

10 Minutes on Driving Change*

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

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Is your company prepared for more than one future?

Highlights

- An environment of constant, relentless change demands a new approach to business.
- Agility—driven by people and process improvement—now trumps technology in creating a competitive edge.
- At its foundation, an agile enterprise has a flexible business model that can respond to multiple sources of change in different ways.
- The C-suite must determine which core processes create the most value, align around them, and communicate a shared vision throughout the company.

An environment of constant change demands a new approach to business strategy. While creating efficiencies and cutting costs through process standardization and IT investment was once an effective way to create competitive advantage, companies are now finding themselves bogged down by inflexible systems and processes.

Companies must reclaim the right balance of standardization and flexibility and develop a new core competency: agility. Building agility into your company's foundation can help you anticipate likely change and address it deftly, while keeping your business on course and your customers happy.

This new approach to business agility is the key to thriving amid constant change, rather than just surviving it.

Why an agile business foundation is critical to success

- 1. Change itself has changed.**
Organizations are seeing change initiatives happening at many levels, all at once. Instead of taking change as it comes, companies must now address it in a more integrated and fundamental way.
- 2. The costs of unanticipated and poorly managed change are daunting.**
Inefficient, disruptive change programs can take a massive toll on a company's people and lead to major productivity losses—but the failure to anticipate change can exact an even heftier price. Inflexible or outdated business models can lead to huge missed market opportunities and dissatisfied customers.
- 3. Agility lets you do more than just respond.** It's no longer sufficient for companies simply to respond to change. Today, they must constantly anticipate and execute on it, quickly, proactively, and with minimal disruption. With an agile business foundation, you can create change as capably as you can navigate it.

At a glance

The benefits of developing a blueprint for business agility

- helps you better understand your company's core value proposition
- provides a common vision and business language throughout the company
- aligns the C-suite around core value-creating processes
- identifies where and how to balance process standardization and flexibility
- empowers a flexible operating model that allows a company to navigate both likely and unforeseeable change
- gives a company more control of its future

Key challenges

- working within the constraints of legacy IT
- breaking down functional silos
- facilitating C-suite collaboration
- creating an accountability structure that promotes agility and empowers employees
- communicating the value of agility throughout the organization

Rather than just reacting to change, companies must be agile at their core

Seventy-six percent of the 1,150 executives polled for PricewaterhouseCoopers' *11th Annual Global CEO Survey* said that their ability to adapt to change is a key source of competitive advantage. But agility is different from adaptation. Agility is the measured combination of standardization and flexibility that prepares a company for change and allows it to proactively shift course with minimal disruption.

Agility starts with a common business view and language

Change starts with a shared understanding of a company's strategic vision. Every employee—from the C-suite to the factory floor—must understand how he or she contributes to the big picture.

Next, by examining business processes to determine where flexibility and standardization are needed most, management teams can see what their people on the ground face every day. Leadership can then rally people around common processes. This allows employees to see how their jobs fit into the big picture, and empowers them to deal with change on an ongoing basis and contribute to shared strategic goals.

The business agility blueprint is at the core of an entire company

The business agility blueprint is a high-level map of how a company creates unique value for customers, guiding senior management toward the best mix of flexibility and standardization. Developing a business agility blueprint allows you to better understand how your company can be agile, today and in the future. It requires you to:

- **Conduct rigorous scenario planning.** Consider the global changes that are likely to affect your business in the next three to five years.
- **Identify the core, end-to-end business processes that enable you to deliver differentiated value to customers** and determine which standard processes simply facilitate day-to-day operations.
- **Assess your core, value-creating processes in the context of change scenarios.** Determine which processes will be critical in the face of likely change.
- **Identify alternative business models** that will allow your company to capitalize on change scenarios.

Break through operational barriers to agility

Freeing core processes from rigid silos

As functional business units evolve into operational silos, they can impair a company's ability to manage change quickly and proactively. In fact, the executives responding to PwC's *Global CEO Survey* overwhelmingly cited a lack of cross-functional collaboration as a critical barrier to executing on change.

To be truly agile, companies must pull their value-creating business processes out of silos and understand how each process relates to other key processes and contributes to the organization as a whole. Breaking down silos and reorganizing around core business processes vastly improves responsiveness and improves resource investment decisions. It also gives companies a better idea of which business processes add unique value and deserve more resources, and which serve more generic purposes and can be outsourced or standardized for cost savings.

Making technology a means, not an end

Similarly, the role of technology must be redirected.

According to the *Global CEO Survey*, a majority of CEOs believe that technology is a key source of competitive advantage. While technology has long served as a differentiator for companies, it is now, in many cases, holding them back.

Rigid technology platforms have made business processes inflexible.

An agile enterprise takes a "process first, technology second" approach to help recapture lost flexibility. This means that while IT can make a company stronger and faster, it should not be viewed in isolation, nor as the primary driver of competitive edge. In today's environment of constant change, technology must enable a strategic mix of operational standardization and flexibility.

Turn your operating model into a competitive advantage

Strategic opportunities and disruptive market changes occur constantly. Consider these examples:

- Based on previous customer buying behavior, a retailer counts on a 25 percent increase in cross-selling through online sales. But what if new data-privacy legislation blocks the retailer's access to critical customer data?
- A utility seeks financing from a large US bank for one of its biggest coal-dependent facilities. But the bank, anticipating regulation capping carbon emissions from power plants, is implementing more stringent lending standards. Can the utility's operating model remain economically viable in the face of costly regulation? With some adjustments to its model, can the utility actually benefit from the new lending policies?

For companies that do not have an agile business foundation, such events require overwhelming, sometimes unrealistic changes to their operating models. Their operating models prescribe a fixed response to a single source of change,

with a single anticipated direction. If that solution isn't adequate, the model may be instantly outdated.

Being unprepared for major change can take a toll on a company's people and have real economic impact: Feelings of organizational resentment, increased job stress, and associated increases in absenteeism and medical costs are only a few of the pricey impacts of poorly managed change. With unforeseen events impacting businesses more frequently, companies just can't afford to have tunnel vision when it comes to forging a path for change.

Agile companies, on the other hand, build flexible operating models that can handle both anticipated and unanticipated change, while remaining focused on their strategic goals. This ability to shift between a choice of operating options offers enormous flexibility to a company facing marketplace opportunities and disruptions. It allows the company to make massive changes in a way that will not distract or overwhelm employees, impact business as usual, or drive costs through the roof.

How to begin thinking about agility within your company

Initiate the conversation around the benefits of the business agility blueprint at the C-suite level:

- CEO: By knowing which processes are differentiators, the CEO can identify new markets to grow and defend the company's market position.
- CFO: By understanding the complete costs of core processes, the CFO can better help the CEO understand the value proposition of any growth initiative.
- COO: By understanding core processes, the COO can shift resources to improve those that drive greater value.
- CIO: By understanding core processes, the CIO can ensure that the right technology supports flexibility where it is needed most.
- CHRO: By understanding where flexibility is needed, the CHRO can revise HR strategy to reward agility where it will pay the highest dividends.
- CMO: Through scenario planning, the CMO can understand unmet customer needs and target processes that will create unique value in the future.

Work with change, not against it

As you set out to lay the groundwork for business agility, consider the following:

- How many change initiatives are underway in your organization today? Have you established the right mix of process standardization and flexibility to promote business agility, rather than just cost savings or operational efficiency?
- Have you considered the most likely changes your company faces? For example, have you assessed the implications of moving to International Financial Reporting Standards (IFRS)?
- Have you communicated the extent of change you anticipate? Have you assessed whether your people are ready to drive change throughout the organization?
- Have you evaluated your company's current IT platform in the context of likely change? Do you have an integrated IT foundation that can support change?

For further information on change management, please see our full white paper, available in print and online in February 2008, at www.pwc.com/change.

Upcoming 10Minutes topics

The SEC complexity agenda

SEC Chairman Christopher Cox has vowed to simplify the US reporting system. Are there viable solutions? Some suggest a move toward principles-based standards, which depend on the exercise of sound professional judgment. Would this benefit the US capital markets? 10Minutes guides you through the core issues.

Risks and rewards in a changing global economy

2008 could be the milestone year in which it falls upon emerging economies to sustain global growth as the US faces recessionary pressures. Business leaders around the world are preparing for change. 10Minutes analyzes findings from PwC's *11th Annual Global CEO Survey* (released at the World Economic Forum in Davos in January 2008), revealing contrasting attitudes in the US and emerging economies about risks and rewards.

Tax reform on the horizon

As the race for the White House heats up, tax reform is once again on the candidates' minds. This time, there is a new and compelling issue: US competitiveness in world markets. Tax reform can help—but how? 10Minutes identifies the key aspects of the debate.

How “fair value” can affect your bottom line

Fair value, or marking assets and liabilities to market, has its proponents and opponents. It's becoming more pervasive in financial reporting and it has more than just a bottom-line impact. 10Minutes will discuss the things you need to know without the technical jargon.

New concepts for financial reporting

The income statement and balance sheet—foundations of public reporting and financial analysis—have remained all but unchanged for decades. But today, the standard setters are considering major changes to basic form and content. 10Minutes provides an update on the state of play.

How PwC can help

To have a deeper discussion about change and business agility, please contact:

Tell us how you like 10Minutes and what topics you would like to hear more about. Just send an email to:
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