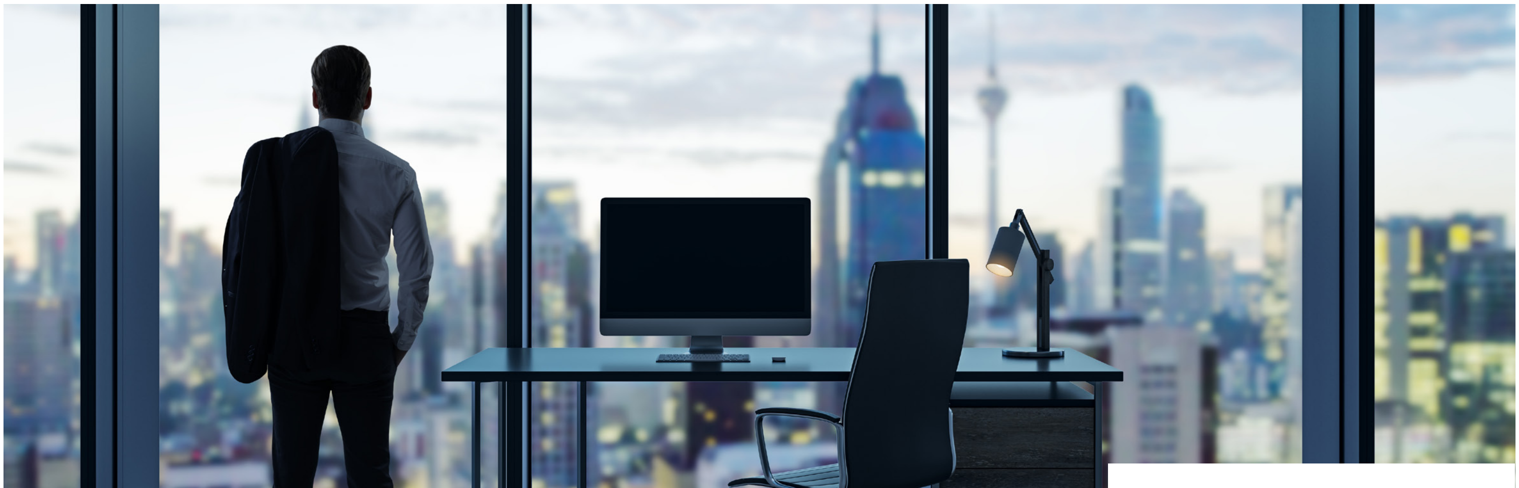

Navigating a Strategic Stand-Up to Facilitate Value Creation

The Rationale and Process of Establishing a Dedicated Business Unit or Function

As the number of strategic priorities for executive teams continues to multiply, organizations often will need to find creative ways to accomplish more without additional resourcing. For many clients, we've seen successful outcomes and an acceleration of value when they tackle multiple objectives through a single initiative. One solution: establish a new business unit or shared center of excellence to achieve financial, operational, sales and other goals that are top priorities simultaneously. In this article, we explore the reasons that pursuing a strategic stand-up is useful, the forms such an effort can take, and the critical facilitators that lead to value creation.

The Modern CEO is a Priority Juggler

The number of business priorities for CEOs and their executive teams continues to multiply, putting strain on investment commitments and human resources.

According to a Gartner survey, 62 percent of CEOs view growth as their number one focus for 2025, up 25 percent year-over-year. Increased emphasis on profitability and enhanced cost vigilance (not necessarily cutting) also cracked the top ten most important items, both rising in priority since 2023.

Compound these focus areas with a plethora of other initiatives demanded by stakeholders, such as digital and AI transformation, supply chain disruptions, ESG, transaction activity, cost efficiency programs and multinational expansion or divestiture, and the list quickly becomes daunting.

"We have seen success when CEOs and their teams pursue a single overarching initiative that seeks to accomplish multiple objectives critical to the organization — and one approach to take is standing up a new business unit or center of excellence."

The resulting situation for modern CEOs and their organizations is akin to spinning plates on a unicycle.

Doing More With Less

It's clear from our discussions in the market that CEOs and their teams are looking to achieve broader goals with fewer programs. One approach that companies are taking is establishing a dedicated business unit or center of excellence, which often combines several enterprise-wide efforts into a single transformative program.

Consider the story of a $1 billion North America-based financial services company that had a strategy focused on accessing new international capital markets, placing more accountability on a critical offering category, and improving their cash flow while also driving efficiencies. Rather than pursuing and executing several loosely connected efforts, the company stood up a new operating model and business unit based in Europe to make strides on all three.

Over the course of a year, FTI Consulting partnered with the client from ideation through implementation.

Reasons to Pursue a Strategic Stand-Up

Looking at any list of business priorities and goals, several could be well-suited for pursuing a strategic stand-up.

For example, if a top priority is to increase specialized talent or expand to other markets, many cities, states and countries are increasingly focused on becoming industry or knowledge hubs as part of their ongoing strategy for differentiation, talent and population attraction and business growth.

Chicago has established itself as a global center for manufacturing technology in recent years, while countries like the Netherlands are rapidly growing the presence of tech firms. Others like the United States, United Kingdom and China are making meaningful strides to establish themselves as global centers for AI and machine learning.

If a critical objective is to reduce cost pressure or optimize the company's cost structure, some jurisdictions domestically and globally are becoming more attractive than others. Labor costs, tax policies and other governmental incentives to spur business growth are growing in popularity.

If a transaction is on the horizon, for example, it may be easier to start disentangling a business unit sooner rather than later, creating accountability and positioning it for a more streamlined separation. The same could be said for a merger or acquisition where the company identifies a target, and the business proactively builds capabilities in the same market to better absorb and complement the eventual acquired entity.

The desire to centralize activities or increase accountability for a specific offering or function are other common triggers for pursuing a strategic stand-up.

Organizations with any of these goals may find value in the "do more with less" approach.

From Strategy to Stand-Up

Tackling a strategic stand-up of a new business unit or center of excellence can feel like an overwhelming undertaking. Organizations are faced with countless questions as they navigate the effort and seek to receive fast payback and value creation.

We find that pursuing a strategic stand-up program hinges on five key phases: (1) feasibility assessment, (2) detailed design, (3) implementation planning, (4) stand-up and (5) normalization.

Each phase varies in duration depending on the complexity and objectives of the program. However, the initial feasibility assessment uncovers answers the executive team, board of directors and others require before greenlighting such a transformative effort.

Phase 1: Feasibility Assessment

Organizations with a well-defined strategy will find an initial feasibility assessment helpful to turn strategy into concept, validate key assumptions and determine an approach for the program.

The assessment, typically a four- to six-week sprint, must focus on answering a few key questions:

— What operating concept addresses our objectives?

— What critical shifts will we make from our current state?

— What is our timeline and governance plan?

Related to the first question, our financial services client had several intermingled strategic objectives. We triangulated their goals for cash flow improvement, market expansion and increased accountability for the business into a single solution: establish a dedicated business unit in an international jurisdiction where industry-specific talent was available.

Having achieved executive alignment to the initial concept, we proceeded to determine, at a high level, the critical shifts required from the current state:

— What activities would be performed and decisions made in the new entity?

— How would existing team structures change?

— What financial, legal, governance or technological implications would prevail?

— What are the risks associated with the change and how can we best mitigate them?

This is the purpose of the assessment — determining the feasibility of such an initiative. It should culminate in a high-level business case, considering the internal investment required for the stand-up and the expected cost and revenue benefits.

Backed by reasonable assumptions, this step provides management with the insight needed to make a go/no-go decision on the project.

The final component of the assessment is outlining a timeline and governance plan to successfully deliver the intended outcome. Identifying an intended “go-live” quarter helps solidify a high-level workback plan.

This is also the step where the Steering Committee governance structure is defined — ideally with sufficient executive-level presence and a single executive sponsor to guide decision-making. This piece is critical for driving later phases of the program on-time and on-budget.

Phase 2: Detailed Design

The devil is always in the details, and with each subsequent phase of the program, the organization goes into greater depth across operating model design, human capital planning, location setup (if needed), entity establishment (if needed), change management and communications planning, and business case validation. This is also a logical way to organize the workstreams and maintain governance as the program progresses.

Several critical questions are clarified in this phase:

- What is the go-forward operating model—both for the new entity and the remaining one?
- What is the new organization structure and the impacts or requirements on personnel?
- What are the real estate plans or commitments?
- If setting up a new entity, what steps are required to ensure that legal, tax, finance, ESG and other critical aspects are addressed?
- What is the scope of change, and how will stakeholders be brought along on the journey?
- What is the new, refined business case for establishing the new business unit or center of excellence? How long will it take to recoup the investment?

The new operating model must go a step further from the high-level activity and decision roles outlined previously. Detailed functional capability maps are drawn separating activity and decision ownership, role profiles for existing and new positions are written or revised, common use cases and RACIs are tested, technology implications are identified, and customer and business risks are recorded.

The output is a robust operating model design that becomes the basis for Phases 3 and 4, where greater refinement is performed and the rollout is executed.

Personnel-related implications are also scoped, taking into consideration:

- What is the hiring and transfer plan for the new entity?
- What role, if any, does outsourcing play in the new design?
- If the new organization involves set-up in a new country, what local personnel-related regulations need to be understood?
- How might current employees react to these changes?

The change management and communications strategy is contemplated and defined in more detail in this phase as the organization anticipates where there might be resistance to change, how best to motivate stakeholders to adopt these new ways of working, and how best to announce the initiative internally and externally.

Phase 2, like the assessment, is wrapped together with a refined business case, providing executive stakeholders a clearer view of the financial targets and opportunities to deliver on the strategic stand-up's desired outcomes.

Phase 3: Implementation Planning

With the detailed design complete and an announcement of the organization's intentions formalized, the business performs implementation planning.

Success in this phase requires a combination of robust program management, detailed material creation for a smooth implementation, and tactical execution in key areas such as real estate, entity establishment and hiring.

Additionally, this phase is less focused on resolving new questions than putting into action the work performed in Phase 2. For example, within the operating model workstream, the organization progresses the work previously completed in design by making it more detailed where necessary as part of a training and knowledge-transfer program.

Related to real estate, in this phase the business will sign a lease or purchase property, partner with a general contractor for fit-out and plan all the amenities of the new location.

Hiring takes center stage with what may be a large recruiting effort, especially if the stand-up is in a location new to the business's operations.

Functional workstreams lead from the organization partner with external support to drive action across all areas simultaneously. A program management and steering committee structure oversees the end-to-end effort, keeping teams on-task and accountable to deadlines, escalating risks and issues for quick decision-making and managing the many interdependencies of a project of this scale.

Hiring timelines notwithstanding, Phase 3 concludes as the business approaches the target implementation date and workstream go-live activities are complete.

Phase 4: Stand-Up

Finally, the time arrives to stand up the new business unit or center of excellence. It's go-live time, and the fruits of the team's extensive efforts over the preceding months will finally be seen as implementation begins.

The Phase 2 and 3 preparatory stages lay the groundwork for the strategic stand-up in Phase 4. The materials created as part of the detailed operating model work are used as training and knowledge transfer guides for new and existing employees (especially where roles and responsibilities are expected to change). The system updates required from changes to the operating model, entity structure, etc. are designed, built, tested and released. Any new office space opens to the team. Hiring and employee transfers are in progress and new reporting relationships are implemented. A robust communications and change management experience is delivered across functional groups — including those with high- and low-change impact.

While there will likely be activities and milestones not critical to going live that are implemented in the weeks and months that follow, the business unit or center of excellence can now operate and start working toward achieving its business case and other objectives.

Phase 5: Normalization

The lines between Phases 4 and 5 blur for every organization pursuing a strategic stand-up. For some workstreams like real estate, where the office opens at go-live, Phase 5 normalization begins almost immediately. Operating model and change management, on the other hand, might require several months in the stand-up stage to train and enable the team on new processes and governance before reaching a point where normalization makes sense.

No matter the timeline, normalization is about reaching a steady state. It's not a singular point in time, and the program management and executive teams shouldn't manage it as such. Normalization occurs as a progression from go-live through the months and quarters to follow.

The business should ask several questions throughout the normalization period to determine when the steady state is sufficiently achieved:

- How is the new business unit or center of excellence performing against KPIs and SLAs?
- What actions are implemented to realize the revenue and cost targets in the business case? What is the progress of the business against those goals?
- What hiring or employee transfers remain?
- What change management or communication gaps still exist and need to be addressed?
- What processes or technology changes were de-prioritized for go-live but remain open?

In our experience, normalization requires six to nine months after go-live to achieve a steady state. The key is for the organization to be fully prepared at the end of normalization to operate in a business-as-usual context complete with accountability for metrics, financial targets, and customer and business operations.

The Strategic Stand-Up, In Retrospect

In the aforementioned example of our $1 billion financial services client, their executive led a yearlong effort to execute the strategic stand-up through all five phases.

While it required the input and support of nearly every functional group and dozens of leaders across the business, the results are proving to be significant. The organization is tracking toward a strong annual net cash impact and a mid-single-digit percent accretion in earnings per share as a direct result of the business unit's establishment.

The move enables the business to refocus on an offering category that is critical to their enterprise-wide growth strategy and builds on their industry expertise and talent. Their decision to base the new business in Europe also brings the company closer to key strategic partners and provides a framework for future expansion to other markets.

Getting the Stand-Up Started

Perhaps some of these outlined points exemplify challenges or opportunities in your organization — the need to do more with less, the desire to expand multinationally, the opportunity to build greater competitive advantage through strategic hiring and talent acquisition.

The five phases of executing the strategic stand-up represent a multifaceted transformative journey. They represent an opportunity for significant value capture across strategic, financial, operational and customer metrics by combining several goals into one.

Before taking on the full program, the first phase feasibility assessment allows the executive team to contemplate the advantages and disadvantages of such an endeavor and the path required to achieve it.

Discover Function-Specific Insights

Looking to learn more about our point of view on executing a strategic stand-up? Our team of subject matter experts share their function-specific insights on several topics:

— Operating Model Design and Execution

— Human Capital — Organization Structure and Planning, Hiring and Retention

— Change Management and Communications

— Office of the CFO — Implications and Opportunities of a Strategic Stand-Up for CFOs

— Tax and Transfer Pricing

[1] Mark Raskino, Kristin Moyer, Stephen Smith, Gabriela Vogel, "Gartner CEO Survey Finds Growth is the Top Business Priority for 2024, Reaching Highest Level in 10 Years", Gartner, 05/22/2024, https://www.gartner.com/en/newsroom/press-releases/2024-05-22-gartner-ceo-survey-finds-growth-is-the-top-business-priority-for-2024--reaching-highest-level-in-10-yearshttps://www.gartner.com/en/newsroom/press-releases/2024-05-22-gartner-ceo-survey-finds-

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