

The emerging capability every business needs

The art and science of enterprise resilience



*Change has happened.
Change is constant.
Change is inevitable.*

Are you ready?



Foreword

We believe that only a few companies are ready for change. Those that are have built their readiness through the emerging capability of resilience, with six distinctive traits that combine to define their ability to survive and evolve in the face of change.

The six traits are hard to put in place – at least directly. But the levers that leaders can pull to make their organisations resilient are now coming into focus. Getting them right is the only way an organisation can become resilient to changes that have happened, that are happening or that are still to come.



Dennis Chesley
Global Risk Consulting Services Leader



Marco Amitrano
Global Assurance Markets Leader



The emerging capability every business needs

Think fast: What's the most important capability for businesses today?

Strategy is vitally important, but it's set at one point in time and thus is vulnerable to change; how well a company adapts is more likely to determine whether it can deliver on its five-year strategic plan. Adaptability has been linked to culture and "culture eats strategy for breakfast," Peter Drucker is credited with saying. But if culture alone makes a difference then the dot-com bubble, with its recreation rooms and foosball tables, may never have burst in 2000.

Leadership is critical, but many corporate "leadership factories"¹ have failed to impress the stock market in recent years. A host of other competencies, from talent management and governance to finance and operational efficiency are important – but they alone don't separate the winners from the losers, over a long period of time.

Rather, we believe that **enterprise resilience** is the most important capability in business today. And resilience is becoming better understood, to a point where it can now be measured – and managed.

enterprise resilience

[en-ter-prahyz ri-zil-yuh ns]

Resilience is an organisation's capacity to anticipate and react to change, not only to survive, but also to evolve



Enterprise resilience is not traditional risk management

We define “enterprise resilience” in line with how guiding standards organisations, including the British Standards Institution (BSI) and the International Standards Organisation (ISO), think about it: *Resilience is an organisation’s capacity to anticipate and react to change, not only to survive, but also to evolve.*

In our definition, resilience doesn’t begin and end with a crisis-proof supply chain, as some would have you believe. And it’s greater than the sum of most companies’ risk management efforts.

Rather, the key word in our definition is “change” – resilience is required in response to all kinds of change, not just crises. To be resilient, it’s true that you need to be able to manage through an earthquake’s disruption of a supplier’s factory. But you also need to manage through tectonic shifts in consumer purchasing behaviour, by anticipating those shifts and re-orienting the organisation to continue delighting customers.

And change is everywhere, in every market. Megatrends are washing over the global economy – from demographic change to rapid urbanisation, from shifts in economic power to climate change and technological breakthroughs – together driving an extraordinary economic dynamism.² The result is an uncharted ocean of change that some companies fail to navigate and that leads others to find new worlds of opportunity.

The megatrends



Demographic and social change

Within the next minute the global population will rise by 145.



Shift in economic power

The global emerging middle class will represent an annual market of some US\$6 trillion by 2021.



Rapid urbanisation

By 2025, there could be nearly 40 cities each with a population of over 10 million.



Climate change and resource scarcity

There is only 50 years of supply left in proven oil reserves.



Technological breakthroughs

The impacts of digital disruption are now so pervasive that no business in any sector is immune from them.



The average age of an S&P 500 company was 90 years in the 1930s, 61 years in 1958 and down to 18 years in 2012.³ Think about it: that means 75% of the companies in the index will be replaced by 2027. That also means opportunity: 375 companies will earn their way into the S&P 500 by 2027.

Changes don't have to be megatrends. For example, fine jewellery buyers traditionally have been men, in developed markets. Now, women are increasingly buying jewels for themselves.⁴ That could mean different approaches to retail will be more effective in the future. Will established retailers, including current S&P 500 luxury brands, be resilient enough to evolve with their in-store and online experiences? Or will they fall into crisis as department stores expand their offerings and technology companies step into the mix?

The truth is that resilience in the face of change has always been valuable. What's different today is the necessity to take greater risk in a fast-changing and unpredictable environment – and acquire the ability to spot and act on emerging opportunities before competitors. About 60% of CEOs believe they have more opportunities today than three years ago. An equal percentage see more threats today. Indeed, 30% of CEOs see both more threats and more opportunities. Only 9% see both threats and opportunities declining.⁵

Change is everywhere, in every market

How CEOs see threats and opportunities now, compared to three years ago

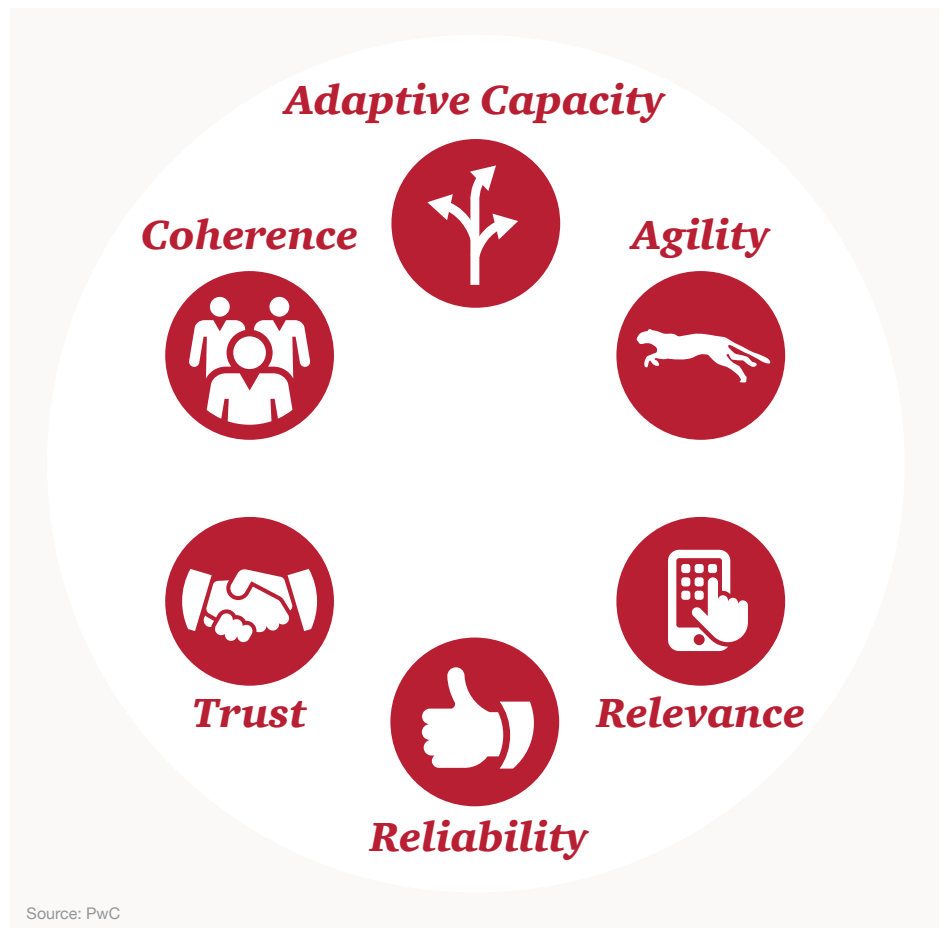




What a resilient enterprise looks like

“Every business in today’s world has opportunities and threats, so the key question for us is not to predict whether or not we have threats or opportunities,” Victor Kislyi, Executive Chairman and CEO of Wargaming Public Company Limited, a Cyprus-based online game developer and publisher, told us. *“The key question for us is whether or not we can be, as an organisation, as a company, flexible enough to be able to detect those threats or opportunities. And of course react to them.”*

Figure 1: The PwC Resilience Framework helps leaders talk about six powerful traits of more resilient organisations





Kislyi and his peers are trying to build resilience. They seek to demonstrate six distinctive traits of enterprise resilience, which together reflect the ability to anticipate and react to change (see Figure 1).

The first three traits represent mostly internal capabilities, the organisation's ability to respond to change: **Coherence**, or able to make mutually beneficial decisions, **Adaptive Capacity**, or able to reorganise for change, and **Agility**, or able to make and implement decisions at required speed.

These traits are clearly vital in response to a crisis, when time and distance work against hierarchical decision-making. But coherence, adaptive capacity and agility are also hallmarks of how a company is able to make the most of change.

The first set of traits represent mostly internal capabilities, the organisation's ability to respond to change:



Coherence, or able to make mutually beneficial decisions



Adaptive Capacity, or able to reorganise for change



Agility, or able to make and implement decisions at required speed

One way to think about how those traits come into play is to consider how many start-ups operate. Start-ups tend to respond to feedback (adaptive), move quickly when they see the right signals (agile), and keep their, albeit small, organisations focused (coherent). Now, large enterprises are taking lessons from the "lean start-up" movement,⁶ particularly as they relate to product development: they're launching "minimum viable products," iterating based on customer feedback and "pivoting" if a different opportunity arises. *Bloomberg BusinessWeek* magazine recently detailed how General Electric is implementing its version of the lean start-up, called FastWorks, based on these principles.⁷

There is a growing sense that this coherent, adaptive and agile start-up mindset needs to be driven through entire organisations, not just for product development. "We have to think differently about how we serve the young talent, what type of opportunities, networking and the type of culture you need to develop as a company," Kimmo Alkio, President and CEO of Finnish-based IT services company, Tieto, said. "I believe, by the way, it's highly desirable to have very agile ways of working and a culture which is very agile as well; that it is not a top-driven culture."



The second set of traits represent the organisation's relationship with its customers, business partners and other stakeholders.



Relevance, or consistently delivering on stakeholder needs



Reliability, or consistently delivering to expected quality, on time



Trust, or knowing how to create investment-worthy rewarding relationships

The second set of traits represent the organisation's relationships with its customers, business partners and other stakeholders, which are equally important to the organisation's ability to respond to change: **Relevance**, or consistently delivering on stakeholder needs, **Reliability**, or consistently delivering to expected quality, on time, and **Trust**, or knowing how to create investment-worthy rewarding relationships.

They may sound like soft qualities but they're actually quite hard – and CEOs know it. Over half of the CEOs in our 18th Annual Global CEO Survey believe that a lack of trust in business is a threat to their growth prospects.⁸ “At the end of the day, I believe that organisations and businesses are about people and the relationships between them,” Monique F. Leroux, Chair of the Board, President and CEO of Desjardins Group, a leading cooperative financial group in Canada, told us. “And when you are able to build a positive relationship, you are able to build trust and it takes you very far in the strategy that you want to put forward or in your own life.”

“The challenge we and many others are facing is that it's very hard to know when exactly the disruption will become so big that you actually don't even survive without being part of that disruption.”

Pekka Lundmark, President & CEO,
Konecranes Plc

Relevance is particularly important at a time when more CEOs expect industry disruptions. Disruption often spells opportunity for non-traditional competitors – and risk for incumbents. Only 21% of CEOs told us they don't expect significant competition from outside their own industry in our 18th Annual Global CEO Survey.⁹ “The challenge we and many others are facing is that it's very hard to know when exactly the disruption will become so big that you actually don't even survive without being part of that disruption,” said Pekka Lundmark, President & CEO, Konecranes Plc, the Finnish-based manufacturer and servicer of cranes, lifting equipment and machine tools.

But it's also an opportunity. “I don't know of any way of managing a disruption other than to be the creator of it,” said Rajiv Bajaj, Managing Director of Indian automotive group, Bajaj Auto Limited.

Some CEOs have been able to reframe their markets in order to reveal how Relevance matters. In the 1980s, for example, Coca-Cola's CEO, Roberto Goizueta, got his company to stay relevant to its customers by shifting Coke's mindset from growing its share of the soft drink market (35%), to growing Coke's share of the beverage market (~3%). After all, most consumers make choices about what beverage, not what soft drink, to consume. His team then started to think of coffee, tea, milk and juice as thirst-quenching competitors – and market opportunities.¹⁰ The company transformed itself and began to disrupt competition in other beverage markets, such as water. And, most recently, milk, with the introduction of their “Fairlife” brand.¹¹



Enter the resilience framework

Leaders can't just wake up tomorrow and say, "Now, we're going to be trustworthy," or "We're going to be agile," and expect results. The management playbook doesn't have levers to pull that will build those six traits, at least not directly.



"I don't know of any way of managing a disruption other than to be the creator of it."

Rajiv Bajaj, Managing Director of Indian automotive group, Bajaj Auto Limited.

That doesn't mean you can't develop those traits, however. As our notion of risk has evolved so has our understanding of what enterprise resilience really is, how it works and, crucially, how to measure it. In other words: we now have an opportunity to systematically build more resilient enterprises.

If we want to make an organisation resilient, we have to begin by understanding the basic elements, the practices that comprise enterprise resilience. In part 2 of this report, we'll dive further into our Resilience Framework and introduce the 26 different elements of resilience that our research has uncovered. Each element is a lever that a company's management can pull, in order to build the traits of resilience. Through building those traits, any organisation can develop its enterprise resilience capability.



Footnotes

- 1 See for example, the study published in “Some firms’ fertile soil grows crop of future CEOs”, USA Today (9th January 2008), which found that 20% of the CEOs of the largest public companies had held jobs in just 20 such “leadership factories”.
- 2 For more on the PwC view of megatrends see <http://www.pwc.co.uk/issues/megatrends>
- 3 From Don Sull, *The Upside of Turbulence: Seizing Opportunity in an Uncertain World* (2009) and Richard Foster et al., “Creative Destruction Whips through Corporate America: An Innosight Executive Briefing on Corporate Strategy,” Innosight (2012). <http://www.innosight.com/innovation-resources/strategy-innovation/creative-destruction-whips-through-corporate-america.cfm>
- 4 See for example, “The middle market: New segment emerges for the upwardly mobile,” Financial Times (September 6, 2013)
- 5 PwC 18th Annual Global CEO Survey (2015), <http://www.pwc.com/ceosurvey>
- 6 See for example, “Why Eric Ries Likes Management,” *strategy+business* (2013). <http://www.strategy-business.com/article/00224?pg=all>
- 7 “General Electric Wants to Act Like a Startup,” *Bloomberg BusinessWeek* (August 7, 2014). <http://www.bloomberg.com/bw/articles/2014-08-07/ge-taps-lean-startup-ideas-for-faster-cheaper-product-rollout>
- 8 PwC 18th Annual Global CEO Survey (2015), <http://www.pwc.com/ceosurvey>
- 9 PwC 18th Annual Global CEO Survey (2015), <http://www.pwc.com/ceosurvey>
- 10 As recounted in *Every Business is a Growth Business*, Ram Charan and Noel M. Tichy (1998)
- 11 <http://www.bloomberg.com/bw/articles/2014-12-01/coca-cola-prepares-to-build-a-milk-brand-called-fairlife>



Key contacts

Publishers

Dennis L Chesley

PwC US | Global Risk Consulting Leader
dennis.l.chesley@us.pwc.com

Marco Amitrano

PwC UK | Global Risk Assurance Leader
marco.amitrano@uk.pwc.com

Authors

Charley Newnham

PwC UK | Enterprise Resilience
charley.newnham@uk.pwc.com

Fiorella S Iannuzzelli

PwC US | Director, Advisory
fiorella.s.iannuzzelli@us.pwc.com

James Crask

PwC UK | Enterprise Resilience
james.w.crask@uk.pwc.com

Editors

Christopher Michaelson

PwC US | Director, Strategy and Resilience Institute
christopher.michaelson@us.pwc.com

Shannon Schreibman

PwC US | Managing Editor, PwC Resilience Journal
shannon.schreibman@us.pwc.com

*Special thanks to the following parties for their production and editorial assistance: **Lawrence Yu, Dan Robinson and Tracy Fulham.***

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