

# How to build an agile foundation for change\*

Achieving operational excellence series



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PRICEWATERHOUSECOOPERS 



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The heart of the matter

Is your company  
prepared for more  
than one future?

Globalization. Instant communications. Virtual business networks. Empowered customers. These are a few of the dizzying changes forcing companies to reinvent how they do business. More are on the way, and while we may be able to see some of them speeding toward us, others will surely catch us off guard. One thing is certain: Change is no longer something that happens periodically. It's continuous—constant and unrelenting.

The block-and-tackle strategy for dealing with change that may have worked in a simpler past just won't cut it today. To achieve sustainable success, today and in the future, you must take advantage of change—whether planned or unexpected—without ever letting it sideline you. This means embracing a new core competency: agility.

Just another buzzword? Far from it.

Being agile means anticipating likely change and addressing it deftly, all while keeping your business on course and your customers satisfied. To achieve those goals, agility must be built into an organization's very foundation, from strategy to design, people, processes, and supporting technology. That sounds straightforward enough. Why, then, are so few companies truly agile?

In the last decade, business leaders have worked to create efficiencies and cut costs through surges in technology investment and standardization. For a time, this strategy created advantage, but it also sapped flexibility. Having overestimated the importance of standardization, companies now find themselves bogged down with inflexible systems and processes.

In order to survive and thrive amid constant change, companies must reclaim the right balance of standardization and flexibility and build strategic and operational agility into their business foundations. By developing a business agility blueprint—a shared view of an organization that promotes deeper understanding of core processes, risks, and transformational opportunities—business leaders can approach change confidently, whether they see it coming or not. They can drive decisions about people, processes, and technology based on knowing what the market values today and what customers will pay a premium for tomorrow.

Adopting a business agility blueprint may require fundamental shifts in an organization's inner workings, from the way senior executives collaborate with each other to how employees at the ground level execute on an evolving vision. But the rewards are clear, as some early adopters have already begun to discover. With the right tools in place, the dream of enterprise agility can become a business reality.

An in-depth discussion

The agile enterprise turns  
its operating model into a  
competitive advantage.

Think back to your last visit to your favorite coffee shop. Just a few years ago, you and most of your fellow customers probably were content to take away a steaming hot cup of whatever was brewing that morning. No frills. These days, your poison is a half-caf, sugar-free, vanilla, skim cappuccino. We've all gotten more discerning and demanding, but we still expect a masterful level of efficiency from our local barista. We require enough standardization in the assembly line to get us our daily dose quickly and consistently every morning, but also enough flexibility to allow for extraordinary customization of our orders. Times sure have changed.

Fundamentally, the global, real-time, customer-driven market in which businesses now operate requires a new brand of organizational agility. Like your local java purveyor, companies must be flexible enough to customize their products for customers who expect special treatment, but they must also provide that special treatment from a common, standardized supply chain and business infrastructure.

The two goals are somewhat contradictory, requiring a measured orchestration of standardization and flexibility. It's a tightrope that every business leader must walk, between rigidity and chaos. At one extreme, sweeping standardization holds your company and your people to rigid, inflexible systems and processes; at the other, customization—a critical component of flexibility, when used in the right balance—creates utter chaos out of your strategy and operations.

Agility is the strategic mix of standardization and flexibility, targeted at those organizational pressure points where they're not only needed today, but will most likely be needed tomorrow. With the right mix of process standardization and flexibility in place, business leaders can efficiently anticipate and execute on change, turning scenario planning from a theoretical exercise into a real decision shaper. Knowing that significant change can be supported operationally, they can then develop a roster of business model alternatives, any of which can be quickly implemented in response to market shifts without tearing apart infrastructure or sapping efficiencies.

The challenge for large companies is even greater, given their scale and complexity. But executive management teams at firms such as General Motors (GM) have recognized that they require a new approach to success that provides the right balance of flexibility and standardization—an approach that addresses technology as a business enabler and elevates to a strategic priority the roles people, processes, and organizational structure play in promoting business agility.

Industry experts believe that with new leadership and a new strategic vision in place, GM is on the brink of transformation.<sup>1</sup> The long-beleaguered automaker has taken some important, incremental steps toward agility by assessing its organizational design and consolidating core processes across the company to more efficiently meet customer demands, pursue innovation, and solidify the brand.

Scrutinizing the company's overall design, GM's leadership realized that organizing around national divisions created both massive duplication and unnecessary differences among its many business units, even when they were selling the same products. The organization's very design kept costs high and created roadblocks to global innovation.

To be a more agile organization, GM realigned its operations by line of business rather than national markets, and prioritized those processes that created unique value for customers. For example, by developing a consistent Web platform for each GM brand, the company aimed not only to ensure consistent brand identity in all regions, but also to guarantee that all customers could perform the same functions that lead to sales, such as pricing out a specific set of options or checking local GM dealer inventory—and all without creating redundant back-end or IT systems.

<sup>1</sup> Alex Taylor III, "Gentlemen, Start Your Turnaround," *Fortune* (January 8, 2008).

To balance its new standardization, the company designed enough flexibility into the plan to accommodate the unique needs of local markets, creating an essential mix of standardization and customization. For instance, each business's Web site is able to honor local regulations, such as avoiding prohibited cross-border sales in Europe.

Organizing around core business processes allowed GM to identify and outsource more generic technology requirements to various IT vendors. Thanks to the detailed process analysis and orientation the company adopted, the diverse processes—those that GM determined were differentiating and those that were not—worked together more efficiently where they connected. “You need to identify the key components and how they interact with each other to give you the overall structure,” said Hong Zhang, GM's director of IT architecture and IT standards.

As we'll discuss, a handful of companies are blazing a trail toward business agility, taking steps to reorganize their businesses for change, but no single company has yet achieved the holy grail of true, foundational business agility. Getting there will require an innovative approach to one critical question: How do you build the ability to deal with change into your company's foundations without tearing the whole organization down?



What some companies have failed to consider is that their industry has an operating model that is efficient but not agile.

## Why agility is a new core competency

According to PricewaterhouseCoopers' *11th Annual Global CEO Survey*, executives around the world are giving their companies high marks when it comes to change.<sup>2</sup> Of the 1,150 global CEOs responding, 76 percent said that their ability to adapt to change will be a key source of competitive advantage in the coming year—as it should be, if the amount of change demanded of their organizations continues on its current trajectory. Seventy-two percent of global CEOs said their companies had taken on five or more major change initiatives over the previous three years, ranging from going through an M&A event to reorganizing key business functions or implementing new business models, processes, and strategies. These initiatives might demonstrate an ability to respond well to change, but that isn't the same as the ability to anticipate or proactively create it.

Incorporating agility into a business foundation or architecture, as companies such as GM have begun to do, requires new ways of thinking, new approaches to business process design and talent management, and, yes, even new technologies. The failure to build flexibility into both organizational design and operations can threaten a company's survival.

Take the case of the music industry. Companies throughout the industry, from record labels to distributors, are learning the agility lesson the hard way as they race to keep up with the massive changes online media have imposed on the industry's basic business model. The music industry spent decades refining a highly standardized process for identifying new artists and producing and distributing their music. For many years, this well-oiled industry machine seemed to promote agility through increased efficiency: Records hit the market quickly, allowing new fads to take root before the clock had even run out on the last singing sensation's 15 minutes of fame.

<sup>2</sup> PricewaterhouseCoopers, *11th Annual Global CEO Survey* (January 2008).

Enter the Internet. With the rise of e-commerce, new markets that sell individual songs for download and new distribution channels such as online stores have emerged to shake the music industry's long-standing economic foundations. And, adding even greater stress, music companies are under attack from new competitors they never even considered industry players. For example, social networking Web sites have hijacked the discovery, development, market testing, and promotion of new artists and new genres—all processes critical to the success of the basic music industry model.

As a whole, the industry has been slow to respond to this massive, disruptive change. What many companies failed to consider was that their industry had an operating model that was efficient but not agile, well suited only to the specific business context of the time in which it was perfected. In their belated responses, many music companies have become quite aggressive about adapting outdated or legacy business structures to compete more effectively within this new and more complex environment.

The chairman and CEO of Warner Music Group (WMG), Edgar Bronfman, Jr., acknowledged in a late 2007 speech the harsh reality his industry now faces: "We used to fool ourselves. . . . We expected our business would remain blissfully unaffected even as the world of interactivity, constant connection, and file sharing was exploding. And of course we were wrong. . . . By standing still or moving at a glacial pace, we inadvertently went to war with consumers by denying them what they wanted and could otherwise find, and as a result of course, consumers won."<sup>3</sup>

<sup>3</sup> Edgar Bronfman, Jr., keynote address to the GSMA Mobile Asia Congress (November 13, 2007).

With this understanding, WMG's leadership team set out to address the changes the company faces today and prepare its business model for an uncertain future. Taking incremental steps to rapidly adjust the company's legacy infrastructure, WMG realigned its sales force to address the shrinking number of music sales outlets and better attend to new markets. To expand the company's footprint in the digital marketplace and tap into the fastest-growing sectors of the music business, the company has aggressively pursued mobile partnerships and distribution deals with Internet and technology partners.

More importantly, WMG has taken critical steps toward building a more agile foundation for the future and breaking down the industry's outdated economic model of paying large advances to artists and hoping that the sales generated are great enough to recoup the investments. Along with the other major music companies, WMG is now establishing a new partnership model with many artists that emphasizes long-term revenue-sharing agreements.

Without this kind of transformative agility—the right mix of flexibility and standardization—designed into their industry's core value-creating processes, music companies will continue to find themselves in a decidedly reactive position. While they may revise individual processes to respond to the changing music market—for example, working with online music distributors to facilitate single-song downloads—they have not been able to easily adapt their overarching operating frameworks. As a result, change initiatives are often costly and painful.

Even more expensive than a delayed response is the toll poorly managed change can take on a company's people. Research shows that nearly 75 percent of all organizational change programs fail, not because leadership didn't adequately address infrastructure, process, or IT issues, but because they didn't create the necessary groundswell of support among employees.<sup>4</sup>

<sup>4</sup> Mark J. Dawson and Mark L. Jones, PricewaterhouseCoopers, "Human Change Management: Herding Cats" (2007).

When people aren't brought along for the ride in a way that helps them understand clearly how their jobs contribute to their company's goals, change can create costly behavioral risks. In the US alone, job stress comes with an annual price tag of about \$300 billion, measured in absenteeism, productivity losses, and increased health and legal costs.<sup>5</sup> As change becomes a more frequent requirement, companies are likely to find themselves paying an even heftier price for being unprepared.

As so many businesses have realized, even successful change initiatives can have limited impact when they deal with problems or opportunities in an isolated, reactive way. Companies across industries have developed inflexible business processes that may be efficient but do not handle change well, leaving their businesses vulnerable to market shifts and unable to take advantage of new opportunities speedily or effectively enough.

It doesn't have to be that way. With a fresh approach, businesses can build an organizational foundation that supports future change, allows faster, proactive shifts in course, and enables them—and their people—to take advantage of new opportunities on a constant, ongoing basis.

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<sup>5</sup> The American Institute of Stress, [www.stress.org/job.htm](http://www.stress.org/job.htm).

# The hallmarks and benefits of an agile enterprise

Today, truly agile organizations are a rare breed. In fact, you'd be hard-pressed to name a single company that embodies all the characteristics of an agile enterprise at all the requisite levels, from its strategic foundations to its operational infrastructure and management philosophy. Some companies, though, are making great strides toward this goal and offer leading insights into the hallmarks of agility: a common vision and business vocabulary, and a culture of contribution to constant change.

At the highest levels of their organization, agile enterprises possess a clear, shared understanding of which business processes are at the core of how that company best serves its customers. Every member of the C-suite is on the same page with regard to which processes create new value for the company and which simply facilitate business as usual. This common vision enables businesses to develop flexible organizational designs, adaptive management techniques, and efficient operations.

At Cisco Systems, the network and communications service provider long heralded for using its buy-to-grow business strategy to exploit market opportunities, a shared vision of the critical interdependencies between people and processes allows the company to move at a faster pace and helps leadership understand the future implications of important business decisions.

“Command-and-control. I love it, I know how to make it work. But that’s not the future. It’s not where productivity is going to come from and it isn’t the way that you’re able to move with speed and skill,” said Cisco chairman and CEO John Chambers in a recent conversation with industry analysts. “We have to take these concepts and drive [them] through each of our leaders within the company—not the top 10 people, but all 60,000 of us. . . . Because without a common vision, and an understanding of these chess games that are going on, you can really mess up what you do, even if you’re down far in an organization.”<sup>6</sup>

<sup>6</sup> John Chambers, “From Here to Collaboration,” Cisco Systems Financial Analyst Conference (September 5, 2007).

Agile enterprises work from a common business vocabulary across the whole organization, and make the intersection points of related processes accessible and easy to use, producing increased consistency of results.

This kind of consistency reduces the complexity that all too often weighs down large and small businesses alike. And it facilitates the rapid development of new processes, products, and services in real time, as the market demands them. Consistency of vision, language, and core processes throughout the organization means that when a company needs something truly unique—a new product line or supplier management tool, for instance—all necessary resources will already be in place and available to meet any new requirements. Consistency makes success that much more predictable.

A financial services company, for example, may have several product lines that generate tax forms—retirement products, college savings tools, and so on. If truly agile, that company would create a single tax form generation process across the entire organization, with an identical user experience for all employees who need to access it across the company. All product lines would use the same terms and language to describe each piece of information collected throughout the tax form generation process.

Now, let's say management wants to rapidly implement a new wealth management product. Much like an internal service, the tax form generation process is at the ready. The new product line does not need to develop its own proprietary tax form generation process, and can instead quickly access the one already at work across the company. Though standardized for efficiency and consistency, the common tax form generation process is also sufficiently flexible and discrete to be applied instantly, wherever it's needed. Right off the bat, the tax forms generated for the wealth management product are complete, accurate, compliant, and secure. In other words, they are predictably and consistently well-executed.

At Cisco, a consistent vision across the organization has undoubtedly fueled efficiency over the past decade. But today, leadership is incorporating greater flexibility into the company's design to enhance that shared vision and promote agility. Moving away from a "command-and-control" structure toward a more decentralized but tightly linked network of business leadership councils, Cisco's management is hoping to speed up the decision-making process and increase knowledge sharing across the company.

Already, the results of blending standardization, flexibility, and a shared vision are apparent. According to Chambers, an acquisition that used to take the company 45 days to complete now takes only 8, with a higher probability of success. With an agile business foundation, the company aims to tackle 20 major new initiatives this year, rather than just one. As Chambers noted, Cisco's shared view of the organization, empowered by a more flexible decision-making structure, "will enable, through collaboration and teamwork, something you just couldn't start 12 months ago. We've been doing it for 6 to 7 years. It's the ability to say, 'Where does this take us for the future?'"<sup>7</sup>

<sup>7</sup> Ibid.

Agile enterprises have a vast arsenal of unique capabilities that empower them to capitalize on opportunities faster than more conventionally structured organizations. Agile organizations are able to move from strategy to execution far more efficiently by:

- **Anticipating the future and planning for business opportunities.** With a common business language and flexible business structure, information from across the company or external supply chain becomes more available and transparent for use in predictive models.
- **Simplifying and integrating business activities so they can be analyzed for cost and value.** Agile enterprises reduce redundant activities within operations, which reduces organizational complexity, reduces operating costs, and focuses investment opportunities.
- **Focusing on innovation within the existing boundaries of their businesses.** With a flexible design and a clear understanding of which innovations contribute most to the organization's strategic goals today—and which are likely to create new value in the future—agile enterprises more effectively target innovation opportunities and direct talent to them.
- **Integrating new business capabilities continuously, rapidly, and cost effectively.** Agile enterprises can better incorporate new capabilities that result from mergers, acquisitions, and strategic alliances. They can also divest business activities with the same speed and efficiency, while reducing the risk of losing key competencies.
- **Managing change through people.** When people see how they contribute to a company's vision, they are less likely to resist change and more likely to help make it happen, on a day-to-day basis.



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“Future innovations are not limited to technology and product development, but more importantly, they are driven by the business model.”

Yang Yuanqing, chairman of Lenovo Group

## What's holding your company back from being an agile enterprise?

Chances are, agility isn't a tough sell in your organization. Most executives appreciate its importance, and some may even consider themselves well on their way to achieving it. Why, then, are so many of today's businesses so far from realizing foundational, enterprise-wide agility?

Most organizations today are unprepared to achieve this level of agility for one rather ironic reason: The recent emphasis on increasing efficiency and driving out cost through technology has had the unintended consequence of distracting senior management from the other key drivers of agility—people and process improvement—creating an Achilles' heel for many businesses today. And, according to PwC's CEO survey, many organizations remain blind to that potentially fatal flaw.

While almost 80 percent of CEOs said their ability to adapt to change was one of many sources of competitive advantage, the greatest percentage of respondents—22 percent—claimed technological innovation as their primary source of competitive advantage when asked to rank those sources of value. The ability to adapt to change took fourth place, behind both improved customer service and the ability to access and retain key talent. As an investment bet, technology still trumps people, process, and adaptability in the minds of the world's business leaders.

What many management teams fail to recognize is that, in today's world, the very technology that once created competitive advantage, helping companies increase their scale and efficiency through standardization, isn't much of a bet, it's an ante. Now the norm, most technology keeps you in the game, but provides little differentiating value for your business. And scale without differentiation is a race to the bottom, to commodity products and services. "It extends beyond IT," said Paul Anthony, former managing director and CEO of AGL Energy Limited, the largest gas and oil retailer in Australia. "You take a long, hard look at a business and say, 'What do we do and why do we do it?'"<sup>8</sup>

Technology has dramatically quickened the pace of business, and it has also accelerated the need for change. New, automated tools allow organizations to handle a wealth of transactions quickly, consistently, and accurately. They make information sharing and analysis easy. And they have helped reduce costs by eliminating both the people who did those jobs manually and the managers who oversaw the process. But technological innovation brought with it some unintended consequences:

- As those individuals left, they took with them deep knowledge and experience. Now, those automated processes are hidden in software, "black boxes" that are poorly understood and thus difficult to change or manage.
- The automated systems that replaced that talent pool were designed as engines that could handle an entire silo of business activity, but they cannot be adapted easily as demands on that business activity change.

<sup>8</sup> PricewaterhouseCoopers, *10th Annual Global CEO Survey* (January 2007).

Once in place, innovative technology becomes legacy IT—difficult and expensive to change even when there are very compelling reasons to do so. At some level, most senior executives realize that IT has become a bottleneck, and many try to address the problem without causing too much disruption to the business—by adding more IT. But while innovative new technologies such as service-oriented architecture (SOA) and Web 2.0 are making many companies stronger and faster, IT alone is not the answer. That kind of Band-Aid approach fails to acknowledge the root of the problem: The people who really know the processes are no longer around, and the systems that took over those very human behaviors weren't designed for easy change.

“Future innovations are not limited to technology and product development, but more importantly, they are driven by the business model,” noted Yang Yuanqing, chairman of computer manufacturing giant Lenovo Group. “The most critical factors that determine whether you win or lose are the way you do business, the deployment of your resources, the allocation of functions, and your operational workflow.”<sup>9</sup>

This “process first, technology second” approach is the key to transforming a sluggish organization into an agile enterprise. For example, as many companies adopt innovative new technologies such as SOA, the most agile among them will view the new IT platform as one of a few business features that enables their unique, strategic mix of standardization and flexibility to take root operationally.

<sup>9</sup> Ibid.

As George Glass, chief architect at BT Design, the process-focused IT arm of BT (the former British Telecom), put it, “If you are building a service-oriented architecture, you can do it just from an IT perspective, and that’s an interesting exercise. But if you do it as part of a business transformation, and you start becoming an agile enterprise, you can really start to leverage the benefit of your service-oriented architecture.”

Unfortunately, most organizations have not yet realized that. Instead, they continue to apply innovative IT techniques such as SOA within their conventional, rigid business frameworks, giving the technology little hope of truly enhancing organizational agility.



With a strategic combination of standardization and flexibility, companies can more efficiently fulfill their promise to customers.

## Taking a targeted approach to transformational change

In a perfect world, executives would start with a clean slate, with no legacy systems or ingrained employee behaviors standing in the way of progress. But how many CEOs can simply stop a business in its tracks and reinvent it, unconstrained?

Imagine buying a house that, despite your inspection, turns out to be a real money pit. You want to just tear it down to its foundation and start from scratch to build your dream home, one that would stand for years to come and offer your growing, changing family the comfort it needs. But then the reality of how much this would cost and how much of an inconvenience it would pose sets in. The superficial improvements you consider as an alternative also don't sit well. You can fix the plumbing and slap on a new coat of paint, but where will that investment get you? The question remains: How do you refresh your home's foundation while the house is still standing?

When it comes to business, executives all too often take a similar, inevitably ineffective approach to transformation, tinkering with the pipes of their technology infrastructure while old business processes and management programs—the real root of the problem—continue on a steady, unchanged course. It's as if you were trying to fix a sagging foundation by repainting the cracks in the wall and installing a new furnace.

By shifting to process-oriented, adaptive management, a company's leaders might achieve the same near-term results along with more sustainable long-term benefits. By focusing on the end-to-end core processes that create business differentiation, they can develop their company's capacity to rapidly adjust business processes to sudden or unexpected market changes.

For this to work, the organization must undergo two major cultural shifts: a move to a process-oriented view of the business as a whole (rather than as discrete sets of siloed activities) and a transition to a truly collaborative leadership model that enables the organization to share common processes across traditional boundaries. Together, these shifts will promote agility throughout the entire organization and thus serve the company's overall strategic objectives—not just local, highly specific business goals.

Companies are learning that every approach to organizational design, whether flat and process-oriented or hierarchical and highly matrixed, has its trade-offs between standardization and flexibility. But to achieve business agility, those trade-offs simply can't be viewed as either/or propositions. As already noted, most initiatives that seek to enhance efficiency through standardization alone have done so at the price of flexibility. On the other side of the coin, an approach that focuses exclusively on flexibility makes no more sense, as designing flexibility into a business foundation usually exacts some cost in terms of efficiency.

Identifying where to emphasize flexibility over standardization is a key challenge for management teams. To achieve the right balance, they must clearly and correctly anticipate which parts of the organization's structure are most likely to translate increased fluidity and flexibility into increased value.

Company leaders must ask themselves some questions: What events are most likely to strain my organization, today and in the future? How can my business create unique value for customers by rapidly refreshing its operating model based on changing market conditions? Where would standardization within my company promote the efficiency and consistency that will drive improved product quality, lower costs, and promote operational excellence? In other words, to pursue agility, senior executives must know why and where their businesses need both flexibility and standardization.

# The business agility blueprint as the way forward

Achieving this kind of foundational agility—the ability to first get the right mix of standardization and flexibility, and then to operationally anticipate change—requires a distinctive, innovative approach to the way a business operates and creates value for its customers, employees, and shareholders. Rather than focus entirely on individual business processes within silos of activity, management teams must understand their core business processes across the whole organization—the places where people, process, and technology intersect most powerfully to create value for customers.

A business agility blueprint provides just that view of an organization's value proposition. A high-level map of how and where unique, differentiating value is created throughout an organization, the business agility blueprint allows a company's senior management team to examine issues of standardization and flexibility within the context of the company's overarching business strategy. In short, it allows the enterprise to be agile where it matters most today and, more importantly, to anticipate where it must be agile in the future.

A phased approach to change-readiness, the blueprint helps a company's leadership balance the agility equation and avoid the extremes of rigid standardization and chaotic customization that put businesses at a significant operational disadvantage.

Whether you're approaching an enterprise-wide strategic overhaul or targeting one specific product line or business unit, the business agility blueprint provides a road map for dealing with that change, today and in the future.

The exercise of developing a business agility blueprint has only a few steps, but following its guided tour of your organization—from rigorous scenario planning to the deep dive into your business's core value proposition—can result in profound transformation.

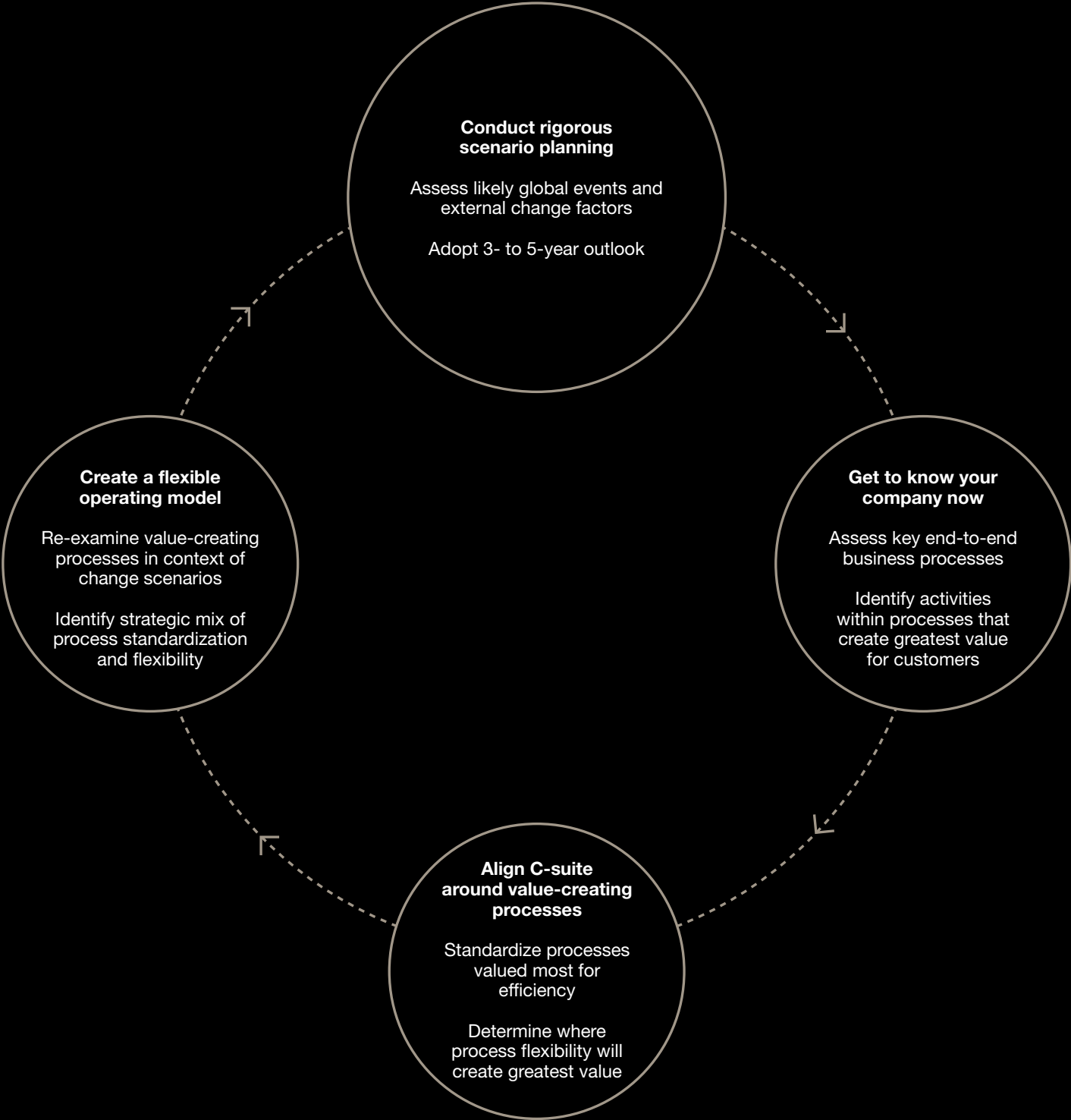
The key steps in developing a business agility blueprint include:

- **Detailed scenario planning.** Management teams assess the economic, environmental, regulatory, and geopolitical factors that are most likely to impact their businesses in the next three to five years.
- **Getting to know your business.** Through rigorous process assessments, executives gain a deeper understanding of which processes or business activities contribute to a company's core value proposition and which simply facilitate business as usual.
- **Aligning around value-creating activities.** With a shared view of their businesses, management teams collaboratively identify best practices and performance standards for executing the value-creating activities that are common across functions.
- **Re-examining value-creating activities in the context of likely change.** With an outlook toward a number of possible futures, executives identify which processes must be made flexible and which must be standardized for the company to continue creating value through change. By putting this strategic mix in place, senior management creates a flexible operating model that can accommodate many different sources of change, rather than just one.

The result of this effort to understand a business's core value proposition is a blueprint against which management can begin to infuse the right mix of flexibility and standardization, implement a structure that supports a range of potential operating models, and continually measure their progress and success.

Figure 1

Going through the key steps in a business agility blueprint can result in profound business transformation.



## Blueprint planning at work

To see the blueprint planning exercise in action, consider this example. Despite its success with a few blockbuster marquee drugs over the past decade, a global pharmaceutical company finds itself challenged by advancing change. The blockbuster model for drug manufacturing is becoming a thing of the past; research indicates that most drugs aren't appropriate for as many users as expected and the medical community is moving toward smaller, more personalized treatments. As such, the drug maker's spending is now at odds with emerging business realities: The budget for its sales and marketing machine, focused on just a few cash cows, is twice as big as its allocation for research and development.

Senior management views the situation as an opportunity to create a foundation for agility. The leadership team goes back to the drawing board to renew their understanding of the company's core value proposition. They assess the lay of the land, identifying both current threats to the company's business model (an increasing demand for more niche drugs) and likely future threats (patent expirations and changing regulation, for example), and acknowledging a range of unforeseen circumstances that could impact the business (the eradication of a disease or whole class of diseases, for instance). In all of these scenarios, the company's core value proposition remains the same: to provide patients with as many viable treatments for chronic diseases as possible, as quickly as possible.

Under the company's current operating model, most of its developmental drugs never even make it to market. In fact, across the industry, only 20 percent of the drugs that enter clinical testing ever reach pharmacy shelves.<sup>10</sup> Years of scientific effort and hundreds of millions of investment dollars routinely go down the drain. But, senior management asks, what if they could accelerate the knowledge-sharing and decision-making process so that doomed drugs could be identified earlier in their development? If companies could kill drugs before they entered clinical trials or early market release, they could save billions and attend to more viable drug candidates, speeding up the development process and increasing their drug-to-market success rate. They could consistently deliver on their core value proposition: Customers would get more and better drugs, faster.

<sup>10</sup> Pharmaceutical Research and Manufacturers of America, *Pharmaceutical Industry Profile 2007* (March 2007).

The company embarks on developing a blueprint for business agility. First, leadership identifies all the core business activities that contribute to the company's value proposition, from R&D through manufacturing and licensing. Rather than building those end-to-end processes around individual products, as they might have in the old world of blockbuster drugs, they build them instead around specific disease areas (e.g., cardiovascular disease and obesity), assigning management to each.

With the flexibility offered by this kind of service-oriented design, management could consolidate R&D operations for greater agility. By placing all obesity drug development within one organization, for example, the company would enable critical knowledge sharing through information standardization, while allowing scientific creativity to flourish across an entire treatment area, rather than within just one product line.

Since management went through a rigorous scenario-planning exercise early on, they know that this approach will see them through a range of circumstances successfully. But what if another company beats them to a cure for obesity? That would, presumably, render an entire line of business totally obsolete. By anticipating that possibility, the company can prepare operationally for alternate routes that address a changed business reality. For instance, they can build in the organizational flexibility that will allow for a rapid shift to partnerships or outsourcing arrangements. Or, they can construct their consolidated obesity research engine in a way that allows its scientists to easily transition into other areas of drug development, should the need arise.

While competitors that have not built agility into their foundations would likely lose momentum in adjusting to such massive changes, this drug maker has prepared ahead of time to leverage standardization where possible, apply new or flexible processes where needed, and quickly jettison unnecessary strategies, all without major disruption to the business. In other words, they've reduced their own recovery time.



Before an organization can create and implement the mix of flexibility and standardization that will enable agility, it has to know what it wants to be agile *for*.





With this planning effort under their belt, the drug company's leadership now has a blueprint against which they can implement, execute, and measure their business agility. With this mix of standardization and flexibility, they can more efficiently and successfully fulfill their company's most basic promise to its customers and secure its position as a market leader.

As it did at the global pharmaceutical company, the blueprinting exercise helps management teams:

- Establish the end-to-end process for how a business delivers products or services
- Break down silos while defining natural boundaries between business functions
- Identify points where flexibility or standardization would be desirable
- Establish an authority and accountability structure that supports agile processes
- Conduct rigorous scenario planning and establish alternative operating models in anticipation of likely change

A key factor in achieving business agility is the acceptance of a shared management view of the organization's present activities and its prospects. As described earlier, this shared view and understanding of core end-to-end value-creating processes helps the management team understand where to focus when creating the right mix of process standardization and flexibility in different parts of the organization.

Supported by diligent, operational scenario planning, the business agility blueprint should indicate where future market demands or opportunities could create a need for greater flexibility. At a strategic level, when an organization can anticipate the need for process flexibility, it will understand which processes and activities warrant the extra investment and attention that enterprise agility requires. Not every part of the organization will warrant such investment.

But where to start? Senior management should focus first on identifying and defining the processes that are core to the customer experience or that create competitive differentiation, as well as those that warrant fewer strategic resources—generic processes that can be outsourced or highly standardized. That focus at the top of an organization on the value of targeted flexibility is a key purpose of the business agility blueprint.

Figure 2

The agile organization develops a strategic mix of process standardization and flexibility.

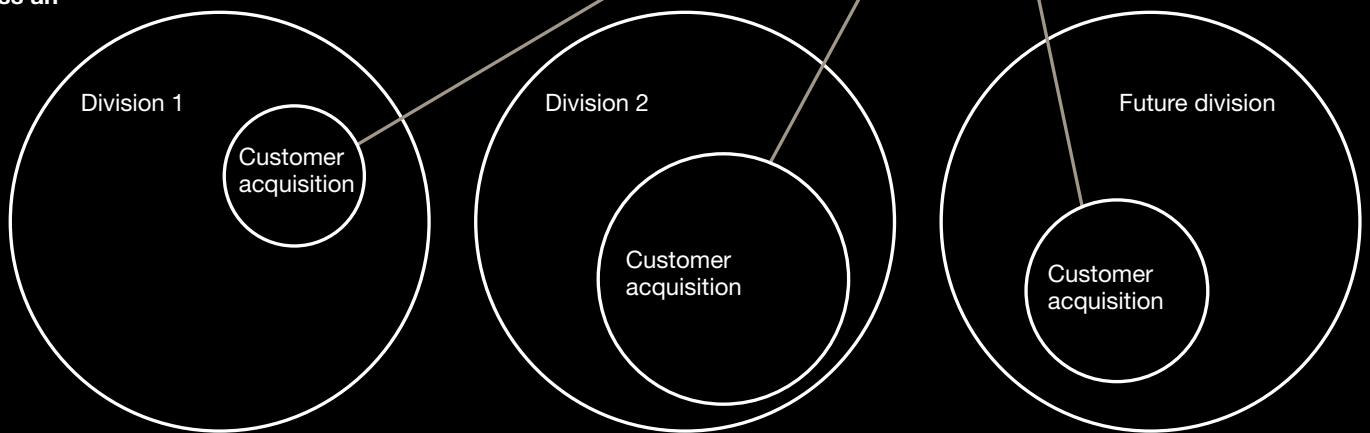
An example of a defined end-to-end business process (sales)



Identification of where flexibility creates the greatest value



Application of a flexible value-creating process across an organization



What this means for your business

An enthusiasm for change must be built into your culture—and the hearts of your employees.

Before an organization can create and implement the mix of process flexibility and standardization that will enable agility, it has to know what it wants to be agile *for*. To ensure a business can deliver on its core value proposition under any changed circumstance, senior management must collaboratively assess the probable futures it anticipates. This means determining not only how various scenarios might play out but also the likelihood that they will, along with the cost of preparing for them and the cost of not having prepared for them.

For example:

- A financial services company does not focus on retirement products today and is slow to market with new product offerings. Will they be able to capitalize on potential changes to the current Social Security model?
- 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 company'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?

A business agility blueprint is not a prescriptive set of directions to a single desired future, but rather a game plan that allows a company to be successful no matter how an uncertain, changing business environment unfolds.

Recently, the management team at BT recognized that the British telecommunications market and the regulatory rules governing it were likely to undergo profound change. Rather than just patching their existing processes and infrastructure in a piecemeal way, the company's leadership decided to rethink their business and prepare it for any number of changes likely to come crashing down around it. Facing the prospect of having to open up its business to competitive service providers, the company consolidated its business processes into 14 "platforms," ensuring there was only one version of each process, no matter where in the company it was used.

For instance, BT decided to consolidate and standardize the process of validating service availability for any service a customer might want to purchase, such as land line, cellular, DSL, or any other future product not yet developed. Before the reorganization for increased agility, each functional group at BT had its own ways of meeting this very common requirement.

With core business processes consolidated and the right balance of efficiency and flexibility in mind, BT's management team then aligned its functional groups with these 14 platforms, increasing the likelihood that the company would be able to successfully meet any new market demand, anticipated or unforeseen.

This type of foresighted evaluation helps you first identify the extent of agility desired, then, as BT did, review your processes and infrastructure to determine what it will take to ensure they can both handle any given scenario. Call it an agility test. But before you can test for desired agility, senior management must together identify the business's key processes, describe and standardize them (where possible), and then group them in a way that takes advantage of common needs across the organization. Some processes are unique to specific functions, while others are—or should be—used across many functions for consistency and efficiency. Some processes are critical to providing unique value for the organization, while others are generic but necessary for operations. Some are likely to change frequently, while others are not.

Many business processes are designed for and used in relatively isolated silos. Instead of looking at these processes as inseparable parts of a hulking, monolithic business engine, think of them as individual building blocks for change, growth, and innovation. Going through the business agility blueprint exercise allows your management team to strategically separate the building blocks of process, making them more flexible and handy, so that they can be quickly reassembled in creative new ways across the organization to meet new and changing market demands.

To break down inflexible silos—to pull the building blocks of process apart—organizations need to understand their processes from end to end. This means identifying, separating, exposing, and perhaps even standardizing the individual tasks in use, as well as the possible relationships among them. Without this kind of deep understanding, an organization has no clear way of channeling resources toward the creation, correction, or consolidation of processes that enable agility.

The business agility blueprint should not try to define every minute step of every single process, or every possible process interaction or combination. Instead, it should focus at a higher level, identifying which processes, as they are carried out today and as they are intended to be carried out in the future, create unique value for the company and its customers. That way, the agility blueprint is updatable and can serve as a focal point for collaboration.



A business agility blueprint is a game plan that allows you to succeed no matter how an uncertain, changing business environment unfolds.

## True collaboration around the business agility blueprint

The first step in applying the business agility blueprint to your operations is to establish a clear map of where and how common processes relate or connect to each other, and to create an accountability structure for those newly integrated processes. Who owns them? Are they jointly owned? What are the standards against which the success of those processes will be measured? This may sound like Process Design 101, but the business agility blueprint offers senior management a way to take that foundational effort to the next level.

With a deep, shared understanding of how your company's core, value-creating processes work, leadership can then use the agility blueprint to consider the company's existing process design and accountability structure in the context of likely change. How will flexible processes need to be applied in a range of changed circumstances? What foreseeable, probable changes to the company's accountability structure can management plan for today?

With the business agility blueprint in place, and plans for future change at the ready, the management team can put the blueprint into action by creating the specific "engineering diagrams" needed for each functional group or business unit. Much as a building architect's blueprints are further drilled down into electrical schematics, engineering analyses, bills of material, and workflow scheduling, the business agility blueprint can be drilled down to the execution level.

The granularity of these detailed plans enables each functional group to do its part in—and direct its own resources toward—achieving the organization's ultimate desired result. When the blueprint changes, each group's plans also change. This way, everyone remains aligned and the organization's enduring, strategic objectives remain closely linked to the fast-moving details at the execution level.

**Figure 3. Strategic and operational outcomes of the business agility blueprint**

Strategic outcomes	Operational outcomes
Streamlined and prioritized end-to-end processes	Best practices and measurable performance standards that support (and reward) agility
Detailed, operational change scenarios	Flexible tools and systems for managing core value-creating processes
Strategic combination of process standardization and flexibility	Flexible operating model and clear direction for current/future investments
Collaboration across the C-suite	Removal of barriers to change, and strong, consistent communication around it

As an agility blueprint becomes the business's road map—both for the course leadership charted and for the alternative routes they want at the ready—it becomes increasingly important for senior management to ensure that everyone involved is contributing to the same strategic goals. A business's people, not just its structure, must enable agility.

As Edward J. Ludwig, chairman of the board, president, and CEO of medical technology firm Becton, Dickinson and Company, pointed out, an organization's social skills—its people's ability to quickly anticipate, learn about, and adapt to unmet needs in global markets—are going to be critical in the future.

“We'll need to convert those skills and knowledge into products and services that are constantly changing,” said Ludwig. “Everyone should understand what the goal is, where we're going, bound by our values and our purpose. This is not new, but the emphasis, the urgency to deploy this kind of agile learning organization is intensifying. The world is rapidly increasing its ability to throw the unexpected at you.”<sup>11</sup>

Just as the individual members of a college marching band that stand in formation to spell out the school's name are unable to see the result of their efforts from ground level, the individual, highly specialized members of a large organization might lack a bird's-eye view of how they are contributing toward the company's common, strategic goal. Yet, properly applied, agile business processes can transcend any one person's focus and connect people across an organization to a common strategy.

<sup>11</sup> PricewaterhouseCoopers, *10th Annual Global CEO Survey* (January 2007).

Going through the foundational exercise of examining end-to-end processes provides more than just the high-level blueprint or process map. It also provides the management team with a shared view of what the organization is really doing to create value, and what its people are confronting every day at the ground level. It enables leadership, at the highest levels, to compare their strategies for managing both people and process against the company's overarching goals.

“Organizations now tend to be fabrics of multiple processes and systems. When you're involved in that type of environment, you need to tie all the pieces together,” noted George Halvorson, chairman and CEO of Kaiser Permanente, the largest managed health care organization in the United States. “It's impossible for somebody with a hierarchical management style to know enough about all of the complexities of the business to be very effective as a dictator.”<sup>12</sup>

People, not just structure, must enable the agility of a business.

<sup>12</sup> Ibid.

With a truly collaborative approach to applying the business agility blueprint, the management team might have the following takes on a new business opportunity:

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

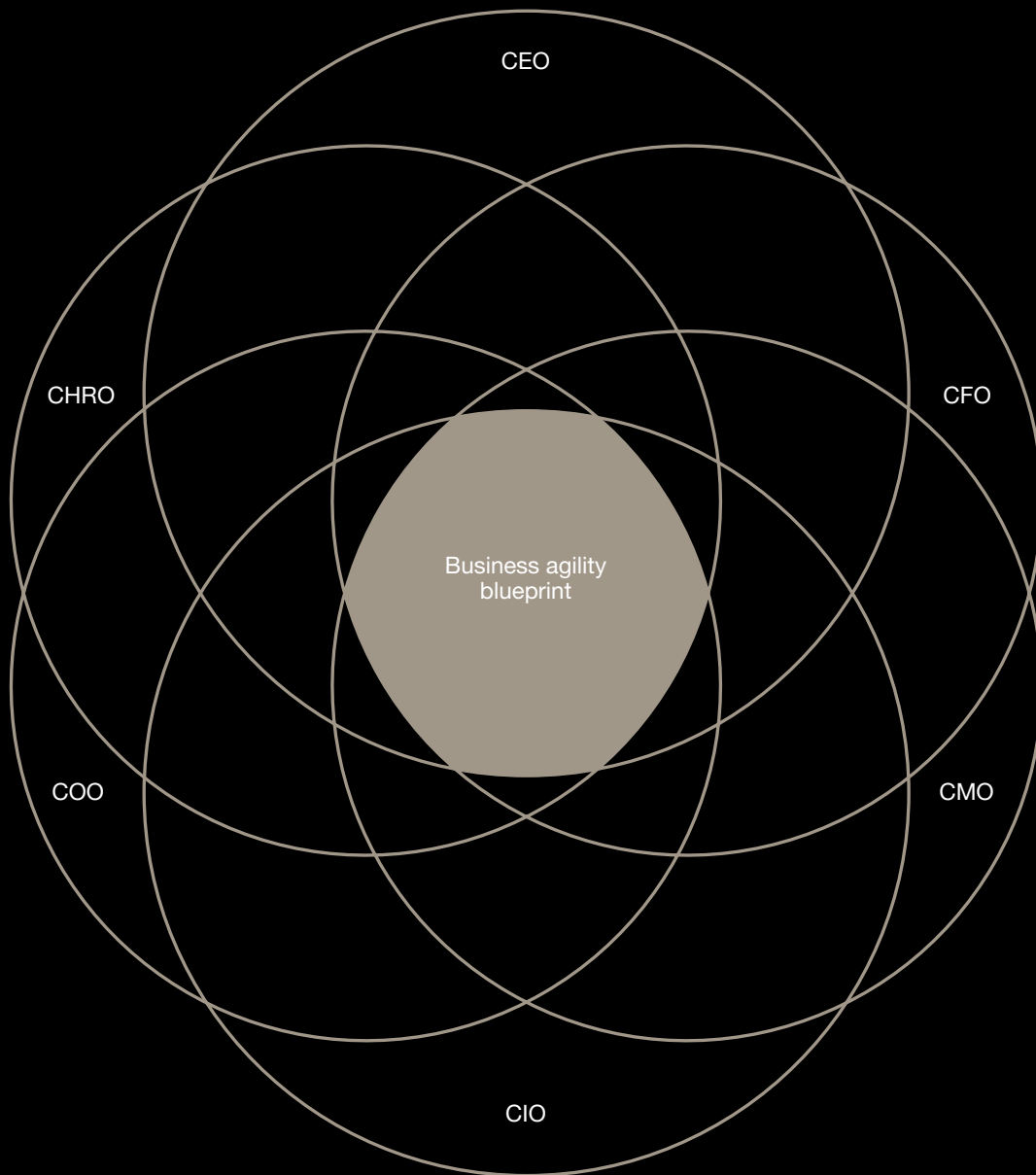
When creating a joint view and strategy, senior executives should expect to think in a new way about managing the organization. The blueprint exercise creates compelling reasons for management to focus on orchestrating business processes, and not on creating monolithic, siloed management systems that inevitably become inflexible over time. There is no doubt that functional groups such as sales or manufacturing make sense as organizing principles for channeling expertise, yet most organizations have let those groups evolve into separate, misaligned silos that are difficult to coordinate to meet strategic goals, much less to react together nimbly when quick change is essential.

Organizations should think of their functional groups as contributors to the strategic goals of the entire business. This approach gives each functional group additional responsibility for contributing to the business agility blueprint. It requires that each group pay constant attention to identifying common processes across silos and defining criteria for where those common processes should reside, then clarifying the unique contributions on which the group will focus to create customer value.

By working together on common processes and on the business agility blueprint, an organization's executive management can continually add to that common vocabulary and shared view of the enterprise, for use at a tactical level by managers and staff throughout the company.

Figure 4

A shared C-suite  
view of value-creating  
processes is critical.



## A call to action

All business leaders would like to say that changes at their organizations have been sustainable, impactful, and consistent. But as recent history has shown, more companies are bound to fall short of achieving those goals than are bound to succeed.

According to recent reports, increasing change, complexity, and uncertainty is taking its toll on companies around the world. Consider the daunting mortality rate of companies today: Of the original 500 companies in the S&P Index, only 74 were still on the list 40 years later—in other words, S&P 500 companies have been falling off at a rate of more than 10 a year. Looking ahead, only about one third of today's large organizations are likely to survive as major players in the next 25 years of business.<sup>13</sup>

And the reality is that, as companies fail to meet the challenges of profound change, those steering the ship are feeling the pain. In 2005 alone, four times as many CEOs were forced out of their positions for underperformance as had been a decade earlier.<sup>14</sup>

The stakes are higher than ever, but there's no need to gamble with your company's business legacy in the face of change. By taking some clear first steps toward building an agile foundation, you can confidently step up to the challenges change poses and leverage the countless opportunities it offers. In an environment of constant change, agility is the single most important asset your company can develop to make sure you achieve success and differentiation in a sustainable, predictable, consistent way.

<sup>13</sup> Faisal Hoque, Terry Kirkpatrick, and Michael Fillios, *The Art and Science of Agility: Surviving the 21st Century by Converging Business and Technology to Achieve Agility, Resilience, and Adaptability*, BTM Institute Research Report (September 2007).

<sup>14</sup> Ibid.



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