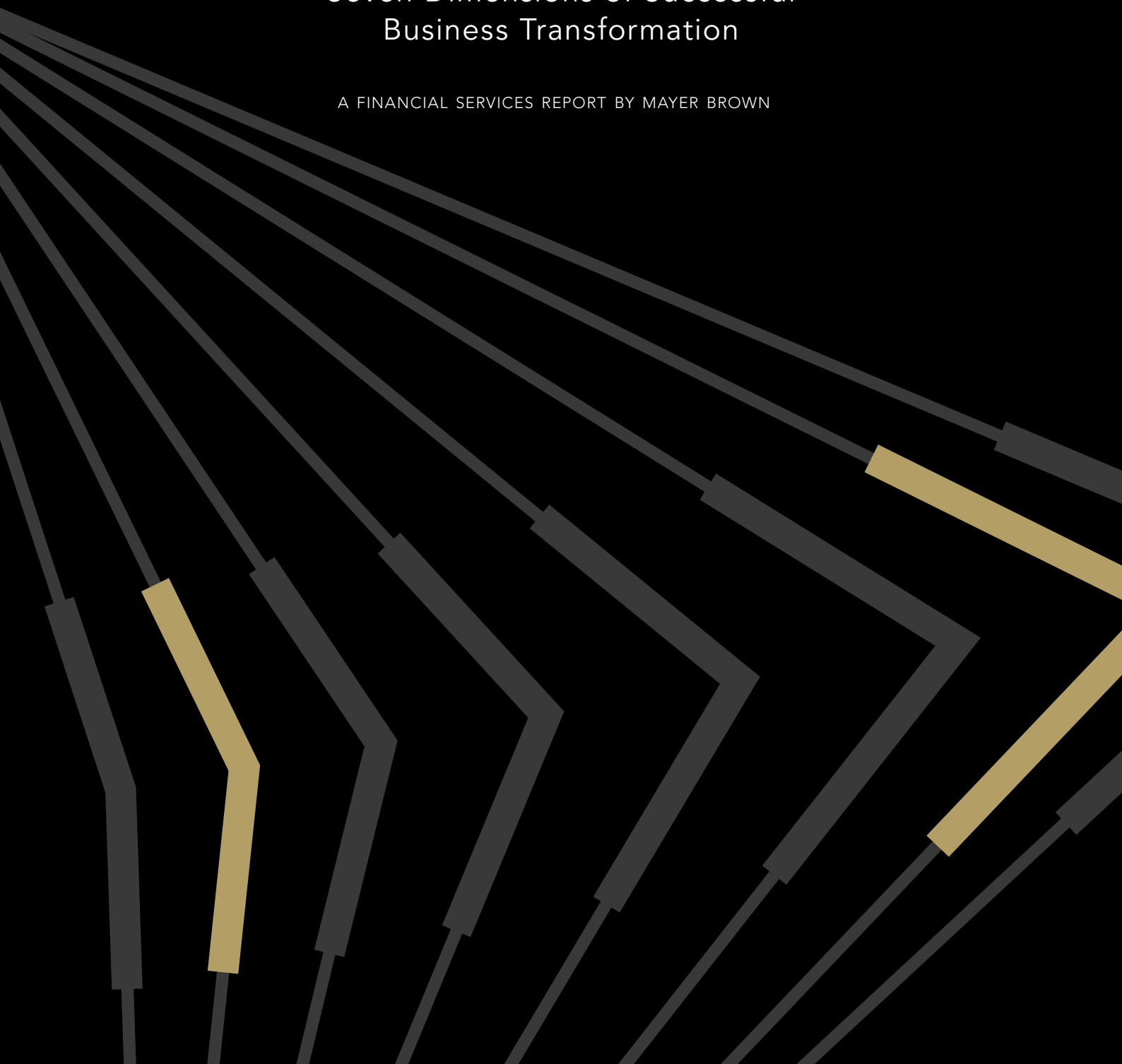


MAYER | BROWN

THE NEXT ORGANIZATION

Seven Dimensions of Successful
Business Transformation

A FINANCIAL SERVICES REPORT BY MAYER BROWN



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FOREWORD

Impacted by shifting rate environments, market volatility, technological breakthroughs, and ever-growing regulation, financial services firms face both rapidly developing opportunities and continuously increasing challenges.

Incumbents in the sector face novel competition from challenger brands, as business leaders increasingly seek alternative sources of capital to support their own business initiatives. And both banking and investment firms are bracing for another wave of regulation, driven partly by a concern that institutions are not sufficiently capitalized, and partly by swiftly moving technology developments, as governments explore potential new privacy and data laws.

With that as a backdrop, business transformation is an absolute necessity today for financial services firms to remain competitive. In what we call “the next economy” – a rapidly evolving world of multiple threats and myriad opportunities – it is necessary for companies to undergo extensive, rapid, and long-term transformation to thrive.

As the law firm advising more than half the world’s biggest banks and bringing innovative, sophisticated solutions to clients across the global financial sector, we undertook a quantitative survey of top executives from around the world across various important industry sectors of our global economy, including banking, insurance, and financial services such as investment banking, asset managers, and private equity funds, among others. We examined their perspectives on what it takes to thrive in the next economy – particularly for those competing in the global financial services industry – and have summarized our findings in this report on what we call “The Next Organization.”

The report presents seven key dimensions of the future-ready financial services enterprise identified by our proprietary research. It also identifies both potential impediments to the achievement of these seven key dimensions and, importantly, the critical accelerators that lead to more rapid progress against achieving these seven key dimensions.

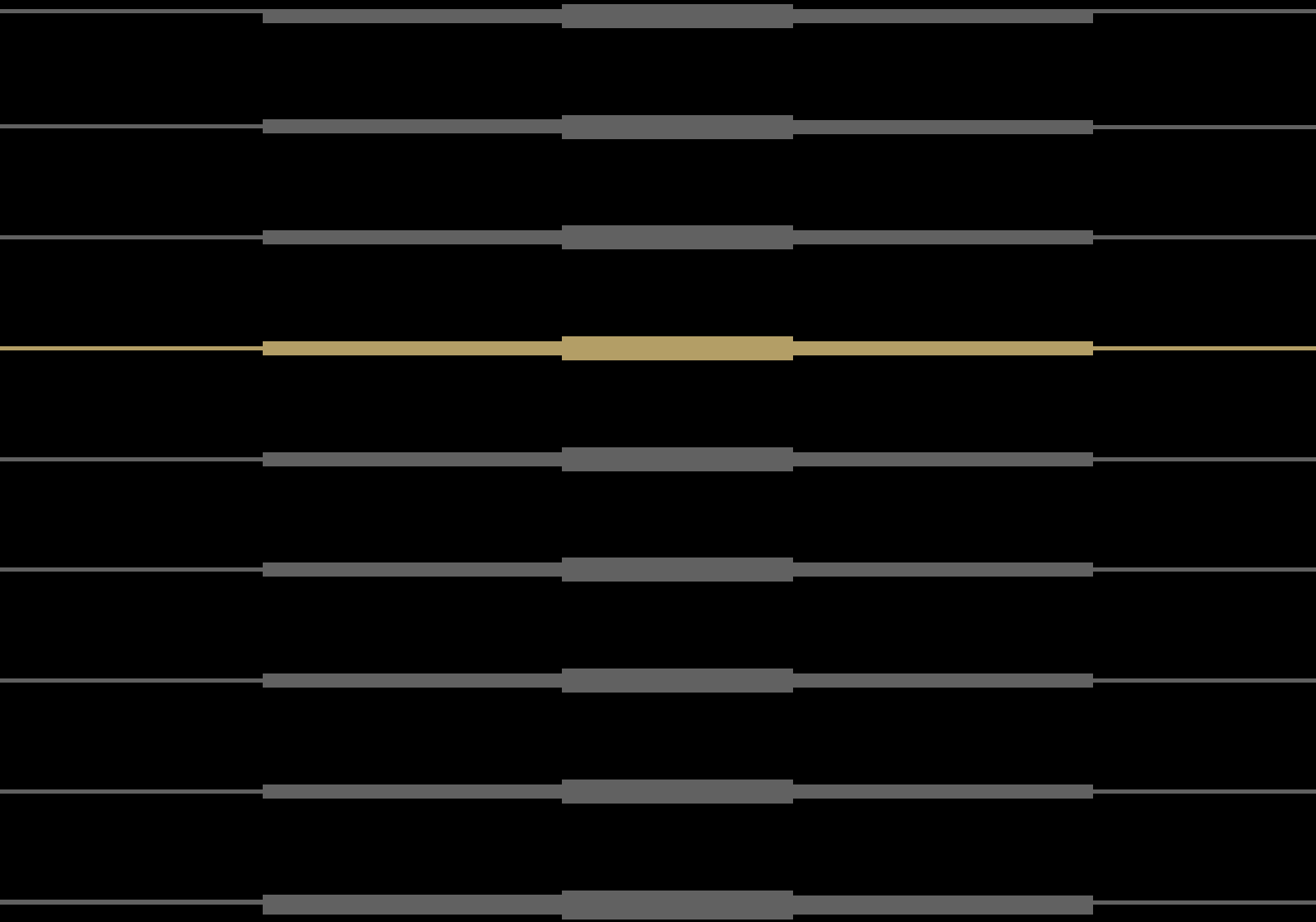
Mayer Brown is committed to helping our clients transform so they are ready for the next economy and can turn critical, complex, and challenging issues into opportunities for growth. We hope you find this study interesting and that it helps you to become The Next Organization – ready to thrive in “the next economy.”

Please reach out to your Mayer Brown lawyers and let’s explore the business transformation imperative together.



JON VAN GORP
Chair, Mayer Brown

EXECUTIVE SUMMARY



The Next Organization discusses senior executives' perspectives on business transformation. The study included 90 leaders from banking, insurance, and other financial services companies (called "**financial institutions**" in this report) and 107 leaders from investment banking, asset management, and private equity firms (called "**investment firms**" in this report). In the report, the term, "**financial services firms**" refers to leaders of both financial institutions and investment firms¹.

Business transformation is considered imperative to survival and growth, and senior executives are acutely aware of this: 64% of financial institution leaders and 69% of investment firm leaders believe that their organization needs complete transformation to thrive and create value.

64%

of financial institution leaders believe that their organization needs complete transformation to thrive and create value.

69%

of investment firm leaders believe that their organization needs complete transformation to thrive and create value.

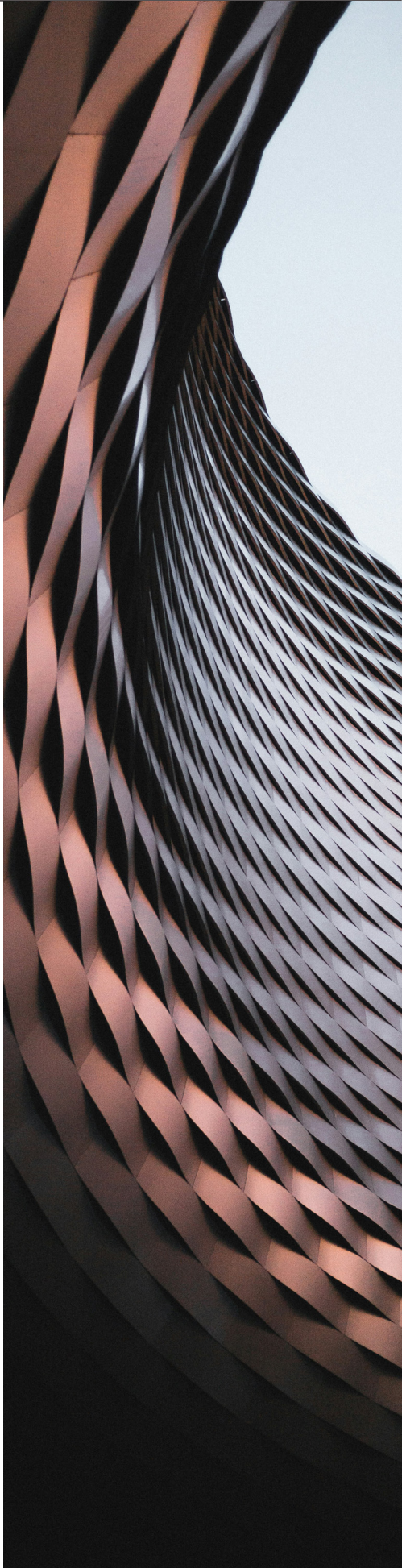
Although leaders are cognizant of the transformation imperative and understand the shape that this should take, businesses are not transforming in the way they need to. **Our analysis reveals that just 4% of investment firms and 1% of financial institutions reportedly perform above average across our seven key dimensions of a future-ready organization.** And over half of financial services firms (52%) surveyed report their organization is not prepared to navigate the next economy.

52%

Over half of financial services firms (52%) surveyed report their organization is not prepared to navigate the next economy.

While the current climate is a major driver for business transformation, it also presents significant challenges. Business leaders are dealing with short-term crises they believe prevent them from focusing on more strategic transformation initiatives. In key areas – from digitalization to talent to net-zero transition – most organizations do not have a long-term business transformation strategy. Finance is also a challenge: restricted liquidity in markets is impacting businesses' ability to secure the investment required to transform their organizations.

¹For a summary of all industry sectors surveyed, please see "Methodology" on page 30.



What is needed to accelerate organizational transformation? Business leaders believe that **technology will be critical to their transformation efforts**: “New technology to develop competitive AI capabilities” is currently considered to be the number one area for investment to support transformation initiatives, and leaders say that they are looking to **M&A and innovative financing solutions** to boost their technology capabilities and accelerate their transformation.

“

Anticipating what might come next is crucial for leaders, who need to be able to evaluate and predict potential threats, both internal and external and current and emerging, and to develop robust strategies to mitigate and potentially capitalize on these risks.

MEGAN S. WEBSTER

Partner, Litigation & Dispute Resolution, Mayer Brown

Our business leaders express the **need to be future-focused**, looking across their entire organizations to identify where they need to transform to be more resilient in the face of emerging risks. They understand the importance of identifying and addressing the **impacts of geopolitical tensions** and repositioning their businesses to successfully navigate these, while at the same time protecting their organizations from **technology threats** and **potential disputes**, and identifying **new sources of capital** to realize their growth ambitions.



IN FOCUS:

Who Can Effectively Boost Transformation Efforts?

An organization’s General Counsel (GC) and legal team can play a significant role here, providing valuable advice and input on the current macro climate, identifying potential threats and legal risks, and ensuring that these are considered in the transformation strategy. Financial services leaders recognize this – over six in 10 believe it will be more important to utilize the expertise of the GC and legal team to successfully navigate the market environment over the next three years (66% of financial institution leaders and 61% of investment firm leaders). Both internal and external legal advisors can offer early warning insights along with innovative legal solutions to empower their organizations to capitalize on emerging opportunities and gain a competitive advantage.

However, in practice this is proving hard to realize, with only 13% of financial institution leaders and 14% of investment firm leaders² saying they “nearly always” seek advice from the in-house legal team to implement their business strategy and pursue growth opportunities, and just 10% of financial institution leaders and 12% of investment firm leaders saying that they “nearly always” consult with their external legal advisors.

“

Once change happens, it may be too late to adapt if the change hadn’t been considered in advance. Today’s accelerated speed of regulatory and legal change means that business leaders need to boost their ability to track market forces and lean on legal advisors to look ahead.

RAJ DE

Partner, Leader of Cybersecurity & Data Privacy, Mayer Brown

²This sample does not include general counsel business leaders.

SECTION 1

THE TRANSFORMATION IMPERATIVE



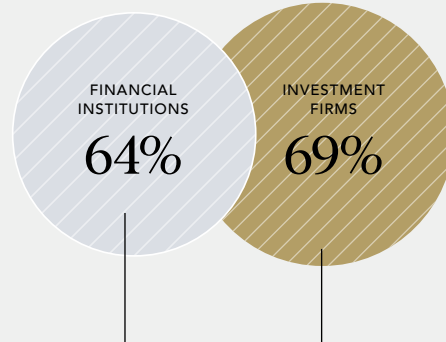
Transformation Must be Extensive, Rapid, and Long-Term

Many financial services leaders are focused on keeping their heads above water and say they need to radically reshape their businesses to ensure readiness to meet the challenges of a complex future. Almost seven in 10 financial institution leaders (68%) and three-quarters of investment firm leaders report that their organizations are currently overwhelmed by the market environment and are focusing on survival over significant growth and expansion; investment firm leaders the most likely to express concern of any sector in the study; 75% say they are overwhelmed.

To navigate “the next economy” – a rapidly evolving world of multiple threats and myriad opportunities – business transformation is required. Leaders know that this change needs to be both extensive and rapid: over two-thirds of financial services leaders believe that their organization needs **complete transformation** to thrive and create value, and over six in 10 are concerned that their organizations are **at risk of obsolescence** due to too-slow transformation (68% of financial institution leaders and 62% of investment firm leaders).

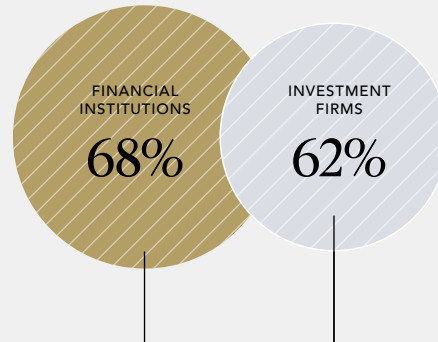
The scale, pace, and scope of transformation: Business transformation needs to be...

EXTENSIVE



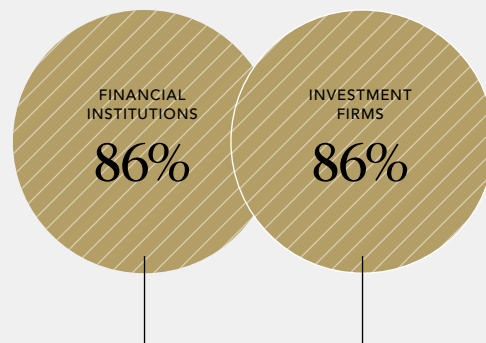
believe that **their organizations need complete transformation in order to thrive** and create value in the next economy.

RAPID



say their organizations are **not transforming fast enough** and risk becoming obsolete in the next economy.

LONG TERM



have an overall business transformation strategy in place, but strategies for key areas generally **do not look beyond the next 12 months**.

Organizations are Failing to Plan Ahead Sufficiently

Yet while leaders recognize the need for this transformation – and are cognizant of the risks if they fail to move swiftly and extensively enough – they believe their current strategies are not sufficiently future-focused.

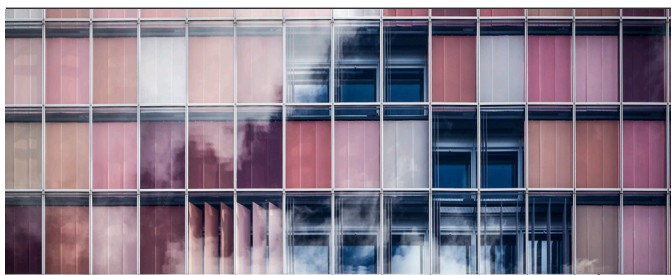
Although 86% of financial services firms have an overall business transformation strategy in place, most organizations' transformation strategies for key areas such as capital sourcing, technology, and risk management do not extend beyond the immediate horizon. For example, over two-thirds of firms (65% of financial institutions and 67% of investment firms) have an AI transformation strategy that only looks a maximum of 12 months ahead, and most firms' capital sourcing strategies, in relation to business transformation, are similarly horizon-constrained. And, in a world of seismic talent shifts, it is notable that only around a third of companies (36% of financial institutions and 32% of investment firms) have a recruitment and retention transformation strategy that looks further than the next 12 months. Similarly, although decarbonization is a pressing business agenda that needs a holistic, long-term approach, 82% of financial institutions and 73% of investment firms have net-zero transformation strategies that look a maximum of 12 months ahead.

The executives we surveyed share the consensus view that it is important to both be agile enough to take advantage of rapidly changing market dynamics and to make a credible effort to expand the planning horizon beyond the immediate future.

84%

of investment firm leaders say that geopolitical agility will be critical for organizations to expand internationally in the next economy, the highest of any sector.

However, getting the right balance between moving quickly and mitigating risk is critical in a complex environment. Our study shows that financial services leaders have different approaches to addressing this dynamic. Financial institution leaders appear to be more cautious: they are the least likely of all sectors to say that it will be vital for organizations to take risks in the next three years, otherwise growth will be stunted (64%, compared to 72% across all sectors). Investment firms, on the other hand, are prioritizing agility; 84% of investment firm leaders say that geopolitical agility will be critical for organizations to expand internationally in the next economy, the highest of any sector.

**IN FOCUS:****AI**

Artificial intelligence is reshaping the business landscape. Over seven in 10 leaders of financial institutions (71%) and over eight in 10 leaders of investment firms (83%) believe that in the next three years, pervasive AI will have a big impact on the market environment. However, fewer than a third of these leaders (26% of financial institution leaders and 34% of investment firm leaders) believe they have a sufficiently clear and future-ready strategy in place for AI. 72% of financial institution leaders and 73% of investment firm leaders reported that AI developments are moving so fast that their organization is having difficulty in being able to transform quickly enough.

“

Increasing use of technological innovations presents new and rapidly evolving legal and regulatory risks for financial firms that will test their commercial and legal acumen. A coordinated and interdisciplinary approach from trusted legal advisers with broad market experience is a vital resource for any firm that operates in a highly regulated environment.

TRAM N. NGUYEN

Partner, Corporate & Securities, Mayer Brown

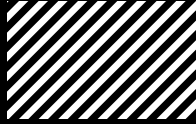
How far ahead do organizations' transformation strategies look, in the following areas?

CAPITAL SOURCING



61%

Financial institutions



57%

Investment firms

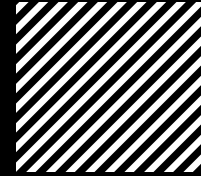
have capital sourcing strategies that only look 12 months ahead.

AI STRATEGIES



65%

Financial institutions



67%

Investment firms

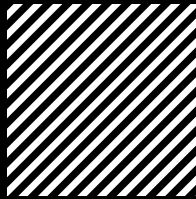
have AI strategies that only look 12 months ahead.

TALENT RECRUITMENT



65%

Financial institutions

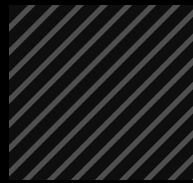


68%

Investment firms

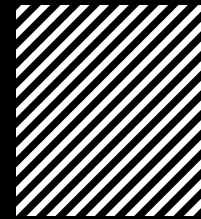
have talent recruitment and retention strategies that only look 12 months ahead.

RISK MANAGEMENT



65%

Financial institutions

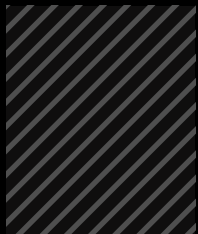


70%

Investment firms

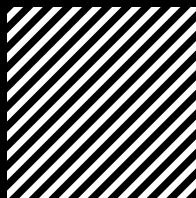
have risk management strategies that only look 12 months ahead.

NET-ZERO TRANSFORMATION



82%

Financial institutions



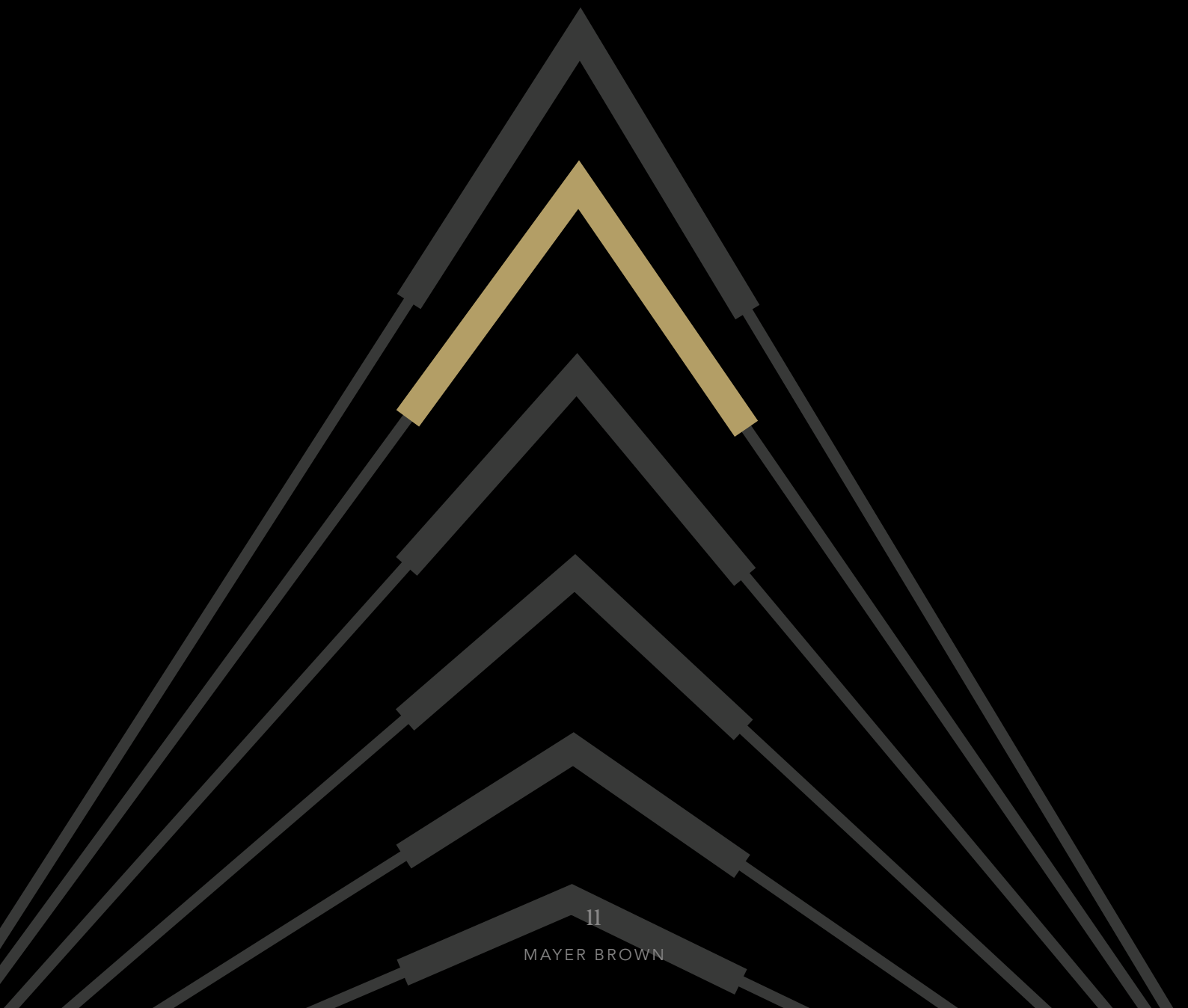
73%

Investment firms

have net-zero transformation strategies that only look 12 months ahead.

SECTION 2

THE NEXT ORGANIZATION: FROM SURVIVING TO THRIVING

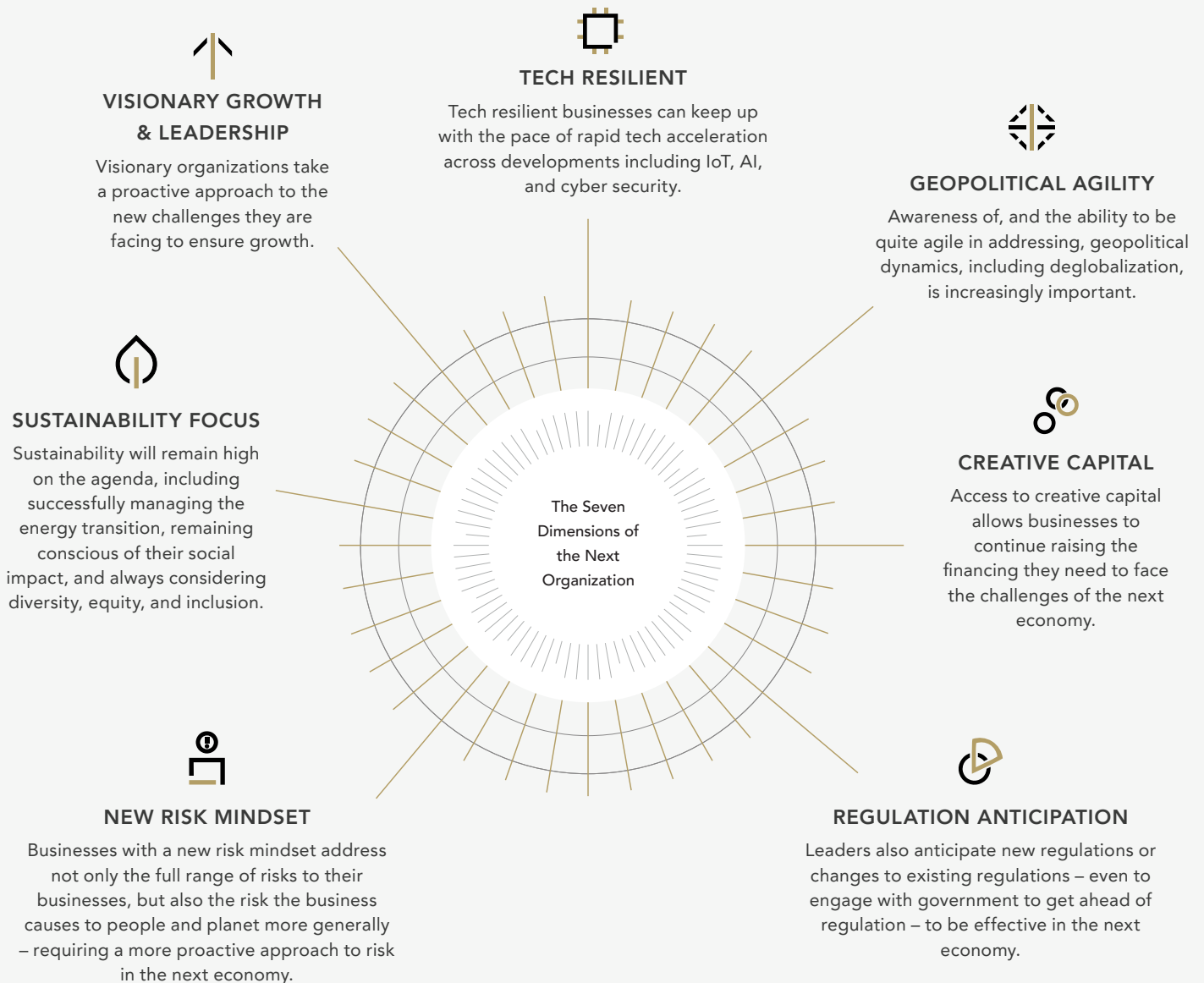


The Seven Dimensions of the Next Organization

In today's uncertain business landscape, our business leaders believe organizations need to go beyond survival and focus on creating growth and opportunities in the future. But what does this look like and how can they achieve it?

Based on in-depth market insights and drawing on the comprehensive knowledge from our presence serving the global financial services sector, we have identified **seven key dimensions of a future-ready business** which we believe are critical to the success of business transformation initiatives.

Our research among leaders of financial services firms shows that these aspects are high on the corporate agenda: businesses agree that these dimensions are likely to be important for creating value in the next economy. But in the face of a range of market forces, few organizations are managing to fulfill all these objectives, which could leave them struggling to thrive in the next economy.





**VISIONARY GROWTH
& LEADERSHIP**

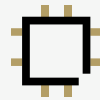
79%

Financial institution

77%

Investment firm

leaders believe visionary leadership will be required for companies to grow and outpace competitors in the next economy.



TECH RESILIENCE

69%

Financial institution

77%

Investment firm

leaders say that companies must be tech resilient – protecting their organizations from cyberattacks and staying on top of AI developments.



GEOPOLITICAL AGILITY

74%

Financial institution

84%

Investment firm

leaders believe that geopolitical agility will be critical for organizations to expand internationally in the next economy.



SUSTAINABILITY FOCUS

69%

Financial institution

77%

Investment firm

leaders believe that companies must embrace sustainability if they are to thrive in the next economy – managing short-term ESG backlash to secure long-term positive stakeholder/shareholder engagement.



NEW RISK MINDSET

79%

Financial institution

77%

Investment firm

leaders believe that companies must take a proactive, “always-on” approach to risk management – preempting crises before they arise.



**REGULATION
ANTICIPATION**

74%

Financial institution

71%

Investment firm

leaders say that organizations will only be able to fulfill their potential in the next economy if they can anticipate new legislation and adapt quickly to changing regulatory environments.



CREATIVE CAPITAL

80%

Financial institution

76%

Investment firm


leaders believe that innovative financing solutions – including a leading role for private sector credit – will play a critical role in powering business growth in the next economy.

How do Businesses Perform Against these Key Dimensions?

We created a scoring system to assess the businesses³ in our study against the seven dimensions of a future-ready business. This dimensional analysis revealed that:

1% 

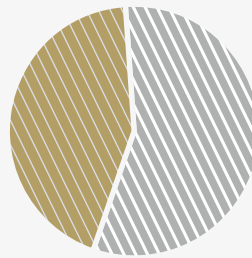
of financial institutions perform above average across all dimensions.

4% 

of investment firms perform above average across all dimensions.

PERFORMANCE ACROSS DIMENSIONS

Perform above average in five to seven dimensions



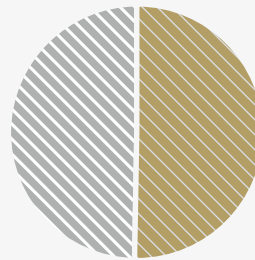
24%

of financial institutions

31%

of investment firms

Perform above average in two to four dimensions



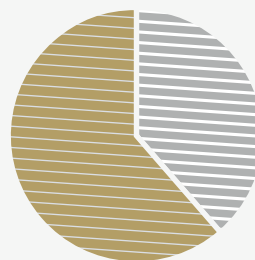
60%

of financial institutions

59%

of investment firms

Perform above average in only one dimension (at best)



16%

of financial institutions

10%

of investment firms

³ See "Methodology" on page 30 for more information about this analysis.



How do Financial Services Firms Reportedly Perform Against the Seven Key Dimensions?

- Investment firms are **most likely to score above average** on the Visionary Growth & Leadership and Sustainability Focus dimensions.
- Financial institutions are **most likely to score above average** on the Sustainability Focus and Creative Capital dimensions.
- Both investment firms and financial institutions are **least likely to score above average** in New Risk Mindset and Geopolitical Agility, indicating that these areas need particular attention for organizations in this sector to undergo successful transformation.

“

External law firms can be additional “eyes and ears” for organizations, helping leaders navigate changing geopolitical environments and providing essential insights into regulatory developments.

JOHN J. SULLIVAN

Partner, Public Policy, Regulatory
& Government Affairs, Mayer Brown

Business Transformation Blockers

Most financial services firms are failing to pursue the fast, extensive, future-focused transformation needed to deal with a turbulent world, and many leaders acknowledge this: 52% of financial services leaders report that their organization is not prepared to navigate the next economy.

THE MOST IMPACTFUL FACTORS

Businesses are dealing with a range of complex, interconnecting forces, from fast-moving technological developments to a tight talent landscape. When asked to consider the forces that will shape the overall market landscape over the next three years, investment firm leaders were most likely to say that pervasive AI would have a significant impact (83%) although for leaders of financial institutions, regulatory overwhelm emerges as the most significant force (78%).

When asked to consider which forces will have the biggest impact on their own organization over this timeframe, financial institution leaders have sustainability considerations at the top of the list, while investment firms are most likely to consider the volatile regulatory environment as a force that will greatly impact their organization.

“

The economic environment is driving increased regulation, as governments and regulators fear that financial institutions are not sufficiently capitalized. Fast-moving technology is another catalyst for regulation, as legislators scramble to protect consumers from the potential impacts of innovations.

STEVEN M. KAPLAN
Partner, Co-leader of Banking & Finance,
Mayer Brown

Top factors that leaders believe will have a significant impact on their organization over the next three years

FINANCIAL INSTITUTIONS

74% | Sustainability considerations

74% | High inflation and interest rates

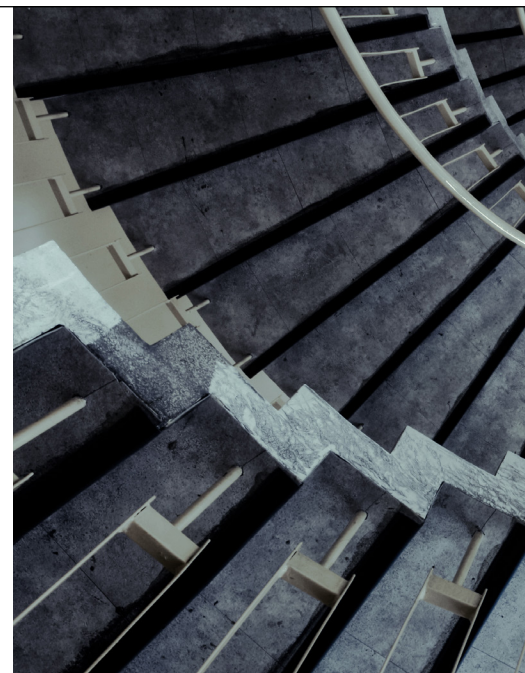
73% | Talent shortages

INVESTMENT FIRMS

74% | Volatile regulatory environment

74% | Population shifts

73% | Talent shortages



Top Factors Impacting Organizations' Transformation Plans

But what are the factors having the biggest impact on organizations' transformation plans right now? An increasingly burdensome tax environment and lack of growth opportunities are among the most significant factors impacting financial services organizations' journeys to thrive and create value in the next economy. The effects of technology developments are also a

drag on transformation plans, as firms battle to protect themselves and their customers from increasingly sophisticated cyber-attacks. Almost four in five leaders of financial institutions (79%) and investment firms (77%) say that vulnerability to cyber-attacks is, to some extent, distracting them from organizational transformation, the highest of all sectors in our study.

Top three factors impacting **financial institutions'** transformation plans to thrive and create value in the next economy:

1.

A lack of growth opportunities in difficult market conditions.

2.

The threat of tech; vulnerability to a cyber-attack that distracts from organizational transformation.

3.

Increasingly burdensome tax environment.

Top three factors impacting **investment firms'** transformation plans to thrive and create value in the next economy:

1.

Increasingly burdensome tax environment.

2.

The cost of transitioning to net zero.

3.

Lack of understanding of the growth opportunities available to my organization in a challenging market environment.

SECTION 3

WHAT'S NEXT?
ACCELERATING BUSINESS
TRANSFORMATION

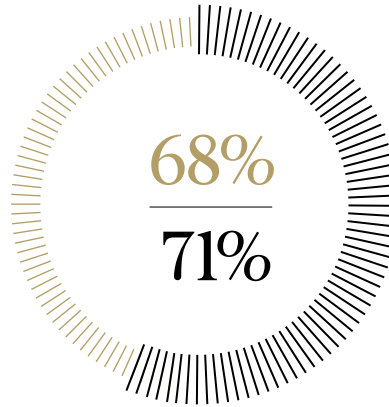


Uncertainty Could Offer Opportunity

Instead of becoming more insular due to external challenges, leaders are exploring new ways to navigate a fast-changing landscape. And, particularly in the financial services sectors, they are quite optimistic about their prospects.

More than two-thirds of financial institution leaders (70%) say their organization is pursuing opportunities being presented by the uncertain market environment and, despite faltering growth and strong headwinds, they are bullish about the economic outlook. Seven in 10 leaders of financial services firms believe that the global economy will stabilize – rather than stagnate – over the next three years, suggesting that future-ready businesses can thrive.

Leaders believe that macro forces could drive corporate progress, innovation, and positive change between now and 2026

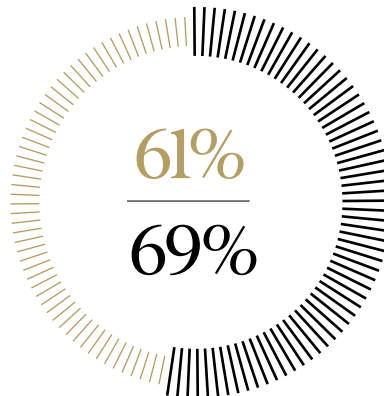
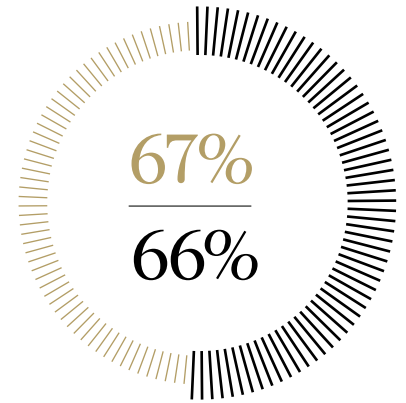


GEOPOLITICAL TURBULENCE

68% of financial institutions and **71%** of investment firms say geopolitical turbulence will encourage new ways of business.

REGULATORY ENVIRONMENT

67% of financial institutions and **66%** of investment firms say the unpredictable regulatory environment will help to drive business forward.

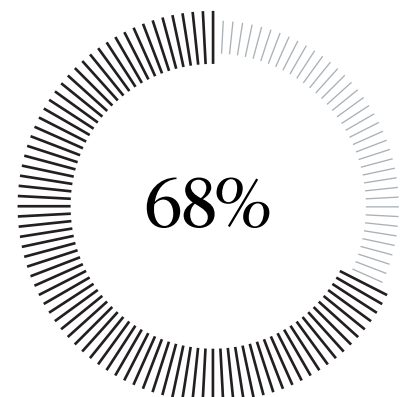


"END OF CHEAP MONEY"

61% of financial institutions and **69%** of investment firms say the "end of cheap money" is encouraging a pivot towards new sources of capital.

REGULATORY ENVIRONMENT

68% of financial institutions and investment firms say increasing stakeholder activism will encourage positive change by improving corporate accountability.





“

Regulatory uncertainty presents challenges and risks for all stakeholders, and this is particularly true for highly regulated industries, such as financial services. This uncertainty presents an opportunity for organizations which understand and work to shape the regulatory landscape by engaging with external and internal legal advisers.

JEFFREY P. TAFT

Partner, Co-leader of Financial Services, Mayer Brown

Financial services leaders even see the silver lining of a tough financial environment. As we navigate an era of high interest rates and limited liquidity, over six in 10 leaders say that this is encouraging a pivot towards new sources of capital to power business growth, rather than holding their organization back (61% of financial institution leaders and 69% of investment firm leaders). In fact, new approaches to finance could be critical to corporate success: over three-quarters of leaders believe that innovative financing solutions – including an increasingly prominent role for private sector credit – will power business growth in the next economy (80% of financial institution leaders and 76% of investment firm leaders).

HOW CAN ORGANIZATIONS OVERCOME THE BLOCKERS AND ACCELERATE BUSINESS TRANSFORMATION TO ENABLE THEM TO THRIVE IN THE NEXT ECONOMY?

Our research reveals that transformative technology – driven by M&A, talent acquisition, and innovative finance – is top of the agenda.

M&A IS SEEN AS THE TOP TRANSFORMATION ACCELERATOR

The number one accelerator for investment firms – cited as significant by

83%

of leaders is M&A to advance the organization's AI capabilities, as many business leaders look outside their organization for the expertise and infrastructure they need. For technology, including fintech, companies that lack AI capabilities, M&A can be a relatively rapid way of bridging the gap.

ESG considerations are also often a catalyst for M&A activity, as companies face the complex, costly task of transitioning to net zero, and look to acquisitions to shore up their credentials faster.

“

Organizations know they need to look beyond organic growth to rapidly enter new markets or acquire new expertise. For example, companies across all sectors, but particularly technology companies, may look to M&A to swiftly integrate AI into their business operations to improve customer service and realize other efficiencies.

NINA L. FLAX

Partner, Corporate & Securities, Mayer Brown

Top Transformation Accelerators

STRATEGIC M&A

M&A to advance AI capabilities

(72% financial institutions; 83% investment firms)

M&A to supercharge organizational transformation

(71% financial institutions; 79% investment firms)

INNOVATIVE FINANCE

Innovative financing solutions

(68% financial institutions; 73% investment firms)

Increased private sector investment (private credit / private equity)

(73% financial institutions; 78% investment firms)

MINIMIZING RISKS AND PREVENTING DISPUTES

Preventing and minimizing enterprise risks and reputational threats

(79% financial institutions; 72% investment firms)

Preventing and minimizing litigious disputes

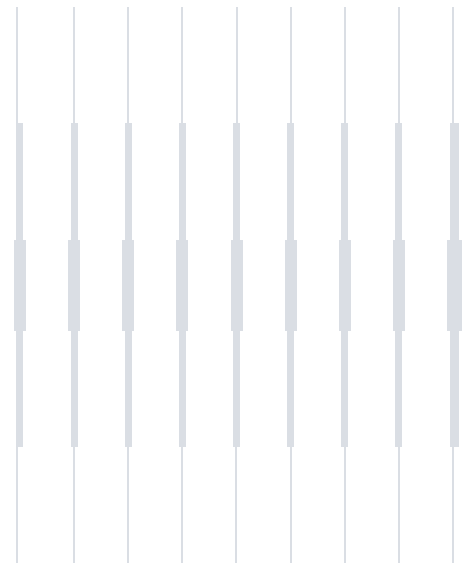
(69% financial institutions; 79% investment firms)

“

The lending landscape has undergone a dramatic transformation over the past 15 years, with asset managers and private credit funds venturing into areas traditionally dominated by financial institutions. In fact, half of the lending landscape now comprises non-bank lenders, many offering more flexible, cost-effective products.

ALEX DELL

Partner, Co-leader of Banking & Finance, Mayer Brown



A FOCUS ON EMPLOYEE ENGAGEMENT AND RETENTION

New technologies are only powerful if an organization has people with the right skills to use them, however. Skilled talent remains in short supply – especially in high-demand areas like AI – pushing employee retention to the top of corporate agendas. Leaders name talent engagement as a key area for investment to ensure their organizations can thrive in the next economy, and over seven in 10 leaders say that organizations must prioritize engagement to ensure they retain employees (71% of financial institution leaders and 77% of investment firm leaders).

Alongside retention of existing employees, effective recruitment is also critical. Over seven in 10 leaders (78% of financial institution leaders and 77% of investment firm leaders) say that the ability to access global talent is a significant accelerator in transforming their organization so it can thrive and create value in the next economy, and finding new talent to bridge skills gaps is another investment focus for leaders. Recruiting from diverse geographies is increasingly important to get the right talent in the right place, but leaders face complex bureaucracy related to visas and immigration rules, driven partly by an uptick in nationalistic ideologies.

While leaders are focused on the opportunities that new technology can bring, this is paired with a keen awareness of the crucial role that people will play in successful transformation.

LEADERS LOOK TO INNOVATIVE FINANCE

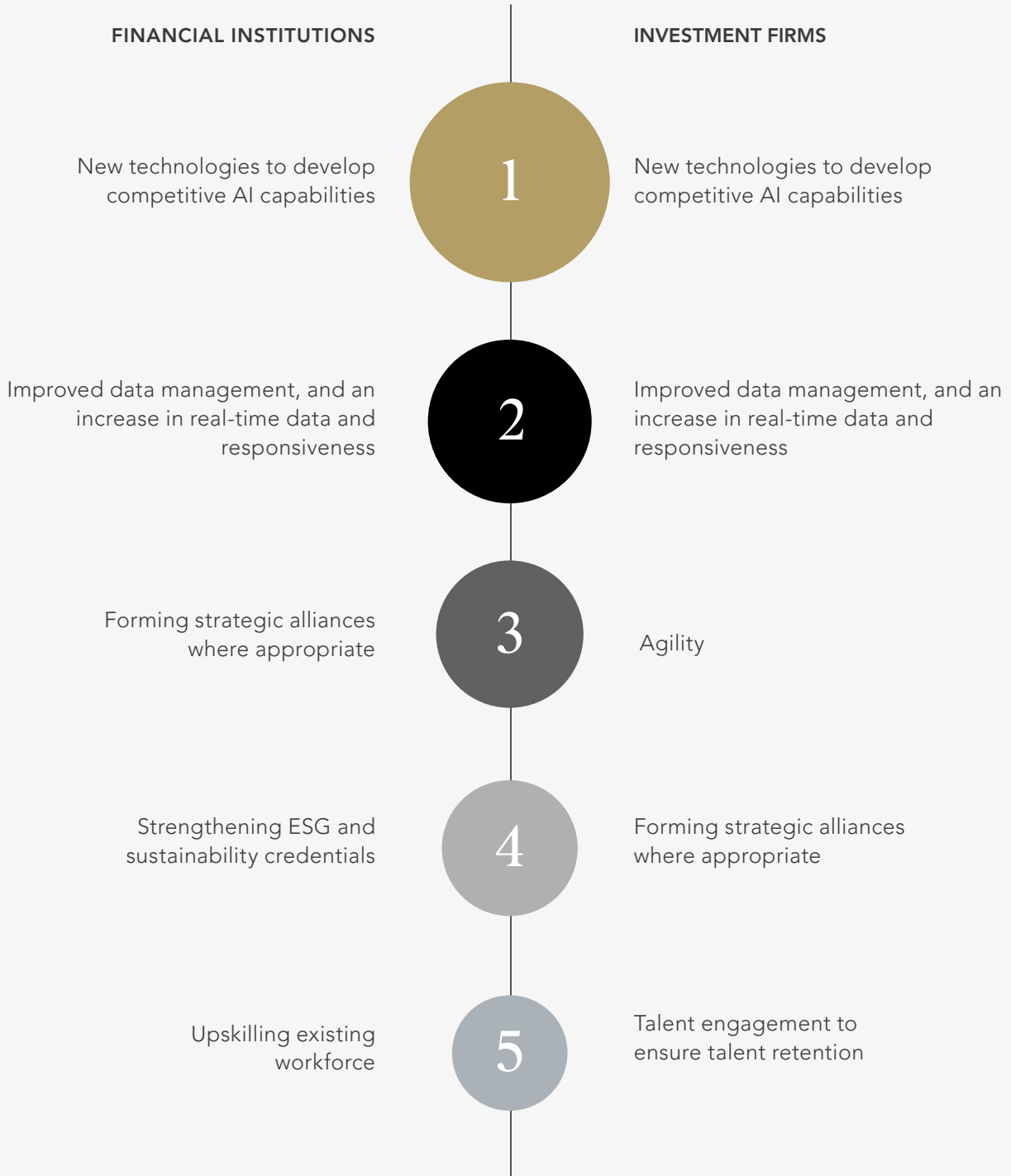
To raise the capital they need, business leaders are increasingly turning to alternative sources. For example, when it comes to financing the transition to net zero, financial institution leaders report they are most likely to use innovative finance – bank lending combined with capital markets-structured financing. This is followed by corporate to corporate lending – such as financing the energy transition in exchange for carbon credits. But accessing this capital is proving difficult: over seven in 10 leaders (72% of financial institution leaders and 74% of investment firm leaders) say that accessing private and alternative sources of capital will be the **greatest challenge** for organizations to thrive in the next economy.

“

Skills and innovative solutions are being applied in new and different settings. We're seeing securitization being applied in different ways – technology is being used to permit banks to save on regulatory capital. Catastrophe bonds, for example, are shifting some of the risks from insurers and reinsurers to capital markets.

ANN RICHARDSON KNOX
Partner, Leader of Fund Finance, Mayer Brown

Top five areas that leaders think their organizations need to invest in to thrive and create value in the next economy:



**REGULATORY AND TAX
ISSUES REMAIN**

Technology, talent, and innovative finance are critical accelerators for successful transformation, but financial services leaders will need to navigate burdensome tax and regulatory environments, complex legislation, and the challenge of raising capital to drive their transformation efforts forward. Although leaders know that change is essential, they are faced with the difficult reality of making this happen.

Who can help with the strategic oversight, a full-picture view of the organization, and the ability to overcome these barriers and capitalize on these accelerators, navigating the risks and opportunities inherent in a turbulent environment? Business leaders agree that general counsel and their teams can play a critical role.

“

Predicting and understanding regulatory trends and areas of focus is an important part of being future-ready. It can provide a key competitive edge to open new business opportunities, as well as helping to avoid expensive investigations and litigation.

CHRIS CHAPMAN

Partner, Co-leader of Financial Services, Mayer Brown



Leaders of the Next Organization

LEGAL TEAMS CAN PLAY AN INCREASINGLY CRITICAL ROLE IN GROWING BUSINESSES FOR THE FUTURE.

In a volatile regulatory landscape, business leaders recognize that incorporating legal advisors into the decision-making process is crucial: over six in 10 believe it will be more important to utilize the expertise of the GC and legal team to successfully navigate the market environment over the next three years (66% of financial institution leaders and 61% of investment firm leaders). Rather than just advising on risk mitigation, legal advisors have a wider strategic role to play, capable of identifying opportunities for growth and helping to make change happen.

Business leaders know that organizations will only be able to grow if they can successfully anticipate and navigate the new regulatory environment. They also recognize the central role of both in-house and external legal partners: 70% of financial institution leaders and three-quarters of investment firm leaders say that in a protectionist and highly regulated market environment, the role of the GC and in-house legal team has never been so important to ensure survival. And 73% say it is crucial that organizations partner with the right outside counsel to help them prepare to meet the challenges in the next economy.

However, despite recognizing the key role that their legal teams and advisors could be playing, only 13% of financial institution leaders and 14% of investment firm leaders⁴ saying they “nearly always” seek advice from the in-house legal team to implement their business strategy and pursue growth opportunities, and just 10% of financial institution leaders and 12% of investment firm leaders saying that they “nearly always” consult with their external legal advisors⁵.

“

Business leaders may consider leveraging outside counsel for market intelligence – in addition to legal expertise – when evaluating growth opportunities. Outside lawyers often have insight into creative transaction structures and market trends that provide a broader view of the deal landscape.

LAUREN B. PRYOR

Partner, Co-leader of Financial Services M&A,
Mayer Brown

⁴This sample does not include general counsel respondents.

⁵This sample does not include general counsel respondents.

With a traditional view of lawyers as risk identifiers and mitigators, executives may wait as late as possible to bring in legal teams, or not consult with them on strategic plans at all. But in a world of acute challenges, many of which touch on areas of legal risk and responsibility, now is the right time to dial up the role of legal and bring lawyers in earlier. Legal teams can both help to anticipate unknown risks and create dynamic strategies to deal with these – and identify growth opportunities adjacent to these issues.

While over half of leaders think they use their legal team's expertise sufficiently (52% of financial institutions and 53% of investment firms)⁶, only 35% of GCs⁷ agree, with the majority saying that either they are being underused, or that business leaders don't know how best to use their legal expertise to help them pursue growth opportunities.

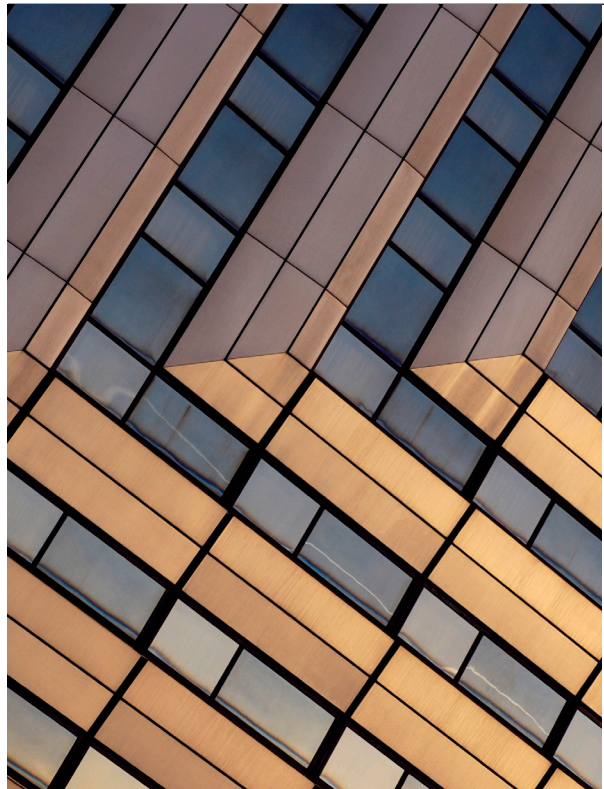
Time frame is key here: six in 10 GCs say that it is critical for organizations to involve them at an early stage to enable transformational change across the business. If legal teams are involved at the beginning of the journey, they can play a more strategic role, and become a key driver of business transformation.

“

We learn so much from the breadth of deals we work on, which we bring to general counsel and the in-house legal team. This information empowers them to add more value to their organization.

DEVI SHAH

Partner, Co-leader of Restructuring (Europe), Mayer Brown



⁶This sample does not include general counsel business leaders.

⁷This is data from all of the general counsel respondents in the survey, not just those in the financial services sector.

STRATEGIES FOR PROACTIVE TRANSFORMATION

Both internal and external legal teams can play an important role in helping to accelerate business transformation initiatives – from issue-spotting, proactive scenario planning, and contingency setting to building closer relations with regulators and negotiating advance agreements with courts to facilitate the completion of important transactions. The range of issues for financial services firms to address include the following:

DEVELOP A PROACTIVE FINANCE STRATEGY

- Recognize the importance of finance strategy for business success.
- Stay informed about new market products through advisors to maintain a proactive stance.
- Anticipate and prepare for regulatory changes as non-bank lenders grow and capital sources diversify.
- In the realm of regulations, anticipate additional waves, including heightened bank regulations.
- Leverage insights on new products and emerging market trends. This forward-thinking approach enables organizations to anticipate and adapt to changes, ensuring they remain competitive.

ANTICIPATE REGULATORY CHANGES AND GEOPOLITICAL SHIFTS

- Reacting to regulatory developments, especially in areas like cybersecurity and the rapidly developing world of AI, can hinder efficient change. Organizations can find themselves in a constant state of reaction, creating a whiplash dynamic.
- The competitive global landscape, including US-China relations and independent regulatory paths by nation states, presents unpredictable challenges. Legal teams can help assess scenarios and guide businesses through these complexities.
- The rise of non-bank lenders and alternative capital sources signals an evolving regulatory landscape calling for establishing collaborations to facilitate knowledge-sharing and horizon-scanning, allowing firms to stay informed and prepared for regulatory shifts.



ESTABLISH A RISK MANAGEMENT & GOVERNANCE STRATEGY

- Proactive scenario planning, as well as effective ongoing governance, is crucial for ensuring compliance with evolving requirements without constantly shifting organizational direction.
- Plan for contingencies in scenarios such as M&A activity, considering factors like valuation disagreements, financing costs, and regulatory activism.
- Engage with legal advisors to identify potential future risks and the need for agility in the transformation process.
- Establishing a robust governance risk management structure is pivotal for anticipating and influencing regulatory landscapes.

ENGAGE WITH EXTERNAL ADVISORS

- Leverage advisors' insights, technical resources, and access to navigate the evolving business landscape and mitigate risks and costs.
- Foster collaborative relationships for knowledge-sharing.
- Engage with legal advisors to identify potential future risks and the need for agility in the transformation process.
- Assess the current macro climate, including geopolitical and regulatory risk, and the implications of this on the business and its strategy.

ACTIVELY MANAGE M&A ACTIVITY

- The unpredictable nature of mergers and acquisitions (M&A) requires businesses to be agile and prepared for various outcomes.
- Legal advisors can play a key role in helping clients plan for contingencies, such as seeking court authorization for proposed remedies, to ensure the successful completion of deals.

STRENGTHEN GOVERNMENT COLLABORATION AND ENGAGEMENT

- Collaborate closely with government entities to understand policy directions and predict trends.
- While engaging with government authorities carries risks, the potential benefits are significant. Legal teams can assist clients in striking the right balance, ensuring that risks are effectively mitigated. Proactive engagement is a cornerstone of a successful strategy.



In summary, businesses must adopt a proactive and strategic approach to finance and legal challenges to ensure successful transformation. By partnering with knowledgeable advisors, establishing robust risk-management frameworks, and engaging in proactive planning and governance, organizations can navigate the complexities of the evolving business landscape – and effectuate extensive, rapid, and long-term business transformation – with confidence.

METHODOLOGY

Mayer Brown's *The Next Organization* is based on a global opinion research study of 635 business leaders, including 535 C-suite and other senior executives and 100 general counsel, in mid-market and large organizations. For the purposes of this report, the term "business leaders" refers to the collective sample.

This report focuses on the financial services sector: the study included 90 leaders from banking, insurance and other financial services companies (called "**financial institutions**" in this report) and 107 leaders from investment banking, asset management and private equity firms (called "**investment firms**" in this report). The term "financial services firms" refers to leaders of both financial institutions and investment firms. When referring to general counsel specifically, this sample includes all 100 general counsel respondents from across all sectors.

The other sectors included in the study were healthcare, life sciences and pharmaceuticals; digital, IT and technology; energy, oil and gas; manufacturing and chemicals.

The study covered Europe, Asia-Pacific, North America, Latin America, and the Middle East.

Dimensional Analysis

To assess how the organizations in our study are performing against the seven dimensions of a future-ready business, we conducted dimensional analysis. This involved grouping together relevant questions from the opinion research study for each dimension, allocating scores to the responses, and then scoring the business leaders in the study to generate scores per dimension and overall. To be considered fully "future ready", organizations must have a holistic approach, scoring above average across all seven dimensions.

ABOUT MAYER BROWN

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Resources

For more information about Mayer Brown's approach to business transformation please visit: www.mayerbrown.com/nextorganization

About Mayer Brown

Mayer Brown is an international law firm, positioned to represent the world's major corporations, funds, and financial institutions in their most important and complex transactions and disputes.

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APPENDIX

TRANSFORMATION MUST BE EXTENSIVE, RAPID AND LONG-TERM

BUSINESS TRANSFORMATION NEEDS TO BE...	FINANCIAL INSTITUTIONS	INVESTMENT FIRMS
Extensive	64%	69%
	of financial services leaders believe that their organizations need complete transformation in order to thrive and create value in the next economy.	
Rapid	68%	62%
	say their organizations are not transforming fast enough and risk becoming obsolete in the next economy.	
Long-term	86% of financial services firms have an overall business transformation strategy in place, but strategies for key areas generally do not look beyond the next 12 months.	

TRANSFORMATION STRATEGIES

FINANCIAL INSTITUTIONS	INVESTMENT FIRMS	
61%	57%	have capital sourcing strategies that only look 12 months ahead.
65%	67%	have AI strategies that only look 12 months ahead.
65%	68%	have talent recruitment and retention strategies that only look 12 months ahead.
65%	70%	have risk management strategies that only look 12 months ahead.
82%	73%	have net-zero transformation strategies that only look 12 months ahead.

THE SEVEN DIMENSIONS OF THE NEXT ORGANIZATION

VISIONARY GROWTH & LEADERSHIP	
Visionary organizations take a proactive approach to the new challenges they are facing to ensure growth.	79% of financial institution and 77% of investment firm leaders believe visionary leadership will be required for companies to grow and outpace competitors in the next economy.
TECH RESILIENCE	
Tech resilient businesses can keep up with the pace of rapid tech acceleration across developments including IoT, AI, and cyber security.	69% of financial institution and 77% of investment firm leaders say that companies must be tech-resilient by protecting their organizations from cyberattacks and staying on top of AI developments.
GEOPOLITICAL AGILITY	
Awareness of, and the ability to be quite agile in addressing, geopolitical dynamics, including deglobalization, is increasingly important.	74% of financial institution and 84% of investment firm leaders believe that geopolitical agility will be critical for organizations to expand internationally in the next economy.
SUSTAINABILITY FOCUS	
Sustainability will remain high on the agenda, including successfully managing the energy transition, remaining conscious of their social impact and always considering diversity, equity, and inclusion.	67% of financial institution and 81% of investment firm leaders believe that companies must embrace sustainability if they are to thrive in the next economy by managing short-term ESG backlash to secure long-term positive stakeholder / shareholder engagement.
NEW RISK MINDSET	
Businesses with a new risk-mindset address not only the full range of risks to their businesses but also the risk the business causes to people and the planet more generally, thus requiring a more proactive approach to risk in the next economy.	74% of financial institution and 73% of investment firm leaders believe that companies must take a proactive, "always-on" approach to risk management, thus preempting crises before they arise.
REGULATION ANTICIPATION	
Leaders also anticipate new regulations or changes to existing regulations – even to engage with government to get ahead of regulation – to be effective in the next economy.	74% of financial institution and 71% of investment firm leaders say that organizations will only be able to fulfill their potential in the next economy if they can anticipate new legislation and adapt quickly to changing regulatory environments.
CREATIVE CAPITAL	
Access to creative capital allows businesses to continue raising the financing they need to face the challenges of the next economy.	80% of financial institution and 76% of investment firm leaders believe that innovative financing solutions – including a leading role for private sector credit – will play a critical role in powering business growth in the next economy.

PERFORMANCE ACROSS DIMENSIONS

PERFORM ABOVE AVERAGE IN FIVE TO SEVEN DIMENSIONS	24% of financial institutions 31% of investment firms
PERFORM ABOVE AVERAGE IN TWO TO FOUR DIMENSIONS	60% of financial institutions 59% of investment firms
PERFORM ABOVE AVERAGE IN ONLY ONE DIMENSION (AT BEST)	16% of financial institutions 10% of investment firms

TOP FACTORS IMPACTING ORGANIZATIONS' TRANSFORMATION PLANS

<p>Top three factors impacting financial institutions' transformation plans to thrive and create value in the next economy:</p> <ul style="list-style-type: none"> • A lack of growth opportunities in difficult market conditions. • The threat of tech: vulnerability to a cyberattack that distracts from organizational transformation. • Increasingly burdensome tax environment. 	<p>Top three factors impacting investment firms' transformation plans to thrive and create value in the next economy:</p> <ul style="list-style-type: none"> • Increasingly burdensome tax environment. • The cost of transitioning to net zero. • Lack of understanding of the growth opportunities available to my organization in a challenging market environment.
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MACRO FORCES

LEADERS BELIEVE THAT MACRO FORCES COULD DRIVE CORPORATE PROGRESS, INNOVATION AND POSITIVE CHANGE BETWEEN NOW AND 2026	68% of financial institutions and 71% of investment firms say geopolitical turbulence will encourage new ways of business.
	67% of financial institutions and 66% of investment firms say the unpredictable regulatory environment will help to drive business forward.
	61% of financial institutions and 69% of investment firms say the "end of cheap" money is encouraging a pivot towards new sources of capital.
	68% of financial institutions and investment firms say increasing stakeholder activism will encourage positive change by improving corporate accountability.

TOP TRANSFORMATION ACCELERATORS

<p>STRATEGIC M&A</p> <ul style="list-style-type: none"> • M&A to advance AI capabilities (72% financial institutions; 83% investment firms) • M&A to supercharge organizational transformation (71% financial institutions; 79% investment firms) <p>INNOVATIVE FINANCE</p> <ul style="list-style-type: none"> • Innovative financing solutions (68% financial institutions; 73% investment firms) • Increased private sector investment (private credit / private equity) (73% financial institutions; 78% investment firms) <p>MINIMIZING RISKS AND PREVENTING DISPUTES</p> <ul style="list-style-type: none"> • Preventing and minimizing enterprise risks and reputational threats (79% financial institutions; 72% investment firms) • Preventing and minimizing litigious disputes (69% financial institutions; 79% investment firms)
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INVEST TO THRIVE AND CREATE VALUE IN THE NEXT ECONOMY

<p>Top five areas that leaders of financial institutions think their organizations need to invest in to thrive and create value in the next economy:</p> <ol style="list-style-type: none"> 1. New technologies to develop competitive AI capabilities. 2. Improved data management, and an increase in real-time data and responsiveness. 3. Forming strategic alliances where appropriate. 4. Strengthening ESG and sustainability credentials. 5. Upskilling existing workforce. 	<p>Top five areas that leaders of investment firms think their organizations need to invest in to thrive and create value in the next economy:</p> <ol style="list-style-type: none"> 1. New technologies to develop competitive AI capabilities. 2. Improved data management, and an increase in real-time data and responsiveness. 3. Agility. 4. Forming strategic alliances where appropriate. 5. Talent engagement to ensure talent retention.
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