At a glance

In our fast-moving world, the winners will be companies that can sense change and respond accordingly.
Overview

The business world is moving faster and faster. Innovation and speed to market is increasingly critical in the effort to capture consumers and keep them happy. Yet those same consumers have become much more fickle than they were in the past—thanks to social media and other technologies, huge swings in consumer demand can occur virtually overnight, and risks to a company’s reputation can arise just as quickly. Social media and the internet have tightened the relationship between companies and their customers, while technologies such as big data and the Internet of Things are rapidly transforming the amount and quality of information companies can gather about their products, customers and markets—although making good use of it remains a challenge for many.

Every company wants to accurately sense changes in their markets and the whims of ever more demanding customers, and respond quickly and appropriately. They want to develop and manufacture the right innovative new products, bring them to market before their competitors can, and learn from their mistakes when they fail. They aspire to build resilient supply chains that can adapt quickly to fluctuations in materials availability and changes in product lineups. They know they have to be able to quickly reallocate critical resources—both money and people—as evolving business conditions warrant. In short, they want to be agile.

The advantages of agility have long been demonstrated. According to a report on organizational agility by the Economist Intelligence Unit, recently conducted research at the Massachusetts Institute of Technology suggests that agile firms grow revenue 37 percent faster and generate 30 percent higher profits than non-agile companies.1 Unfortunately, few companies have attained the ability to keep up with their customers or their competition in any consistent way. What slows them down? Some companies listen only selectively, or not at all, to the signals the business environment is sending, and do not translate those signals into clear strategic goals, or communicate those goals throughout the organization. Others concentrate too closely on internal operations and financial matters at the expense of a customer-centric orientation and innovation prowess. Unnecessarily complex and cumbersome business processes are poorly supported by outdated information technology. Business unit and functional silos slow down internal communication and decision-making. And, frankly, many employees are simply unwilling to move quickly and to change when change is needed.

Can any company transform itself into a truly agile enterprise? It depends. Agility is the result of numerous factors, but the constants are time, investment, and a strong belief in the value of enterprise agility.

In our view, agile enterprises have succeeded in combining two distinct but interconnected elements—strategic responsiveness and organizational flexibility. Strategic responsiveness is the ability, at the highest level, to sense new risks and new opportunities in the business environment, and then to use the “softer” elements such as leadership and culture to shape the environment to develop the appropriate response quickly. Organizational flexibility concerns whether companies can devise the appropriate strategic response and then execute it, in product development and manufacturing, marketing and sales, customer intimacy—indeed, throughout the organization.

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Drivers of enterprise agility

Every company striving to become agile must think in terms of three kinds of drivers of change: the “operating environment” that might radically reshape their business environment; “strategic responsiveness” or the soft levers they can pull in response; and the “organizational flexibility” that invariably affects their capacity to respond quickly. (See Figure 1.)

Operating environment. The business environment has become increasingly unstable, and uncertain, in just the past decade or so. The large-scale megatrends transforming how companies do business include demographic shifts and social change, globalization and resulting shifts in global economic power, rapid urbanization, the dual threat of climate change and resource scarcity, and major technological breakthroughs. These technological breakthroughs include social media, big data and analytics, mobility, cloud computing, and the Internet of Things. On a smaller scale, companies must also come to terms with industry- and sector-specific trends that can further shape the business environment, including disruptive innovation in products and services, rapid changes in customer demand, and sudden shifts in economic conditions.

Unfortunately, all too many companies turn a deaf ear to such trends, preferring to trust outdated, internal resources to understand trends and markets, and to generate ideas for new products and services. This approach may no longer work. Instead, companies need to develop “outside-in learning” capabilities that complement, challenge, or even rebut their internal expertise if they are to respond rapidly to new trends and changes in consumer demand. At the same time, they must not lose sight of the distinctive capabilities that define who they are and how they got to market; the key is to constantly look outside, but to do so within the context of what differentiates them based on their unique history and culture.

Innovation is a case in point: Our research shows that more than six out of ten companies rely on traditional sources like internal planning sessions and workshops for new ideas. But the top-performing companies in every industry are significantly more likely to look to outside sources to fill their idea pipelines.²

Strategic responsiveness.
The power of creating the right internal environment to drive enterprise agility is typically overlooked. Strategic responsiveness is the conduit for translating the
information gained from scanning the operating environment into the organizational flexibility to adapt rapidly and be resilient. A potent combination of a culture that promotes responsiveness throughout the company and the leadership qualities needed to sense change, develop the proper strategic response, and effectively communicate that strategy in such a way as to engage and energize all employees to accept and promote change are critical. In addition, maintaining customer-centricity and a core focus on innovation that celebrates the smart failures that can help move the organization forward are required to drive meaningful business outcomes.

**Organizational flexibility.**
Correctly linking strategy to execution within the right environment is key to true enterprise agility. Companies must be able to respond to rapid change both strategically and operationally. In today’s fast paced world, business strategy cannot be static. Rather, it must be flexible enough to respond and change in the face of new pressures. In parallel, companies must be able to communicate these adjustments to all levels of the organization, which, in turn, must have the ability to pivot quickly to execute the desired strategy. Organizational flexibility is thus the end-to-end capacity for adapting and responding, from strategic planning through to operational execution.
**PwC’s Agility Framework**

The drivers described above offer companies the means to think generally about the outside influences that may affect their strategy and operations, and to consider how they might respond. But the devil is in the details—companies also need a way to think at a much more granular level about just how responsive they are currently, and their ability to become more responsive going forward.

Figure 2 illustrates what we call the “fabric” of agility. It brings together the concepts we have just discussed into a centralizing framework to help executives consider holistically how to enable greater agility across their enterprise.

**Figure 2: The “fabric” of agility and PwC’s Agility Framework**

The vertical axis, representing organizational flexibility, is made up of those elements of every company that must learn to adapt rapidly to changes in the business environment—their product portfolios, operations, information technology, and organizational structure. These elements are intersected by “softer” corporate qualities—leadership, culture, customer centricity, and the like—that indicate a company’s ability to be strategically responsive to external change.

To understand if a company is demonstrating agile qualities, executives must consider four key attributes at each point of intersection in the fabric. These attributes represent the foundation of our agility framework.

- **Strategizing:** Continuously sensing changes in the environment and responding accordingly, while using the information gained to help define strategy.

- **Iterative:** Using a hypothesis-driven approach to continuously test and re-test new products and processes.

- **Adaptive:** Developing, adapting, and integrating new ideas and solutions into business strategy and processes.

- **Rapid:** Quickly reallocating resources in response to the environment without losing momentum.
The critical piece of the puzzle involves recognizing the points at which you might be demonstrating agility and where you are not, and then analyzing how to drive agility into those areas, across all relevant functions. The potential for the network effects of such an approach are significant. For example, a company may already have a highly resilient supply chain that does a great job of flexibly sourcing basic materials and parts for the products it manufactures now. At the same time, however, it may not have the cultural willingness to look outside for the kinds of changes in customer demand that could lead it to regularly rethink its product portfolio.

In this scenario, the product, supply, and sales teams are likely not talking to each other. Without that degree of cross-functional customer-centricity, the inherent disconnect between what the market wants and what it offers will make it very difficult for the company to compete in a volatile marketplace, no matter how sophisticated its supply chain may be.

Such linkages also come into play at the leadership level. For example, a strong relationship between the CMO and the CIO is critical to ensuring an agile enterprise that can make the most of the highly efficient digital marketing tools now becoming available to sense and respond to changes in the marketplace. At the strategic level, they must work together, willingly and comfortably, to develop a roadmap for implementing and using these tools. At the operational level, they must develop and put in place the processes that will give the company the capacity needed to take full advantage of those technologies. Our research shows that fully 70 percent of top-performing companies say their CIOs and CMOs have a strong relationship, compared with just 45 percent for non-top performers.²

No company can hope to make the changes needed to become truly agile all at once. The effort it would take to do so is just too great. Most companies will find that both their ability and responsiveness will vary considerably across the numerous points of intersection in their specific fabric of agility. As such, they must look first to those areas that slow down their responsiveness—and thus cut into their competitiveness—and work first to transform them. Becoming an agile enterprise is an ongoing process, and it must be carried on one step at a time. Indeed, paradoxical as it may sound, perhaps the best description of the truly agile enterprise is one that never stops trying to become agile.

To help meet these challenges we recommend that you:

- Scan the market continuously to anticipate adjustments you may need to make to your business strategy.
- Confirm that your business strategy is clear and identify the key enablers needed to execute against it. Think about your entire organization in the context of agility. Focus on enterprise value achieved from driving cross-functional behaviors and activities that support both strategic responsiveness and organizational flexibility.

PwC can help
Enterprise agility is an ongoing process that requires both strategic responsiveness and organizational flexibility, as well as a cross-functional approach. For a deeper discussion on building an agile enterprise, please contact one of our practice leaders.

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Let’s talk
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