

## WHITE PAPER

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# Business Agility as Growth Enabler: How Can Midsize Firms Manage Change in an Increasingly Demanding World?

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## INTRODUCTION

It can take time and considerable energy for a growing business to finally put in place processes and procedures that really work. Your people are trained, your systems are effective, and your customers seem happy. For many midsize firms, this is the goal — you finally have your arms around things! Of course, this may not be the case at all because the solutions for today's problems are not likely to be the right ones for tomorrow, never mind two or three years out. Customer requirements, legal obligations, and the competitive environment all continue to evolve. The key is to have an adaptable, flexible organization that anticipates change (or at least can accommodate it) rather than one that is disrupted and confounded by new developments.

Business change has always been a fact of life, but it really seems that change has been shifting into high gear in recent times. Multiple forces are at work, from globalization and outsourcing to advances in communications. These forces are opening up new business opportunities, but they also pose major challenges. Your customers and suppliers are changing the ways they operate and are expecting new things from your company and from your competitors as well.

The challenge is simple to articulate, but more difficult to address: Flexibility and adaptability must be key parts of any company growth strategy, pointing to new opportunities, or at least allowing you to be responsive to the opportunities that may be identified by others. Failure to build these components into your basic thinking will effectively close the door on your company's future. This makes the movement toward what could be called an "adaptive enterprise" a necessity, regardless of how large you may be today.

Flexibility can be especially important when it comes to what would otherwise be missed opportunities. A flexible company can minimize a potentially adverse impact by taking timely action. Given the number of new ideas that come from your company compared with the number of new ideas that come from everywhere else, including your customers, competitors, and other industry experts, it seems likely that others may end up with a head start on the next innovation that will affect your industry. If you haven't fostered an environment that can support regular revision of policies and business processes, you could find yourself at a serious competitive disadvantage. Technology can play a key role in keeping that from happening. Effective resources for communications and development can help you react to change, but even more important, they will be the tools that will help you predict and anticipate changes. (And ideally, they will help you make changes in the business environment that will have your competitors scrambling to respond!)

This paper examines the related issues of growth and flexibility from a number of perspectives, but at the heart of the issue is your company's ability to meet changing customer requirements and drive revenue growth in a continually changing environment. Almost everyone can do a better job in preparing for these shifts, and your company culture will be an important starting point in guiding your efforts to improve your "flexibility and adaptability quotient."

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### **Who Needs Flexibility Anyway? The Benefits of Being a "Change-Ready" Company**

Companies rarely think about flexibility as a key attribute, even though the ability to capitalize on opportunities and the ability to respond to threats are the keys to long-term success. Business strength is often thought of in financial terms — your bankers will make sure you have the basic strength you need (the money or lines of credit). In addition, your board or legal advisors will make sure you have succession and business continuity plans to stay in operation over time, the equivalent of endurance. But flexibility is hard to measure and often ignored despite its importance.

A good starting place to assess your flexibility can be an appreciation of what your business purpose really is. Focusing on your core mission (like Western Union with its focus on funds transfer) can keep you tuned to changing ways of doing business independent of any particular approach (transferring money by telegraph — a less useful corporate mission these days). If you are an industry or segment leader, you likely have the mechanisms in place to identify new opportunities and move forward to capitalize on them. For everyone else, though, it can take additional discipline to make the effort to monitor and adjust to a changing competitive environment.

Potential threats to your business can also be addressed if appropriate tools and resources are in place to assess and respond to developments quickly and efficiently. If you have mechanisms in place to monitor the environment, incorporate new and external ideas into new products, and get the word out to customers quickly and efficiently, then even if you are slightly behind from the start, you will be able to recover from a potential misstep because of your rapid response capability. After all, Matsushita was not the first to market a consumer-oriented VCR (remember Sony Betamax?), but it brought its fast-following VHS approach to market with more allies and longer playing time and became the dominant VCR format. Similarly, your company can support an environment that nurtures a "fast follower" mentality that can identify and take advantage of market developments in ways that few competitors may be able to match, setting the stage for increased market share, or at least an effective response to potentially disruptive change.

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## **Proactive or Reactive? Time to Assess Your Approach to Business Change**

Does your firm embrace change with a forward-looking perspective — and can it benefit from more focused information systems? Does your company have the kind of systems that can deliver the right intelligence to key staff who can see the next set of opportunities that others may see as obstacles? (This makes you a "change-proactive" firm.) Or is your company more of a responder to change, aware of opportunities, but rarely the first to enter a new market? (This makes you more a "change-reactive" firm, like the successful fast followers mentioned in the previous section.) Reactive firms are quick to make new products or marketing approaches their own once the benefits become apparent. Regardless of which approach or combination best describes your firm, the entrepreneurial spirit that helped your company grow is still in place, even if it may not be as active as it once was.

The key is to leverage your skills and resources to encourage innovation even while strengthening business practices and structures that support profitable business growth. The flexibility that characterizes a small company can be complicated by new layers of formality and organizational structure as firms grow. The owner of a small business can change policy on the spot, as suits the current environment, based on the latest information, customer needs, and competitor activity. The challenge for midsize firms is to ensure a similarly flexible and adaptable approach as a company grows, adds branches, expands geographically, and maybe even makes acquisitions. It isn't always easy to evaluate just how flexible a company is, but a series of questions can provide important insight on the subject.

Table 1 points out some of the factors associated with business agility and flexibility (and of course, while debating this point within your company, you should feel free to add to the list). A number of different capabilities contribute to your "flexibility and adaptability quotient." Most critical of all the factors listed in Table 1 are those related to information — the effective gathering of information, the efficient distribution of information, and the timely acting on information. These factors relate naturally to critical capabilities IDC has examined in previous white papers: operational excellence and customer intimacy. Coordinating all of these different elements is what strategic flexibility is all about.

**TABLE 1**

Find Your Company's "Flexibility and Adaptability Quotient"

<b>Factors — Identifying Opportunities, Being Positioned to Capitalize on Them</b>	<b>Circle Current Rating:</b> 5 (Excellent shape) 4 (Good, above average) 3 (Average, but could be better) 2 (Below average, needs improvement) 1 (Significantly below average, needs immediate attention)
Information flowing from customers is formally gathered on a regular basis. (This could include surveys, customer councils, or sales force customer assessments.)	5 – 4 – 3 – 2 – 1
Customer information is distributed effectively to key personnel and used to refine company practices.	5 – 4 – 3 – 2 – 1
Company organizational structure continues to be regularly reviewed and refined in keeping with both revenue growth and changing market conditions.	5 – 4 – 3 – 2 – 1
Regular business planning includes assessment of competitive activities.	5 – 4 – 3 – 2 – 1
Infrastructure is maintained and updated regularly to ensure that internal and external needs are being met.	5 – 4 – 3 – 2 – 1
Ideas are actively sought from employees, especially new ones.	5 – 4 – 3 – 2 – 1
Business policies are regularly reviewed to ensure that they continue to meet our needs and those of customers and suppliers.	5 – 4 – 3 – 2 – 1
Financial reports are prepared for management that can be changed easily to accommodate changing needs.	5 – 4 – 3 – 2 – 1
Ongoing training is in place to maintain/enhance staff skills.	5 – 4 – 3 – 2 – 1
Technology resources are in place to support multiple time zones/multiple currencies/multiple languages.	5 – 4 – 3 – 2 – 1
"Rapid response" resources are in place to adjust online resources such as ecommerce Web sites and promotion in a timely way as conditions require.	5 – 4 – 3 – 2 – 1

**Answer Key:**

- **MOSTLY 5s and 4s:** Resources in place to be a quick responder if not a major force. Look for areas of weakness for improvement, especially for long-term planning and organization, the most challenging problem areas to address.
- **MOSTLY 4s and 3s:** Good foundation; some more work to do. Explore whether more needs to be done with infrastructure or with staff development. Most immediate impact can be seen in improving customer-facing elements. Internal organizational revisions have longer-term payoff.
- **MOSTLY 3s and 2s:** Warning signs are showing up, especially if your industry is undergoing change. If your sales growth is above industry averages, then you have time to move forward in a targeted, orderly way. If you are growing at below-average levels, you are vulnerable. Time to identify one key area and invest in a major way to have an impact on customers.
- **MOSTLY 2s and 1s:** You are missing opportunities and are unlikely to grow beyond current levels, never mind prosper. There are critical internal and external information resources that you are not leveraging. Any environmental disruption could have a devastating effect on your company. Start with your core customers, the largest, and those who have been increasing their business with you. Determine their expectations of you and immediately begin making the internal changes needed to maintain their business.

Source: IDC, 2007

Of course, the resources and technology that support true innovation must be accompanied by the training and development of attitudes needed to take advantage of those resources. Cultivating a culture of innovation is not as hard as one might think. Rewarding those who have moved forward with new ideas, even those that might not have generated much incremental revenue, can go a long way toward invigorating your most imaginative business development thinkers. The distribution of \$100 in "Company Innovator" plaques at an all-hands event can generate thousands of dollars of new ideas you might otherwise have never heard about.

Innovation and flexibility are two different attributes, naturally, although they can readily reinforce one another. Innovation can help even the inflexible company to move forward, but it may simply lead to a streamlining of processes that are no longer optimal (equivalent to "paving the cow paths" rather than building new highways). The real leverage comes from a combination of innovation and flexibility: applying new ways of doing things, helping change an organizational approach that can result in even higher levels of efficiency and effectiveness.

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### **Technology Investment and Business Agility: Prudent Choices Are Key**

Midsized firms are traditionally careful in their technology investments, in keeping with their small business heritage, but that conservatism can slow a firm's growth if it means passing up the implementation of new technologies. In many ways, a flexible organization begins with effective business systems — the right approaches and technology to track and anticipate key customer and environmental trends. Too rigid a structure can lock you in to an approach that keeps you from seeing new opportunities. For example, could you respond quickly to an opportunity to sell your products in Brazil? Could your accounting system handle new currency and your CRM system handle international addresses and phone numbers (and the Portuguese language)? Sometimes it is hard to recognize the constraints our practices and policies have on our thinking about new business ideas — in effect, our technology can keep us from exploring expansion in innovative ways. With that in mind, are you delaying investments that can improve your productivity and flexibility?

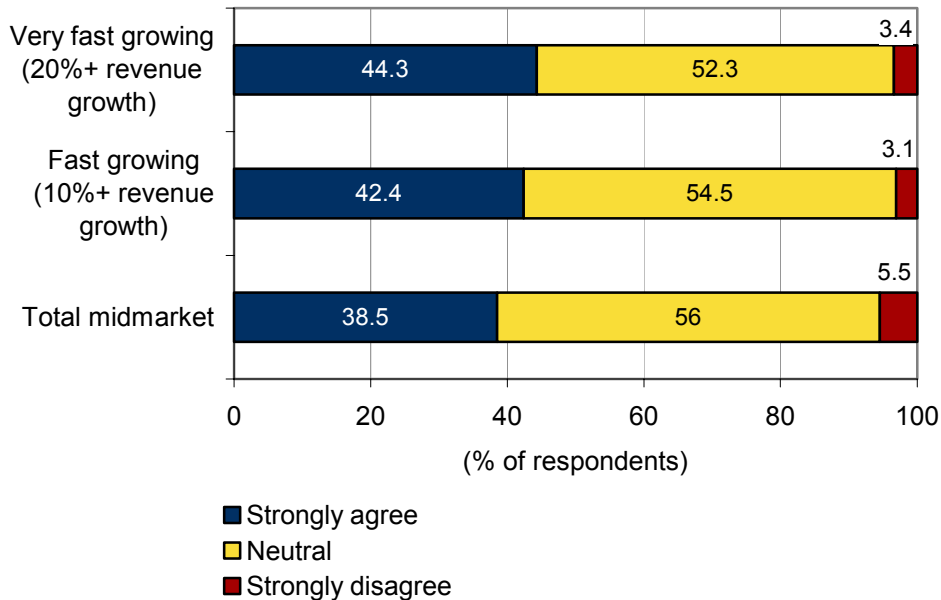
IDC examined midsized firms to see if different attitudes regarding technology investment would be associated with higher levels of success when it came to sales growth. One view of technology is that it is a cost that should be minimized. There is every reason to delay technology spending (some might argue) because prices will likely decline in the coming months and improvements may be coming, so the risk of buying soon-to-be-outdated technology can be reduced. Of course, this argument has a significant weakness — delaying technology enhancement means missing out on the benefits that technology will provide.

Other companies are less concerned about minimizing technology cost than they are about maximizing the return they are getting from each dollar spent, which can extend to achieving meaningful competitive advantage. Figure 1 shows the extent to which medium-sized businesses agree with the view that advanced technology can serve as a competitive tool.

It's useful to note that faster-growing firms are even more likely to embrace the idea that technology can provide competitive advantage. This can be directly linked to flexibility and having the ability to react to or even drive change. The customers and suppliers that midmarket firms work with have become catalysts for this kind of thinking as they sharpen their own business practices and look for their partners to do the same.

**FIGURE 1**

Medium-Sized Businesses' Agreement with Attitude Statement:  
Advanced Technology Is an Important Competitive Tool for Us



Note: Agreement scores are based on a scale from 1 to 7, with 1 being strongly disagree and 7 being strongly agree.

Source: IDC, 2007

### **Building Business Agility by Strengthening Internal Capabilities to Support External Change**

Change can take many forms, opening up new areas for exploration or revealing new threats to a core market as well as finding new applications for existing products or streamlining distribution in new ways. Midsize companies need to do more and more with the same resources to sustain growth, but even successful midsize companies sometimes find that organic growth needs to be supplemented by acquisition (or even by being acquired). And that is where some real challenges can emerge.

Bringing together two companies can be the ultimate test to accommodating change. Flexible approaches to allow for modification of operating practices and systems will be invaluable, as will the fine-tuning of the ways internal information is acquired and distributed. All of this can speed the transition time needed to bring together

two companies. Organizations already comfortable with change have a far easier time in scaling up operations through acquisition than less flexible companies. In a similar way, continuous pruning and refining of business practices provides the discipline that companies need to review objectively the resources of a firm being acquired. This is important to make sure that the best capabilities are being retained, especially if it means changing incumbent approaches.

Basic changes such as creating a new product line or partnering with a new company to serve a new territory can disrupt an unprepared firm. Change doesn't have to be significant to still be taxing — particularly if you aren't ready for it. Your systems should be able to deal with incremental change in a smooth, seamless way. They should be able to support and easily evolve with the changes necessary for success in a continuously evolving business environment. Technology should be an enabler, not an opponent of the business changes you want to make in your organization.

Whether change comes from internal adjustments such as adding new products or external adjustments such as new government reporting requirements, it is important for a firm to retain its basic values and goals even as its methods of operation evolve. Understanding the need to structure for both stability and instability is important, despite the apparent contradiction. In effect, certain core business elements will need to remain constant even as specific implementation components are adjusted on an almost continuing basis. Having a shared vision and clarity of mission will provide a central and common guidepost for staff even as operational details continue to change.

Different types of company staff will find themselves affected differently by change. "Core" workers who typically engage only with internal colleagues will benefit from clear mission statements as they execute and adjust to changing practices. These workers are the internal staff who are central resources, ranging from HR to operating management at headquarters. They tend to have fairly fixed routines and may not always be proactive in pointing out ways their jobs can be streamlined by new procedures or more effective access to information. Another group of workers plays a critical role in business agility. These are the "edge" workers who engage with customers and suppliers, representing critical touch points for both intelligence gathering and change implementation. They will be your first lines of intelligence and will provide key directions about changing customer needs. Formal regular access to the information they gather should be an integral part of your business agility efforts.

## **CHALLENGES AND OPPORTUNITIES**

The challenges associated with enhancing business agility may seem modest on the surface, but in fact they can be substantial in financial, operational, and even cultural implications. Few would disagree that it is essential for a business to be responsive to internal and external changes, but the practical implementation of a comprehensive approach supporting business flexibility can pose a number of challenges before, during, and after implementation.

**The risk of inaction.** As noted in the discussion of midmarket attitudes toward technology, there is a real temptation to delay the acquisition of a new technology solution in anticipation of future improvements. Unfortunately, that attitude delays the delivery of potential benefits of new technology that makes new business practices possible. It is difficult to calculate the opportunity cost of inaction, but that doesn't mean that those costs don't exist. In a similar way, it is not always possible to quantify the financial benefits and improvement in operational excellence that come from a proactive approach made possible by a flexible information system.

**Natural resistance to change.** This can be a challenge when it comes from customers and employees, but it can be especially difficult to overcome if senior management shows anything less than full support. The challenge is greatest in the most successful companies. After all, past practices have proven effective, so why change them? Unfortunately, as investment advisors tell us, past results provide no guarantee of future performance. For middle managers who have benefited from past success and are comfortable with current compensation schemes, new approaches that encourage flexibility and innovation could be perceived as threats. The countermeasure is to point out how expanding opportunities will improve company prospects with greater rewards for everyone. Similarly, the most successful companies are the ones that are in a continual state of reinvention made possible by flexible technology environments.

**Potential for lost opportunity and inevitable finger-pointing.** There is a risk of lost business and potential disruption whenever a business is in transition with new business practices and information resources being put into place. Building redundancy into a new approach can help ease a transition, but the IT department will still be blamed for not implementing new solutions fast enough. Likewise, not every idea for infrastructure improvement on information delivery will be implemented, with disappointment the natural result, especially as people realize that a new solution will not solve every problem.

**Danger of losing critical institutional resources.** For companies that are still small in spirit, though midsize in revenues, a comprehensive review of business practices needs to be done with care because not every aspect of business operations will be formally identified. In an effort to streamline and move toward increased flexibility, there is a risk of discarding some critical connections of information delivery. For that reason, changes in policy should be implemented with care, with alternatives available if needed. While it will be important to eliminate the collection and delivery of unnecessary information, or information provided too often or with too much detail, both management and users need to be directly involved in the editorial process to ensure that necessary muscle is not trimmed along with excess fat.

## **SUMMARY/RECOMMENDATIONS**

The need for a flexible, adaptable business organization is something that is easy to support in theory, but much harder to support in practice. Few people notice the small daily changes in the environment that accumulate over time — from global warming to growing children to the number of management reports generated regularly. It is always a surprise when independent measures reveal how much change has taken place that we never noticed. For businesses with proven practices and approaches, there is an investment in the past that can make change expensive both financially and psychologically. It means you must again fight battles you thought you had won —

battles for product excellence, customer loyalty, and competitive positioning. As daunting as this might seem, it represents continuing opportunity for growth and greater success in reaching new markets and expanding engagements with new customers.

A fresh look can point toward areas of improvement, both in technology infrastructure and in staff training. The idea of "problem solving" is especially seductive, but ultimately frustrating, because the solutions of today will not necessarily serve you well tomorrow. The alternative to problem solving would be "process refinement," which affirms the view that continuous development of tactics and strategy is essential given the changing nature of the competitive environment. Having a flexible technology infrastructure that can be adjusted to suit evolving needs will be increasingly important.

Flexibility and agility link very closely with other capabilities that IDC has examined in previous white papers. In looking at operational excellence, we examined the importance of getting critical information into the hands of key constituents. Improvements in efficiency and effective support of customers can make an important difference in business performance to more than justify investment in information infrastructure. In looking at customer value, we examined the challenge of maintaining strong customer relations even as companies grow. The importance of identifying key customers, current and future, was discussed along with the role of technology in providing effective support to growing numbers of customers.

Whether your company will continue to grow from within by expanding existing and new customer business or by making acquisitions, the need to refine operating policies and practices is clear. Technology can play a key role in supporting business expansion initiatives by streamlining the assembly and delivery of key information to both internal and external stakeholders, including not only customers and line managers but also senior management as part of annual and long-term planning.

Companies can take a number of different steps to ensure that they are being as flexible as they need to be to continue to grow successfully and thus meet internal needs, customer requirements, and changing government obligations:

1. **Establish continuing review of processes with senior management support, avoiding one-time quick fixes.** The temptation to "find a problem and solve a problem" can create difficulties for midsize firms looking to improve their flexibility because the challenge, like the solution, is ongoing. Given the importance of improving an organization's agility, senior management support is essential. This can best be provided through a senior management committee that supports a "continuing revolution" of challenge and refinement of business practices. Fresh assessments of business practices need to be done regularly, with quarterly findings and annual (or more frequent) updates implemented in keeping with changing internal user and customer needs. This leads naturally to the next recommendation.
2. **Identify organizational constants that need to be maintained, separate from tactical information needs that are evolving.** Legal reporting obligations and board-level information preferences are relatively stable and don't need to be revisited as part of the business review process discussed earlier. Investment in developing and delivering core information internally can be an important starting point for developing and refining the collection and delivery of other information in your company.

3. **Understand who in the organization needs accurate and timely customer and other information and ensure that the right information is available.** Not everyone in your company needs all of the details instantly, but access to current account information is important not only for sales but also for others who have contact with customers. In an increasingly competitive environment, effective access to information can be an important attribute to distinguish yourself from competitors (or maintain your own competitive position if others are already enhancing the resources that they provide to customers). Make sure that the right level of information is being provided given the changing needs of customers and those who work with them. In addition to the "who" and the "what" of information delivery to key staff, there is also the "when" (how frequently?) and the "how" (what is the optimal format?). All of these questions need to be reviewed regularly in keeping with a flexible response to changing market needs.
4. **Establish internal and external benchmarking of company and competitor performance.** This should be put into place to ensure that your company is keeping pace in key performance areas: Flexibility is one area of performance to be examined. How nimble are your competitors? How quickly can they move into new markets or develop new products? What are the areas where your firm needs the greatest improvement?
5. **Listen, learn, refine — make sure you have ways to leverage customer feedback.** An important way to distinguish yourself from the majority of your competitors is to take the preceding steps to ensure your flexibility in delivering the right customer information at the right time. But real competitive distinction can come by listening effectively to your customers. Breakthrough ideas in product or market positioning can come from anywhere, but the most natural source is from those who use your products and services on a regular basis. In addition to your customers, your suppliers and your employees will have changing needs that you can help meet in ways that will benefit your company. Refining practices to identify and support changing constituent needs is just as important as institutionalizing and formalizing information collection and delivery.

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