

The Agile Enterprise

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Executive summary

Overcoming complexity in business and creating an Agile Enterprise is critical to future success.

UK markets are increasingly volatile and are likely to be tough for some time.

Recent surveys and reports, such as a recent CBI report and PwC's 14th Annual Global CEO Survey have concluded that the environment in which UK businesses operate has fundamentally changed.

The economic outlook suggests that the UK is in for a period of relatively low growth – the UK GDP for the final quarter of 2010 has recently been revised to negative 0.6% and the current consensus UK GDP forecast for the next 12 months is positive 1.8%, being far lower than historic growth rates. At the same time UK businesses are also likely to experience a range of inflationary pressures (fuel, wages etc.) – a potential 'double whammy' which will put pressure on margins.

We believe that in this climate, businesses need to look at how they will create competitive advantage in the future and how they will continue to deliver shareholder value.

Businesses need to re-think the way they operate. In doing so they need to look to reduce organisational complexity and to create more flexible, scalable operating models that are capable of quickly responding to new market opportunities and/or operate at lower cost.

In short, to maintain competitive advantage and to be successful in the future, businesses need to become more 'agile'.

Many organisations have evolved their current operating models over a period of time and have arrived at a current way of organising by virtue of historical accident rather than organisational logic. In this context we have found that many businesses are highly complex and operate with fragmented and duplicated business processes and sub-optimal use of IT. This can reduce the ability of an organisation to mobilise resources in pursuit of market opportunities, slow down organisational responses and increase operating costs. Leading organisations have recognised this and are actively seeking to make their business operations more agile.



We believe an 'Agile Enterprise' is one in which the corporate structure, channels, processes, systems, organisation and data are simplified, standardised and aligned in an operating model designed to deliver the strategy and respond efficiently and effectively to market changes.

Whilst achieving agility may be challenging, the benefits are significant and will ultimately lead to improved business resilience and growth that outstrips the market.

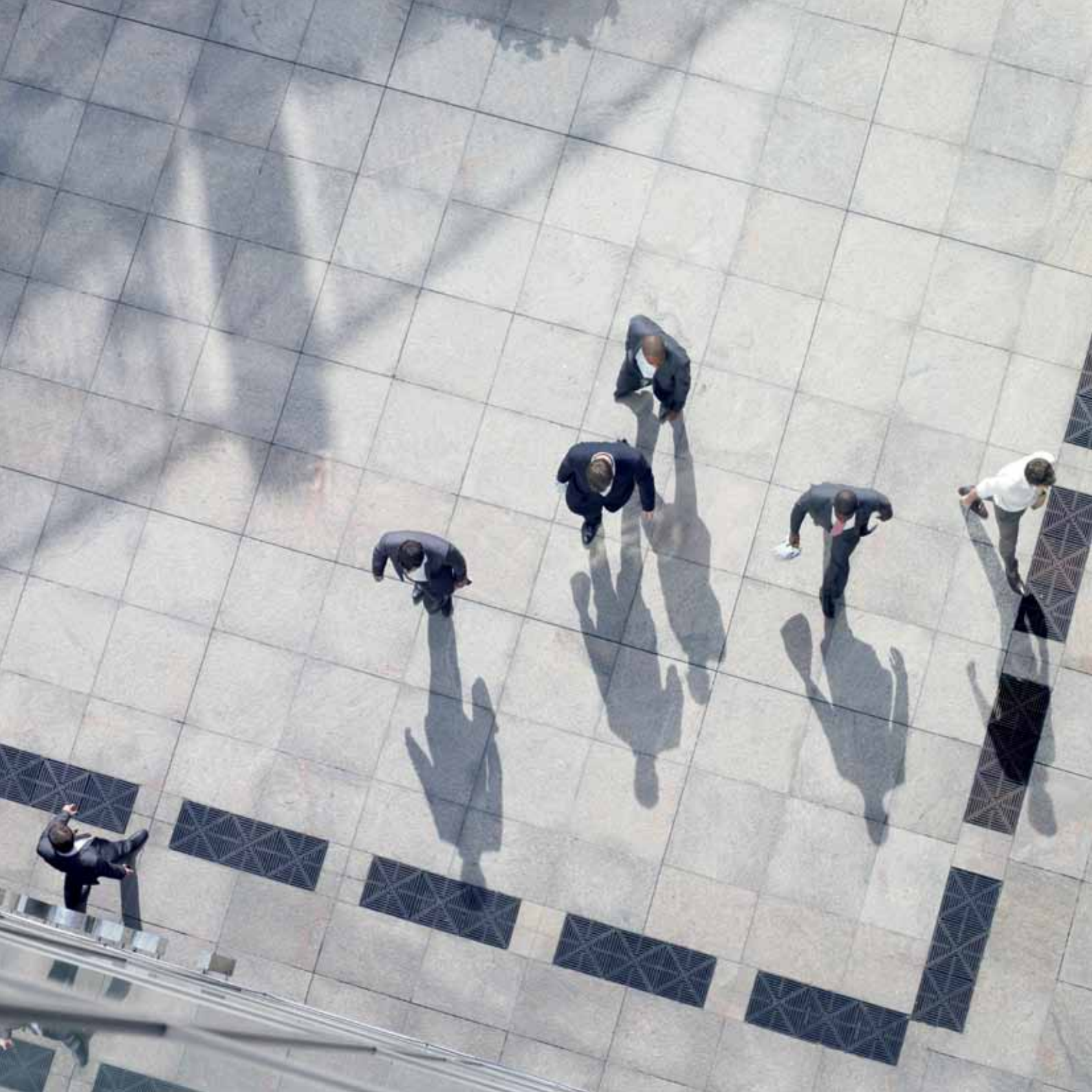
The benefits will include:

- **Enhanced customer experience** – Customer interactions that are managed across the whole organisation to ensure that the business is easy to deal with, through enhanced service levels and multiple access channels;
- **Reduced operating costs** – Improved business performance and cost reduction by introducing standardised processes and common IT systems. This can yield efficiencies in the region of 15-25% of the organisations cost base and deliver value faster from acquisitions and intrinsic growth;
- **Released capacity and increased employee satisfaction** – Satisfied employees who are no longer frustrated by multiple, overly complicated systems or pointless business processes, feel empowered to drive change, create high performing teams, drive customer value and maximise profit. Information is readily available not constantly requested and compiled by spreadsheet.

Today, truly agile organisations 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.

In this document we outline our approach to helping clients assess the complexity in their organisations and begin the journey to become an 'Agile Enterprise'.



Background

The environment in which UK businesses operate is changing significantly and this will alter the shape of business over the next ten years.

In a recent report, the CBI concluded that:

“The legacies of the financial crisis and the ensuing global recession have materially changed the conditions affecting business. Around the western world, governments are reigning in public spending, credit conditions are constrained and business and consumer confidence is low.”

Our 14th Annual Global CEO Survey also highlighted these difficult market conditions:

“This year’s Survey leaves no doubt that 2010 was a harder year for UK plc than UK CEOs had anticipated.”

The survey, which interviews the CEOs of many of the largest UK businesses, also identified that in 2010/11 the single greatest concern is the ongoing fear of recession (79% of all CEOs surveyed were ‘somewhat’ or ‘very’ concerned), with public debt/deficit coming second (70% of all CEOs surveyed). The survey also identified that:

- There was a greater need to implement cost-reduction initiatives (94%) than expected (74%). This is higher than the average in Western Europe and all other regions;
- There were less cross-border M&A deals (23%) than expected (36%);
- There was a greater reduction in headcount (45%) than had been estimated (28%).

These challenging economic conditions, coupled with decreasing trust in markets, increasing pressures on natural resources and significant changes in customer and employee demographics all mean that there will be no return to ‘business as usual’. Customers, suppliers and partners are all changing their expectations and businesses will need to react to meet these new challenges in order to be successful.

Understanding what drives complexity in business

Businesses often grow quickly by taking advantage of specific geographical, service or product based opportunities – either through acquisition or by rapidly scaling up capabilities.

Growing in this manner, however, leads to organisational complexity and variations in ways of working. Structures initially designed to take advantage of market opportunities can become organisational ‘silos’ that operate with their own rules.

Consequently, organisations that have experienced rapid growth, particularly through acquisition or periods of intense market success, often find themselves swamped in processes and systems that are disjointed, inefficient and ultimately constraining to the business.

This complexity often creates a number of fundamental constraints:

- **Silo-based thinking** which can limit opportunity for organisation-wide strategy and transformation;
- **Rigidity and slowness of response** to market changes with divisions operating in different ways which severely limits an organisation’s ability to expand, contract and flex with market demand;
- Inconsistent and **disjointed customer experiences** which leads to reduced loyalty and cross-selling opportunities;
- **Wasted effort** and lack of flexibility for cross-division working, making it difficult to provide careers that are rewarding and allow effective resource management across the business;

- **Inadequate management information** that is hard to access, potentially insecure, inconsistent and leading to poor management decisions;
- A **mix of IT solutions** that support different parts of the business in a range of ways that reinforces silos and variations in ways of working making the total cost of IT delivery expensive;
- **Fragmented support activities** spring up across the business in areas such as finance, HR, IT and procurement.

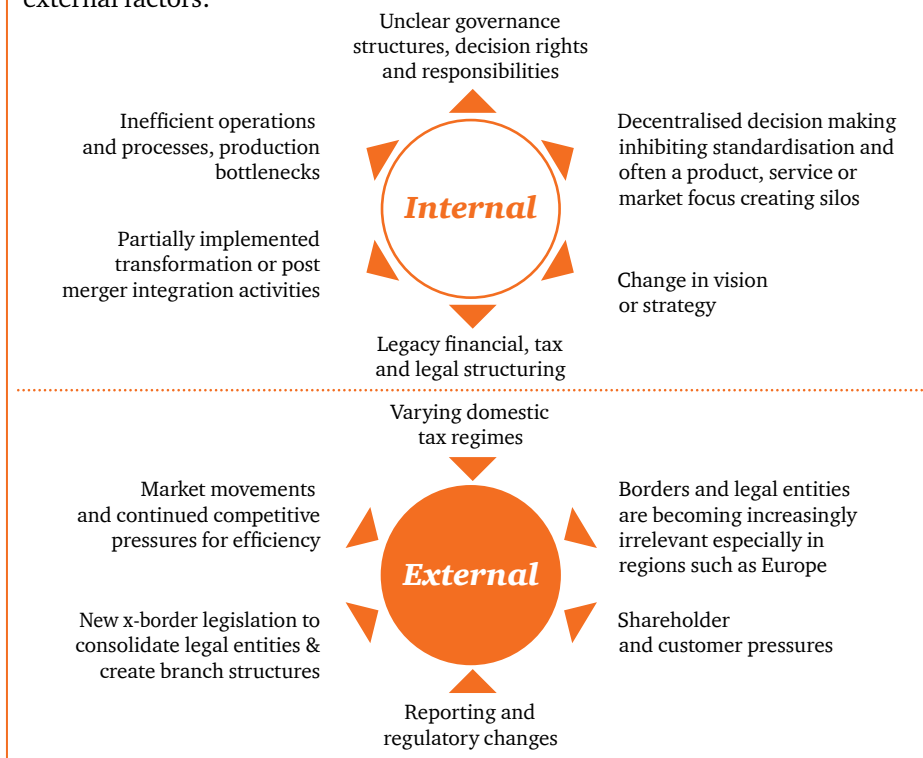
Our experience of working with large complex organisations has revealed **alarming levels of duplication and waste**, simply due to a lack of simplification and standardisation across organisational silos.

Organisational complexity is driven by both internal and external factors and based on our experience, is most evident in the following areas of the operating model:

- Corporate Structures such as internally and externally facing business units and embedded support functions;
- Operational Support functions that deliver a range of transactional support processes, often through shared service centres;
- Customer Interactions – the quality and number of different interactions with the customer.

When we consider the constraints mentioned above, coupled with complexity in the operating model, the cost to serve the customer and deliver business operations is significantly increased.

Organisational complexity can be introduced through both internal and external factors:



For example, in one complex client, there were hundreds of different ways of handing customer enquiries, billing and receiving payments, managing finances and scheduling the workforce.

Each of these processes was supported by different IT systems, which made it difficult to manage and share data across the organisation.

Addressing the complexity

The principles of 'simplify, standardise, and share' can help to reduce this complexity by identifying opportunities for improvement across the business. They can also be used to show how customer interactions can be improved to drive customer loyalty and grow revenue.

Simplify

Identify processes and systems that are overly complex by challenging how they are delivered and comparing them to industry leading practice, as well as the best examples within the organisation as a whole.

Standardise

Identify processes and systems across the organisation that can be standardised to reduce cost, improve customer experience and deliver business objectives.

Share

Ensure that these new models of working are shared across the whole organisation to improve performance across the business.

We can use these principles to help manage complexity in:

1. Processes
2. People and Culture
3. Structures and Operating Models
4. Technology and Data

Working with hundreds of organisations has allowed us to build a detailed understanding of the best way to address each of these areas. Looking at all four together can help identify the full extent of complexity, and assess the opportunities for improvement.

1. Processes

The first step in overcoming complexity is to identify broken, duplicated or overly complex processes and develop these as opportunities for improvement.

By understanding each process, the number of people required to deliver them, across which parts of the business, in how many different ways, we are able to understand and challenge the cost of their delivery.

For example, a recent review of a large utilities business identified that over 59% of all business functions involved some form of customer enquiry handling. These enquiry handling processes were based on different systems, and provided a very fragmented view of the customer experience.

Examining how processes are delivered across the organisation will help to identify opportunities for a fundamental improvement in business performance.

Only by looking for simplification and standardisation opportunities across the whole organisation will the root causes of complexity be identified and the best delivery model be defined.

2. People and Culture

To move to a position where new ways of working become 'the way we do things around here', and realise the benefits predicted, there is a need to:

- Take the time early on to develop sufficient leadership engagement, alignment and ownership in the change programme – so that people can see that leadership is committed to this change;



- Communicate the vision – and what it means for people – clearly, unambiguously and often;
- Consider how to engage and enthuse people in shaping the change – tapping into their knowledge, experience and building their ownership of the future state;
- Understand who will be impacted by change, incorporate activities to build ownership, and manage both fears and resistance;
- Identify whether there are particular aspects of the organisation's culture to strengthen or adapt so that change is sustained, and take action (e.g. around structures, performance management, reward, behaviours or skills) to address these changes.

By making some choices about the right change approach for the organisation, and by seeking to use inclusive approaches where possible, the ownership of change can be maximised from the start – helping to ensure that benefits are realised faster.

3. Structures and Operating Models

Gaining an understanding of how complexity exists in the business' operating model can bring tremendous insight into how change will deliver enduring benefits.

A simplified operating model for a large professional services client:

This represents a significant change in the ways of working with the focus from each operating model layer defined and measured.

Customer Interactions

The customer receives a high quality service personalised to their needs. They can use multiple access channels and receive a consistent service level with information available to address their needs at the point of contact. There is a single process for handling customer interaction across the business.

Strategic Core

This layer focuses on delivering the organisation's strategic vision, overall direction and are responsible for overall governance. They drive consistency and standardisation in strategic performance management, planning, and decision making.

Business Units

The business units focus on the delivery of their professional services. This means creating a more productive (often over 10%) workforce aimed at maximising revenue for the business. Support activities are minimised and the workforce have the right technology and information available to them when they need it to maximise their customer facing time.

Embedded Support

These staff are physically embedded within the business units and yet still work in a standardised way across the business. This means employing good practice processes, supported by leading technology and operating to agreed service levels which can yield savings of up to 20%. Their objective is to remove the administration burden of frontline business unit based staff.

Operational Support

This layer focuses on delivering transactional activities through a (centralised or outsourced) shared service deploying leading practice standardised processes and technology solutions and delivering efficiencies of up to 20%. Activities performed here require minimal Business Unit knowledge and will be transactional in nature.



Expert Functional Support

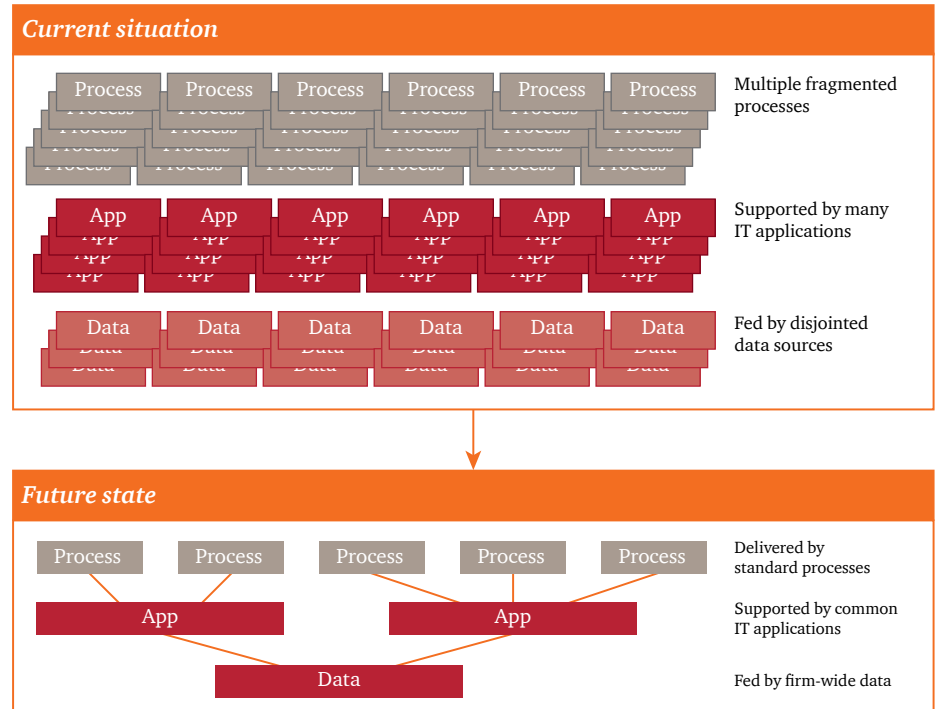
Delivers high quality functional expertise on a business wide basis using standard ways of working across all business units. They will operate in an internal shared service. These activities will be value adding in nature and delivered by professional staff. By standardising the approach, savings up to 20% can be achieved in this area.

By considering the range of requirements across the whole business, and structuring the operating model to deliver both efficiency and effectiveness, significant improvements in performance and agility can be delivered.

4. Technology and Data

In a complex organisation, there are often multiple overlapping, conflicting and fragmented information systems and sources of data. These serve to confuse and complicate the decision making process and fail to support, and in many cases, hinder the operational processes they were designed to automate.

Systems, applications and data sources have often been developed in isolation for specific parts of the business, even though they may share many similarities with other parts of the organisation. These legacy implementations often meet siloed business requirements but when looked at from an organisation-wide perspective they become part of the problem.



Market conditions require significant change and many organisations are using this driver as an opportunity to simplify their applications and data through rationalisation and technology innovations such as Cloud Computing.

Ultimately, a clear understanding of simplified and shared processes and information needs across the business

will help identify the wealth of systems that are overlapping, or duplicated and unnecessary.

Moving to well planned consistent and consolidated models for IT systems, applications and data, will present the organisation with significant cost saving opportunities and enhanced operating performance.

Unlocking the potential to Simplify, Standardise and Share



Having worked with complex organisations, across a variety of industry sectors, we have developed a structured approach to helping our clients to deliver improvements.

Our approach utilises the principles of Simplify, Standardise and Share, and covers the following steps:

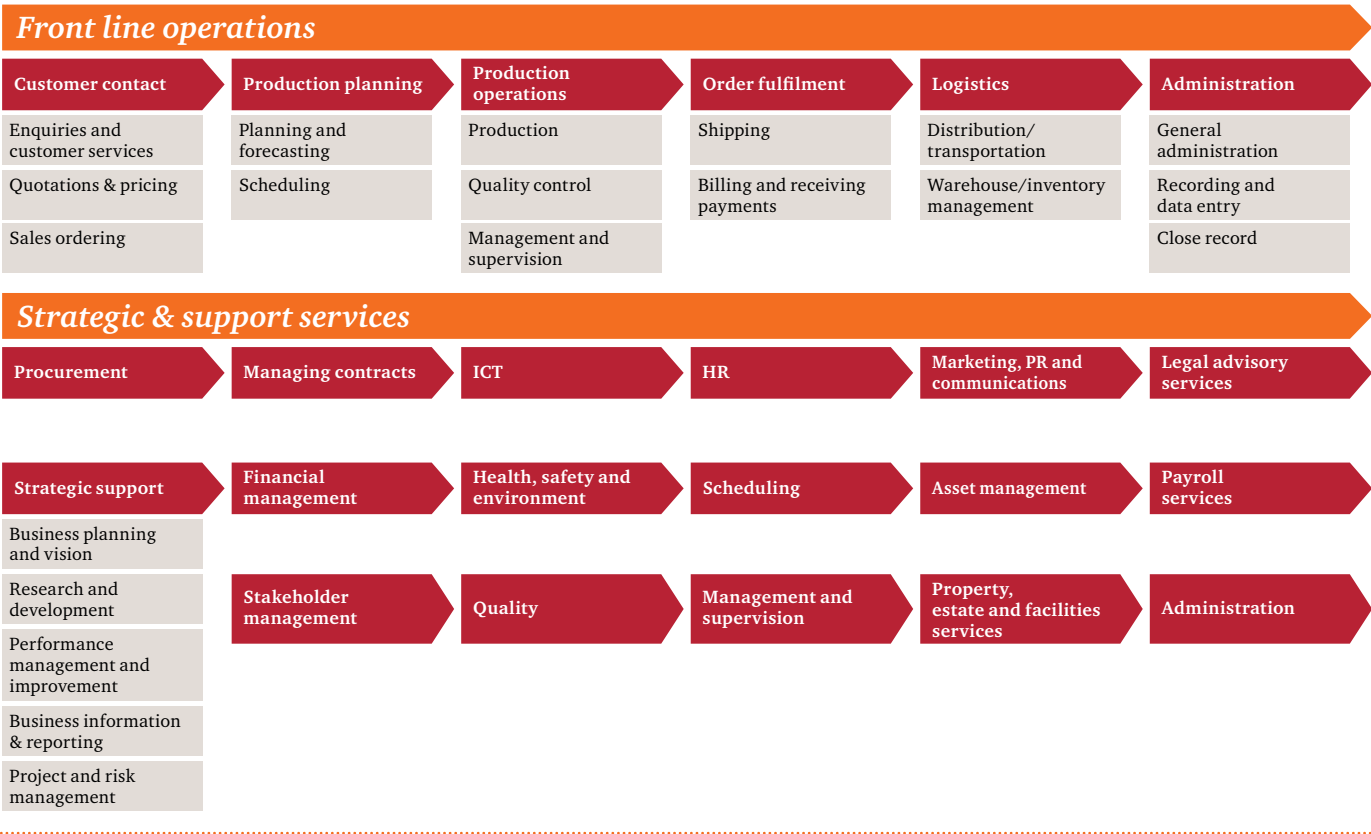
Taking a Process View

Only by understanding the way processes are performed across the organisation can we truly understand and challenge the cost of their delivery, and use this as a basis for new and better ways of working.

Utilising customer focused standard process models

For each industry sector we have a customer focused standard process model that reflects both the customer journey (through front line operations) and the internal support processes (through strategic and support services). The standard process model provides a framework for comparing and improving ways of working to generate opportunities and build a compelling case for change.

An example of a standard (level 1) process model for a manufacturing organisation



Data gathering from across the business

Using the standard process model a baseline can be generated which details how the processes are currently delivered. This is achieved by working with management and collecting the information that they have in their business unit to profile the processes delivered right across the business. For example, we analyse the activity of everyone in the business who performs

financial management processes, not just the financial management activity in the finance function which is often minor when compared to the business wide activity.

Identify fragmented and duplicated business processes

By looking at where similar processes are delivered across the organisation (duplication) and how many different areas of the business are involved

in delivering a particular process (fragmentation) it is possible to challenge the ways of working and generate opportunities for improvement. As businesses have typically never looked at their whole enterprise through this process lens, the evidence collected from the data gathering phase can provide a new and insightful view of underlying complexity that has previously been hidden.

Evaluate processes against leading practice

By working with the staff involved in these processes we can help challenge what they do by making comparisons with leading companies and then setting targets for how their business should deliver these processes in the future. This 'gap analysis' outlines the difference between current and leading practice and can then be used as the basis to develop opportunities for improvement.

Identifying quick wins and strategic business opportunities

By understanding the strategic drivers for the business the opportunities for improvement can be prioritised. This creates a portfolio of improvements that can deliver in the short-term and also support medium and long-term benefits.



Designing the target operating model

It is likely that there will need to be a significant change in the ways of working in order to deliver the benefits identified. This could mean changing the way that customers interact by, for example, introducing customer self service. It could also mean changing the way work moves between business units by, for example, introducing transactional shared services or business support models. These changes can impact the management structures, information systems and data that are needed to support the business.

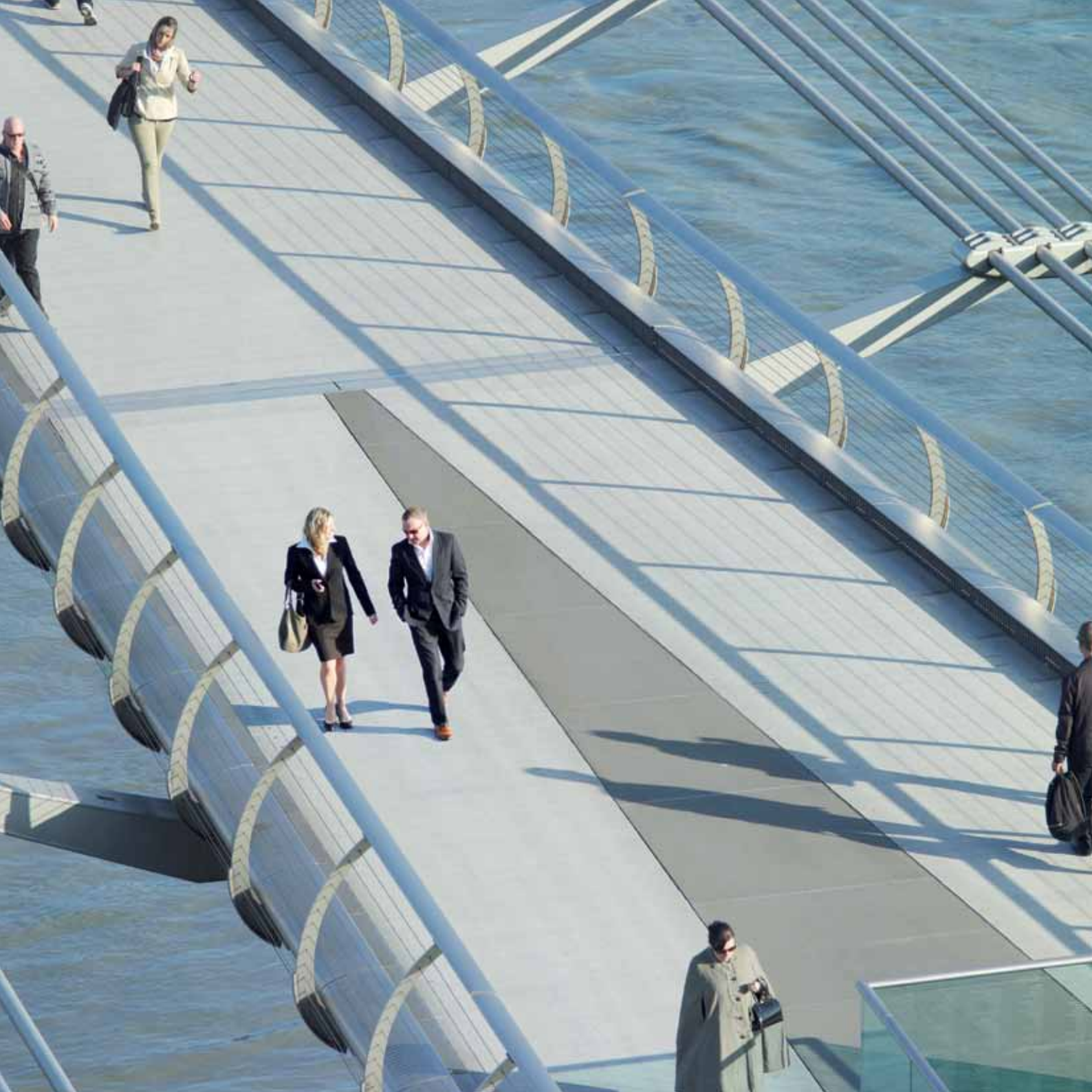


Implementation Plan

An effective implementation plan will need to be developed to support the realisation of the benefits and introduce the new ways of working. This plan can be designed to realise the benefits as early as possible whilst understanding the interdependencies across the transformation programme, it is often delivered as a series of change releases rather than a 'big bang' implementation.

Examining end-to-end processes provides more than just the high-level process view. It also provides the management team with a shared view of what the organisation is really doing to create value.

This evidence based approach provides the business with the data and case for change to proceed with implementing the business improvements.



The benefits of creating the Agile Enterprise

Developing an Agile Enterprise delivers significant benefits in terms of business performance, customer experience and employee satisfaction.

Business Performance

- **Processes are simpler**, faster and cheaper to deliver, with less need for unnecessary managerial support;
- **IT systems are cheaper** and simpler and support the business more directly, avoiding a range of complicated, underperforming and overlapping solutions;
- **A common information** set provides 'one version of the truth' to support the decision making process – leading to faster and better decisions;
- **Financial improvements**, often between 15% and 25% of the cost base, as the more efficient organisation is able to grow and deliver more output, without the need to increase its cost base;
- **Business value** can be derived more quickly through the integration of acquisitions.

Customer Experience

- **Understanding and predicting customer behaviour** through insightful customer and market information;
- **Profiling the full range** of customer interactions and satisfaction to proactively manage and develop new markets, products and services;
- **Managing the day-to-day customer experience** to ensure that all contact channels make business easy to do and create customer loyalty.

Employee Satisfaction

- **Employees feel empowered to make and drive change**, contributing to a positive, effective and enjoyable working environment;
- **Removal of time consuming repetitive tasks** that improve the employees day-to-day workload;
- **Ability to move and develop within the organisation** and enhance internal skills and experience through standard ways of working, processes and systems;
- **More successful** and consequently more stable organisations providing greater long term employment prospects.

Conclusion



The principles of 'simplify, standardise, and share' can help to reduce complexity by identifying the opportunities for significant improvement in business performance and customer service and by protecting the ability of the business to adapt to future change.

We have developed a structured approach to help our clients deliver these improvements by assessing the existing complexity and the potential for improvement, considering: process; people and culture; structures and operating models; and technology and data. Only by considering all of these together can long term success be sustained.

We believe that to succeed in business today the creation of an Agile Enterprise is critical. For this to work, the organisation must 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 organisation to share common processes across traditional silos.

Businesses that fail to adapt due to the barriers of increasing complexity will find it more difficult to compete and may ultimately fail to survive. However, businesses that become truly agile will be successful and continue to deliver market growth even in difficult markets.

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