

## It's time to flex

*Create the organizational and cultural agility to do business on demand*



**deeper**

*An IBM Institute for Business Value executive brief*

The IBM Institute for Business Value develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study created by the IBM Institute for Business Value. This research is a part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information.

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**An on demand business is an enterprise whose business processes – integrated end-to-end across the company and with key partners, suppliers and customers – can respond with flexibility and speed to any customer demand, market opportunity or external threat.**

## It's time to flex: Create the organizational and cultural agility to do business on demand

Across every industry, the business environment is becoming more complex, fast-paced and unpredictable. Under such strain, rigid business structures will eventually break. But those companies that have systematically replaced less flexible organizational elements with more adaptable alternatives will enjoy a distinct competitive advantage – the ability to do business on demand.

### *Now is the time to build agility*

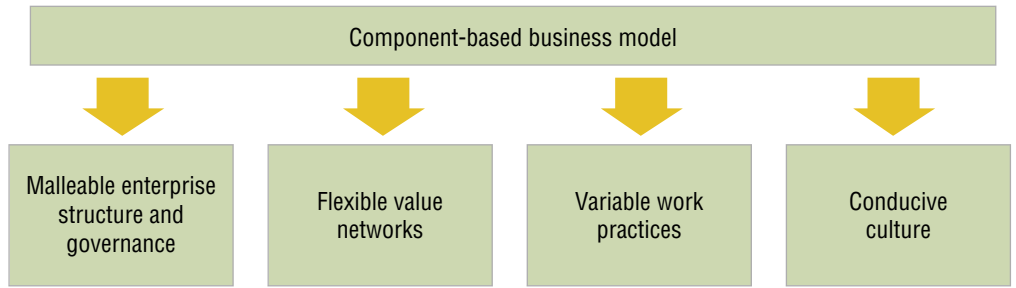
For most companies, today's business environment is more demanding than ever. New customer requirements, market opportunities and external threats are continuously emerging, creating a constant state of uncertainty and risk. Meanwhile, a slow growth economy has intensified the focus on productivity, pushing firms to standardize not only technology but also business processes.

To compete in this type of environment, companies must be capable of responding rapidly to a variety of business demands – with a response that almost always involves organizational change. In fact, the speed with which an enterprise can accomplish change depends in large part on the inherent agility of the organization and its people and how well they've learned to balance discipline and empowerment. In agility, enterprises find a difficult-to-copy source of sustainable competitive advantage. Greater agility allows a company to:

- Be first to identify an opportunity – and the first to exploit it
- Respond rapidly to a new proposition by reconfiguring external relationships
- Decrease idle resources, and thereby reduce costs.

This type of adaptability doesn't happen by chance; it must be "designed in." As companies move toward operating on demand, it's important to establish pivotal points of flexibility throughout the enterprise. From organizational structure to external relationships to resource management to corporate culture, all facets must center on making the enterprise more agile. While many enterprises have become more adaptable in specific areas, flexibility must become pervasive; it must be the primary design point of every aspect of how an organization operates – first and foremost in its business model, but also in its structure and governance, value network, work practices and corporate culture (see Figure 1).

**Figure 1. Enterprises must holistically address all of these elements to create greater agility.**

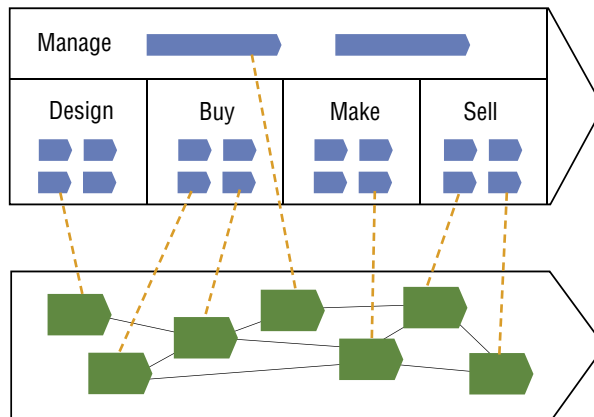


Source: IBM Institute for Business Value.

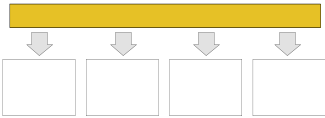
***Business flexibility starts with a component-based view***

Because of the central role a company’s business model plays, its design dictates the degree of flexibility a business has. By driving the composition of the business model to a much more granular level, based on distinct business components, it becomes easier to adapt and reconfigure the business design as conditions change. A component-based business model consists of a federation of business components that collaborate to create shareholder value (see Figure 2).

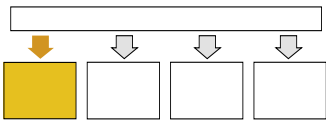
**Figure 2. Though highly autonomous, business components work together to create value for the enterprise as a whole.**



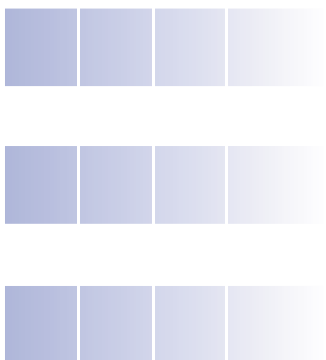
Source: IBM Institute for Business Value.



**Components – like the joints of the human body – offer greater flexibility and precision, with the ability to react, adapt and assume an almost infinite number of configurations.**



**Best-in-class specialists are external partners that provide market-leading capabilities for a specific business component through superior scale and knowledge.<sup>2</sup>**



Each business component is composed of a group of cohesive business activities that serve a unique purpose along with all of the resources (people, processes, knowledge, technologies and assets) needed to accomplish that purpose. Components are independent, in terms of management and financial viability, and yet interdependent, linked together through common business processes, information systems and service agreements. In contrast, companies operating with a traditional business model sometimes have difficulty determining and optimizing the value contribution of a particular function because they measure and manage in aggregate.

Unlike the closed systems and rigid operating models inherent in traditional business designs, on demand organizations that employ a component-based business model can rapidly reconfigure to address opportunities or threats, adding or removing components as necessary. Since similar processes, skills and technologies are grouped together, they can be more easily adapted. And, segregating activities and formalizing the connections among components allows the business to source components internally or externally, based on which alternative offers the enterprise greater value.

### ***Designing a malleable enterprise structure and governance***

As companies begin to move toward on demand operations by establishing component-based business models, it's critical to consider core competencies – those capabilities that matter most to the firm's success.

#### **Core competencies**

- Provide potential access to a wide variety of markets
- Make a significant contribution to the customer value proposition of the end product or service
- Should be difficult for competitors to imitate.<sup>1</sup>

Breaking up the business into components allows on demand companies to focus more intently on those specific components related to their core competencies – and turn over those components deemed as non-core to best-in-class specialists that can add value in those areas of the business. The shared services that many companies have already established to exploit scale or expertise are a move in the right direction; these services may evolve into internally maintained business components – or could become the starting point for an outsourced component. Just as they've done in the IT arena with applications and standardized interfaces, on demand corporations use component-based business models to gain plug-and-play business flexibility – snapping in new components and pulling out others.

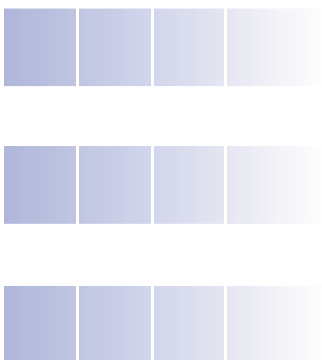
### **Much in common at Kookmin Bank<sup>3</sup>**

With Kookmin Bank's fourteen different business units focusing primarily on their own mandates, the principal connection point for these organizations was their customers – important, but only the tip of the iceberg for success. Since the bank's strategy is to be the primary distributor of financial services to its customers – regardless of product or manufacturer – it needed to have a complete view of the customer across the enterprise. But organizational complexity kept getting in the way; different channels in different business units were all using different marketing tactics, making a unified customer approach extremely difficult. As Kookmin worked to reduce complexity, it realized that nearly half of the processes across the company were similar. As it turned out, most of the common activity – almost forty percent – was found in distribution and manufacturing because the bank had already implemented quite a few shared services within operations.

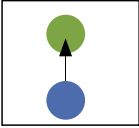
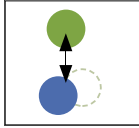

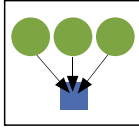
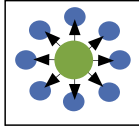
To become even more responsive to the marketplace, Kookmin needed to further eliminate as much duplication as possible and simplify its organization. By analyzing activity across the enterprise, finding ways to combine like functions and make them operate more interdependently and independently, the firm created greater organizational agility. As the company restructured the business into business components, it was careful to make them multifunctional. For instance, the credit-scoring component needed to work for loans and credit cards, and for retail and corporate customer segments – each with its own service level expectations. Also, components needed to operate seamlessly regardless of the physical locations of everyone involved. With this measure of independence, a particular component could operate from whatever geographic location made the most sense or be operated by whichever external partner offered the best value.

Based on a comprehensive evaluation, the firm mapped out a five-year transformational plan which will convert its business into a component-based business model, make it more agile and responsive to its customers – and is expected to save around US\$250 million in the process. Kookmin is now executing the plan in a prioritized order so that areas that promise the highest or quickest return – such as payment processing and core banking functions – are tackled first.

Because they have more opportunities for leveraging external expertise, on demand businesses will need the ability to participate in multiple types of partnerships (both bilateral and multilateral), engage in more sophisticated partnering arrangements and even relate to the same business partner in multiple ways (see Figure 3). Because of the inherent differences in partnering arrangements, each type of relationship will require different types of governance and the organizational flexibility to manage them all simultaneously.



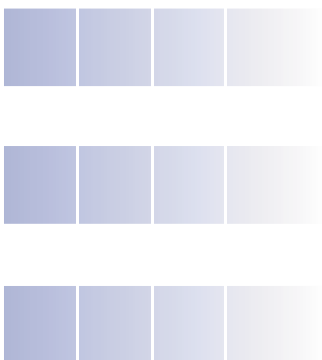
**Figure 3. On demand businesses have at their disposal a variety of partnership types.**

					
	<b>Simple vendor</b>	<b>Full outsourcing</b>	<b>Integrated</b>	<b>Independent entity</b>	<b>Hub and spoke</b>
<b>Relationship</b>	Bilateral – narrow scope of services	Bilateral – flexible, tailored services	Bilateral – integrated products/services	Multilateral – new company offering products/services	Multilateral – community
<b>Description</b>	Specialist provides transaction services	Full outsourcing to a specialist	Collaboration via a new venture	Creation of a new independent entity that controls assets, people and technology	One company (generally the larger or better performing one) dominates the decision making while other partners accept relatively limited roles
<b>Benefit</b>	Generate some cost savings	Obtain significant cost savings and shared operating risk	Create new streams of revenue	Create new focused entity with separate return	Leverage community for information, people and products/services
<b>Decision process</b>	Unilateral, customer led	Customer led, but mutual agreement	Collaborative	Joint and shared	Joint, but dominated by one enterprise

Source: IBM Institute for Business Value.

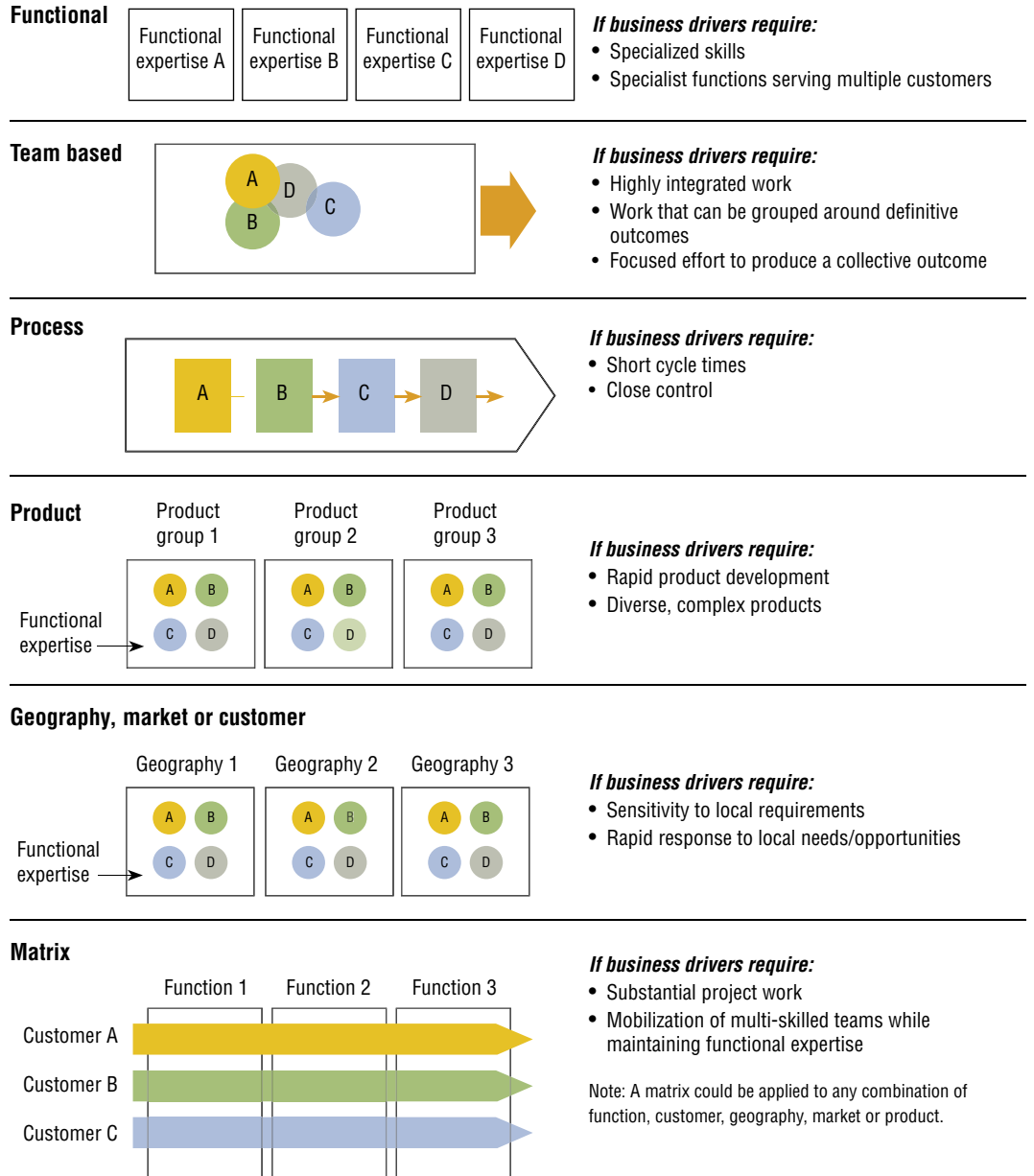
For companies that have traditionally relied on simple vendor relationships, new capabilities will be needed. Internal organizations will need to be realigned to relate differently to their partners. For instance, companies may need to designate executive sponsors to serve as single points of contact for particular partners. Where partnering is prevalent, a centralized alliance management team can help ensure that the right relationships are established, the startup process is streamlined – and the health of the partnerships is monitored on an ongoing basis.

As companies attempt to optimize those business components kept in-house, they will likely find that different business components work best under different organizational models (see Figure 4). The model selected for a particular business component depends on its primary activities as well as its key business drivers. For example, if a component is characterized by intense pressure to reduce cycle time and requires detailed monitoring and control, a process oriented organizational model may be most effective. If the component's primary



work involved projects supported by multidisciplinary teams that need to hone skills and share knowledge within their own individual disciplines, a matrix model might be more suitable.

**Figure 4. The choice of organizational model should be based on a particular business component's needs.**



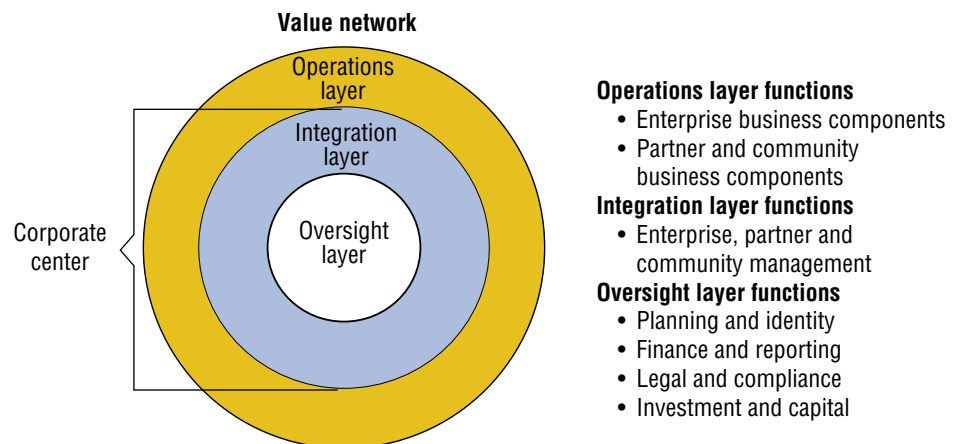
Source: IBM Business Consulting Services.



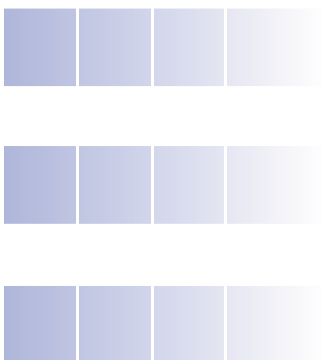
Firms will no longer be able to rely on a universal organizational structure that is easily aligned top to bottom throughout the enterprise. On demand companies will need to be much more adaptable, managing their business as a network of diverse organizational models. To deal with this type of variance, organizational mechanisms like corporate governance have to be more sophisticated – but, perhaps most important, businesses need to nurture people that are capable of working with such complexity.

With distinct business components sitting both inside and outside the enterprise, each with its own purpose, goals, organizational model and metrics, keeping the business operating as a cohesive whole takes effort and investment – a strong corporate center that unifies and integrates the various business components (see Figure 5). Unlike a “head office” that serves simply as a point of centralization, corporate centers add value to the operation of the enterprise as a whole. They provide oversight functions in areas such as corporate identity, regulatory compliance and investment, as well as integration functions, like partner management, consolidated procurement or common IT environments, that support or facilitate collaboration among business components – both internal and external, across the entire value network.

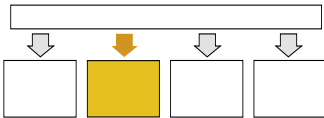
**Figure 5. The corporate center unifies and integrates business components.**



Source: IBM Institute for Business Value.



As enterprises organize in more flexible fashions, even the agendas of corporate boards change. Although they have always dealt with both fiduciary obligations and strategic management issues, boards of on demand companies will need to be more actively involved in determining the most appropriate business model, forcing a periodic reevaluation of which business components to focus on and helping solidify required alliances and partnerships.



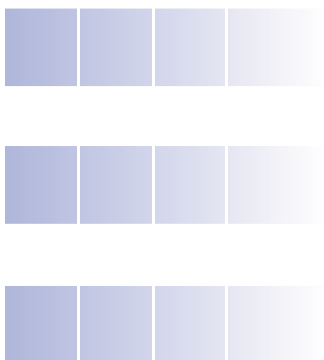
### ***Forming flexible value networks***

Because of their scale and deep expertise, best-in-class specialists can often provide companies with:

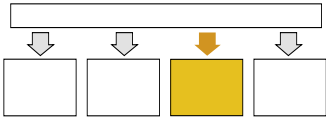
- A more cost-effective alternative for a specialized business component
- Variable pricing and supply to support fluctuating demand
- Improved business continuity, through greater redundancy, better privacy and security safeguards and a faster ramp-up for new capabilities.

With tighter integration among strategic partners, on demand companies will be able to build more flexible and extensible value networks. However, as these networks become more complex and interdependent, they will require additional organizational support to perform at optimal levels.

- *Shared context* – If each entity in the network works only within the context of its own mission, strategies and management processes, conflict will be a constant and cooperation an accident. On demand companies need to develop a shared context among the participants in their value networks – a joint identity, direction and way of working together. This shared definition of value network operations could outline, for example, management and business planning processes, operational business processes, the technology to be used and the people involved.
- *Formal governance* – Formalized agreements between participants help ensure a mutual understanding of expectations and requirements, and keep everyone focused on what is important to the network's customers. These agreements typically address aspects such as the specific product or service to be delivered, associated charges and how achievements will be measured. And, these governance agreements should be reexamined and adjusted on a regular basis to maintain effectiveness. As an example, for transactional type relationships, parties should agree on performance measures for expected service quantities, system availability and cost reductions.



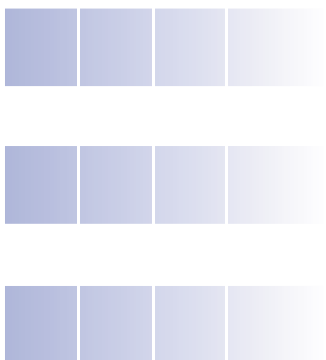
- *Stronger relationships* – Beyond formal agreements, on demand companies should foster a value network environment that is conducive to enduring partnerships. To encourage collaboration and trust, relationships should be strengthened through both long-term and day-to-day actions – for example, establishing mutually beneficial financial arrangements between partners and fostering regular inter-company interaction at social functions.<sup>4</sup>
- *Steering mechanisms* – Particularly in multilateral relationships, formal steering mechanisms are necessary to guide participants and help resolve issues. Ideally, these mechanisms should consist of a set of councils and committees that keep the network connected at each level – strategic, tactical and operational. Steering mechanisms could include, for example, a content management group, a product management group or an IT management council. The key is to keep the entire network operating on common ground through activities such as establishing a network-wide approach for serving the customer and maintaining equitable risk-reward arrangements for all participants.



### ***Equipping organizations for variable work***

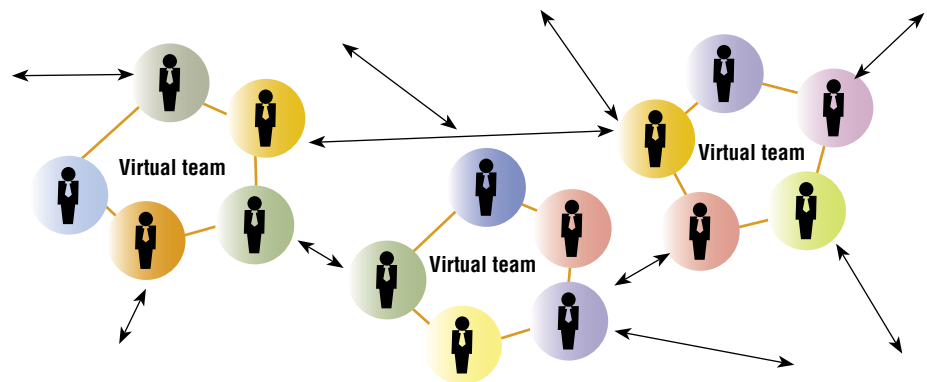
The historical management concept of a supervisor managing a fixed group of employees to accomplish a stable set of activities is well suited for driving efficiency in a known environment, but it will not work as well in a less predictable business climate. For an enterprise to be able to respond on demand, it must have flexible mechanisms for accomplishing “work” that changes frequently in terms of type, volume, duration and skill set required.

- *Roles not jobs* – Rather than a fixed job description that outlines specific tasks to be performed and how they should be accomplished, employees of on demand companies are more likely to play positions comprised of multiple, variable roles that change in number and scope as business needs change. For instance, instead of performing the job of “customer service representative”, an employee might accept the position of customer leader, initially tackling the roles of customer x’s champion, specialist on a particular product and member of a cross-selling committee. Over time, the customer leader completes some roles and begins others like trainer or focus group leader. These on demand role descriptions come with a set of defined responsibilities, but leave the decisions on how best to accomplish the work to the employee.



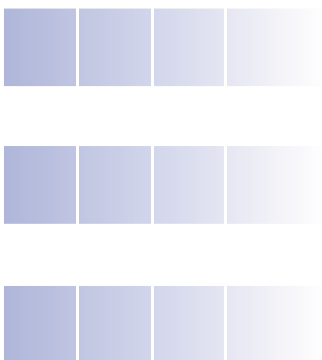
- *Resource management* – In an environment where opportunities appear (and vanish) quickly, it's critical to be able to rapidly deploy resources – both capacity and capability – where they're needed. A resource management function can serve as a clearinghouse, matching qualified staff with new roles, based on employee availability and time frames required by the role. With this type of model, line managers share their authority over staff with the resource management function to gain greater overall agility.
- *Virtual teaming* – Although virtual teaming is not a new concept and is already used extensively in project-based organizations, it will be a far more common phenomenon in an on demand business. Rather than relying primarily on fixed departmental structures, an on demand company creates teams on an ad hoc, as-needed basis, and then disbands them as soon as the task or project is complete (see Figure 6). Teams coalesce around a specific customer issue or opportunity and consist of a mix of roles from different business components (both inside and outside the enterprise) and various geographies. Within teams, members interact based on their role – not by organizational rank or protocol.

**Figure 6. Team members spin off to work on other virtual teams when the task or project is complete.**



Source: IBM Institute for Business Value.

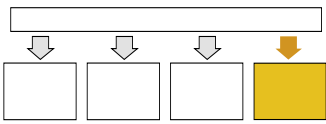
Communities of practice are cross-enterprise networks of subject matter experts focused on the design and implementation of leading-edge methods and solutions.



- *Community connections* – With pockets of expertise scattered among business components, companies will need a method for exchanging knowledge and building deeper capabilities in particular subject areas. Communities of practice can provide those connections. Even though they can originate on their own, on demand companies may elect to establish a structured, highly facilitated community to stimulate leading-edge thinking on a particular topic or encourage dissemination of best practices. Whether face-to-face, virtual or both, community interaction must be regular to keep members engaged. And although these groups tend to be self-managed, they do depend on a certain amount of organizational support – such as collaboration tools.

### Revolving door requires ready knowledge<sup>5</sup>

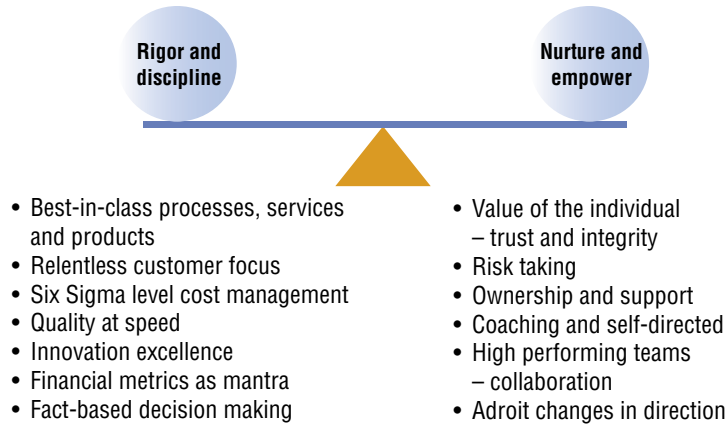
Best Buy had difficulty keeping knowledge from unexpectedly walking out the door with departing associates. To retain product and sales knowledge and share it with new hires, the company decided to pilot three communities of practice – Internet services, car audio equipment and PCs. Community members interacted through a common Web platform, offering ideas and suggestions related to sales and installation of products. Recognition mechanisms encouraged participation; names were published with tips featured in the company magazine and with winning entries from contests designed to encourage contribution and use of suggestions. Members were also drawn by the potential for improving their own individual performance. With the pilot demonstrating a 30 percent improvement in sales effectiveness and a notable reduction in installation errors and claims, Best Buy has since expanded the number of communities to include nine additional knowledge categories.



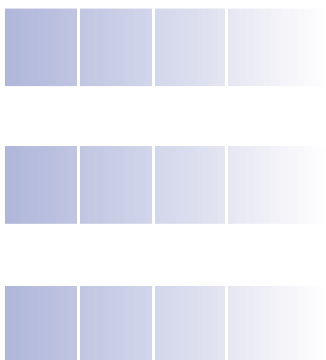
### Creating a conducive culture

To sense and respond rapidly to opportunities and threats, companies need a nurturing environment where employees feel empowered to act. However, neglecting business fundamentals can cause firms to falter or fail to deliver on commitments. On demand corporate cultures must balance both – in everything they do (see Figure 7). For instance, they have best-in-class processes that are carefully managed in terms of costs and quality to deliver on commitments – but, at the same time, their employees assume ownership of these processes, working in a self-directed fashion, taking risks and deviating from the norm when necessary to sense and respond to changes.

**Figure 7. The culture of the enterprise and the value network in which it operates must be balanced between rigor/discipline and nurturing/empowerment.**

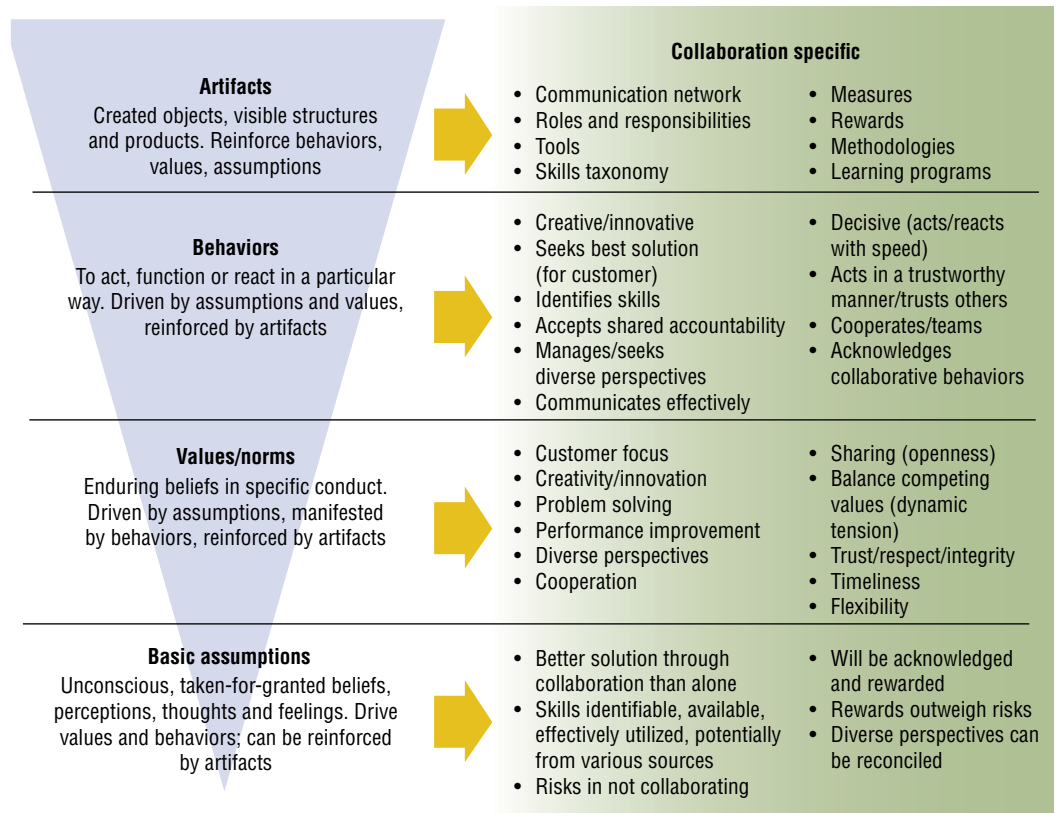


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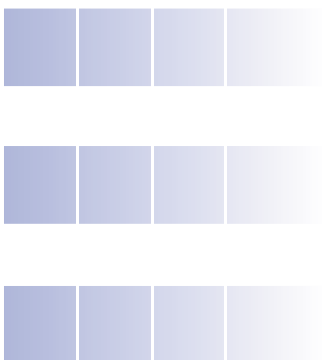


In an on demand environment, a strong culture of collaboration among and within business components will also be critical. However, instilling a collaborative nature into the corporate culture takes time. The transformation starts with overt and purposeful actions that accelerate acceptance of this cultural attribute and eventually ends when collaboration becomes an automatic reflex. Making this transition involves changing organizational artifacts, behaviors, values and assumptions (see Figure 8). For example, organizations may need to establish a reward system (artifact) that promotes cooperation and teamwork (behavior) until sharing becomes a norm (value) and everyone truly believes that collaboration is less risky, always rewarded and beneficial to the individual and the company (assumption).

**Figure 8. Collaboration – as with any other cultural attribute – needs the support of all cultural elements to succeed.**

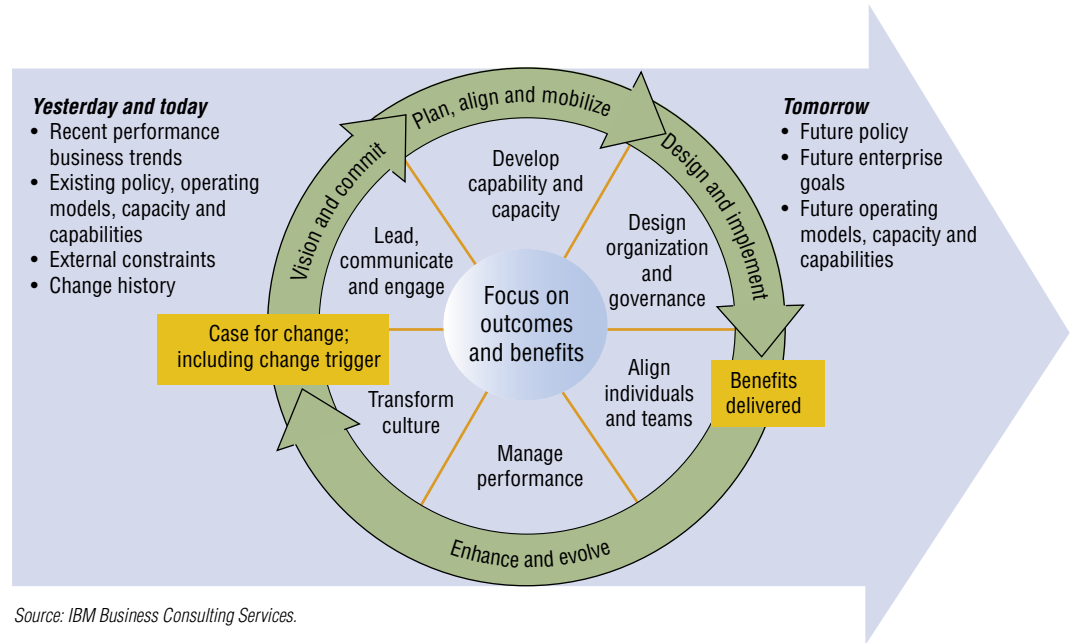


Source: Schein, Edgar. "Organizational Culture and Leadership." January 1997; Collaboration analysis by IBM Business Consulting Services.



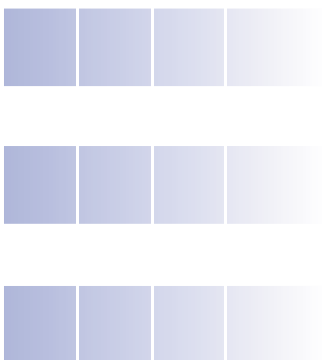
Since change is the norm with on demand companies, change management must become a core competence. To build this expertise, companies need a repeatable method for driving change full circle, from vision to plan to implementation to enhancement (see Figure 9). Within an on demand culture, all of the fundamental elements of change management still apply; the key differences are greater complexity, more internal and external players, a larger number of variables and the speed and fluidity with which change must be implemented. In an on demand environment, change cannot be left to chance; it must be managed systematically, as a formal program.

**Figure 9. A carefully designed change management framework can help organizations manage frequent change.**



Source: IBM Business Consulting Services.

An important part of the change management equation is leadership. On demand organizations recognize that leadership does not simply exist at the “top”; it resides throughout the organization and its value network. In fact, agility requires that leaders emerge in response to particular situations. Within an on demand culture, the concept of “leader” is not attached to a position. A leader on one team may play the role of member on another team, where a different member plays the leadership role. On demand leaders, wherever they emerge, embody a range of special skills,



capabilities and personal qualities that help them succeed in global, virtual and mobile workplaces. Specifically, they:

- Thrive on challenges and remain focused on the future vision
- Can articulate a strong case for change, reducing resistance and creating energy and enthusiasm among participants
- Value relationships and work to maintain trust, creating a sense of cooperation and involvement to build and sustain momentum
- Expect to take calculated risks and reward innovation.

To become a pervasive part of the corporate culture, leadership capabilities can't stop with a few select individuals. On demand organizations should actively nurture future change leaders. Activities and roles designed to offer personal leadership development can help firms attract high-potential candidates. Once identified, organizations need to manage this pipeline, grooming today's *incremental* change managers into tomorrow's *transformational* leaders.

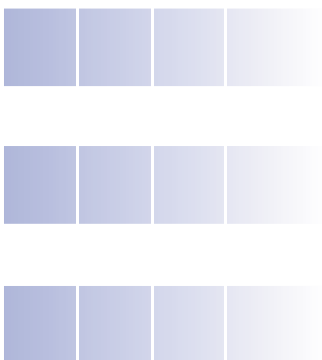
#### **Unconventional culture yields extraordinary results at W.L. Gore<sup>6,7,8</sup>**

With annual revenues of US\$1.2 billion and 6000 employees, W.L. Gore & Associates ranks 199 on Fortune's list of largest privately held firms. However, W.L. Gore's corporate culture is quite different from most companies on that list – and from large public companies as well. From its inception, the firm was built to innovate. And innovate it has, with products that span diverse business segments such as: electronic, medical, waterproofing fabrics (including its popular Gore-Tex product), fibers, industrial filtration, industrial seals, coatings and microfiltration.

Creativity and innovation are nurtured through a team-oriented atmosphere. With an obvious absence of status-oriented divisions (no executive dining rooms or plush corner offices, for example), everyone feels equally important and equally responsible. Each employee has the same title, Associate, and is compensated in the same manner – on his or her contribution to the company's results. To foster a more intimate environment where it's possible for everyone to know and easily communicate with each other, the company splits any operating division that becomes larger than 200 associates. Ethical business practices and trust among associates are encouraged by asking associates to follow four guiding principles related to fairness, freedom, commitment and discretion.

This culture is supported by a "lattice" organizational structure instead of conventional hierarchy. This structure allows leaders to emerge instead of assigning managers. In this environment, leadership is determined by "followership"; there are no bosses, only sponsors, who help employees get started with a new job or assignment, recognized for their work and paid fairly.

With its emphasis on entrepreneurship and individual growth and development, W.L. Gore tends to attract people who operate well in an unstructured environment, a characteristic that is prevalent among natural innovators, which helps further its chief corporate goal.





## *Where do you need to flex?*

Companies that are intent on becoming on demand businesses will likely need to limber up their organizations, both structurally and culturally. They will need to trade rigid approaches for more flexible alternatives: a component-based business model, malleable enterprise structure and governance, flexible value networks, variable work practices and a conducive culture. Here are some questions to help you pinpoint areas that may not be as agile as you need them to be.

Does your organization:

- Respond well to the need for speed, agility and flexibility?
- Focus on its core competencies to derive competitive advantage?
- Have an effective mechanism in place to anticipate and respond to opportunities?
- Recognize the importance of leveraging business partnerships in areas that are not your core competence?
- Have organizational arrangements, from structure to decision-making processes, that support or hinder success?
- Fully engage in a partnership approach to the market, from your board of directors to your front-line staff?
- Take a leadership role in your value network of partnerships?
- Not tolerate underutilized resources?
- Balance rigor/discipline with empowerment/risk-taking in each of your principal business units and functions?
- Effectively develop leaders and leadership throughout the organization?
- Have a corporate culture that supports a collaborative approach to management – inside and outside the organization?
- Manage change effectively and systematically, or is it left to chance?

Shedding the encumbrances of rigid organizational structures and staid corporate cultures enables organizations to sense and respond quicker to the business environment that surrounds them. But, organizational and cultural agility don't just happen. They are the result of a carefully executed strategy for organizational change. To discuss how IBM can help you assess your organization's flexibility profile and create a strategy for becoming a more agile organization, contact us at [iibv@us.ibm.com](mailto:iibv@us.ibm.com). To browse through other resources for business executives, we invite you to visit our Web site:

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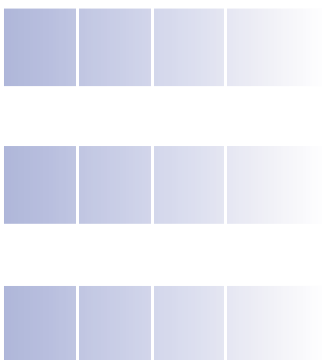
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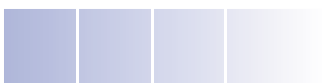
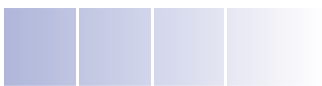
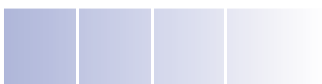
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