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BY KAYVAN SHAHABI, ANTONIA CUSUMANO, AND SID SOHONIE

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With strategic responsiveness and organizational flexibility, you can move quickly when your industry changes.

by Kayvan Shahabi, Antonia Cusumano, and Sid Sohonie

Many corporate leaders think their companies are agile. Surely, they assume, we possess that combination of speed, flexibility, nimbleness, and responsiveness that will enable us to turn on a dime as circumstances warrant. It often comes as a surprise, then, when a significant opportunity or challenge arises and the company can't deliver.

What these leaders realize too late is that they are thinking about agility in a counterproductive way. In their view, agility is an end in itself, instead of a means to a more important end: sustainable competitive advantage.

At one extreme of the agility spectrum are startups and other high-growth companies. They can, in effect, be too agile, chasing every potential opportunity without clear strategic goals. At the other end are large, incumbent companies, slowed by lethargic or timid corporate cultures, combined with rigid business processes and legacy information technology systems. The sweet spot lies somewhere in between.

The appropriate level of agility won't be the same for everyone, but for all companies in all industries, we've found that being agile depends on developing two key attributes: *strategic responsiveness* and *organizational flexibility*. These two qualities are mutually reinforcing but are developed in different ways, and it is easy for a company to possess one without the other. Until you explicitly develop proficiency in both, you won't have the agility you need.

It's an absence that will become all the more glaring. In PwC's 2015 survey of chief executives, more than half of CEOs surveyed said they believe they will be competing in new sectors in the next three years, and 60 percent said they see more business opportunities now than they did three years ago. But almost three-quarters of respondents expressed concern that their companies lack the skills needed to meet future competitive threats. In these conditions, agility is critical.

Strategic responsiveness is the ability to sense new risks and new opportunities in the business environment and to craft a response to those pressures quickly. Consider the disruptive effect of new technologies, such as the Internet's impact on prerecorded music and publishing or digital fabrication's effect on conventional inventory management. The challenge is not just to change quickly, but to change profitably: to know which products and services should be switched out and which should remain intact. To exercise this judgment, top executives must have a thorough understanding of their industry and markets. There must be mechanisms in place — not just traditional strategic planning and market research, but social media and even customer usage data collected through the Internet of Things — to feed them information about trends. Decisions must be made quickly, and communicated rapidly to every function in the company.

Organizational flexibility is the facility to shift execution rapidly. In many companies, such functional skills as product development, manufacturing, marketing and sales, and customer intimacy are deeply entrenched, reinforced by IT systems and ingrained practice. But when there is a change in strategic direction, the company needs to be able to retool and rework the most

Illustration by Francesco Bongiorni

necessary activities, often within a few weeks or months. Doing so requires the capacity and the willingness to innovate in every aspect of the enterprise. Beyond developing new products in response to perceived consumer needs and market trends, companies must put in place new organizational structures, business processes, and technologies. Ask yourself, for example, whether your supply chain is resilient enough to rapidly develop new sources for parts when the product portfolio changes, or to maintain the required flow of parts when natural disasters or other external events lead to sudden breakdowns in logistics. Does human resources have the means to find the right people when new talents and expertise are needed? Are your various functions set up to respond to one another's changes and help one another move forward?

Agile companies have both high strategic responsiveness and high organizational flexibility. Their leaders accept the inevitability of change. They have mechanisms in place for sensing potentially disruptive forces and taking advantage of them before the competition. The rest of the organization understands the value of rapid action; people are practiced and confident, with the skills and infrastructure support they need. Although the company encourages experimentation, it also resists unnecessary complexity: At any time, there are just a few new initiatives, backed by everyone in the company. There is also a strong network effect — people share the insights from experiments and customer engagement up and down the hierarchy.

Unfortunately, that combination is rare. Most companies are strong in one attribute or the other, but not both. In what we call faux-agile companies, where strategic responsiveness is high but organizational flexibility is low, leadership is visibly committed to agility, and takes on ambitious initiatives. But the company does not have all the capabilities it needs to deliver results, especially when the strategy changes. It may be that leaders are detached enough from day-to-day operations that they perceive the company to be addressing customer needs more effectively than it actually does. Functions and business units are siloed: They don't communicate effectively, and they resist working together. Processes and IT infrastructure are not aligned with strategy and may be out of date.

Those firms we refer to as almost-agile companies, in contrast, have low strategic responsiveness but high organizational flexibility. These organizations are known for operational competence and skill at continuous improvement. They make and sell everything well, but don't always make and sell the right things. Strategy is bound up with existing customers. However, company leaders don't easily recognize when their needs and expectations change. As a result, they don't develop the breakthrough products and services that their customers might respond to. Many projects are proposed at relatively local levels, and may get implemented on an ad hoc basis, but few receive companywide support.

The worst-case scenario occurs when companies are weak in both dimensions. These fragile enterprises are typically characterized by rigid leadership, high cost structures, and slow decision making, all of which have often evolved over many years of growth. Top executives divide the business among themselves, each chasing a different group of opportunities or serving different sets of customers, and often working at cross-purposes. Several levels of approval are needed for any significant change. The culture reinforces stasis, rather than responsiveness, in a way that encourages business as usual.

Once you know which type of company you are, you can understand where you need to do the most work (*see exhibit*). Consider the story

Exhibit: **Agility Profiles and Prescriptions**

Strategic Responsiveness	LOW Organizational Flexibility	HIGH Organizational Flexibility
HIGH	**The Faux-Agile Company** Focus on a few key strategic imperatives, and develop the cross-functional capabilities and make the operational investments needed to deliver on them.	**The Agile Company** Continue to move in the most profitable and value-driven directions, which means developing even more discipline to focus on the areas that will produce the best results.
LOW	**The Fragile Company** Start with your existing strengths. What new value can you deliver by making a few changes — for example, implementing real-time data analytics to improve senior-level decision making?	**The Almost-Agile Company** Monitor the urgent issues and disruptions facing your company and its industry, and develop next steps that represent clear imperatives for change.

Source: PwC analysis

of one major magazine publisher, with more than 25 distinct periodicals in print and digital formats. Company executives realized the organization would have to adapt in the face of disruptive competition and rapidly changing circulation prospects. They saw the writing on the wall — their strategic responsiveness was high. But they also knew that their organizational flexibility was low, with a siloed structure and highly entrenched editorial culture.

The company had to make some big changes: All of its titles needed to leverage technology and processes more efficiently, create new publications more quickly, boost contact with readers through better use of social media, and provide a single view for advertisers. But the company also needed to support and encourage each publication's independent personality. To accomplish these tasks, executives developed a single, flexible content management architecture for creating and editing content. A standard digital system enabled publications to respond to opportunities — and advertisers — more quickly and efficiently. But each publication would maintain its unique identity. Once fully installed, the system would have the added benefit of enabling editors to see how other publications contributed to the company's overall performance, and to look for ways to collaborate and share content.

Regardless of your industry, increasing both strategic responsiveness and organizational flexibility can give your company the agility it needs. Leaders must be able to discuss the nature and extent of the disruptions they see coming down the road, and to experiment with new types of products and services and new organizational structures in response. When a company learns to change itself this way, the fundamental qualities that made it great in the first place — its view of how value is created for its customers, its capabilities in creating that value, and its distinctive presence in the market — can remain the same. Because becoming agile doesn't mean changing who you are. It means gaining the ability to see both opportunities and threats and then executing the strategies needed to address them. +

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Kayvan Shahabi
kayvan.shahabi@us.pwc.com
is the U.S. technology industry advisory leader at PwC, and is based in San Jose, Calif.

Antonia Cusumano
antonia.m.cusumano@us.pwc.com
is the U.S. technology industry people and change leader at PwC, and is based in San Jose, Calif.

Sid Sohonie
sid.a.sohonie@us.pwc.com
is a director in PwC's technology industry advisory practice, and is based in Seattle.

Also contributing to this article were PwC principal Chris Curran and director James Saliba.

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101 Park Ave., 18th Floor, New York, NY 10178

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