Including Sovereign Data and Digital Strategies

Executive leaders should first determine the business impact of geopolitical and digital risks in a country — including regulations — and consider appropriate mitigating steps. For example, some multinational enterprises that continued to operate in Russia after February 2022 had to adjust their technology stack when one or more of their technology suppliers left the country. Many multinational organizations we speak to are assessing the potential for a similar problem to arise in other regions of high tension. They also now need to manage China's Personal Information Protection Law (PIPL) and India's new Digital Personal Data Protection Act (passed in August 2023 but not yet effective)[2] while remaining compliant with the EU's general data protection regulation (GDPR).

Because digital technology is central to business, digital regulations affect almost everything a company does (as well as nearly all consumers and public-sector activities). Executive leaders must, therefore, take a broad view of how their enterprise uses data (see Figure 2).

Evaluate your digital risk in a country using Figure 2 as a guide. Take each element as a potential risk area you need to gauge due to one or more sovereign data and digital regulations. While this process will depend on where and how your company operates, a standardized assessment across all elements will help you make consistent, actionable changes faster at a strategic level.

Figure 2. Breadth of Factors for Which Sovereign Data and Digital Strategies Apply



Source: Gartner
Note: SWE = Software Engineering; GDPR = General Data Protection Regulation

Executive leaders addressing the enterprisewide impact of increasing digital regulations should:

- Identify the business scenarios and outcomes that are hardest to govern because of, for example, geographic and organizational diversity, complexity and autonomy.
- Consider establishing a virtual team to govern data and analytics throughout business functions and across geographies to address one of these situations. Using this connected governance framework will involve creating a proof of concept to test the benefits, risks and impacts associated with the scenario.

Refine and Localize Technology Architecture

After determining where your risks and opportunities lie with data, review the technology stack that uses it. Executive leaders concerned about country-level risk first need to adopt a more flexible enterprise IT system and consider using locally accepted, compliant technology. Make the setup reflect the new reality of separate trading blocs based on governments' distinct ideological worldviews, most notably the Anglosphere and Japan, the EU, China and its Belt and Road partners, and Russia and the Eurasian Economic Union.

- *Within* each of these blocs, assume tightly integrated supply chain systems will run on common digital platforms (sovereign internet or cloud) with minimal regulatory differences. Enterprises still need to remain compliant with new data and digital sovereignty regulations in each country, including those related to AI.
- Between closely aligned blocs — for example, in the Anglosphere-plus-Japan grouping and the EU, operational friction due to regulatory and compliance requirements will increase.
- Between competing blocs, trade, regulatory and digital alignment will be extremely limited.

A further complication: Other midsize countries, each with its own regulations, will seek to operate across more than one of these larger blocs.

Aim to move toward bloc-specific technology stacks operating on common protocols, supplied by compliant low-risk providers in line with similar national regulations (see Figure 3).

Figure 3. Examples of Enterprise Technological Decoupling

Tech Stack Used	U.S., Japan, Australia Operations	China, Pakistan and Nigeria Operations
Network	Cisco	Huawei
Cloud Platform	Amazon Web Services (AWS)	Alibaba Cloud
ERP	SAP	Yonyou
CRM	Salesforce	Qidian.com
Collaboration Tool	Microsoft Teams	DingTalk
Social Networking Service	WhatsApp	WeChat
Search Engine	Google	Baidu
AI Chatbot	ChatGPT	Ernie

Source: Gartner (October 2023)

Localizing technology stacks will protect the enterprise from some of the operational risks arising from geopolitics and data protection regulations — but not all. For example, a multinational company that uses both Microsoft Teams and DingTalk will have problems collaborating across the different geographies because there is no bridging technology between the two products.

Relocate Important Operations

You may find your business depends too much on one country, thus generating high risk in that jurisdiction. You can mitigate this risk by moving a portion of your operations from a geopolitically risky country to one or more friendlier ones ("friendshoring") or to the company's headquarters country ("re-onshoring").

For example, the chipmaker TSMC is shifting some of its manufacturing operations from China to the U.S.[3] Japanese companies are trying to reduce their dependence on China for critical raw materials such as rare earths by relying more on suppliers in Vietnam and Thailand.[4]

Having a composable technology architecture as described in the previous step would help companies be more flexible in relocating important operations. But besides the costs involved, such moves may not be feasible in the near term. Even in the medium term, part of the enterprise's operations may still be tied to China.

Localize Corporate Structure and Consider 'Siloing'

To reduce the risk of having to exit an important but risky market, adjust your corporate structures to allow more local control of your business there. Consider using operationally distinct, subsidiary-type arrangements (see Figure 4).

For example, global companies such as Volkswagen and Lixil are seeking to stay in China by decoupling their local operations from their business elsewhere.[5] In this decentralized corporate structure, similar to a Swiss association or verein,[6] other countries' regulatory standards do not necessarily apply. Salesforce, a U.S. cloud-based software company, is now relying on a local Chinese partner, effectively separating its China and U.S. businesses.[5]

A final resort, if all the previous measures do not sufficiently reduce operational risks, is to leave the market. An organization would not fully execute this step in the near term and would not find it easy to reverse. However, having a composable technology architecture coupled with a more localized corporate structure would enable a smoother exit.

Figure 4. Corporate Structure Options and Examples

More Global Control ⟷ More Local Control

Local Branch With Global Corporate Structure	Global Corporate Structure With Local Structure (Hybrid)	Locally Independent Subsidiary	Local Joint Venture or Local Limited Partner
• Intel in the EU • Huawei in the U.K. • Toyota in the U.S.	• Microsoft in China • Starbucks in Japan	• TikTok in the U.S. • MS&AD in the U.K. • Salesforce in China[a]	• Ocado in the U.S. • MetLife in China • Salesforce in China[a]

Increasingly tiered, modular and/or disconnected business systems (ERP, all business apps, app development; data, analytics, AI, I&O, security, etc.)

Source: Gartner (October 2023)

[a] Salesforce in China currently sits between two corporate structures, as it maintains a subsidiary in China, even though it had exited from Hong Kong, while its exclusive sales channel partner is Alibaba.

[1] How Barriers to Cross-Border Data Flows Are Spreading Globally, What They Cost, and How to Address Them, Information Technology & Innovation Foundation.

[2] India Passes Data Protection Legislation in Parliament. Critics Fear Privacy Violation. Associated Press.

[3] 3 Major Companies Trying to Move Supply Chains Out of China, and How They're Faring in Their Attempts to Move Away From the Factory of the World, Insider.

[4] What does "De-Risking" Trade With China Mean?, The Economist.

[5] Companies Try New Strategy to Stay in China: Siloing, The Wall Street Journal.

[6] What Is a Swiss Verein? Smart Capital Mind.

The Case for a Corporate Foreign Policy

by Steve Shapiro

For decades, companies have supported their international strategy with country-by-country management of financial and operational risks.[1] But Russia's invasion of Ukraine laid bare the weakness of this "business as usual" strategy; executive leaders wrestled with whether and how to respond. Ever since, new relationships and new tensions have made it clear that organizations face a grand challenge of their own: How can they act consistently in a fractured world?

Enter the concept of a corporate foreign policy — not to be confused with an agenda conducted alongside state actors. Five scholars who specialize in political risk and international strategy made the case in separate interviews that companies need a more strategic lens and a top-level, holistic framework. A blueprint for decision making should go beyond traditional risk and financial considerations to include enterprise reputation, crisis resilience and social responsibility.

Executives should be able to turn to an overarching policy when making trade-offs as geopolitical conditions change swiftly, according to these scholars, who are based at institutions in the U.S., Norway and the United Arab Emirates. This type of guidance can inform discussions about whether to take actions such as:

- Avoiding business with certain regimes
- Diversifying the supply chain into new regions
- Weighing market opportunities differently
- Lobbying governments to change direction or policies

Getting a policy right, the five experts agreed, will help companies avoid damage to their revenue and reputation — and might even make the planet a better place.

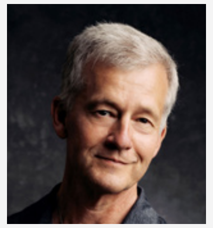
Two Trends Changing the International Strategy Landscape

First, a multipolar world requires harder choices about where to operate and deft maneuvers between blocs. “Corporations are their own geopolitical entities, and as such, they need to be thinking about how they act in the international domain,” said Timothy Fort, an Indiana University professor of business law and ethics. “It’s not just one superpower that you need to pay attention to any more.”

Second, what companies do abroad doesn’t stay there — customers, investors and employees have more information, and they will use it. “Historically, political risk was emanating from governments, but now political action from anybody can affect your business,” Amy Zegart, a senior fellow at Stanford University’s Freeman Spogli Institute for International Studies, told us.

“Actions are highly visible and can be compared with other companies,” Kish Parella, a Washington and Lee University law professor, told us. “If you’re adopting a policy in response to the demands of a particular group, those actions are going to be visible to other groups.”

That means simply counting on country managers to take action no longer works, according to John Katsos, a management professor at the American University of Sharjah.



Timothy L. Fort holds the Eveleigh Professorship in Business Ethics and is Professor of Business Law & Ethics at the Kelley School of Business at Indiana University. He is the author of “The Diplomat in the Corner Office” and co-author of “The Sincerity Edge.”

Amy Zegart is a senior fellow at the Freeman Spogli Institute for International Studies, the Morris Arnold and Nona Jean Cox Senior Fellow at the Hoover Institution, and professor of political science by courtesy at Stanford University. She is the co-author of “Political Risk: How Businesses and Organizations Can Anticipate Global Insecurity.”

Kish Parella is the Class of 1960 Professor of Ethics and Law at Washington and Lee University School of Law. She is the author of “Corporate Foreign Policy in War,” a 2023 Boston College Law Review article.

John E. Katsos is Associate Professor of Management at American University of Sharjah. His research covers business responses to crises based on work with businesses in Syria, Iraq, Sri Lanka, Cyprus, Lebanon, Ukraine and Myanmar.

Strategic Priorities to Weigh While Designing a Policy

Your organization is creating a corporate foreign policy whether you know it or not — if it's making statements, offering or denying aid, avoiding certain countries, or continuing to do business with them, Parella said. "A mistake is believing that these things can be decided in the moment," she added. Be intentional, not accidental, she advised.

Start by asking: What are your international strategic priorities? Government touchpoints such as contracts, licenses, subsidiaries, regulations? Risk management? Growth? Social responsibility?

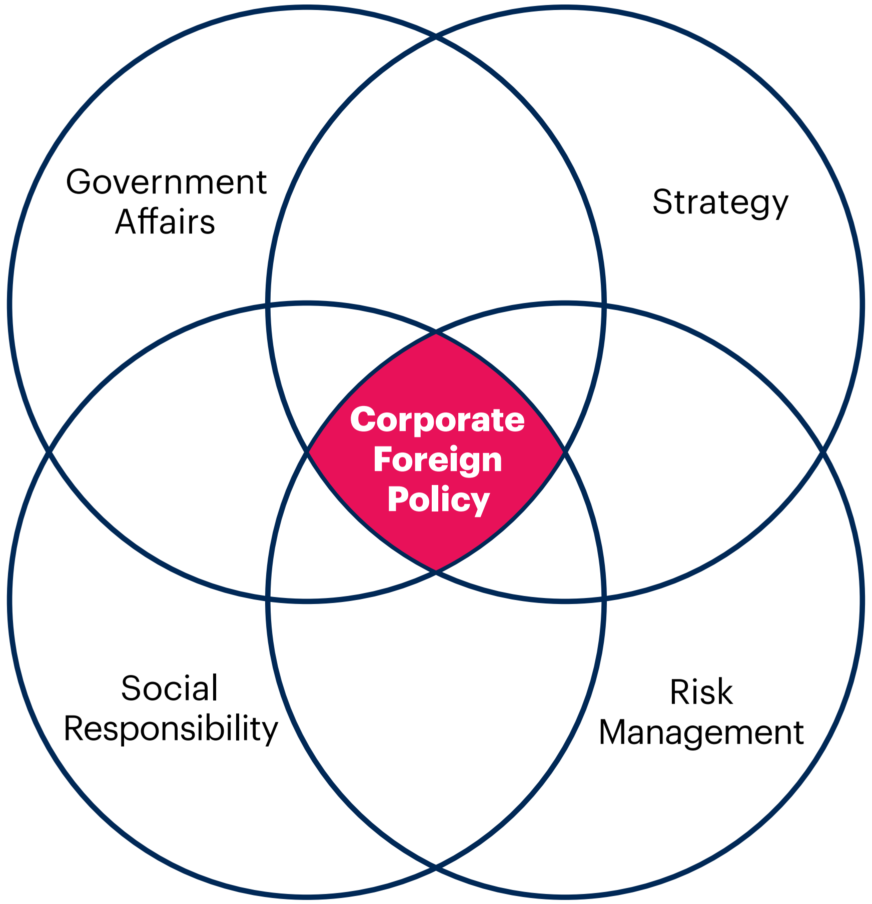
As Fort points out, the answer could be all of the above. The four priorities can determine which executives take the lead when crafting a policy, although each should serve as an important component of corporate foreign policy (see Figure 1).

Can you root a policy in mission, vision and values? The more the company lives and breathes its values, the less explicit a policy needs to be, Katsos said. "If you have a strong culture with strong values people already know what to do."

A strong culture and values will help stakeholders and employees in different locations know how you plan to deal with emerging issues. For instance, Fort said if you're a pharmaceutical company, having the same standards for drug testing in different regions is important to build trust. It also avoids criticism of arbitrariness, Parella noted: "It's helpful to point toward values that serve as a foundation for a stance." Ultimately, your policy should lead to decisions you can stand by five years down the road, she said.

Also consider how business models might affect your international strategy. "A particular model may minimize legal liability, but it could also limit the ability of a franchiser to speak with one voice in response to a political crisis," Parella told us. For instance, some brands, such as Dunkin' and Domino's, found their options limited by this model when trying to exit Russia in 2022.[2,3]

Figure 1. Corporate Foreign Policy Components



Source: Gartner

What Experts Say About Deploying a Framework

Even with an overarching framework for international strategy, you'll still need to employ time-tested tactics when implementing it. After all, you can't prepare for every crisis, the experts told us. "Even the biggest government departments, the best political risk agencies are all caught flat-footed all the time," said Jason Miklian, a senior researcher in business, peace building and sustainable development at the University of Oslo.

Multinationals need intelligence capabilities, partners in the region and managerial expertise. And you need to constantly test and update plans as conditions change.

In-House Intelligence Capabilities Should Augment Government Sources

"Often the information that governments can give to companies lags reality," Zegart told us. These insights are still important, but not enough. "You want to have independent sources of information about the locations critical to your business," Zegart said.

That doesn't mean relying on off-the-shelf products from risk consultants either. Country reports aren't tailored to your risk appetite or the local conditions of your operations. Instead, you're better off building in-house analytics talent, Zegart said.

Jason Miklian is a senior researcher in business, peace building and sustainable development at the Center for Development and the Environment at the University of Oslo, and a fellow in the Political Science department at the Universidad de los Andes. He is the co-author of "Business, Peacebuilding and Sustainable Development."

Forge On-the-Ground Partnerships Where You Operate

At the same time, some capabilities are uneconomical to develop in-house. "Retired diplomats have better skills than anybody to navigate conversations with government and other stakeholders," said Katsos.

You can also work with people on the ground. Miklian told us about a coffee company in Colombia that partnered with a development agency to establish relationships beginning in 2011, during the country's decades-long war against insurgents.

Over a two-year period, the business spent time in its suppliers' communities, building frameworks for dialogue between conflict actors, the government, local communities and business. These actions spoke louder than words and the company survived while its competitors faltered.

Country and Local Managers Are Your Diplomats

You need to listen to them, to not only understand the reality on the ground but also confirm the company is allowing them to make the right choices. “Make sure that you’re not just including expatriate managers,” said Katsos.

You also need to hear from the community. Often, companies think they can dictate terms because they believe what they’re bringing in is better than what was there before (such as jobs or local infrastructure improvements), said Miklian. This posture damages long-term trust.

And if incentives aren’t aligned with community needs, managers might make unethical or risky decisions.

Katsos outlined several questions that should guide development of manager training. How do you:

- Interact with government officials?
- Work with people who are the brokers for those government officials?
- Immerse yourself in a local environment if you’re sent from abroad?
- Make sure if you’re hiring a manager locally, that person is not co-opted by the local government?

“It looks a lot like foreign policy training,” Katsos said.

Don’t Let Plans Sit on a Shelf and Gather Dust

Katsos said he often sees policies that haven’t been updated in years: “You need a process to take into account new circumstances.”

Companies need to think continuously about political risk and ask where value and vulnerability are converging, Zegart told us. One way to constantly test thinking is by asking “what if we’re wrong? If we’re wrong, what’s the time horizon? What’s the mitigation strategy? Make it routine in C-suite and board conversations,” she said.

Policy Benefits Extend Beyond the Organization

Act with sincerity and you’ll find an even bigger reward, according to Fort, who wrote a book on corporate sincerity based on interviews with 20 CEOs. “There is a paradox,” he acknowledged, but his research led him to the conclusion that taking actions because you believe they are right will pay off financially. It also helps close the gap in the ambitions of corporate foreign policy between growth and social responsibility.

But the lesson should not always be to exit regions with dictatorial rulers. Katsos fears that could make things worse. “Companies are able to move authoritarian regimes in a particular direction and if that gets cut off, the risk of confrontation becomes much higher,” he said. Sometimes maintaining this back-channel diplomacy can do more for reform and resolution than shutting off parts of the world voluntarily. Corporate foreign policies can help your business make that choice.

[1] Gartner.
[2] Exiting Russia Is a Challenge for Franchise Companies Like Dunkin’, GBH.
[3] Domino’s Pizza Considers Selling Russian Business, BBC.

Gartner

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When and How to Exit a Country

by Eliza Krigman and Ben Fisher

It's a matter of when, not if, an organization will need to consider leaving or scaling back operations in a country. Without a playbook to follow, making and executing that decision is riddled with difficulty.

Whether it's because of Russia's invasion of Ukraine[1] or escalating global trade tensions, the likelihood your company will have to make an exit call is growing. Fifty-one percent of CEOs are changing the mix of geographic sources they rely on for supplies in light of global power shifts.[2]

China has doubled down on efforts to produce its own computer chips in what The New York Times called a "De-Americanizing" process.[3] In addition, more than 60 European companies moved existing investments out of China over the past year, and over 40 have decided to take investments previously planned there elsewhere.[4]

Heads of enterprise risk management (ERM) at two organizations — a financial services firm and a consumer goods company — told us the tactics they used when their companies evaluated leaving a country. We also heard from a chief audit executive (CAE) at a global retail brand who shared insights from a guidebook his team created on closing a subsidiary.

Taken together, their tactics and insights form a playbook that will help business leaders at your organization make sense of a deluge of information when under pressure to move fast.

Risk leaders can help facilitate and inform the creation of such a manual and provide much-needed clarity on how to assess the different degrees of exit, plus the intricate ethical and cost considerations that organizations will face along the way. And if your organization has already left a country, CAEs can use their interviewing and research skills to capture lessons learned.

The playbook should include the following steps:

1. Determine why you need to leave.
2. Choose a guiding principle to embed company values.
3. Figure out what kind of separation is best.
4. Map out the business implications of leaving.
5. Form a steering committee.
6. Execute your exit.

Determine Why You Need to Leave

Something will trigger a discussion on the possibility of exiting a country, such as a regional conflict, but that’s different from having clarity on why your organization needs to leave. Identifying the reason is important because it feeds into a communication plan (internal and external) that will underpin the whole effort, the risk and audit practitioners told us.

“It should just be an ethical decision,” said the head of ERM at the financial services organization. “You should just decide if it’s right to be in or out.” His company withdrew from Russia, halting all commercial operations, after the invasion of Ukraine. Currency instability in a Middle Eastern country made it “infeasible to operate there,” said the CAE of the global retail brand who cited that issue as the reason his company left.

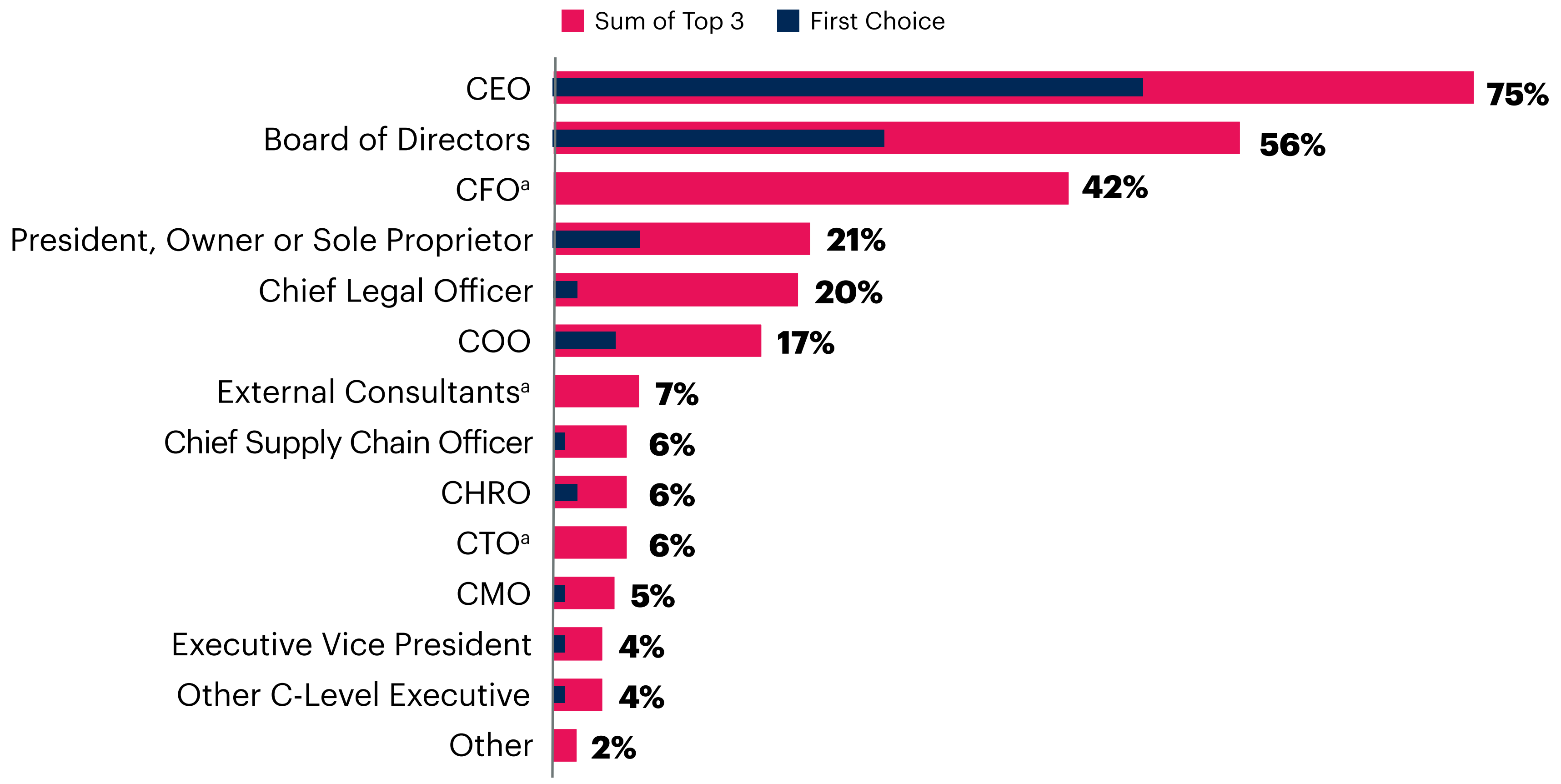
Other reasons to leave a country include circumstances that create compliance burdens, signal unpredictability or reduce profit.

Issues underlying those circumstances include, but are not limited to:

- Trade sanctions
- New regulations
- Trade wars
- Supply chain risk
- Data security risk
- Privacy risk
- Cybersecurity risk
- Risk in access to capital
- Lack of access to talent
- Increased nationalism
- Employee activism, discontent or workforce disruption
- Pressure from clients or investors
- Employee safety

Regardless of what sparks the exit discussion, the people making the call hail from the top of the company (see Figure 1).[5] "The decision to exit [Russia] was made by the executive committee, with oversight from the board," said the head of ERM at the financial services company.

Figure 1. Top Influencers on Decision to Leave a Market



n = 81 Gartner Research Circle members and external members

Q: Which of the following leaders will be among the key influencers in the decision making for leaving a market?

Source: 2022 Gartner Managing The Dynamic Equilibrium In Globalization

[a] No. 2 and No. 3 ranking only

The board at the CAE's company also made the decision to leave the Middle Eastern country — as well as Russia. In the latter case, management first suspended operations and then decided to withdraw completely.

Choose a Guiding Principle to Embed Company Values

Making all decisions "people-centric" is the guiding principle for the CAE's company. When it left the Middle Eastern country, for example, management found "ways for employees of our stores to get roles at our franchise partner stores," he said. It's important to "treat people with respect and support them beyond just 'here's the amount that we pay.'"

What really underpins that, he emphasized, is transparency and communication. Employees should know why the business is exiting a country to help them accept and plan for it.

Figure Out What Kind of Separation Is Best

Not all exits are created equal. Companies don't always face a clear-cut choice between staying or leaving and may need to consider degrees of separation — from shelving new investments to making a clean break. Leaders can use Figure 2 to assess what kind of business arrangement may be possible in light of the situation.[1]

Map Out the Business Implications of Leaving

Heads of ERM have an important role to play here in determining the impact of what's happening and assessing the risks involved with a full or partial exit. If you are facing time pressures, conduct a targeted scenario-planning exercise to move faster.

Figure 2. Exit Types

Type of Exit	Definition
Postponing New Investments	Refraining from making additional investments in a country, but continuing with current operations. Aviation company Airbus, for instance, suspended supplies of service and parts to Russia but continues to buy Russian titanium.[1]
Scaling Back	Reducing some business operations but continuing with others. Apple is moving part of its manufacturing supply chain from China and Taiwan to India and Vietnam, for example. However, it still conducts a lot of business in China, from production to retail stores.[6]
Suspending	Temporarily shutting down most or all operations while keeping options open for a return. The payroll company ADP suspended all sales and services to Russia, for instance.[1]
Withdrawal	Leaving a country completely. For example, information technology company Dell ceased all operations in Russia.[1]

Source: Gartner (October 2023)

That's what the head of ERM at the consumer goods company did when executives tasked her with understanding how Russia's invasion of Ukraine would affect their business. She managed to do it in four weeks as opposed to the standard eight-week timeline by engaging with experts in the organization to figure out the most important priorities.

"Focus on the most critical elements to plan relevant scenarios and potential actions for your organization. Do not try to boil the ocean. Senior leaders expect an agile response," she said. For a consumer goods company, "those critical aspects include the safety of its people, products and assets, and the ability to make, move and sell."

Other areas of assessment may include:

- Consulting the legal department
- Estimating closure costs
- Developing a timeline for your exit
- Determining which employees need to support the exit process

What's important is to make sure discussions are "risk-informed" and "brought to the right level," said the head of ERM at the financial services company. It's also the job of heads of ERM to hold people accountable for "risk mitigations they agree to," he added.

Form a Steering Committee to Oversee the Exit

This group, formed by company leadership, provides support, expertise and oversight of the process.

The chief risk officer (not the head of ERM) chaired the steering committee for the financial services company that left Russia. The head of ERM ran the day-to-day coordination of activities. Members of the committee included the chief information security officer, the heads of HR and audit, and the chief technology officer.

When the CAE's global retail company left the Middle Eastern country, members of the steering committee included accounting, treasury, tax, legal and marketing.

Steering committee responsibilities may include:

- Determining closure timelines and phases
- Deciding on any checkpoint reviews
- Making decisions in situations with multiple options
- Approving important decisions during the entire exit process

Execute the Exit From a Country

The nature and extent of your business in a country — as well as the type of exit you think is appropriate — will affect how the departure plays out. Most organizations, however, will have some employee, communication, financial, legal, technology and real estate issues to work through. If "we had a checklist from the moment our company decided to leave Russia that would have helped; we would have been much better prepared," said the head of ERM at the financial services company. His team is in the process of creating one now because he thinks an event like this could repeat itself.

When preparing to leave a country, steering committee members should review the following checklist of significant issues and activities your organization may need to act on (see Figure 3).

Figure 3. Checklist for Executing an Exit From a Country

Category	Action
Employees	• Determine how to keep your employees physically safe. Doing so may involve relocating them out of a dangerous area. • Evaluate who to keep and who to let go. • Prepare relocation packages. • Prepare severance packages. • Assess what kind of support employees, including those who are terminated, need, such as job placement help. • Schedule individual calls with all those affected after the internal announcement is made.
Communication	• Create an internal communication plan. Include what information to share with employees, tailor messages to different segments of the workforce and think through timing. • Create an external communication plan for releasing shareholder reports or press releases, for example. • Communicate the decision to leave to all affected employees first. • Communicate the decision to leave to the broader business. • Prepare scripting for external communications to make sure tone and message are consistent. • Prepare a media statement.

Category	Action
Financial	• Review the local entity's balance sheet to get a snapshot of how much cash it has or the financial worth of its assets relative to its liabilities. • Review active contracts to account for termination costs. • Work with external auditors to determine if you need to revise the previous year's financial statements in light of the exit's impact. • Prepare disclosures about the exit's impact on upcoming financial statements. • Decide whether to appoint a liquidator. • Perform a monthly liquidity and cash flow forecast for the wind-down period. • Maintain local bank accounts and credit facilities until (or if) the dissolution of the entity materializes. • Evaluate whether to involve an external tax specialist based on the complexity of local tax laws, availability of local tax resources and any additional tax obligations. • Contact local tax authorities to create transparency and comply with any requirements. • Comply with outstanding tax obligations.

Source: Gartner

Figure 3. Checklist for Executing an Exit From a Country (Continued)

Category	Action
Real Estate	• Assess costs of closing down leased properties, such as termination fees, security deposit, outstanding rent and/or utility payments. • Negotiate a settlement agreement for each landlord.
Tech	• Create a checklist of IT risks and related mitigation steps. • Create a list of IT contracts to terminate. • Create an inventory of office, store and employee IT hardware, such as computers and tablets.
Legal	• Cancel operating/commercial license and permits. • File articles of dissolution. • Deregister the business from the local trade bureau. • Send notice of dissolution to third parties in accordance with local regulations.

Source: Gartner

[1] More than a thousand businesses have curtailed activity or withdrawn from Russia since it invaded Ukraine. Over 1,000 Companies Have Curtailed Operations in Russia — But Some Remain, Yale Chief Executive Leadership Institute.

[2] 2023 Gartner CEO and Senior Business Executive Survey. The statistic cited refers to CEOs who think reglobalization reflects the current reality. We define reglobalization as continuing but changing globalization with power shifting between major nations. This survey was conducted to examine CEO and senior business executive views on current business issues, as well as some areas of technology agenda impact. The survey was fielded from July 2022 through December 2022, with questions about the period from 2022 through 2024. One-quarter of the survey sample was collected in July and August 2022, and three-quarters were collected from October through December 2022. In total, 422 actively employed CEOs and other senior executive business leaders qualified and participated. The research was collected via 382 online surveys and 40 telephone interviews. The sample mix by role was CEOs (n = 277); CFOs (n = 95); COOs or other C-level executives (n = 19); and chairs, presidents or board directors (n = 31). The sample mix by location was North America (n = 169), Europe (n = 105), Asia/Pacific (n = 102), Latin America (n = 29), the Middle East (n = 11) and South Africa (n = 6). The sample mix by size was $10 million in revenue to less than $50 million (n = 3), $50 million to less than $250 million (n = 51), $250 million to less than $1 billion (n = 102), $1 billion to less than $10 billion (n = 190) and $10 billion or more (n = 76). Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

[3] 'De-Americanize': How China Is Remaking Its Chip Business, The New York Times (subscription required).

[4] European Chamber Report Finds Significant Deterioration of Business Confidence in China, The European Union Chamber of Commerce in China.

[5] Gartner Managing the Dynamic Equilibrium in Globalization Survey (May 2022). We define market as a group of countries, such as the EU, that often operate under similar laws and customs. This survey was conducted online from 5 April 2022 through 25 April 2022 to understand how organizations respond when the balance of power shifts in a globalized economy. In total, 81 IT and business leaders participated; 23 were from Gartner's IT & Business Leaders Research Circle — a Gartner-managed panel — and 58 were from an external survey link shared via social channels and analyst contacts. Members from North America (n = 28), EMEA (n = 27) Asia/Pacific (n = 15), Latin America (n = 8) and others (n = 3) responded to the survey. Qualified respondents represented organizations operating globally or regionally.

[6] Apple Makes Plans to Move Production Out of China, The Wall Street Journal.

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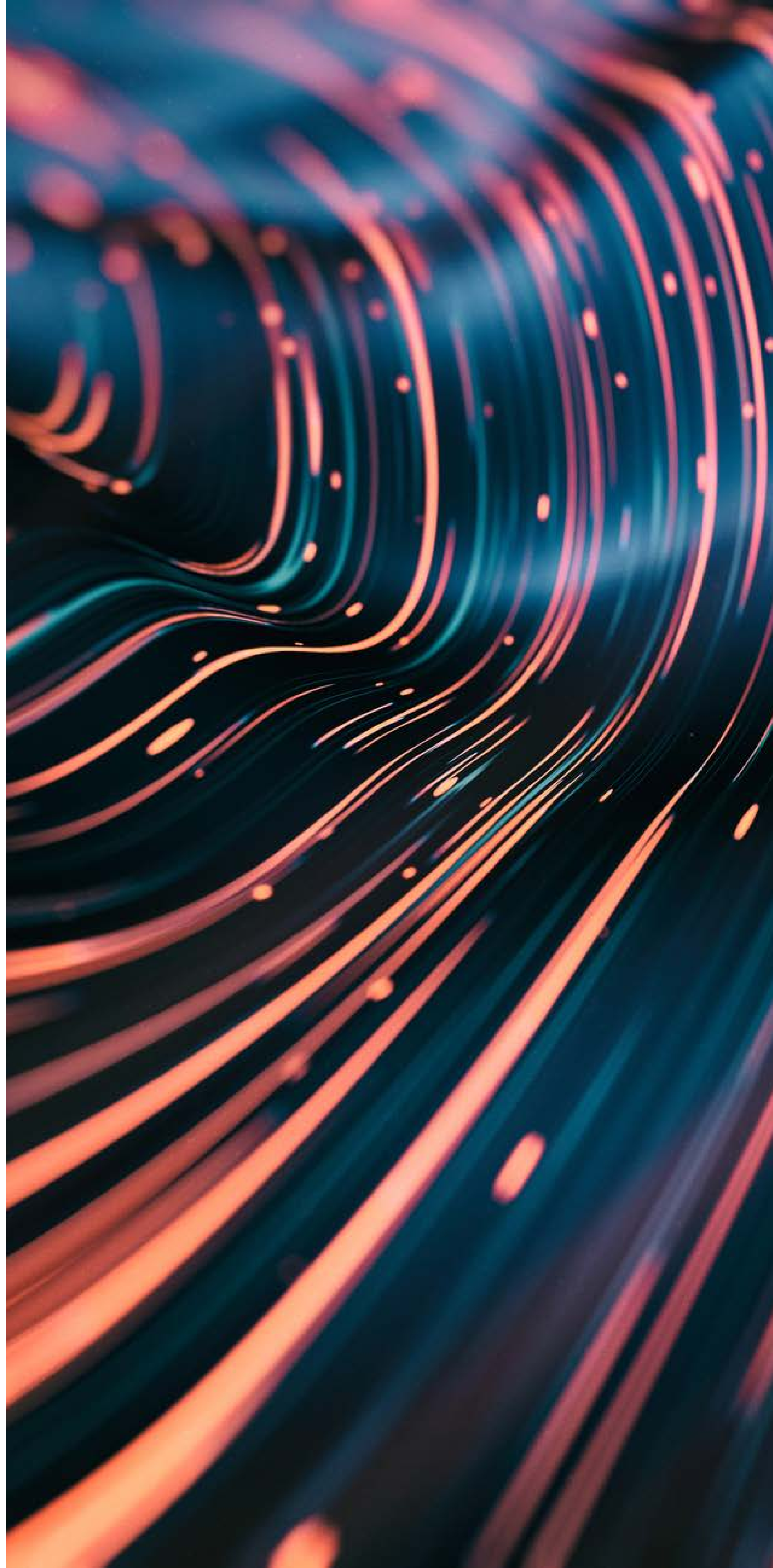


Lessons Learned for Managing Employees Through Geopolitics and War

by Alexander Kirss

It seemed like a good idea: Companies dispersed workforces around the world to save money and expand their talent pools while economies knit closer together during decades of relative peace.[1] As a result, though, when political tensions between nations boil over, it's more likely employees somewhere will suffer — and executive leaders will need to work 24/7 and spend millions of dollars to help them.

Only 28% of chief HR officers (CHROs) feel mostly or very prepared to handle a geopolitical crisis compared with 65% who have such confidence in their ability to respond to a natural disaster.[2] Yet lessons emerged from two dozen interviews with CEOs, CHROs and HR leaders since Russia's 2022 invasion of Ukraine. These executives had already cut their teeth on upheavals such as 9/11, the Arab Spring, bombings and hostage incidents before this war began. They shared what they had learned the hard way.

Distilled from those conversations, these tactics can help you help your company's people through transnational clashes, whether those differences are expressed through harsh words, sanctions, or military conflict. With nationalist sentiment increasing and international volatility escalating, such situations are not going away.[3]

Take two steps now to prepare:

- Embed geopolitical risks in existing talent strategy processes — but don't overweight them.
- Set up specific internal listening networks of employees who can detect a brewing emergency.

As a crisis unfolds:

- Shift your "radar" from early warning to unearthing employees' needs. What help they require, and where, may surprise you.
- Leverage other employees worldwide who want to assist.
- Don't forget to take care of yourself and the managers working directly to protect and save lives. The emotional toll will be high.

"These kinds of events nobody ever wants to live through," Ruth McGill, CHRO at ING, told us. But, she added, "people will always remember how they felt and how they were treated and how the company responded in these times."

Ruth McGill, Chief HR Officer (CHRO), ING

Embed Geopolitical Risks In Talent Strategy — Judiciously

Include geopolitical flashpoints as one of the many risks considered during talent reviews and strategy discussions. That point seems straightforward but is often overlooked. The impact of national hostilities is different in kind from other types of crisis. For example, first responders such as armies or police might not be willing or able to help as they would during a hurricane or earthquake — quite the opposite, in fact.

Don't swing too far the other way, though. Politically driven risks "have been historically hard to assess" because these situations are so fluid, according to Iris Malone, a senior analyst at GeoQuant, a country risk data and analytics provider. It's best to limit geopolitical exercises during crisis planning to just one or two per year.

Other, higher-probability scenarios will bolster teams' interpersonal trust and collaboration skills more generally. That way, "when a crisis happens, you've built a rapport" with stakeholders, Martha Delehanty, chief HR officer at Commvault, told us.

As a geopolitics lens is integrated into those flourishing relationships, the CEO, CFO and HR should set expectations in advance that costly crisis decisions will adhere to stated corporate values. Enterprise risk management leaders and HR can earn the right ahead of time to break red tape and move fast.

> "I think one of the best things a leader can do, whether you're a CEO or CHRO, is to be clear about what you stand for and to allow decisions to flow from there."
>
> **Kunal Kapoor, CEO, Morningstar, Inc.**

Develop an Employee Early-Warning System

Whether or not an organization hires outside consultants to help identify and manage geopolitical risks, it can relatively easily develop a system for employees to report internally about emerging threats.

Executives who spoke with us estimated that organizations will at best be able to identify an imminent development such as the Russian invasion of Ukraine, a coup, or localized protests a few days in advance. Still, every hour counts.

Formally, organizations might:

- Direct country managers, business unit heads, and other employees in distributed areas of the organization to consider geopolitical and other risks in their area of operations as part of pre-existing reports on business conditions and progress towards objectives.
- Establish an email inbox for reporting to centralized risk management, business continuity or crisis management teams on local conditions or flagging potential exposure. Instruct managers to ask employees about local conditions or trends that they are following and then report upwards. The simpler the system for capturing and transmitting information the better.
- Identify employees who have both the interest in foreign affairs and necessary skills for risk monitoring — critical thinking and trend analysis, for instance — and provide them with the autonomy and ability to report on conditions and trends they observe. These employees will often be self-selecting and little discretionary effort is required to add informal monitoring to their daily tasks.
- Important: Make sure to include flags for urgent information.

To build informal channels, consider these tactics:

- Encourage executives to strengthen their personal connections with employees in their organizations and ask about geopolitical risks.
- Build dedicated spaces for employees to voice their opinions — such as focus groups and informal discussion time.
- Instruct managers to listen specifically for geopolitical risks in these settings, and report them upward.

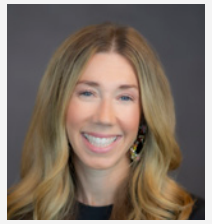
When a Crisis Hits, Lock Your Radar on Employee Needs; These Might Surprise You

With a listening network in place, your organization can rely on it during a geopolitical emergency as well; ask your information sources to shift and home in on urgent employee needs. The regular employee experience survey won't cover such specific circumstances and there won't be time or attention for a dedicated pulse survey *in extremis*.

During Russia's invasion, executives told us they knew physical safety and access to currency would be important to the workforce in the two nations at war. They were right, but there was more.

What they discovered but didn't expect:

- Pleas to help extended relatives such as grandparents and siblings and even pets (at least one company evacuated a cat).
- Streams of refugees crossing borders, adding to the number of locations where employees required assistance (one organization set up a mobile hospital in an adjacent country).
- Employee distraction and productivity issues outside of the directly affected areas.
- Activation of latent employee national, political and ideological identities as sources of interpersonal tension.



"We may have a high-level perspective based on what we're hearing and what we know, but we really can't surface those direct issues unless we're available and proximate, talking to our people and listening into all of the forums available to us."

Sara Morales, Vice President, People & Communities, Cisco

Once an affected area is relatively safe, executives should also consider becoming part of the listening network themselves — in person. Traveling to hear directly from employees is a vital show of organizational interest in employee needs and support and will also give leadership a visceral understanding of where to concentrate resources for talent, their families and communities.

Anticipate Spillover

Spillover effects can show up all over the world. For instance, disruptions to the flow of energy because of infrastructure damaged in battle, sabotage or trade barriers might spark new interest in working from offices or subsidies for home energy bills.

Also, feelings may run high in places that might not be obvious at first. The cross-border hiring trend may mean people from two hostile nations both work in each others' country (this was the case for Russia and Ukraine). Not only that, employees with ties to belligerent countries could be located outside the region as well (this also was true at the time of the invasion; mental health support was necessary for them).

Further afield, employees may differ in their views on how the company should respond to geopolitical tensions, bringing them into conflict with either each other or with leaders.

These debates may serve as a vector for employees' broader political identities, such as partisan affiliation. In 2022, 15% of surveyed employees reported they had seen colleagues avoided by other employees due to their political views.

Ten percent report having seen colleagues being called offensive names, and 12% report having seen colleagues being treated differently due to their political views.[4]

Lean on Organizational Values to Mute Discord

As with laying groundwork for leadership action, established enterprise values and culture offer a helpful foundation — coach managers to rely on them in the moment, especially if the organization has a culture of tolerance and respect. Keep listening, though. Executives heard from employees in many countries about their language at the time of the invasion: "Why are we saying incident or tragedy? Why aren't we saying war?"

Queries about words gave way to questions about action: "Are we going to take a stand? Are we going to do business in Russia?" Mute the discord by pointing again to organizational values when explaining decisions at the C-suite or functional level.

> "When I think about issues and when and how we participate, I always go back to our corporate values. They really serve as a north star for where we have the permission to involve ourselves as an organization and take some position or action."
>
> **Mauricio Gutierrez, CEO, NRG Energy**

Leverage Employees Elsewhere Who Want to Assist

Employees who aren't directly affected can be part of the solution, too. Hundreds of employees at the organizations represented in our interviews raised their hands to house displaced Ukrainian team members and their families after war broke out in 2022. Some even shared photos of their guest rooms. And, as one HR leader noted, people based in other parts of the world might offer innovative ideas to help address the barrage of challenges — perhaps in a more effective way than executives have thought of.

Consider setting up a platform or hotline to match volunteers with those desperate for help. Functions such as HR, legal, risk, operations and finance can work together to set the parameters: What are the common needs? Should we set up tiers to prioritize service (e.g., employees in a war zone, employees who are refugees, family members)? Who should be able to participate? Cutting red tape could free up resources on the ground.

An added bonus: heightened employee engagement. The leaders we interviewed spoke of employees fluent in Russian or Ukrainian jumping at the chance to pull hotline shifts and others who even brought their spouses and cousins to join transport operations in refugee zones.

Take Care of the People Taking Care of Your People

Don't forget the executives and coordinators of your relief efforts. The pressure to save lives — and the recognition that they are safe while others are not — can make HR business partners and country managers reluctant to complain about grueling hours, heartbreak and frustration. That goes for the C-suite, too. ING's McGill recalls "frankly feeling completely out of control" at times during "horrific events."

Pick up on body language or round-the-clock communications and ask for five minutes to talk about their feelings. When someone is overwhelmed, get creative — for instance, involve an operations team or ask shared services hubs on the business side to set up a mini-call center. With all the enthusiasm for involvement from employees, capacity can create itself.

[1] 2022 Gartner Borderless IT Survey; 2022 Gartner Technology-Intensive R&D Benchmark Survey.
[2] 2022 Gartner Q4 CHRO Survey.
[3] BlackRock Investment Institute, Geopolitical Risk Dashboard, 25 July 2023
[4] 2022 Gartner H2 US Employee Sentiment Survey (October 2022).

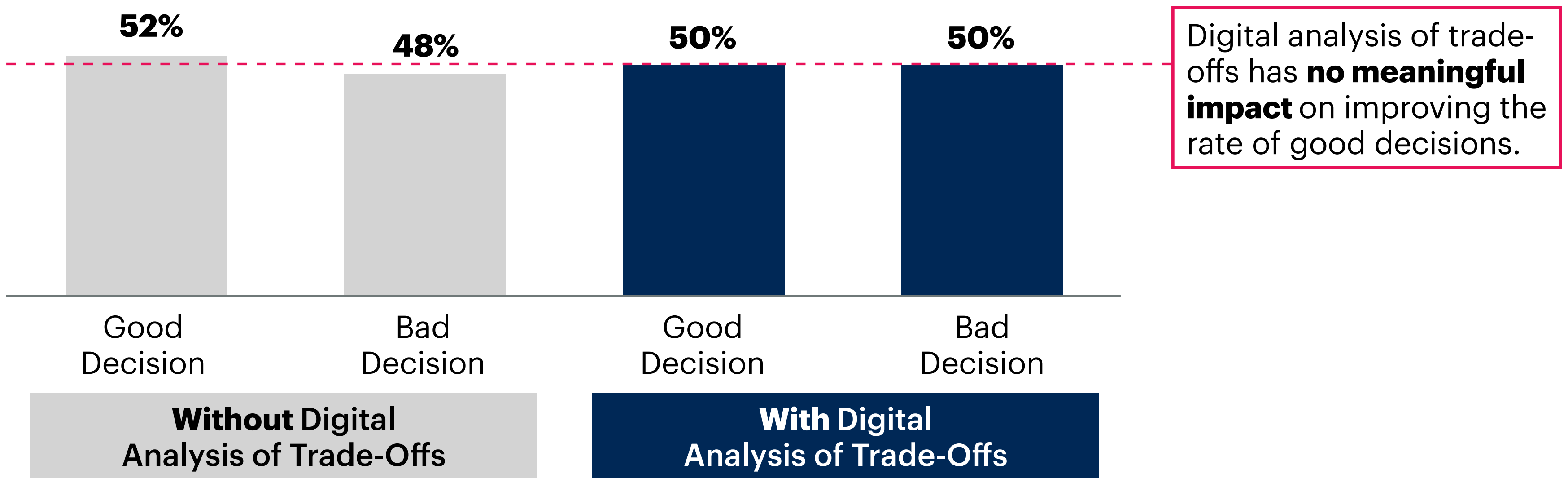
Supply Chain Technology Needs a Local Human Link

by Suzie Petrusic

Many organizations have invested heavily in digital supply chain technology to improve strategic decisions. But these new tools don't improve global leaders' ability to make good calls.

Global supply chain leaders often use digital trade-off analysis such as scenario modeling, what-if analysis or simulations — but their models capture on average only about 20% to 30% of relevant processes. In an estimated 90% of decisions, the digital-to-reality gap is wide, resulting in only a coin-flip's chance of making a good strategic decision (see Figure 1).[1]

Figure 1. Digital Trade-Off Analysis Yields No Improvement
Percentage of Decision Makers



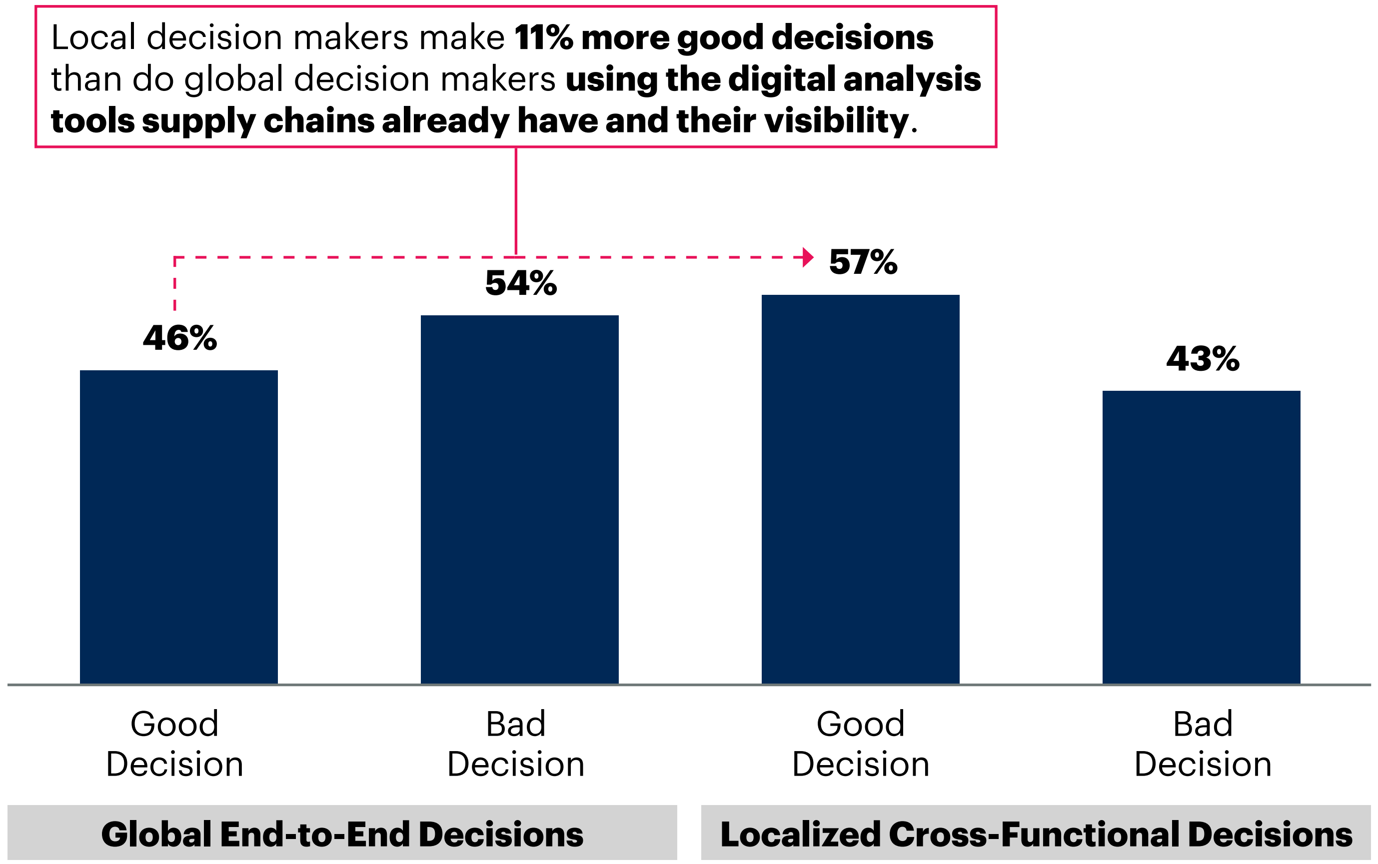
n = 600 decision makers
Source: 2022 Gartner Supply Chain Digitalization Survey

Fortunately, there is a way out of this tech trap. Local cross-functional supply chain leaders (e.g.,managers responsible for a combination of planning, sourcing, manufacturing, logistics or quality) make good decisions 11% more often than their global counterparts,[2] despite using the same digital tools (see Figure 2). That's because these local decision makers supplement the technology with their human visibility — including knowledge of local context, and operating conditions and relationships with important stakeholders.

Three companies — the U.S. sugar refiner ASR Group, Ericsson and Siemens — have narrowed the digital-to-reality supply chain gap by:

- Localizing more strategic decisions
- Digitizing the human element of local cross-functional decision models
- Accelerating digitization of supply chain processes

Figure 2. Comparison of Likelihood of Good and Bad Global and Local Decisions



n = 449, p < .05, Digital Users Only

Source: 2022 Gartner Supply Chain Digitalization Survey

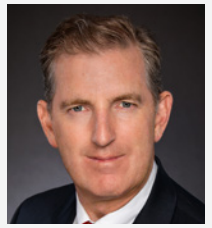
Localize More Strategic Decisions to Leverage Human Visibility

Local, cross-functional supply chain leaders are 83% more likely to make a good decision when they have good human visibility into the supply chain. That visibility helps them know what variables to include in their digital models, whether all the variables are in these models and whether the data used to calculate the trade-offs is accurate. ASR Group localizes more ambiguous decisions and keeps more straightforward ones at the global level (see Figure 3). While this tactic may seem counterintuitive, the company effectively neutralizes a strong bias to centralize strategic decisions by using data to show these decisions are better made locally.

ASR reassigns what were global decisions to these supply chain leaders and then conducts a what-if analysis to compare the actual results with what a global decision maker would have expected based on analysis. If the outcomes exceed global expectations, the decision remains with the local executive.

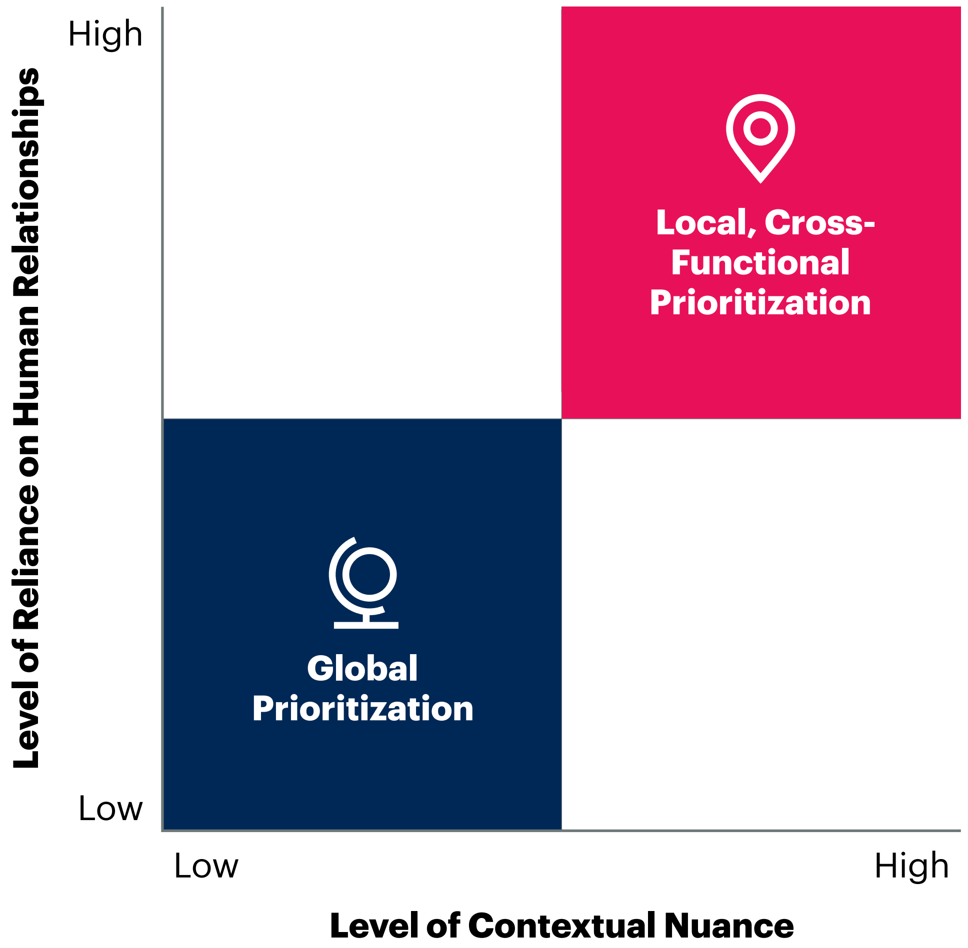
"My hypothesis was that we would be able to move a significant number of local processes to global execution and decision making," recalls Doug Romain, senior vice president of global supply chain at ASR Group. But while the company found some limited opportunities to do so, including in freight spending, "most process ownership and decision making was better done locally, driven primarily by the local market knowledge" incorporated into the decisions, Romain says.

Once ASR has verified the local leader is better suited to make the decision, it seeks to maintain quality through good governance. Global supply chain leaders set the goals, local executives build decision models and are accountable for the outcomes, and the data analytics team is responsible for accurate analysis. This system enabled ASR to improve its on-time-in-full (OTIF) performance by 200 to 400 basis points, reduce inventory by 3% to 5%, and boost production attainment by 7% to 10%.



Doug Romain, Senior Vice President of Global Supply Chain, ASR Group

Figure 3. Priority Matrix for Localizing Cross-Functional Strategic Decisions



Source: Adapted From ASR Group

Digitize the Human Element of Local Cross-Functional Decision Models

While moving strategic supply chain decisions to the local level will help, these leaders make good decisions only 57% of the time.[1] That's partly because most of them are using digital decision models and trade-off analyses designed for a single function within the supply chain, like procurement or planning, and supplementing these tools with human analysis based on their own insights. Instead, chief supply chain officers (CSCOs) should work with C-suite colleagues, including the CIO or chief technology officer, to support these leaders with technology that digitizes these insights, too, thus removing flawed human evaluations of complex trade-offs.

That's exactly what Ericsson does. For a given decision, the company asks a single local, cross-functional leader which relevant data points are not already included in their digital model. These can include data from spreadsheets and other digital logs, stakeholder interactions and information, and other analog records. Ericsson then digitizes these inputs to create a complete baseline decision model.

Next, Ericsson's centralized technology team implements data management standards like rules management, cleaning protocols, enrichment procedures and data quality monitoring. The aim is to make relevant, accurate, consistent and usable data available to other, similar decision makers, and make sure they have cloud access to digital tools.

Finally, Ericsson scales the expanded digital model by making the basic version available to these other leaders. They can then tailor it to their own specific purpose.

Digitizing local decision models enabled Ericsson to more than double the supply chain productivity gains it achieved with global digital technology. And the data analytics team's collaboration with local decision makers reduced the time to develop solutions by 70%.

In supporting these decision makers, Ericsson has also seen a cultural shift, says Danffer Navarro, the company's former head of digitalization. "Because they co-developed the solutions, they actually use it. They are now driving our digital transformation."

Danffer Navarro, Former Head of Digitalization, Ericsson

Accelerate Digitization of Supply Chain Processes

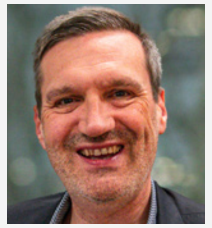
Global supply chain decision makers estimate operational and frontline staff deviate from defined processes 30% to 40% of the time. And only an estimated 40% to 50% of relevant processes are digitized in the first place. As a result, global decision makers are using human-derived decision models rather than data-derived models 62% of the time.[1]

Siemens is closing the digital-to-reality gap faster by encouraging supply chain process experts to code relevant processes. The company emphasizes potential candidates' interest in learning rather than their skill set in this area, and makes clear they will receive ongoing support and training. Providing these incentives to participate in citizen-led developer initiatives helps Siemens expand its pool of supply chain coders, rather than trying to teach robotic process automation (RPA) specialists each new process they need to digitize and automate (see Figure 4).

Process experts start with intense bootcamp-like training. Siemens makes subsequent assistance cost-effective by tailoring it to coders' specific needs. It includes access to an RPA-expert buddy, online tools and crowdsourced support within the company through social media interfaces.

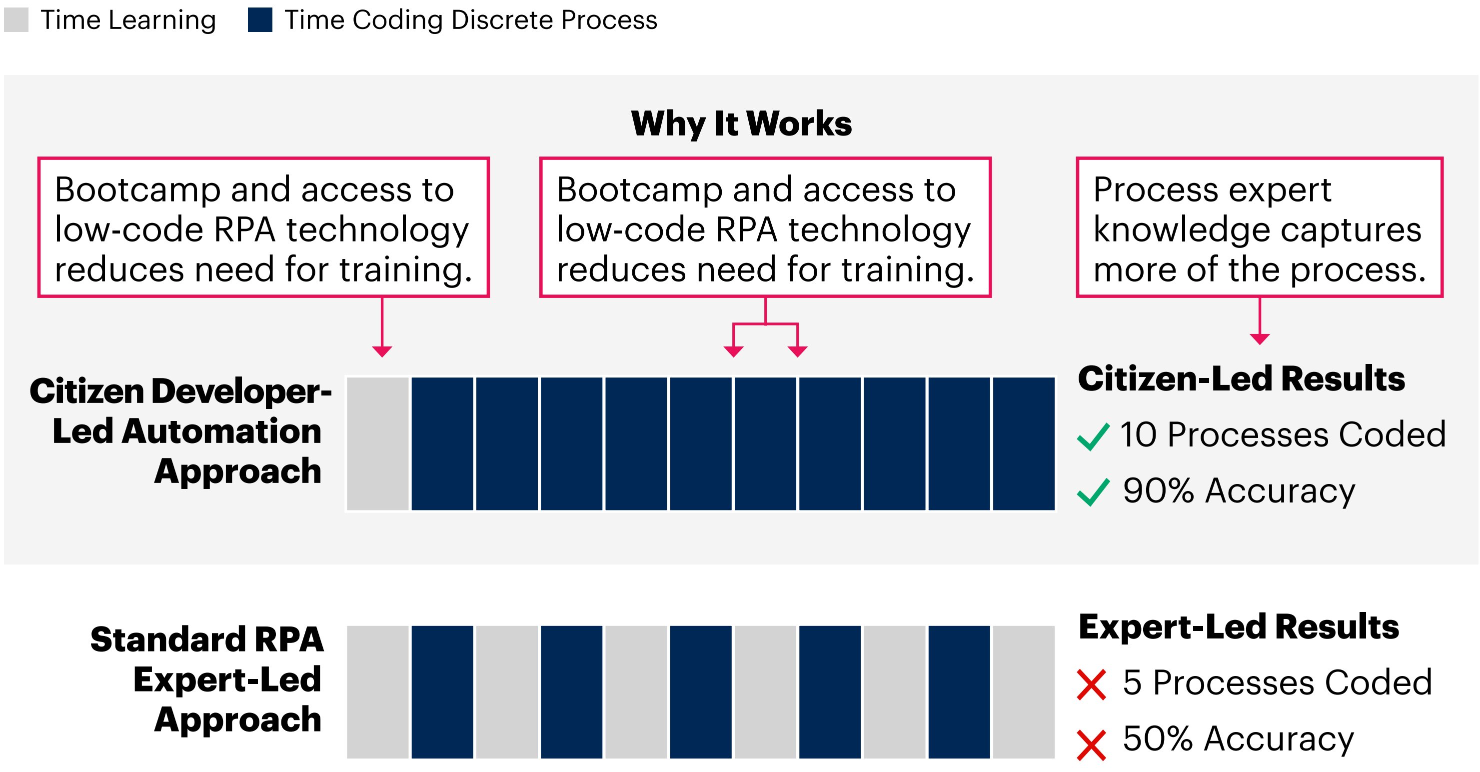
Siemens embeds quality checks throughout. The firm evaluates which projects it chooses for coding, establishes “quality gates” at different points in the process, and makes the coding led by supply chain experts part of its wider digital strategy. Siemens saved 30% more working hours by adding supply chain experts to the coding team. And the company more than doubled the number of automated processes.

“Acceleration in process automation means doing things differently,” says Sven Markert, senior vice president, supply chain and logistics, Siemens. “The Citizen Developer with RPA Buddies concept is our way to create our strategic vision of a regionally empowered and digitally interlinked supply chain.”



Sven Markert,
Senior Vice President, Supply Chain and Logistics, Siemens

Figure 4. Citizen Developers Drive Automation Efficiency
Percentage of Decision Makers



Source: Adapted From ASR Group

[1] **2022 Gartner Supply Chain Digitalization Survey:** From October to December 2022, Gartner Supply Chain Research invited chief supply chain officers (CSCOs) to complete an online survey to study if good decisions were made more often when supported by digital technology. We received 600 completed responses during the survey period, spread across multiple industries, including manufacturing (n = 309), technology and telecom (n = 94), healthcare (n = 83), retail (n = 61), transportation (n = 29), and services (n = 24). A total of 474 respondents belonged to organizations with annual enterprise revenue of at least $1 billion, and nearly 300 were senior vice presidents or above. Of the total, 227 respondents primarily worked from North America, 167 from Asia/Pacific, 138 from EMEA and 68 from Latin America. Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

[2] We define a “good” decision as one that leads to the decision maker’s expected supply chain performance and cost outcomes with low decision maker regret.

Gartner

Top 5 HR Trends and Priorities for 2024

Gartner surveyed 500+ HR leaders across 60 countries and all major industries to identify HR trends and expected challenges for 2024.

This report highlights key findings from the survey, detailing:

- The five HR initiatives that leaders are prioritizing in 2024
- Actions HR leadership should take to address each priority in the year ahead
- What's driving top priorities and why action is imperative for HR leaders

View the key findings and assess your top priorities for 2024. Download Report ↗

Global Trade Tensions: Risks to Assess

by Ben Fisher

Geopolitical tension between China and its major trading partners is a top emerging risk for heads of enterprise risk management (ERM).[1] At the same time, 88% of senior business executives say globalization is changing, slowing or reversing — and that China remains crucial to growth.[2]

As global trade frictions increase, risk management leaders need to quickly assess the resulting supply chain, compliance, financial, and talent and reputational risks to their organization. The following tables can serve as a guide.

1 **Supply Chain Risks:** Navigating Choppy Waters

2 **Compliance Risks:** Tougher Controls

3 **Financial Risks:** Loosening Economic Ties

4 **Talent and Reputation Risks:** Slowing the Flow

1

Supply Chain Risks: Navigating Choppy Waters

In an effort to reduce dependence on one another, the U.S., the European Union and China are turning inward in favor of policies that emphasize the domestic production and consumption of strategic goods, while also attempting to keep trade and investment flowing.[3,4,5]

But trade relations between the blocs are fraying, with higher tariffs applied to more goods (see Figure 1).[6,7]

Figure 1. Supply Chain Risks

Risk	Description	Real-World Implications
Critical Inputs Cut Off	A raw material or component vital to your production or sales could be inaccessible or vastly more expensive.	The Russian invasion of Ukraine and the subsequent shutoff of critical materials exposed major vulnerabilities in global supply chains.[8] Escalating trade tensions threaten similar impacts.
Market Access Denied	Your organization may be unable to sell its goods and services to a market.	The U.S. federal government has ordered advanced semiconductor chip manufacturers in the U.S. to stop selling their products (used in supercomputers and the military) to China.[9]
Manufacturing Disrupted	Access to production sites used by your organization could be removed.	China and the U.S. have attempted to convert factories that produce export goods into ones that produce for domestic consumption. China has stated it has a goal of reaching 70% self-sufficiency in high-tech industries. If you manufacture goods in foreign facilities or for foreign consumption, your production may be disrupted.[5,6]
Logistics and Transportation Impeded	Trade routes and methods of transportation could be shuttered.	China's naval forces launched an effort to inspect ships in the Taiwan Strait after the Taiwanese president, Tsai Ing-wen, visited the U.S. in April 2023.[10] Both China and the U.S. have ramped up military activity in the South China Sea in recent years, which could affect trade lanes.[5,11]

Source: Gartner (October 2023)

2

Compliance Risks: Tougher Controls

Governments around the world continue to use tit-for-tat sanctions to retaliate against others' trade barriers and are also wielding intellectual property and data privacy laws as a means to achieve geopolitical goals.[12]

The result is new and unpredictable compliance risks. To make matters more complicated, different governing bodies are ratifying sometimes conflicting laws (see Figure 2).[13]

Figure 2. Compliance Risks

Risk	Description	Real-World Implications
Sanctions, Tariffs and Investment Restrictions	Your organization may need to expend resources and try to head off regulatory punishments because of the introduction of tougher controls in different jurisdictions.	The EU and China have imposed sanctions on individuals holding citizenship in each bloc, which has halted ratification of trade deals, including a planned European investment pact with China.[6]
Scuppered Intellectual Property (IP) and Technology Transfers	Your organization may need to expend resources, disrupt operations or face legal penalties because of new or changing IP regulations.	The U.S. has implemented various laws, including the phase-one trade agreement with China, to reduce reported IP theft.[14]
Data Storage and Privacy Disputes	Your organization could be more susceptible to data breaches or infringing on data storage and privacy laws, or face heavy costs to adhere to new rules.	U.S. lawmakers' attempts to ban the Chinese social media app TikTok is just one example of data storage and privacy disputes contributing to tensions.[15] Recent data protection mandates from the Chinese government have caused some foreign companies to close their operations in the country.[16]
Regulatory Unpredictability	Official bodies could issue regulations at different speeds in different parts of the world — and in a hard-to-predict manner — as more issues fall under the purview of national security.	Several countries have imposed sanctions in retaliation for others' geopolitical moves, and many issues, such as data privacy, are now being seen as relevant to national security.[17]

Source: Gartner (October 2023)

3

Financial Risks: Loosening Economic Ties

Financial systems, much like supply chains, are heavily entwined as a result of globalization. But tougher cross-border restrictions threaten these, too.

The International Monetary Fund (IMF) has warned the China-U.S. strategic rivalry has already weighed down global economic growth, and further fragmentation of the financial system could make things worse (see Figure 3).[18]

Figure 3. Financial Risks

Risk	Description	Real-World Implications
Loss of Major Financial Markets	Your organization may lose the ability to make or receive foreign direct investments.	Some European politicians are calling for a reduction in investments into China.[19] For its part, the U.S. recently restricted foreign direct investment into Chinese industries deemed critical to national security.[20]
Economic Headwinds	Changes to the global financial system might result in an economic downturn that affects your organization.	The IMF has projected that trade tensions and subsequent restrictions on the free flow of capital can negatively impact economies, especially in developing nations.[21]
Unstable Exchange Rates	Currency exchange rates could become less favorable to your organization.	Precarious exchange rates have big implications for foreign trade because of their impact on input costs. Exchange rates have caused rising tensions between countries in the past.[22]
Asset Seizure	Assets you have placed in a foreign country could be confiscated.	China has implemented sweeping laws to allow the seizure of foreign assets as a means to hit back against sanctions.[23] Asset seizure was also part of the U.S. and EU-led response to the Russian invasion of Ukraine.[24] Both cases demonstrate the risks of keeping major assets abroad.

Source: Gartner (October 2023)

4

Talent and Reputation Risks: Slowing the Flow

Talented people and their ideas also cross national borders. Not only might this movement diminish as a result of trade tensions, but new challenges could arise or worsen (see Figure 4).

Figure 4. Talent and Reputation Risks

Risk	Description	Real-World Implications
Talent Access Hampered	Your organization may not be able to hire the talent you need.	Germany and Taiwan, among others, are looking to attract talent from abroad to maintain growth amid unfavorable domestic demographic trends.[25,26] A global talent race could be disrupted by severe immigration restrictions, such as those China imposed in the wake of the COVID-19 pandemic.[27]
Employee Tensions Rise	Employees could face workplace interpersonal issues. For example, people might discriminate against or harass their colleagues based on their nationality.	Businesses have raised concerns that geopolitical disagreements with China may fuel anti-Asian racism abroad.[28,29]
Reputational Harm	The perception of your organization or brand could be tarnished because of your relationship with or operations in a foreign country.	More combative relationships between trading partners could harm international businesses' reputations. For example, changes to Hong Kong's election laws and subsequent protests caused some U.S. organizations, including the National Basketball Association, to suffer reputational damage in China and the U.S.[30,31,32,33]

Source: Gartner (October 2023)

Key Risk Indicators to Watch

Political and economic actions that threaten free trade could put additional costs and stresses on known risks. To help brainstorm mitigations with risk owners — who will be flooded with information as trade tensions escalate — risk leaders should use these KRIs:

- **Some countries use military drills to deliver political messages.** Both the U.S. and China have conducted exercises for this purpose in the South China Sea, for example. Such events may not mean worse is to follow, but frequent and intense drills can lead to greater risk of miscommunication or change in intent. As a signal of the state of trade tensions, look for increases or decreases in activity here.[34,35]
- **Election cycles can be forward-looking indicators of increased tension.** Freshly installed governments often come with new stances on trade relations, nationalism and economic protectionism, which could lead to policy changes — for example, by taxing imports or imposing trade barriers. The U.S. presidential elections of 2016 and 2020 included debates about how to reduce trade deficits with China and the European Union and increase consumption of domestically manufactured goods.[36] Taiwan's elections carry especially large weight with the mainland, and their results can prompt retaliation from the Chinese Communist Party (CCP), which can have a knock-on effect on global supply chains. The next presidential election in Taiwan is set for early 2024.
- **Monitor media and political discourse about foreign trade relationships.** This chatter can signal that a country or bloc's relations with trade partners are souring.

1 **3Q23 Gartner Emerging Risk Survey:** Over 200 risk management leaders, risk professionals, auditors and senior executives responded.
2 **2023 Gartner CEO and Senior Business Executive Survey:** The questions cover 2022 through 2024. One-quarter of the sample was collected in July and August 2022, three-quarters from October through December 2022. In total, 422 actively employed CEOs and other senior executive business leaders participated.
3 How Much Trade Transits the South China Sea?, Center for Strategic and International Studies.
4 China's 'New Normal' for Taiwan Raises Fears for Global Trade, Al Jazeera.
5 China Accelerates Inward Economic Pivot With Plan to Create a 'Unified Domestic Market', South China Morning Post.
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10 China to Inspect Ships in Taiwan Strait, Taiwan Says Won't Cooperate, Reuters.
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26 Talent-Strapped Taiwan Seeks 20,000 'Special' Professionals, 200,000 Overseas Students Amid Talent Push, South China Morning Post.
27 China's Talent War Tussle as Red Tape, U.S. Tensions Shrink Labor Pool Amid 'People Decoupling,' South China Morning Post.
28 Beyond the Pandemic, Asian American Leaders Fear U.S. Conflict With China Will Fan Racist Backlash, The Washington Post.
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32 U.S. Warns Companies About the Risks of Doing Business in Hong Kong as China Clamps Down on Rights, CNBC.
33 Hong Kong Protests Put NBA on Edge in China, The New York Times.
34 U.S. and Philippines Launch Biggest Joint Drills Yet in South China Sea, The Guardian.
35 U.S. Steps Up South China Sea Visits to Serve its Political and Diplomatic Agenda, Chinese Think Tank Says, South China Morning Post.
36 Trump, GOP Go All-In on Anti-China Strategy, The Hill.

Don’t Let Stakeholders Set Your ESG Goals

by Rachel Pakianathan

When executive leaders set goals for environmental, social and governance (ESG) initiatives, they tend to listen to the loud and powerful voices of the BlackRocks and Vanguards of the world. They also tune in to regulators in many countries and customers in different markets. But these external stakeholders are divided and change their demands frequently, especially as geopolitical differences grow sharper. To balance competing interests and stay on a path that is best for your organization, listen to signals that come from inside — from the people at varying levels of the enterprise who are responsible for executing corporate strategy.

After all, it is employees who understand the effects of ESG-driven proposals on the company’s operating model — better than outsiders ever could. They know which barriers may impede implementation. Meanwhile, demand from investors and customers tends to be highly weighted in goal selection but is less effective for crafting goals with strategic impact.

When these types of goals are primarily targeted to marketing, companies can get in ESG-related trouble with the very stakeholders they’ve been trying to satisfy. They are 78% more likely to experience regulatory inquiries, 72% more likely to experience investor defection or trouble accessing funding because of ESG issues, and 51% more likely to lose customers or suppliers.[1]

The general counsel at a midsize manufacturer and chief legal officer of a large Canadian grocery retailer helped ESG decision makers at their companies dig deeper by asking:

1. **Should** we set a goal in the first place? Will it help mitigate risks, accelerate business strategy and create opportunity?
2. **Could** a proposed goal be reasonably achieved? How can we source obstacles and barriers early in the process so we don’t put progress and strategic impact at risk?

On the front end — before ESG goals are set — these leaders engage a wider range of internal stakeholders than is typical to assess feasibility of proposed targets. On the back end — once goals are final — they connect those objectives to the company's future by embedding ESG considerations into planning processes for new strategic initiatives and major investments.

Enlist Employees to Assess the 'Should'

The manufacturing company, for instance, deploys a survey to solicit input from a sample of employees throughout functions and levels of seniority — typically people two to four levels down from the C-suite.

The legal team chooses participants who carry out corporate strategy because they are in the best position to spot whether potential ESG goals would affect other priorities. Casting a wide net also sheds light on how impacts might vary throughout the organization.

The company asks those most responsible for execution to weigh trade-offs. What is the value of addressing a specific ESG issue compared with, for example, improving processes, or managing risks or reducing costs (see Figure 1)?

Opinions on which goals companies should pursue are likely to depend, of course, on one's role and vantage point. Recognizing this, the company decides to uncover any misalignments before setting goals.

Figure 1. How TenthBell's Gap Analysis Survey Identifies Impact on Strategy

Sample widely to understand variation across functions, job levels and regions.

Name and Role:
Jane Doe, Supply Chain Director

Issues to Evaluate (10):
Governance, Sustainable Supply Chain, Sustainable Product Design, Diversity, Equity and Inclusion ...

Prompt respondents to assess their own organization's strengths, weaknesses and areas of focus, to identify the highest-impact ESG investments and where they might vary by function or role.

Where do you think your organization does best on sustainability today?

Where do you think your organization needs the most improvement on sustainability today?

If your organization was going to "double down" on one sustainability priority over the next 12 months, which one would you choose?

Get business leaders to assess the value of ESG, compared to other business priorities, to understand where ESG relatively supports or hinders TenthBell's* strategic plans.

Compared to other business priorities, how much value do you think a well-developed ESG strategy will bring to your organization in these areas?
a. Improving processes and production efficiencies
b. Managing risk
c. Reducing costs
d. ...

Source: Adapted From TenthBell*
* Pseudonym

A direct comparison of the employee survey findings with responses from ESG leaders — including the GC, CFO and board — brings blind spots into clear focus early on.

Soliciting direct business input on where they should invest in ESG results in:

- A deeper understanding of which potential initiatives resonated most with the business
- A set of concrete results that inform resource priority discussions and potential company commitments

Continuously Monitor ESG Goal Costs

Often, executives will start ESG initiatives only to see them stall because the business isn't willing to spend what it takes or remove barriers they could have foreseen.

Canadian grocer Loblaw created a process that delivers insight into costs both before and after goals are set. This "front end-back end" assessment reveals associated expenses before commitment — as well the impacts of new investments afterward.

During its evaluation process, Loblaw asks business leaders whether they should and could pursue a goal (see Figure 2).

Only goals that align with Loblaw's organizational purpose and business priorities, and Loblaw's existing capabilities and resources are considered by ESG leaders. Other goals are either deprioritized or troubleshot (see Figure 3).

Figure 2. Loblaw's "Should" and "Could" Questions to Pressure-Test ESG Goals

Should We?	Could We?
• Does this goal link back to our purpose: "Helping Canadians Live Life Well"? • How can we make the biggest impact in this area? • Where do we have an opportunity to do so?	• What does an aggressive ESG goal look like in this area? • What are the potential obstacles that stand in the way of us achieving our goal outside of our direct control? (e.g., a supplier is unable to get the recyclable materials needed for our sustainability goal) • What increased costs accompany a more aggressive ESG goal in this area? • How do those differ from setting a less aggressive target? • What operational changes would be required to reach this more aggressive target?

Source: Loblaw

Loblaw doesn't stop the "should and could" considerations once the goals are set. The Loblaw executive team made sure any time the business wanted to make a new capital expenditure or strategic investment, it had to consider the impact on existing ESG goals (see Figure 4).

» Figure 3. How Loblaw Uses "Should" and "Could" Questions to Identify the Best Goals to Pursue

High

"Should We Do This"
How well does this align with Loblaw's organizational purpose and business priorities?

Low

ESG Goals to Troubleshoot

Determine whether we can mitigate costs or implementation barriers to make the goal worth pursuing.

Validated ESG Goals

Pressure-test the goal to ensure appropriate ambition, then prioritize for action.

Deprioritized ESG Goals

Monitor to ensure conditions surrounding the goals do not change, pushing them into another quadrant.

Low

"Could We Do This"
How well does this align with Loblaw's existing capabilities and resourcing?

High

Source: Adapted From Loblaw

» Figure 4. How Loblaw Maintains Ongoing Insight Into Alignment and Costs

1 Capital Expenditure Request

Description: Complete a full upgrade of all stores in our NE region to enhance the customer experience.

2 Impact of Investment on Our ESG goals: Negative impact through construction emissions would be more than offset by the long-term positive impact of new stores built to the highest environmental standards (e.g., more efficient cooling and refrigeration).

1 New Strategic Investment Proposal

Description: Diversify our suppliers to be able to offer more organic fruits out of season.

2 Impact of Pursuing on Our ESG goals: The harvesting and transport to market of these additional produce items would set back our commitment to be carbon neutral by 2030 by approximately 1-2 years, unless we make larger investments to offset in other areas.

3 Business Unit GM Recommended Action: Delay investment in this area until we can better understand what impact other carbon-reduction strategies are having.

1 Loblaw embeds ESG considerations into business processes to enable business partner education and oversight over ESG goals.

2 Considering the impact of potential investments on ESG goals helps identify:
- Opportunities to prioritize and expand certain investments
- Potential blind spots that need further investigation
- Conflicts in investments and ESG goals

3 Over time, Loblaw can better assess the business cost of pursuing ESG goals by understanding the value of investments the company chose to scope down/not pursue due to negative impact on ESG goals.

Source: Adapted From Loblaw

Say the business wants to diversify the supply chain to offer more organic fruits in its stores. Longer shipping routes from new suppliers may impede the company's carbon-neutrality commitment. It doesn't mean the business can't make the change.

But the Loblaw executive team created a line item in forms for these types of strategic requests that forces discussion about how to keep ESG goals on track while — in this case — switching suppliers at the same time. Perhaps the answer could be offsetting carbon emissions elsewhere in the business.

Working with the business to reduce operational hurdles empowers the business to take direct ownership.

As a result:

- Employees received their full 10% bonus associated with meeting all significant ESG metrics.
- Employees were three times more likely to be engaged when they believed Loblaw was taking the appropriate actions on key ESG initiatives.
- ESG investment funds increased their stakes in the company.

Turn to the GC to Check That Goals Are Achievable

Executives involved in ESG decision making cannot simply rubber-stamp goals that come across their desks. Taking time to seek out a wider range of viewpoints will address blind spots in the selection process — and set leaders up to craft ESG goals with real strategic impact.

The GC, in particular, can play a special role. While 95% are involved in the final selection of ESG goals, only:

- Twenty-eight percent provide guidance on whether potential goals can be audited.
- Forty-eight percent advise whether the proposals are feasible.
- Forty-eight percent help assess a rigorous process for collecting and evaluating information related to the potential impact of ESG goals.[1]

These are areas where GC, as chief lawyers, have strong skills and expertise — assets that are presently underutilized. As executives aim to dig deeper in the organization while they assess ESG goals, they should take advantage of the GC's unique perspective.

"If these become corporate center directives, employees don't buy in. Now, ESG has started to become part of our lingo."

Nick Henn, Chief Legal Officer, Loblaw

[1]2023 Gartner ESG Goal-Setting Survey.

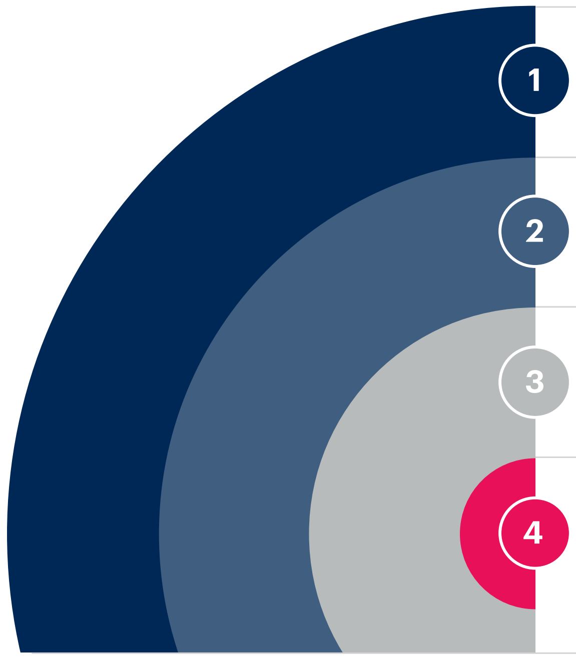
Gartner

What Generative AI Means for Business

Business leaders face 3 new sets of expectations — and generative AI can help

- **Investors** will expect new sources of growth and better margins.
- **Customers** will leverage GenAI in their daily lives — and expect you to do the same.
- **Employees** will leave organizations where humans are doing work that GenAI could handle.

What Is Generative AI?



1. **Generative AI** — AI techniques that learn from data about existing artifacts and use this to generate new artifacts.
2. **Foundation Models** — Large machine learning models that are trained on a broad set of unlabeled data and are fine-tuned to a wide range of applications.
3. **Large Language Models (LLM)** — AI that is trained on vast amounts of text to interpret and generate human-like textual output.
4. **ChatGPT** — An OpenAI service that incorporates a conversational chatbot with LLM to create content.

→ **Explore Gartner resources to get started and move forward with GenAI in your enterprise.**

Big Questions About Getting Resilience Right

by Jim Mello, Suzie Petrusic and Heather Wheatley

Too many organizations are chasing the ability to recover quickly from disruption for all, or nearly all, activities, products and services.

They've been trying for a long time. Their efforts are sophisticated. But they've learned sad lessons in the process: It's really, really difficult. It costs too much. And it can't protect as advertised when crises pile up and the world keeps taking on new shapes.

Resilience needs a redesign — as one of many tools to balance risk and costs for the most important parts of the organization.

Let's head to the whiteboard and find ways to bring resilience into the future.

Who is involved in resilience?

IT, Assurance, HR — all are familiar with the concept — **for many, it's a mandate.**

Resilience Component and Typical Organizational Roles

- Resilience Program, Framework, Metrics (Chief risk officer, COO, CFO, resilience leader)
- Cyber Resilience (CIO, CISO, BCM)
- Supply Chain Resilience (CSCO, CPO)
- IT Resilience (CIO)
- Operational Resilience (Chief risk officer, COO, resilience leader, BCM leader, CISO)

Nobody feels triumphant.

Information security leaders tell us:

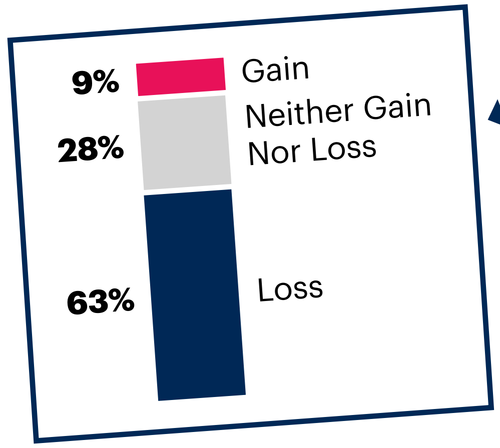
77% of organizations cite unexpected difficulties during recovery from incidents.[1]

Internal Audit leaders tell us:

Only 40% are highly confident that they can provide assurance over resilience risks.[2]

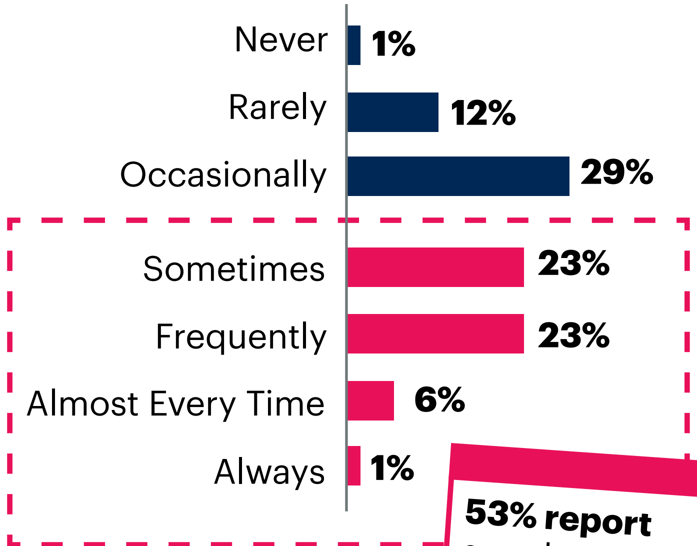
But the urgency is greatest — and the pain points most acute — **for supply chain leaders** after repeated high impact disruptions.

Supply chain leaders tell us the estimated impact of exposure to uncertainty on revenue[3]



How Often Disruptions Severely Impacted Supply Chain in Terms of Cost, Service, or Sales in 2022[4]

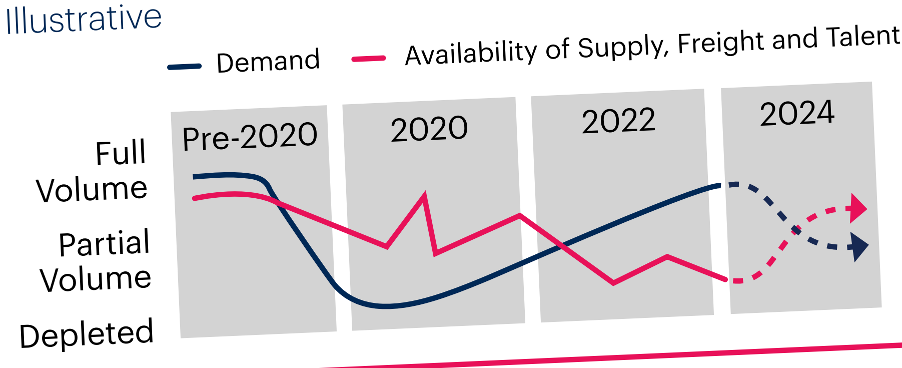
Percentage of Respondents



53% report supply chains are disrupted **half of the time or more.**

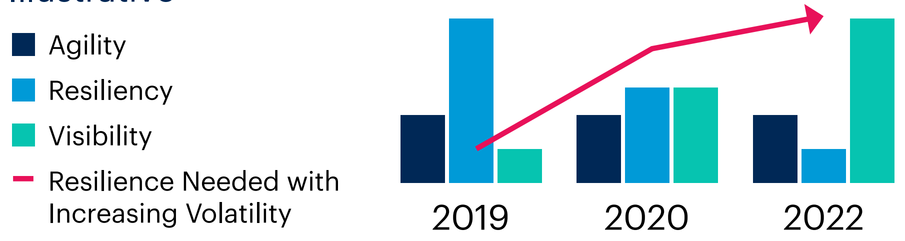
Why is supply chain resilience so hard?

Supply Constraints Amid Heightened Disruption
Illustrative



The gap between demand and supply with continued disruption **makes resilience difficult to attain.**

Supply Chains Struggle to Deliver All Three Simultaneously
Illustrative

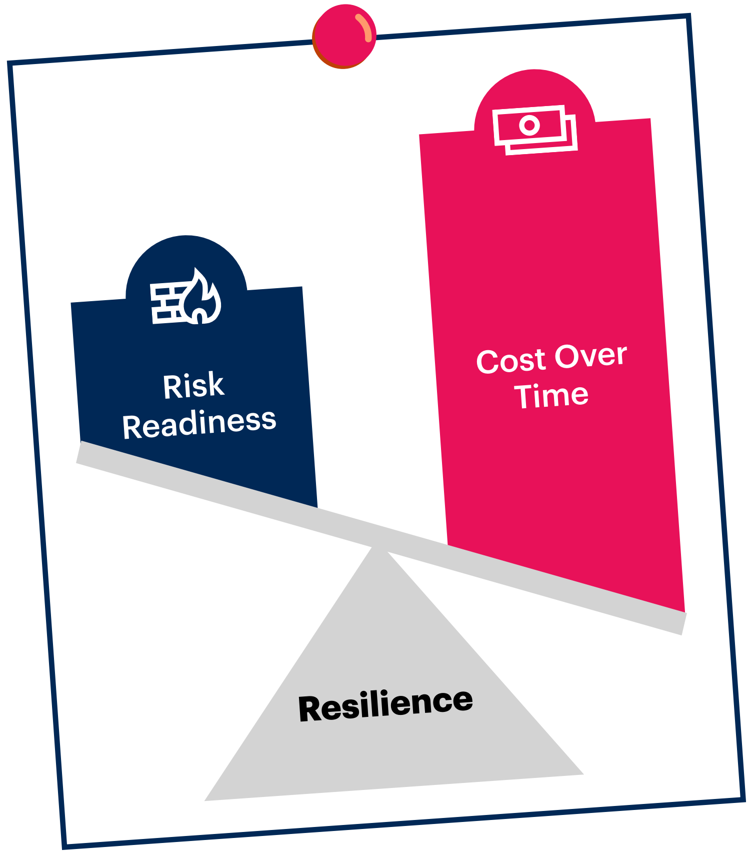


1 Unrealistic

Can we even get what we need to make what we want?

Resiliency, visibility and agility — we need them all!

2 Too Expensive to Maintain



Change Just Won't Let Up

Disruptions are more common and damaging.

The "deadweight economy" may dampen demand growth but will also keep costs stubbornly high and the labor market tight.

Dynamic Equilibrium:
Classic resilience initiatives assume the world will go back to where it was before.

Instead of bouncing back, **don't we want to bounce forward?**

How can we balance the cost of resilience with risk management?

1 Build a Risk Strategy

Know what we value.

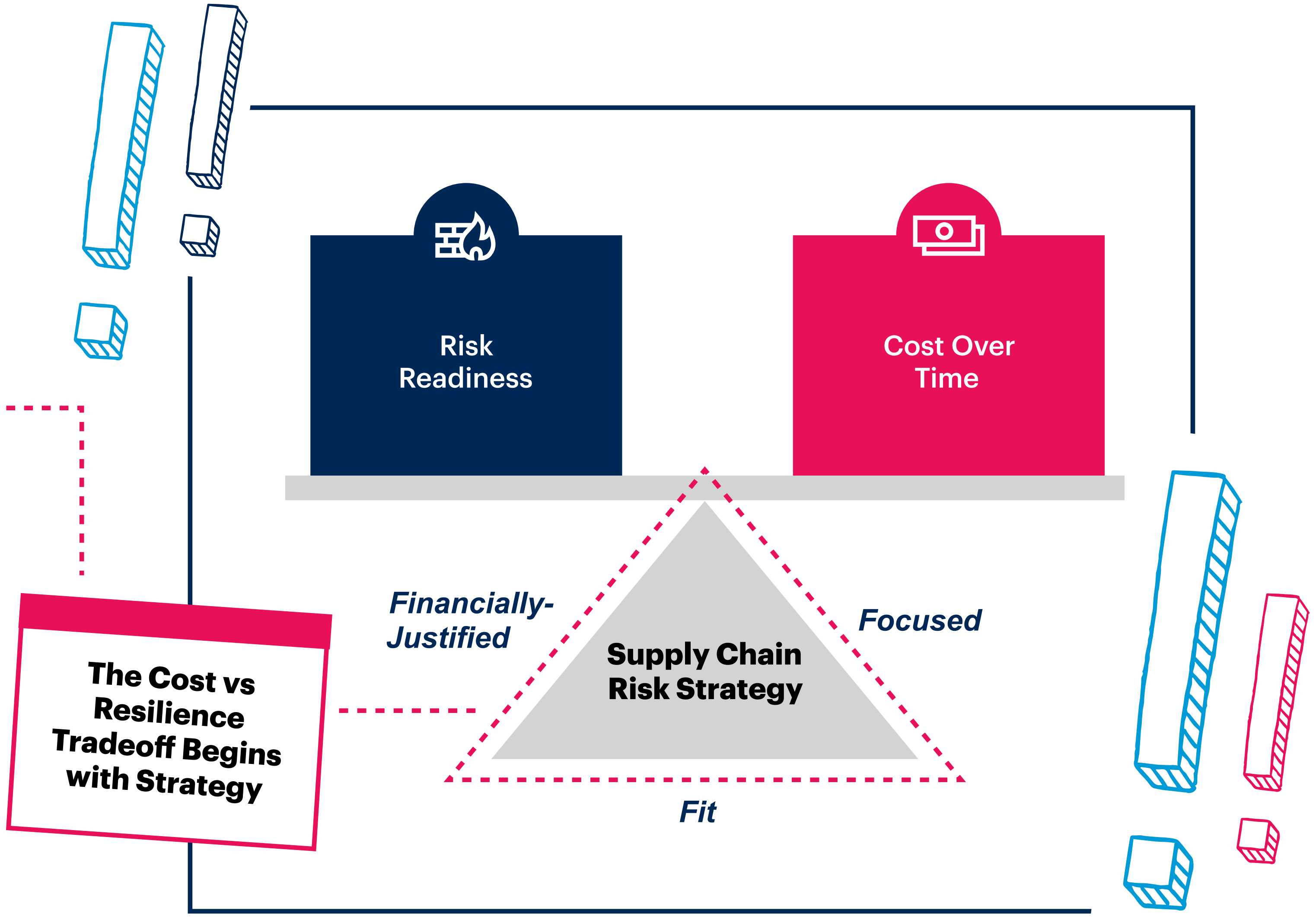
- *Helps focus risk appetite discussions.*
- *Allows more specific and economical risk mitigation.*
- *Define how you are going to identify and assess risk, assign ownership, make decisions and report back.*

2 Manage Prioritized Risks

Protect what we value.

3 Respond Well to Disruption

Retain what we value.



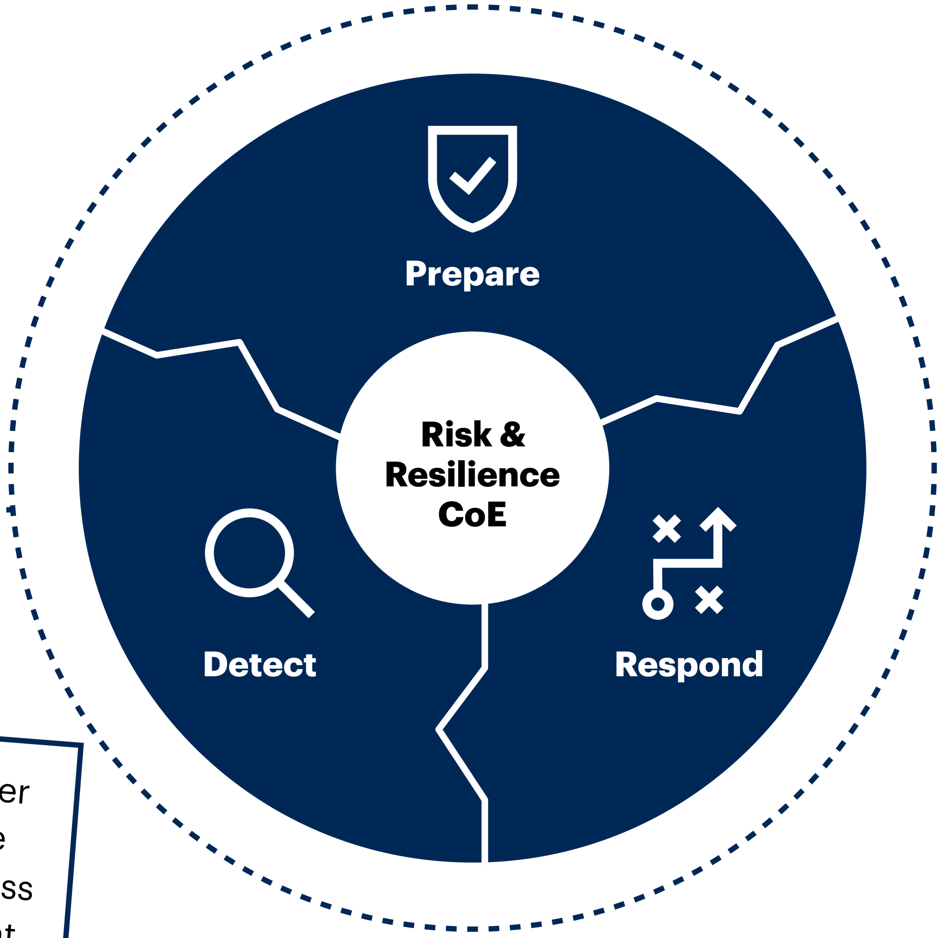
Managing Risk Case-in-Point: General Mills

General Mills has matured its risk and resilience capabilities in recent years. This strategy led to an increased centralized focus on risk and resilience, which provided better risk preparedness.

The process to deliver end-to-end risk management commenced with supplier risk management and was then extended across the supply chain to obtain maximum benefit.

General Mills approached risk and resilience across three main pillars: prepare, detect, and respond. The three areas are governed by a centralized and decentralized operational strategy.

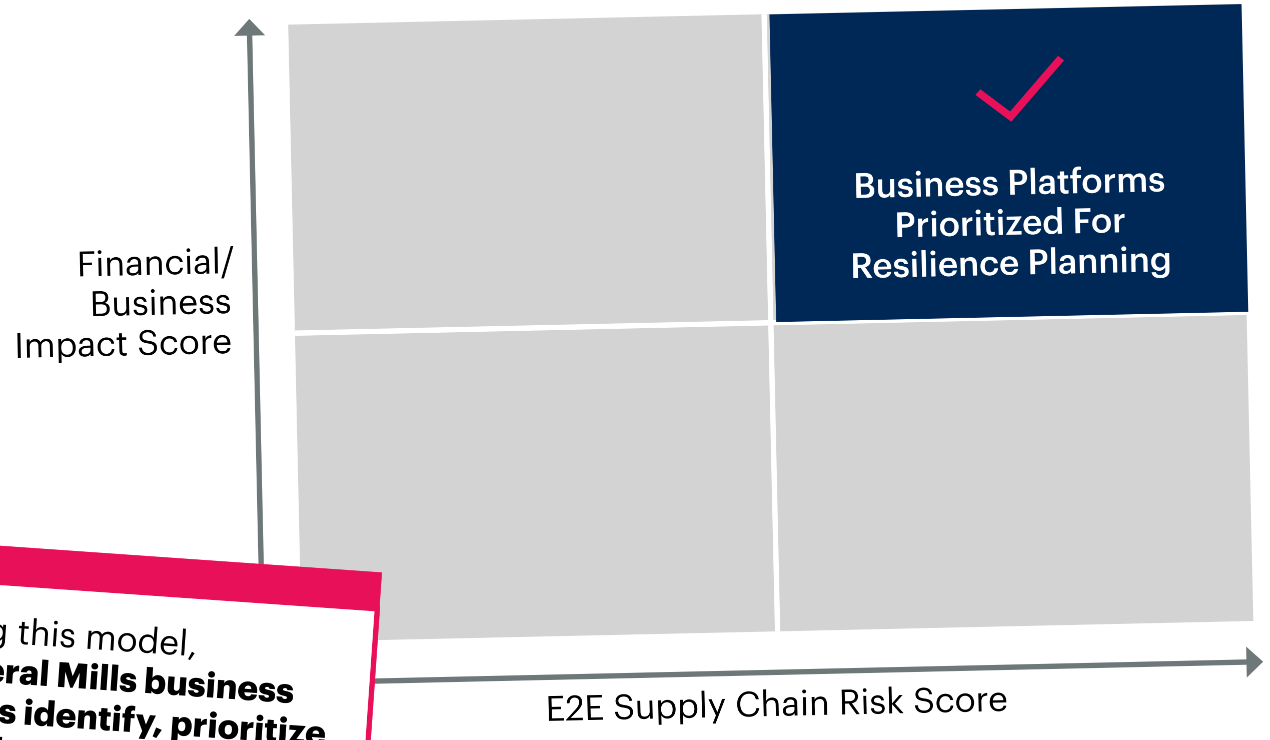
The Risk & Resilience Center of Excellence (CoE) led the centralized strategy, process and capability development.



"It has been rewarding to see General Mills transform from reactively managing supply chain risks to prioritizing preparedness to get ahead of issues. We've learned that risk and resilience is not a set of compliance-led activities but rather a broader capability that can deliver a competitive advantage."

Adam Vander Poel,
Risk & Resilience CoE Lead,
General Mills

Risk Response Process



Using this model, **General Mills business teams identify, prioritize and decide on where to invest** in proactive action plans based on greatest risk and impact.

End-to-end risk and business impact scores are assigned at the product grouping level to help the supply chain leaders know where to prioritize resilience planning efforts.

A connection into annual long-range planning processes and goal setting has also driven action across the most important business areas that carry the greatest risk and impact.

Risk Response Process

Supplier Risk Occurs
Constrained material availability in the coming months will impact multiple business units

Playbook in Place for Optimal Response
Key roles and plans established to manage through recovery

Intelligent Allocation Model Leveraged
Raw material allocation prioritized based on profit to minimize impact

What can we do today?

A Checklist to Get Started:

- Align risk strategy to corporate strategy
- Understand criticality of products/ services
- Develop a risk framework
- Redesign network, product, process to reduce likelihood of disruption
- Implement mitigations to reduce potential impact of risks
- Execute response plans
- Empower talent with institutional knowledge and decision-making support

More Tools for the Toolbox

- **Compliance Risk Management**
- **Supply Chain Disruption Shaping:** Design out the risk of risk.
- **Business Continuity Management**
- **Capitalize On and Embrace Risk:** Seek gain rather than simply protecting from loss.
- **Scenario Modelling:** Course correct your strategy to better manage risk from the outset.

Your risk management workbench contains many different options.

[1] 2021 Gartner Global Security and Risk Management Governance Survey

[2] 2024 Gartner Audit Key Priorities and Risks Survey

[3] 2023 Gartner Antifragility Supply Chain Management (Fellows) Survey

[4] 2023 Gartner Balancing Sustainability and Resilience, Supply Chain, Community Survey

A C-suite Guide to Fighting Malinformation

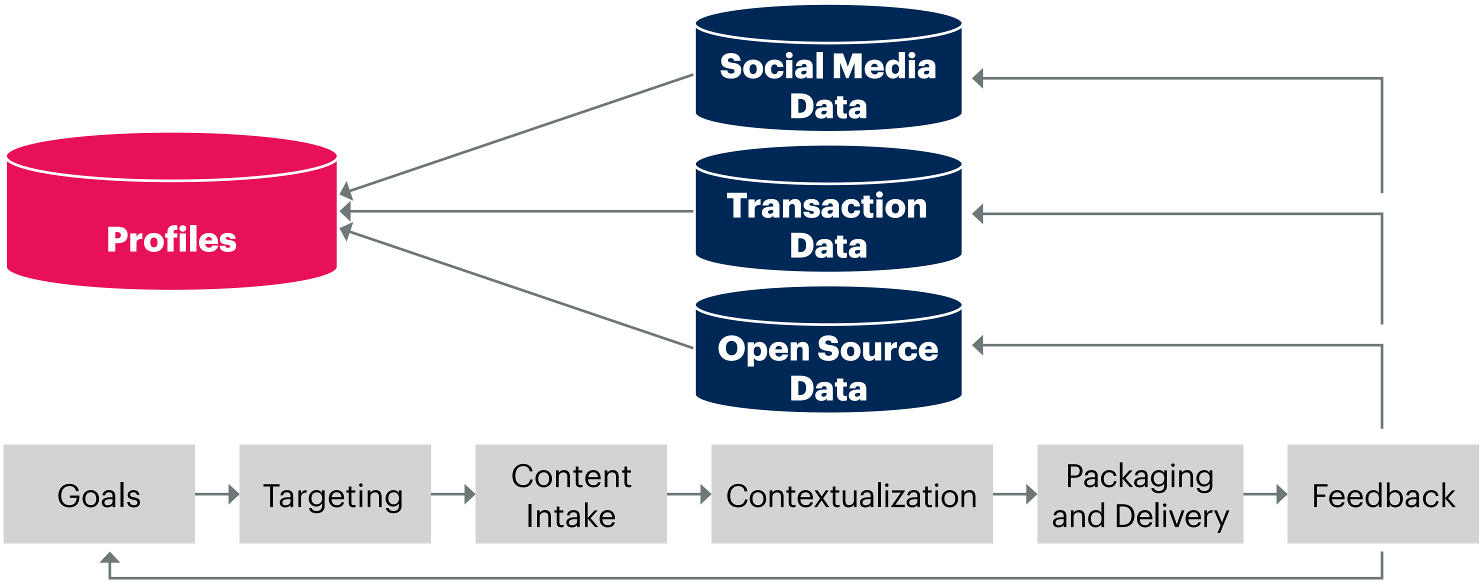
by Dave Aron and Leigh McMullen with contributors Richard Hunter and Emma Mathison

Digitally-powered information overload, accidental misinformation and deliberate disinformation are nothing new. But C-suite executives must now also deal with malinformation — hyper-targeted fake content, delivered using a sophisticated mix of analytics, game theory and behavioral economics with the aim of changing individuals' behaviors, decisions and mental models.[1,2]

Malinformers build or access psychographic and firmographic databases to target individuals and companies. They tailor content, package it and then deliver it via various channels (see Figure 1).

Worse still, many exciting emerging technologies such as generative AI, the metaverse and quantum computing will make malinformation even more powerful and effective — enabling bad actors to swell the supply chain further.[3,4]

Figure 1. The Malinformation Supply Chain



Source: Gartner

Step One: Recognize the Threat

A 2019 study by the University of Baltimore and cybersecurity company CHEQ estimated that fake news cost the global economy over $78 billion a year.[5] Separately, Johns Hopkins University's Center for Health Security estimated that voluntary non-vaccination against COVID-19 due to misinformation and disinformation hurt the U.S. economy to the tune of between $50m and $300m per day.[6]

Even if organizations could achieve perfect physical security and cybersecurity, they would still be vulnerable.

Examples of malinformation attacks from the last seven years include:

2017

An individual bad actor used social media to fake a Starbucks campaign called "Dreamer Day" suggesting that the Seattle-based coffee company, known for its liberal outlook, would offer 40% discounts to undocumented immigrants. Despite the campaign being both false and nonsensical (how could someone prove they were undocumented?), Starbucks had to scramble to contain the damage and appease both its progressive fans and conservative critics.[7]

March 2019

The CEO of a UK-based energy firm received a call seemingly from his boss, instructing him to transfer €220,000 urgently to a supplier. Recognizing the voice, the CEO immediately authorized the transaction — only to find out that he had been speaking to an AI impersonating his boss.[8]

November 2022

Pharmaceutical company Eli Lilly lost billions of dollars in market capitalization after a verified Twitter Blue account impersonating the firm promised free insulin. The company's official account issued an apology and confirmed its correct handle.[9]

A World Without Truth Is a World Without Trust

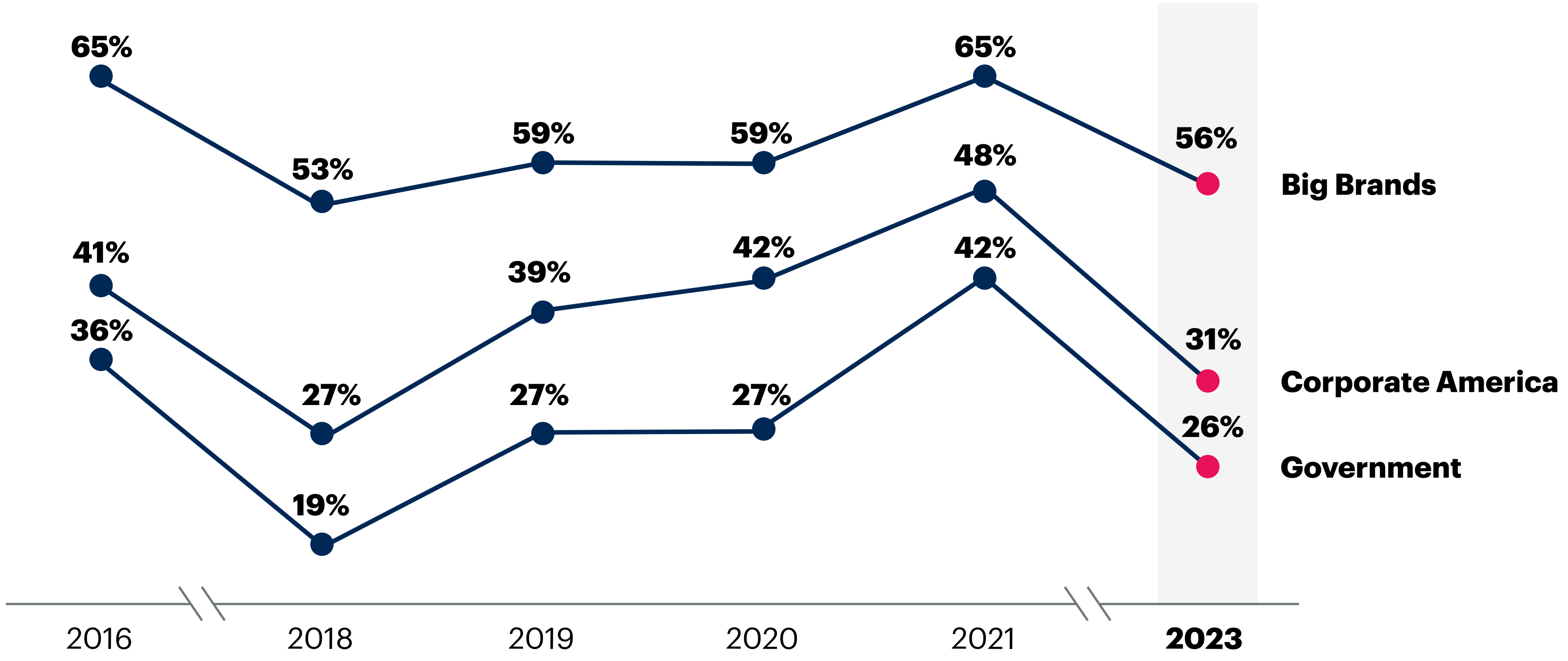
The malinformation boom risks eroding already low levels of societal trust in companies and governments. Consumers' trust in big brands, large corporations and government is very low -- beneath the level of recent years, and only slightly above the "trust collapse" floor of 2018 (see Figure 2).[10]

The public is similarly skeptical of business and government leaders. In Ipsos's 2022 Global Trustworthiness Monitor, politicians scored worst among professions, with 67% of respondents across 21 countries rating them untrustworthy and just 12% saying they trusted them. Business leaders enjoyed the trust of only 23%, while bankers, journalists and priests also scored badly. (Doctors, scientists and teachers fared best.)[11]

Increased fakery could not only weaken the trust that underpins brands' relationships with their consumers, but also make it more difficult for executive leaders to rely on the data and information they receive. When trust drops too low, it becomes hard for economies and societies to function.

Figure 2. Consumer Sentiment: Trust in Brands and Government

Percentage of U.S. Consumers Who Say They Trust the Following



n = 1,003 ('16); 1,650 ('18); 2,846 ('19); 2,841 ('20); 2,862 ('21); 3,823 ('23); US consumers ages 18+

Q. Which best describes how you feel about each of the following?

Source: 2016 Gartner Consumer Trust & Skepticism Survey; 2018 Gartner Consumer Cultural Attitudes and Behaviors Survey; 2019-2021 and 2023 Gartner Consumer Values & Lifestyle Survey

Six Ways to Fight Back

Understand the malinformation supply chain from an economic standpoint, including the motives of all actors, and recognize how to influence them. Six disruptive tactics stand out:

1. Education. We need to teach everyone — from children to CEOs and heads of government — about the specifics of malinformation campaigns and critical thinking.
2. Behavioral economics. "Nudges" can encourage people to act safely, and recognize and preserve truth.
3. Engaging the crowd. We can harness the power of the billions connected to the internet to establish truth and push back against malinformation.
4. Laws, regulations and policies. Governments, industry standards bodies and even individual companies should create rules that make it as hard as possible for malinformers to succeed.
5. Partnerships with digital giants. Hyperscalers like Amazon/AWS, Alibaba, Alphabet/Google, Tencent, Microsoft and Meta/Facebook control a lot of the channels that malinformers use. These companies have huge R&D budgets, deep pools of talent, AI tools and other resources that can help develop solutions.
6. Use technology and tools. Technology can manage the provenance of information, help spot deepfakes and address other facets of the problem.

What C-suite Executives Need to Do

Combating malinformation takes a village. The problem cannot be solved by a single function like technology or risk. What's more, executive leaders need to target both upstream and downstream parts of the supply chain.

The **chief risk officer** and enterprise risk committee should dedicate resources to monitoring developments in disinformation, malinformation and deepfakes — including the ways bad actors are using generative AI for this purpose.

Chief information security officers should seek to embed strategies to counter malinformation more firmly within their remit.

The **chief human resources officer** and/or others responsible for training should organize continual education programs that expose all staff to news about, and examples of, deepfakes and malinformation campaigns, and help them sharpen their critical thinking skills. Playing games can help people viscerally understand the possibilities. In GoViral!, a video game developed by researchers at Cambridge University, players try to spread fake news about Covid-19 through social media, as a way of alerting them to misinformation.[12] Organizations should also provide domain-specific education in areas such as finance.

Chief sales officers and chief marketing officers should execute initiatives to protect customers from bad information. For example, banks have recently been very proactive in warning about payment scams. Such initiatives could include protecting and informing customers at the point of need or transaction, providing them with relevant tools, and educating them about malinformation. Doing this will become a "ticket to the game" for most companies, but some may go further and take an advanced stance on the world without truth as a way to win and keep customers. For example, an enterprise could advise clients on their malinformation issues and make these efforts part of their branding.

The **general counsel or chief legal officer** must track the rapidly evolving legal and regulatory frameworks for misinformation and disinformation, and disseminate that knowledge in a timely fashion throughout the enterprise. More generally, companies should ideally play their part in lobbying for, and supporting, governmental, regulatory and industry policies that help address truth and trust issues. That should include harnessing the support of the digital giants and backing initiatives that make it harder to fake the content and provenance of information.

Finally, the **chief communications officer** must make sure that their enterprise's "social listening" capability is picking up on weak signals early and often when checking for malinformation, and have a clear and rapid escalation path to decide when and how to act. That response may include removing the bad information, creating messages to address it, and taking steps to prevent or minimize damage.

The world without truth may not seem quite as high profile, visceral and even urgent as other pressing issues, but it is a kind of precursor to all of them. Organizations that successfully tackle malinformation will not only make their own business safer, but also help promote the understanding, trust and execution needed to combat global problems effectively.

[1] Cambridge Analytica: How Did It Turn Clicks Into Votes? The Guardian.

[2] Some others have used the term malinformation to mean the provision of accurate information to achieve bad aims, like exposing police officers' home addresses.

[3] How a Fake AI Image of Pentagon Explosion Fooled the World, India Today.

[4] MYTH: President Volodymyr Zelensky urged Ukrainians to surrender to Russia, NewsGuard.

[5] The Economic Cost of Bad Actors on the Internet: Fake News 2019, the University of Baltimore and CHEQ.

[6] COVID-19 Vaccine Misinformation and Disinformation Costs an Estimated $50 to $300 Million Each Day, Johns Hopkins Bloomberg School of Public Health, Center for Health Security.

[7] No, Starbucks Isn't Giving Discounts to Immigrants, Fortune.

[8] Fraudsters Used AI to Mimic CEO's Voice in Unusual Cybercrime Case, Wall Street Journal.

[9] Eli Lilly Loses Billions in Market Cap After 'Verified' Twitter Impostor Promises Free Insulin, Toronto Star.

[10] **2023 Gartner Consumer Values and Lifestyle Survey:** The purpose of this survey was to understand consumer lifestyles and motivations. The research was conducted online in two parts from 21 July to 23 August 2023 among 6,040 respondents in the U.S. (4,017), Canada (1,008) and the U.K. (1,015). The first part of the survey included screening, demographic, sentiment, values and lifestyle questions. The second part included category-specific (e.g., money and spending, health, and beauty) questions. Respondents were required to be at least 15 years old. Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents surveyed.

Trended results presented in this article include historical US consumer data from the following: Gartner Consumer Trust and Skepticism Survey (2016), Gartner Consumer Cultural Attitudes and Behaviors Survey (2018), Gartner Consumer Values and Lifestyle Surveys (2019 – 2021, and 2023).

[11] Ipsos Global Trustworthiness Monitor 2022.

[12] Fake News: The Game That Shows People How to Spread Misinformation, BBC News.

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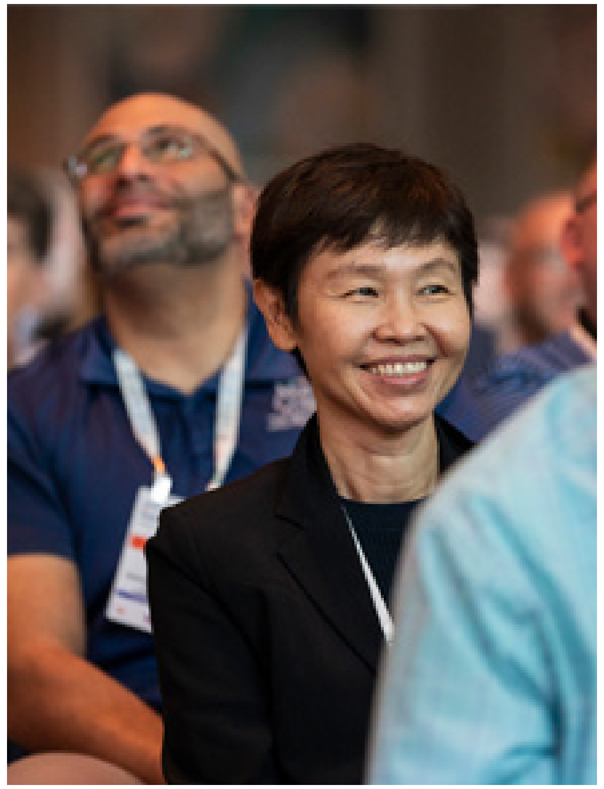

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Smarter Spending & Planning

How One Company Rebuilds Its Accounting Close for Speed and Staff Satisfaction

For accounting staff, the close is the highest-risk, busiest time and that makes it prone to errors. To free up staff capacity during this period, the controller at Fortune Brands Water Innovations pulls certain work out of crunch times into days of relative calm. His tactics include:

1. Identifying in advance where unusual or critical activity might occur yet still fall through the cracks during the flurry of close activity. That way, staff would need to review only the flagged accounts during each month's close period. Indicators the company used to locate potential abnormalities include: high dependency on third parties for inputs, a high number of historic errors, low reliability of the technology used, and unusual fluctuations in the balance.
2. Establishing a materiality threshold to offload low-value work from busy times. Omission of information under this limit would not have an impact on a company's financial decisions. The controller tested three scenarios to find the right bar — and the result eliminated work for staff while satisfying the decision-making needs of internal and external stakeholders.

Closing the books only takes four days at Fortune Brands, faster than 90% of organizations.

— Mallory Barg Bulman

Avoid Costly Surprises From M&A-Driven Software License Negotiations

Executive leaders must negotiate terms in software contracts that make the licensing costs of M&A transparent and predictable.

Organizations discovering after the fact they don't have the right safeguards can face millions of dollars in additional licensing costs to achieve business continuity.

Here are three big M&A software licensing wins that executive leaders should adopt:

1. Negotiate transitional use rights (TURs). These terms allow divested companies to continue using the sellers' software for a limited time without additional charges. Make sure they cover a time frame of at least 12 to 24 months and clinch optional free extensions for unexpected delays.
2. Seek license transfer rights — where ownership or subscription transfers from one legal entity to another. Consider pursuing a standard mark-up on transferred licenses to avoid re-buying and to reduce software you no longer need.
3. Control license audits. Stipulate when and how often license audits can happen. This tactic helps you avoid them being used by vendors who seek leverage during M&A-driven license negotiations.

One other tip: Involve sourcing, procurement and vendor management leaders earlier in the M&A lifecycle — giving them time to negotiate better software contracts and initiate negotiations sooner to avoid exorbitant licensing costs.

— Jan Cook

Talent & Culture

Pull, Don't Push, Workers Back to the Office Using 3 Motivators

It's a vicious spiral: Business and government leaders grow concerned that hybrid work is degrading employee performance, productivity and connections to organizational culture — so executives demand a return to the office. The requirements cause employees to become disengaged and leave the company. This result should come as no surprise; the office and what it offers to workers hasn't changed, but the day-to-day nature of work has.

Try using some psychology instead: Rather than trying to push employees into a commute that seems to serve no purpose, find ways to pull them back onsite.

Leaders can make the office attractive to employees by appealing to three foundational motivators:

1. Capability: Use an evidence-based approach to decide what work tasks should be done in the office versus remotely.
2. Autonomy: Maintain some employee choice in office use policies, communicate transparently about the external factors and objectives that informed them, and explain how the executive team made the decision.
3. Connectedness: Create understanding and empathy for employees' varied needs (e.g. by creating personas) to illuminate how different types of employees experience the office in person and identify more inclusive behaviors.

At companies that change their offices' environment in these ways, employees will *want* to work from the office more often.

— Annika Jessen and Caitlin Duffy

Embed Ethical AI Use Into Your Business With 2 Tactics From IBM

Amid the dash to unlock Generative AI's value, organizations need to maintain visibility and govern how the enterprise uses artificial intelligence. Broad, top-down principles do not give AI project leaders the specific guidance they need to make responsible decisions.

Vexed executive leaders seeking a way forward should consider two tactics from IBM:

1. Build a trusted network to detect ethical concerns in AI projects. The company's chief privacy officer enlists senior leaders to act as AI representatives; they must demonstrate technical expertise, visibility into use cases, and an understanding of policy issues — with the authority to escalate any potentially high-risk projects to the AI Ethics Board.
2. Design a risk-based, actionable AI assessment framework. The privacy officer's ethics project team works with the AI Ethics Board to define four criteria to help the representatives triage potentially problematic uses for further review: potential for misuse, alignment with internal guidance, legal standards and IBM's values. (One example that could be flagged for further action might be lack of informed user consent.) Providing these elements also empowers them to quickly approve cases that are fair, transparent, explainable, robust and meet privacy requirements.

With these methods, IBM was able to drive business-wide compliance with its AI policies while making the AI Ethics Board's review process more efficient.

— Stuart Strome

Growth & Innovation

Financial Services Firms Can Expand Their Business With Strategic Partnerships

A financial services firm triples its chances to exceed revenue, cost and risk goals by expanding its financial models, technology capabilities, customer base and how its offerings help customers achieve new goals. Such transformation is four times more likely to succeed when organizations partner together.

To effectively partner with others to evolve your business model:

1. When evaluating a potential partner, assess how its future technology and talent capabilities fill in your organization’s gaps. For instance, an ambitious startup with a unique distribution channel may fit better than an established company.
2. For a quick start, gather a pool of vendors and independent contractors with known technology experience. Also create room in the contracts to flex in and out of relationships when strategy changes. This is how Degussa Bank tapped its partners to create early metaverse capabilities. Now, opening a metaverse branch only takes 15 minutes.
3. Prioritize decision quality over speed. When building a solar energy adoption platform, Standard Bank blended agile and waterfall methodologies so its partners had time to think through complex regulatory requirements. The final output took nine months but yielded strong results, bringing the bank over 200 prospective clients.

— Christopher Regan

5 Steps to Building an Effective Innovation Advisory Board

Emerging technologies, rapidly changing market conditions and short-term financial pressures often make it challenging for R&D leaders to recognize important developments and make timely investments.

Innovation advisory boards, which can be made up of internal and external technical and business people, will add perspectives that can fuel new solutions for a defined problem.

For an effective advisory board:

1. Define its strategy and purpose, including a statement about the challenge the board is to solve.
2. Assemble a board that is diverse in experience and background for a wide set of viewpoints.
3. Make sure the work gets done by assigning board members to collaborate with specific R&D personnel. In addition, create a common format for capturing notes and decisions to help the panel build on its efforts.
4. Assess progress against the original strategic statement periodically and make course corrections, if needed, to board composition and processes.
5. Retire the board when it has met its primary goals so it doesn’t outlive its usefulness and become a waste of time. Afterward, maintain relationships among board members by scheduling reunions or meetups.

— Atul Dighe

Data & Technology

GenAI Lessons for Legal Departments

After Orrick Herrington & Sutcliffe tested five tailored-to-legal GenAI applications, the law firm's global head of practice innovation shared early learnings for general counsel Kate Orr's advice:

1. Keep asking "what's next?" to push for new use cases. While the firm sees promise for GenAI in litigation and transactional matters — such as reviewing and summarizing complex documents — the real magic is in tasks that were previously impossible. An example: finding new ways to track the fast-shifting global regulatory landscape.
2. Master the new art of prompt engineering. Most times lawyers thought a tool couldn't do what they wanted, they hadn't phrased their question the right way.
3. Try multiple vendors before you buy. Most legal tech vendors are building or adding GenAI to their existing solutions. Pick pilot candidates according to your needs.
4. Convene a small but representative testing group from every practice area. Feedback from people who are not tech-savvy helps, too.
5. ROI isn't just about productivity. Value also comes from improving quality, streamlining repetitive work or finding new solutions.
6. Ask to get involved with your outside counsel's GenAI projects. Seek their suggestions for tools to try and progressive practices they've learned about from other clients.

— Dian Zhang

Don't Rush to Hire Experts When You Can Build Them In-House

Building your team's expertise in new and complex terrains isn't easy, but it's faster and less expensive than recruiting outside specialists in high-demand areas such as cybersecurity and ESG. The competition is even fierce for "borrowing" colleagues with these skill sets from other parts of the organization.

Internal audit leaders at Adidas understood two critical factors for success in acquiring and applying new knowledge (for this initiative, about data analytics):

1. Motivate the team. Adidas included elements of gamification such as a points system with milestones for a sense of progress, an anonymous leaderboard to encourage healthy competition and a theme (in this case, Sherlock Holmes) to inject a little fun.
2. Let employees complete the program with choices from a learning menu. Adidas awarded points for attending trainings, completing case studies and putting lessons to use in projects. Auditors could also opt to teach their peers, interview an expert or read an article.

The CAE recognized that employees have different responses to incentives, different learning styles and different starting points — and managed to engage them all. Direct costs: zero. Time involved: two months for in-house development and three months for completing the program. By then, auditors were ready to tackle new tasks required by the department.

— Jonathan Keeney

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