Fit to Change

Private Sector 2012 Study

shaping tomorrow with you

Is UK plc equipped to succeed in today's fast-paced business environment?

It has become very fashionable to talk about business agility and the accelerating pace of change.

Mervyn King, Governor of the Bank of England, famously pronounced in November 2011 "Who knows what's going to happen tomorrow, let alone next month?"

Harvard Business School professor John Kotter says that "the current rate of change within businesses is faster than the rate at which organisations are improving" and that "many organisations just can't keep up with the speed of change."

In their recent article in Harvard Business Review 'Adaptability: The New Competitive Advantage' Martin Reeves and Mike Deimler point to some of the consequences of accelerating change "since 1980 the volatility of business operating margins, largely static since 1950, has more than doubled, as has the size of the gap between winners (companies with high operating margins) and losers (those with low ones)".

It would be easy for us to assume that this pace is unprecedented, that businesses generally are failing to manage external change, and that process engineering and automation are bound to be part of the solution.

But are those assumptions borne-out by recent evidence from UK studies? What do private sector executives really think about "agility"? Is it a capability they already have, or something they should seek to develop? How might that translate into useful action? Are UK companies **"Fit to Change"**?

We couldn't find the research we were looking for, so in January 2012 we commissioned it. Using a structured questionnaire, our external research team interviewed 150 C-suite executives from UK private sector companies.

The researchers asked private sector companies what factors were most significant in driving change, what capabilities business needed in order to manage that change, and how capable they felt in each area. They asked how planning horizons had changed over time, and how often their long-term plans were reviewed. Finally, they asked whether technology was a constraint or an enabler to agility.

We also carried-out a series of in depth conversations with a range of business leaders and experts in the UK – our Fit to Change Panel[1] – to explore and interpret the findings to discover what CEOs can do to improve the chance of success in this ever-changing environment.

This report presents a summary of findings from the research along with the inferences drawn from them. Where there were significant differences between industries in the private sector we isolated those.

Our major findings are that two-thirds of private sector business leaders felt the "current rate of change is too quick for UK organisations to keep up with", validating Professor Kotter's assertion. In another part of our study, 57% said that failure to respond rapidly and effectively to the need to change is one of the most significant risks their organisation faces.

But how to respond?

There is insight throughout the report which should assist you in understanding how best to apply its findings. We conclude with recommendations from our panel of business leaders. So we hope you'll read on, to find out how best to address the question of business agility within your organisation.

[1] Duncan Tait, CEO, Fujitsu UK&I; Andrew Bale, CEO, Resilient Networks; Robin Young, Operations Director, Mitchells & Butlers; Paul Dreschler, Chairman and CEO, Wates; James Woudhuysen, Professor of Forecasting and Innovation, De Montfort University; Dido Harding, CEO, TalkTalk; Professor John Kotter, Harvard Business School.

Pace is too fast

"The speed and volume of information transfer is accelerating beyond the ability of people to absorb, assess and decide. The world of business is so much more global – there are very few businesses that can avoid understanding and responding to global trends, new competition and dramatic shifts in economic and political positions."

Paul Dreschler, CEO and Chairman, Wates.

67% of private sector respondents agreed with the statement:
"The current rate of change is too quick for UK organisations to keep up with."

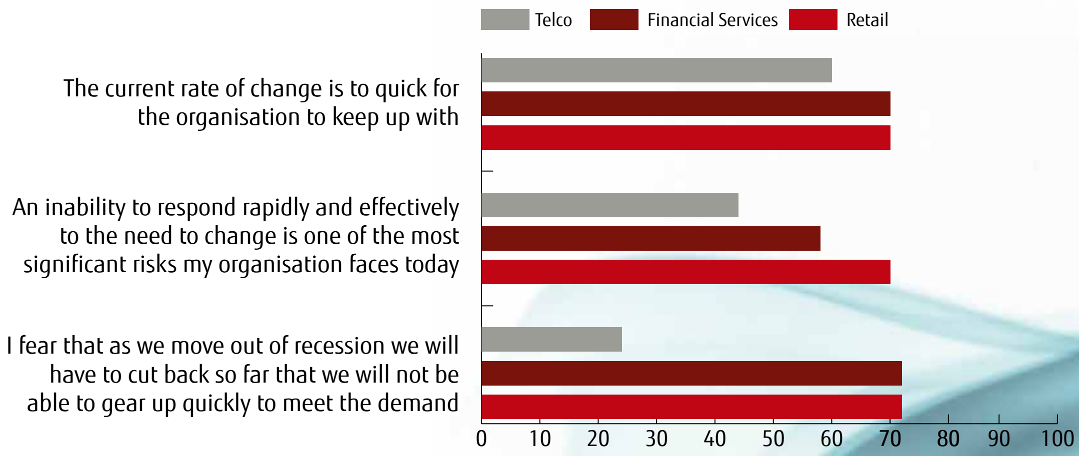

Figure 1: Is the rate of change too fast for UK companies to keep pace with?

When we asked what factors were most significant in driving the rate of change, customer demands, competition and financial factors had the highest rates of response. However other factors such as regulation, collaboration and working patterns also featured with the majority of respondents agreeing they were significant.

In this part of the research, the utilities and telecommunications sectors produced the most interesting results, with unusually strong scores for:

- Need to respond to customer demands (100%)
- Need to work collaboratively with partners (94%)
- Changing work patterns (82%)

The importance of possible mergers and acquisitions was most pronounced in financial services, perhaps as a result of the upheaval in that sector since 2008.

When we compared the perceived significance of these factors against the business's perceptions of their ability to respond to those factors, some interesting results arose: Relative to the significance of the factor, organisations felt least able to deal with customer demands and costs. They were more comfortable with regulatory change and competitive pressures.

Consequences of falling behind

So the rate of change is increasing and companies in the UK are struggling to keep pace with it. But what is the likely outcome for businesses which are slow to respond?

57% of private sector respondents said that failure to respond rapidly and effectively to the need to change is one of the most significant risks their organisation faces.

So what precisely is the risk? When we probed more deeply, we found that an overwhelming 96% were concerned about "reduced turnover". Showing slightly less strongly at 79% were both "the ability to get finance" and "decreased operational efficiency".

It was encouraging to see "ability to attract the right staff" as high as 70%, in recognition of the increasing autonomy of the modern worker, but disappointing in the age of the empowered consumer to see "lost customer loyalty" as low as 63%. We expect this figure to rise as more businesses try to gain competitive edge by adopting the perspectives of their customers.

In fact the customer loyalty figure is dragged down a little by the results from the financial services sector, which polled significantly lower than our other sectors in this area. This finding could just be a consequence of the higher proportion of business-to-business (B2B) activity in financial services, which makes it less susceptible to consumer trends. But it could also be a warning sign to banks and insurers of the things to come, as alternatives to traditional financial products arrive on the scene from companies like Wonga, PayPal, Kiva and the Credit Unions.

In extreme cases the damage for those not "Fit to Change" could be terminal.

Our research also showed that:

- 55% fear that as they move out of recession they'll have cut back so far that they'll be unable to gear-up quickly to meet demand
- 59% believe it is significantly likely that failure to respond well to change could mean vulnerability to hostile takeover/ consolidation.

Perhaps they're right to be concerned. In recent months we've seen once-dominant consumer products companies like Nokia and Kodak move way down their markets as a result of changing consumer preferences, and at the same time high street competition has seen off established companies like Woolworths, Comet, Blacks Leisure, Past Times and La Senza.

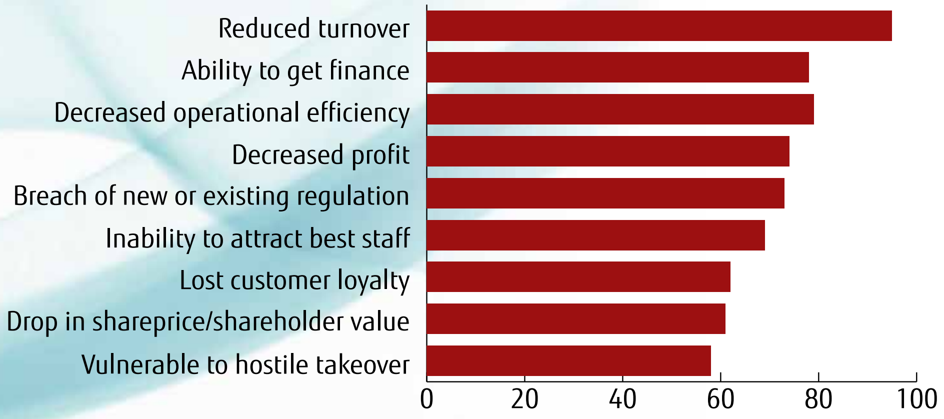

Figure 2: Consequences of not sufficiently responding to change

"What is the biggest threat for organisations that do not keep up with the rate of change? Extinction."

Paul Dreschler, CEO and Chairman, Wates

"The fear for any organisation is in becoming the world's greatest expert in an irrelevant domain. Doing the wrong thing well is so often the death knell of an organisation."

Andrew Bale, CEO, Resilient Networks

"For companies at the vanguard of changing market conditions and trends, the opportunities are limitless. There is no better case for making agility a priority than looking at the likes of Amazon and Apple."

Duncan Tait, CEO, Fujitsu UK&I

What's behind it all?

"A global economic downturn and credit crunch has made almost every western business even more conservative. Pulling risk curves down and delaying change initiatives simply creates an even bigger divide between the best and the old-world best. Fortune favours the brave and never has this been more true."

Robin Young, Operations Director, Mitchells & Butlers

It's clear that the situation is becoming more acute for UK private sector companies.

43% of respondents believed that five years ago they could plan at least two years out with a degree of certainty, but only 21% feel they could do that today.

29% felt that five years ago they could plan out by at least 12 months; now that figure is 33%. And nearly a quarter (23%) believe that it is only possible to plan ahead with certainty by six months.

But the sectors responded differently in this area: Perhaps sensitive in retrospect to the economic downturn in 2008, the sectors which were most directly affected told us that five years ago they had not been able to plan with certainty for more than 1-2 years; today they are a little more optimistic.

So what's reducing businesses' planning horizons?

Our research suggests that regulation is on the up, that consumers are being more demanding today, and also that globalisation has intensified competitive pressures.

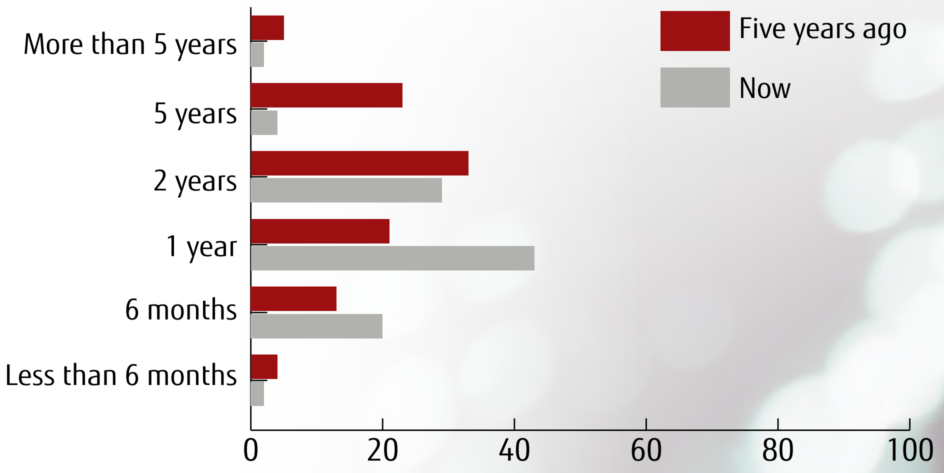

Figure 3: How far ahead can business leaders plan with a degree of certainty?

It also seems there's less working capital around for most that younger employees are demanding more of their organisations, and that cross-company collaboration is increasingly necessary in order to remain competitive.

In another part of the interview, our researchers asked if legacy technology could be a barrier to change, and 54% agreed. After digging a little deeper into the results, our interpretation is that IT is constraining mostly where there are inflexible legacy IT systems, where governance processes have become heavy, and specialist skills are in short supply. Fujitsu has explored this area in some depth in a previous paper so won't go into detail here[2].

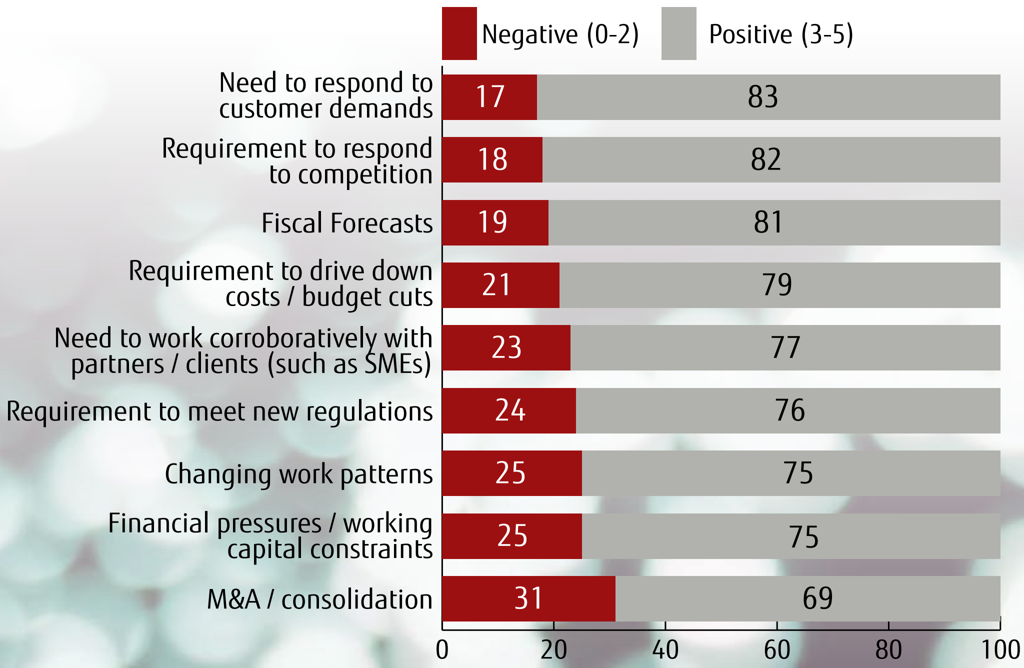

Figure 4: External factors driving the current rate of change

[2] http://www.fujitsu.com/uk/solutions/cloud/cloud-resources/white-paper-untangling-it.html

Strength in handling change

"You need to be honest as a business leader when the time comes to change the plan."

Dido Harding, CEO, TalkTalk

What ingredients do businesses looking to navigate change successfully require?

An overwhelming 97% of private sector executives believe strong leadership is an important ingredient. The ability for teams to follow a clear direction is crucial for change.

"In today's touchy-feely culture, where 'partnership' and 'open' innovation have become mindless mantras, let's hear it for hard-nosed, clear-eyed leadership."
– James Woudhuysen, Professor of Forecasting andInnovation, De Montfort University.

Other ingredients cited strongly by the respondents included capacity, culture, resources and suppliers or partners.

Critically, "long-term vision" and "short-term plans" figure quite far down the graph, supporting our suspicions that the value of forward-planning is declining as external forces become less predictable. Planning is still relevant, but it's best also to plan to change our plans! Dido Harding offers helpful advice here:

"You need a high- level vision with the ability to drop down to the frontline at any time."
– Dido Harding, CEO, TalkTalk

By sector, respondents in telco/utilities were the most buoyant. We mentioned earlier that 57% of organisations felt that failure to respond rapidly and effectively to the need to change is one of the most significant risks their organisation faces, but only 44% of telco/utility respondents felt so exposed.

Similarly, only 24% in telco/utilities feared that as they move out of recession they will have cut back so far that they will be unable to gear-up quickly to meet demand. This figure was 72% in other sectors.

And that view is also supported by the frequency with which telco and utility companies review their long-term plans. They were much more likely than any other sector in our research to leave a gap of a year or more between reviews.

Figure 5: Ingredients of an organisation that is Fit to Change

We believe that more organisations could benefit from monthly or quarterly reviews. It's increasingly obvious that the outside world won't respect our long-term plans, so businesses need to be primed to adjust those plans more frequently than ever before.

Considering these findings in concert, it seems that telcos and utilities may be furthest removed from typical B2C thinking: Although they identified the need to respond to customer demands as a very important driver of change, the other findings suggest only limited concern for the likely consequences. Perhaps this is to be expected in a sector where most products are essential to live, rather than a luxury.

And this may explain the sector's relaxed attitude to Cloud: Whilst a healthy majority of respondents from retail and financial services agreed that "cloud computing is a key enabler of change within my organisation", the figure was only 30% for telcos and utilities.

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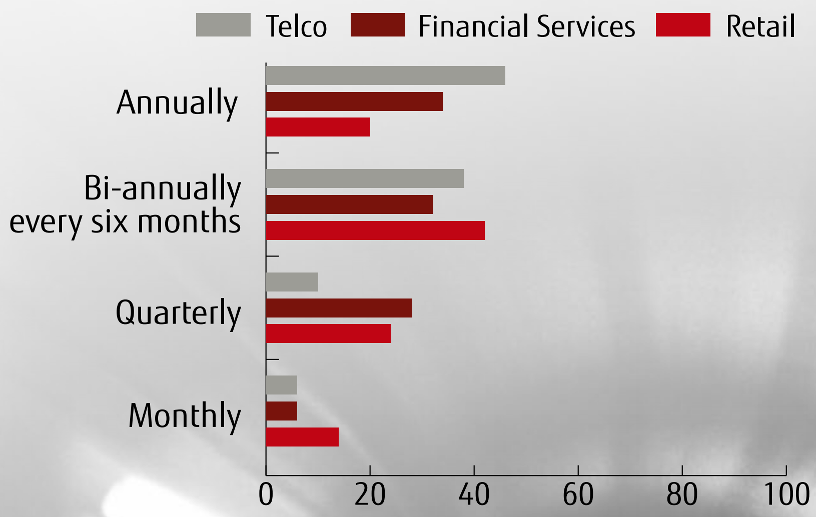

Figure 6: Current length of business plan review cycles

Weaknesses in handling change

“By self-report, which always tends to overstate positive factors and understate negative factors, only 32% of those in private firms are in my view at all optimistic that they are ‘Fit to Change’. In a world that is changing more and more rapidly, these are highly distressing numbers.”

Professor John Kotter, Harvard Business School

Let’s examine how “Fit to Change” our respondents considered their organisations to be. We asked them to rate this on a scale of 1-10. The most frequent rating was 6/10 with just 32% rating themselves at 8/10 or above.

We invited Professor John Kotter himself to comment on this finding:
“By self-report, which always tends to overstate positive factors and understate negative factors, only 32% of those in private firms are in my view at all optimistic that they are ‘Fit to Change’. In a world that is changing more and more rapidly, these are highly distressing numbers.”
Professor John Kotter, Harvard Business School

So where do companies feel they are lacking?

As shown in Figure 8, the ingredients where perceived capability falls behind perceived importance are:

- The right technology solutions
- Long-term vision
- A robust ecosystem of suppliers/partners

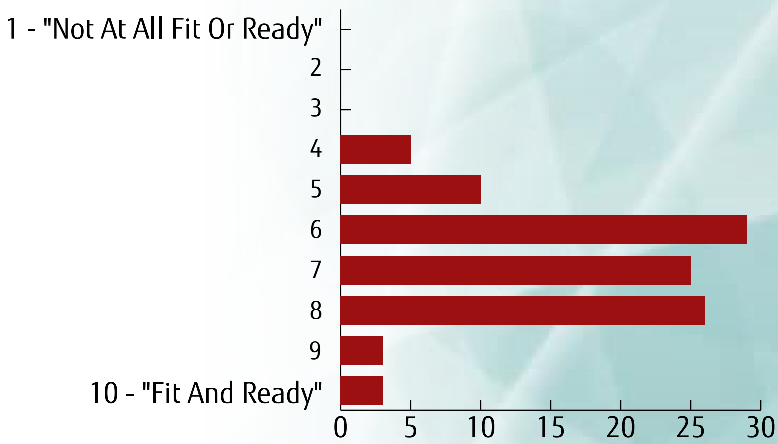

Figure 7: On a scale of 1 to 10 how Fit to Change are you?

Notably, respondents in the financial services sector considered “long-term vision” and “the right technology solutions” to be significantly less important than did their peers in other sectors, but they also considered their organisations comparatively weak in these areas. This surely reflects the unprecedented period of unrest in the sector, but also hints that even the relatively high IT investment by financial services organisations has brought only limited levels of business agility.

Similarly, the areas where there’s the widest gap between significance of a factor driving change and our companies’ capabilities in handling it are:

- Need to respond to customer demands
- Requirement to drive down costs / budget cuts

So what can companies do to address some of these weaknesses? Let’s come on to that next.

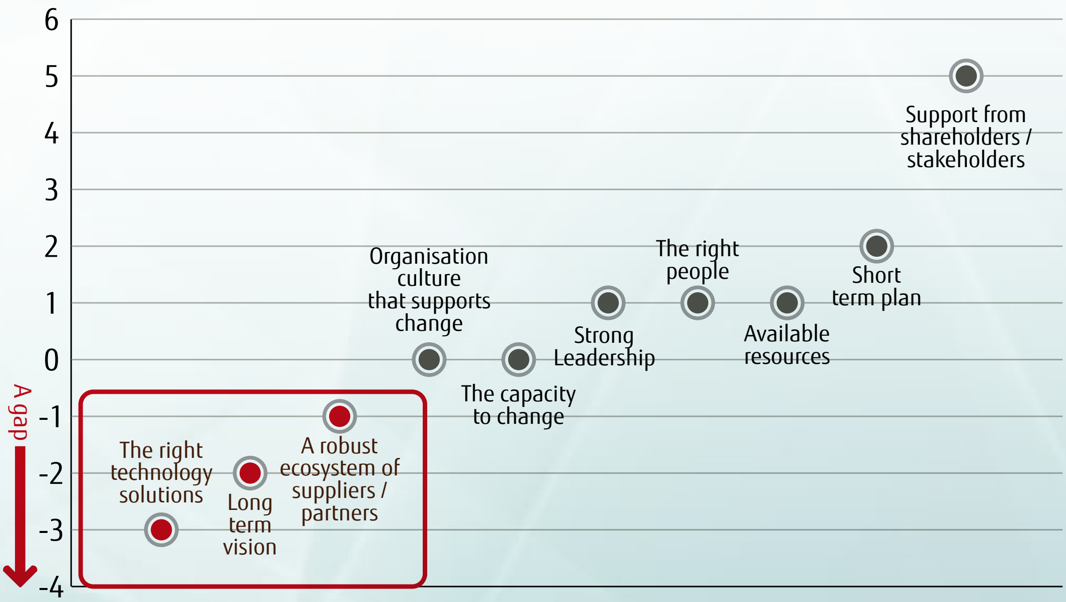

Figure 8: The gap between the importance of an ingredient and how close an organisation is to possessing it

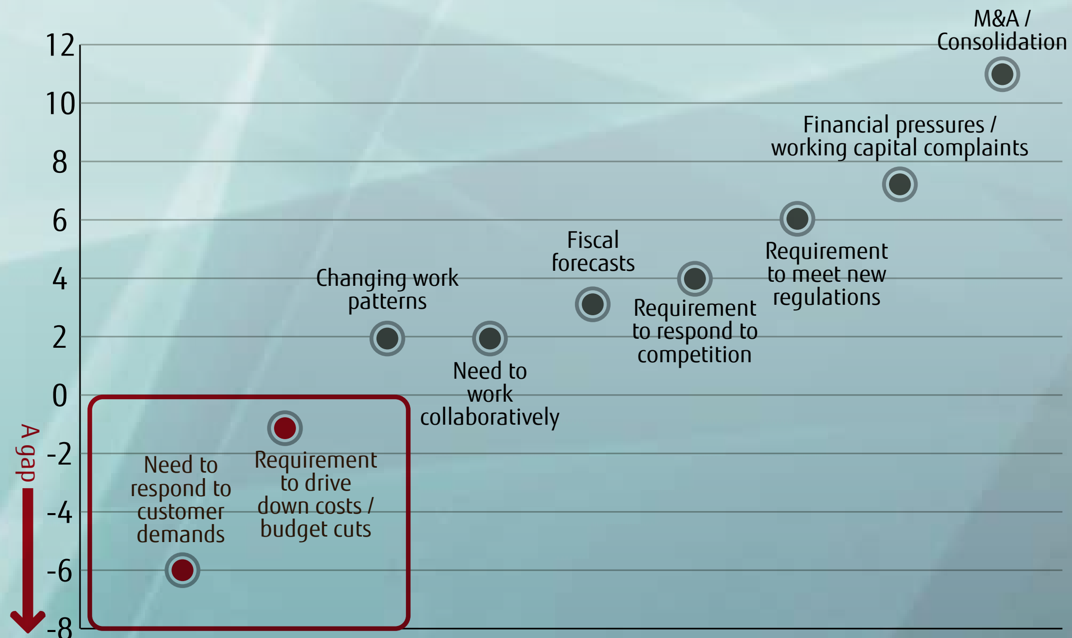

Figure 9: The gap between the importance of a driving factor and how well an organisation is currently able to respond to it

Responding to the threat

"It's about knowing when to change – when to amend the short-term plan – and when to stick to the long-term strategy and allow change to happen around you."

Duncan Tait, CEO, Fujitsu UK&I

"Rate of change is no longer a domestic issue. Many businesses in western economies are happily patting themselves on the back for being rapid when, in reality, they are lower quartile when compared to their new competitors. The wealth line moves East and we must all compare ourselves with the best from that geography."

Robin Young, Operations Director, Mitchells & Butlers

Of course being Fit to Change doesn't mean jumping every time change occurs around you. Agility is a selective activity, so it's important to recognise which market trends and competitor behaviours should provoke a change in your organisation.

But often change will be necessary or desirable, and you'll need to be prepared.

So we combined the results of the research with the insights from our Fit to Change Panel[3], and also applied some of our own experience as a fast-evolving company. The result was the following ten-point list, which reveals both the kinds of characteristics businesses need to foster, and also the initiatives they should launch to improve their responsiveness to change:

1) Strong, honest, leadership

Business leaders need to start not by focusing outwards on the organisation, but by looking inwards. Do they themselves really accept and embrace change, or is it just an inconvenience they're forced to tolerate?

Without tackling leadership first, there's little to be gained from pursuing points two to ten.

2) Foster innovation through a deep sense of security

In contrast to the "lead by fear" ethos of the '90s, other research has shown that innovation is best fostered in organisations that first of all establish a sense of security in their personnel. Teams who feel confident, well-managed and secure in their jobs, will be able to plan for the longer-term and make the decisions that are required to ensure responsiveness to unexpected change. Put in place good planning for the worst case, and people will come up with options to carry their businesses through.

3) Be clear on the skills you need

Make sure you truly understand the market trends and customer needs driving your sector in order to map out the skills and capabilities you require to succeed. If you don't already have the necessary skills, go out and recruit them, or plan to develop them internally.

4) Release capacity through flexibility

When people can work where is most appropriate for them, when tasks can be simply shared, when teams can be brought together simply to solve problems, an organisation can be far more effective in its response to change.

5) Empower people by delegating deep into the organisation

Working practices that emphasise delegated management and delegated decision-making foster a sense of empowerment. Most change must be met effectively in day-to-day decisions, rather than by long-term strategy. Empowered organisations tend to be more responsive to the majority of environmental change.

6) Communicate, communicate and listen

If you want to ensure the whole organisation understands and feels the intensity of competition, the nature of key challenges and the pace of change required to win the key is communications. Change is an evolving process that requires buy-in (whether willing or not), many organisations fail at an early stage by ignoring the long-term communication strategy. And communication is a two-way street. Listen to the market; listen to your staff and listen to your competitors – if you are not listening you will not hear the call to change.

7) Employee diversity

The most important thing in business today if you want to succeed is diversity across your employees. Different experiences; cultures and ages provide a range of insights that enhances a company's flexibility. When it comes to technology for instance, it is likely to be young employees that enable you to harness the latest technology to keep pace with change. And there's also likely to be advantage in hiring staff from industries which have already embedded some of the attitudes you're seeking.

8) A robust ecosystem of suppliers

The way you partner with suppliers and integrate them into your business is a complex situation - but it is also the difference now between winning and losing in business. Your supplier ecosystem can make the difference between agility and sluggishness.

9) The right technology solutions

Technology is not just a means to save money and reduce risk; it can be your ticket to ensuring that when you need to move quickly and in different directions you can. It's essential that today's CEO has an understanding of when IT should be an integral part of business strategy – when investing in IT can reshape the business.

10) Balance your visions

Ultimately being "Fit to Change" is about ensuring the right balance between your long- and short -term visions. The key here is having a defined long-term vision but the capability and infrastructure that allows you to drop down to the frontline at any minute in response to external factors.

We want UK plc. to get "Fit to Change" in 2012. Our experts can support you in identifying where big shifts within your business need to happen and how Fujitsu can help. Please get in touch for more advice and information at askfujitsu@uk.fujitsu.com.

"The big change is that many firms now feel rather impotent in the face of events. Low interest rates and quantitative easing don't help; Europe is adrift; China is unstoppable. But by filling in all the plans between short-term adjustment and long-term vision, firms can still make the future happen, rather than just let it happen to them."

James Woudhuysen, Professor of Forecasting and Innovation, De Montfort University

"You have got to listen to everything going on around you if you want to stand any chance of understanding the significance of a change in the market and its likely impact on your business."

Paul Dreschler, Chairman and CEO, Wates Group

[3] Business leaders who contributed to the tips were Duncan Tait, CEO, Fujitsu UK&I; Andrew Bale, CEO, Resilient Networks; Robin Young, Operations Director, Mitchells & Butlers; Paul Dreschler, Chairman and CEO, Wates.

Can technology help?

As we've seen, organisation and culture are by far the most important factors for the agile enterprise. But the findings also highlight areas where IT services have a role to play, especially in addressing some of the major concerns and weaknesses identified in the study:

1. With 72% of businesses in retail and financial services concerned about their ability to scale up quickly as they exit the economic downturn, suppliers should provide utility services which scale up or scale down on-demand, without delay, and without capital risk to the businesses consuming them.
2. With 80% of companies considering their readiness for mergers and acquisitions, IT suppliers should help businesses simplify their IT estates, and also migrate as many back-office systems as possible into public cloud services, where they can be more readily merged or de-merged.
3. The 74% of respondents worried about breaching regulations should seek to adopt best-of-breed compliant processes, often embodied inside industry-specific Software-as-a-Service products running on the Internet. These products have the virtue of being maintained invisibly by suppliers, and businesses have every right to expect them to be maintained in line with applicable regional regulations.
4. The 77% who considered collaborative working to be important to agility (94% in Telco/Utilities) should consider using "community clouds" to make automated collaboration with partners, suppliers and resellers much more efficient.
5. Our study showed a significant gap between the degree to which businesses wished to respond to customer demands and the degree to which they felt able. They could do well to experiment with Business Solution Stores which can provide new business capabilities from the cloud, on a pay-per-use basis. If a new go-to-market proposition demands new functionality, it will increasingly be possible to rent that capability immediately, with no capital outlay, and just as easy to scale up (in case of success) or back out (if the proposition flops).
6. And of course the 78% of respondents concerned about reducing budgets should consider their IT estates. Most large enterprises rely on private facilities for the vast majority of their systems, but by moving commodity functions like email, finance, HR, fleet management etc. to internet-based service providers, the savings can be staggering.

All of these recommendations exploit the changing nature of the IT industry as it completes its evolution to providing IT "as a service" just as utility companies provide domestic electricity and gas today. We believe this evolution is an important enabler for companies seeking business agility, and we were gratified that 51% of business executives agreed.

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