Agile in structure and leading in technology
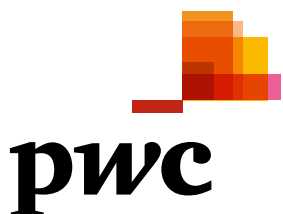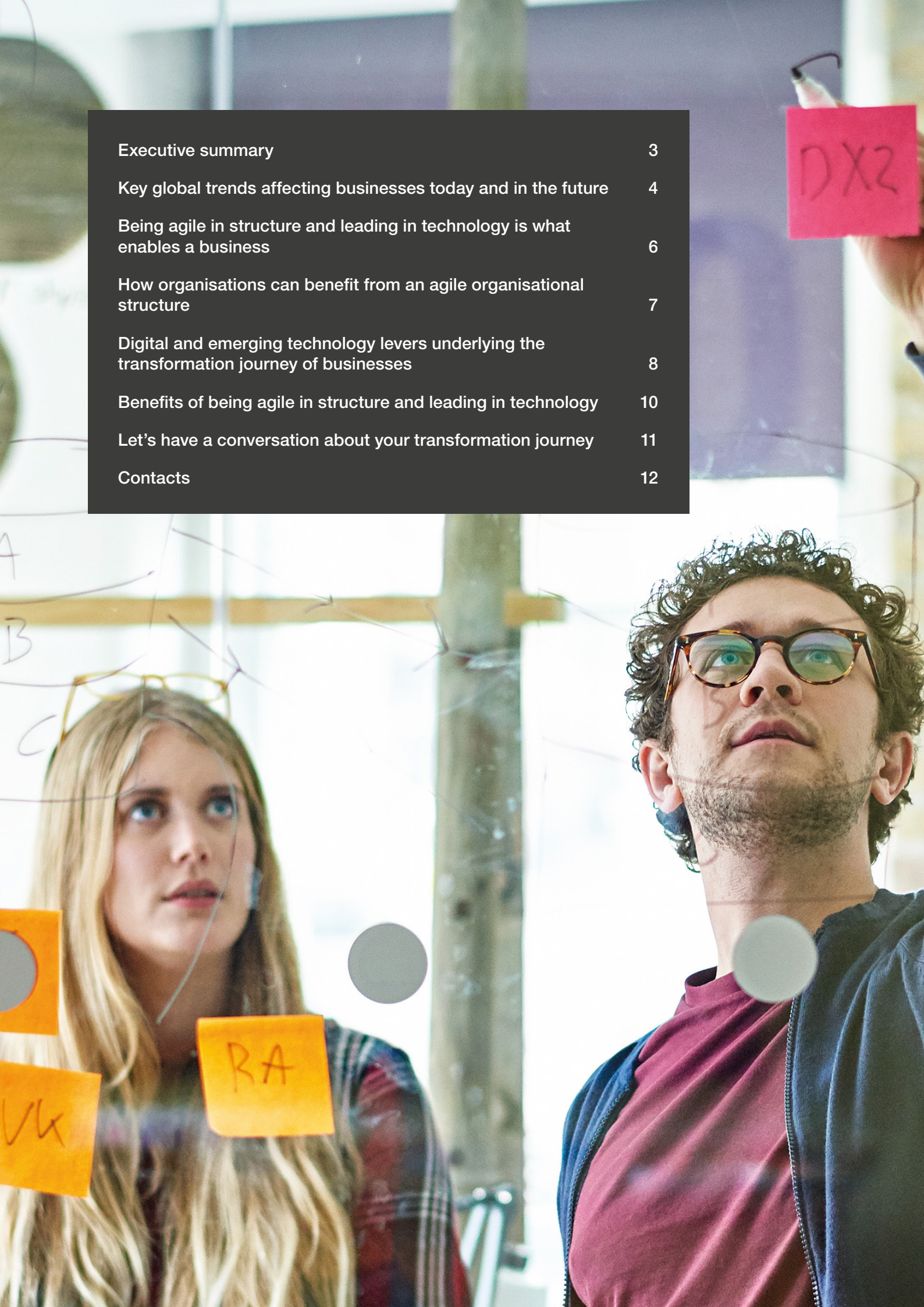
Embracing a future operating model as part of your transformation journey

https://www.pwc.ch/financial-services

Executive summary

In times of increased uncertainty and reigning global trends, such as polarisation, disruptive technologies, climate and demographic change, businesses must act and be equipped to adapt to rapidly evolving environments. This article sheds light on how to thrive in the market by embracing agile business models, focusing on a shared purpose, adaptive structures and value streams. Better collaboration, operational efficiency and quick decision cycles are amongst the benefits that come along by implementing agile operating and collaboration models. Embracing agile operating models accelerated by emerging technologies, such as artificial intelligence, DLTs, big data analytics and others, will help in successfully navigating through the digital transformation journey.

Key global trends affecting businesses today and in the future

Although the Covid-19 pandemic has presented significant challenges, increasing the level of complexity and volatility, other fundamental factors such as geopolitical tensions, technology, globalisation, and the environment will ultimately shape the future of businesses in the medium to long term. PwC distinguishes between five key megatrends that leadership teams within organisations need to understand and assess in order to proactively engage and reimagine their business model in uncertain and ambiguous times.

1. **Asymmetry – the increasing wealth disparity and the erosion of the middle class:** An ever growing income inequality and the resulting decay of the middle class imply growing disparities in opportunity and further risk of regional disadvantages within and between countries. Driven primarily by technology replacing jobs and insufficient redeployment of the workforce, the middle class has been growing faster than its wealth. Technological capability will create greater disparity while traditional sources of money will diminish alongside the erosion of the traditional customer base. Combined with disruption, capital markets will decline in importance. Businesses that are investing, or already invested, in emerging economies will need to carefully assess whether, and if so how, they should face these more volatile market conditions, where prospects look less certain today than they did even a few years ago.

2. **Disruption – the pervasive aspect of technology and its impact on individuals, society and the climate:** The technological revolution has no boundaries or borders. It is changing behavior and expectations as much as the tools used to deliver new services and experiences. Amongst others, the following emerging technologies are disrupting the way companies do business: artificial intelligence, virtual reality, drones, IoT, 3D printing, robotics, augmented reality and blockchain. These technologies are bound to reshape and advance business as well as society. They are far more than buzzwords and will undoubtedly have a profound impact on every aspect of life over the coming decades. These technologies are creating new business models and require continuous adaption to changing market dynamics. But many of today's largest and leading organisations and businesses developed in an era of scarce, expensive, and rigid technology. Technological capital will increasingly act as a differentiator and digital transformation as well as the increased speed of time to market will be essential to the survival of most organisations.

Furthermore, as the world becomes more populous, urbanized, and prosperous, demand for energy will rise exponentially. Despite numerous legislatures fostering renewable energy, it will be challenging to keep up with the rising demand for energy, growing by 50% over the next 60 years, and brought forth by existing and emerging technology.

3. **Age – the demographic pressure on businesses, social institutions and economies:** By 2030, the world's population is projected to grow by more than 1 billion, while demand for food and water will grow by 35% and 40% respectively during that period. Yet the Earth has a finite number of natural resources to satisfy this demand. Without significant global action, average temperatures are predicted to increase by more than three degrees Celsius in the next 30 years, a threshold at which scientists believe significant and irreversible environmental changes will occur which in turn will gravely impact society, economies, and businesses. Adding to that, people are living longer and are having fewer children. Every country will need to implement bold policies to cope with these demographic changes. Supporting an ageing population will require greater participation in the labor force from women and elders. Businesses will need to respond adequately to significantly shifting needs and consumption patterns. Today, more than half the world's population live in urban areas. This trend is expected to continue over the coming decades, with up to 70% of the population growth expected to happen in cities. How these cities evolve will be determined by the collective actions of its governments, people, and enterprises.

4. **Polarisation – the breakdown in global consensus and a fracturing world, with growing nationalism and populism:** As economic growth has become disconnected from social progress, leaving many people disillusioned, the impacts of globalisation, automation, and economic shifts have led to a rise in populism. At the same time a new nationalism can be observed with countries prioritising their own interests, as seen in changes in bilateral trade agreements, the Brexit movement, or the war in Ukraine. Overall, the tension in cross-border business is growing and becoming more volatile as countries compete for capital and talent. International organisations will find it harder to be effective as consensus is more difficult to build. A deep embeddedness in key countries while creating global synergies will be important for multinational businesses to thrive.

5. **Trust – the declining confidence in the institutions underpinning society:** When organisations and governments grew larger and became increasingly detached from the societies they represent, that set in motion an erosion of trust which was further accelerated by the financial crisis. Technology initially appeared to offer a way to build trust through large impersonal institutions offering something resembling a personalised service or way to interact through peer-to-peer platforms. However, with growing knowledge about the implications of technology, trust is increasingly dissolving. Increasing occurrences of data security breaches, the manipulation of social media and the spread of fake news are all leading individuals to question the responsible organisations. Concerns about personal and digital security will increase while this rising skepticism will make it harder to drive meaningful change. Businesses need to find a way to rebuild their customers' trust to retain and extend their existing customer base. Thus, delivering a customer-centric approach to business and creating a customer journey are key to thriving under changed conditions.

These megatrends in the post Covid-19 world bring many challenges and uncertainties; however, they can also yield significant business opportunities. Megatrends matter not only because they represent potentially disruptive threats or outstanding opportunities, but because with sound analysis, and investment, an organisation can deploy strategies to call out which trends matter, and which do not. This will determine how well placed organisations and governments are to deal with negative or positive disruption as well as what they need to do in order to capitalise on it.

Thriving in the future means accepting technology and lean business practices. Many organisations will need to reconfigure their business and operating platform and, in some cases, even resort to making profound changes. Simply put, within a more complex and competitive environment, organisations should evaluate the potential of agile methodologies and structures. However, such a transformation does not come naturally. There needs to be a keen appreciation of how technology is changing customer needs and competition in the industry, as it is the common denominator in all future trends.

Identifying and tackling these megatrends in a sustainable manner is of crucial importance to every enterprise. At the centre of every approach needs to be a business model which takes into consideration the increased need for agility, customer-centricity and technology.

The strategy and value proposition form the foundation for a (target) operating model. By having a clearly defined strategy, organisations will be able to successfully navigate through their transformation journey and achieve their goals.

Being agile in structure and leading in technology is what enables a business

After having introduced the megatrends which will undoubtedly impact organisations globally, the question arises as to how businesses need to adapt to turn trends into opportunities?

A first step in the right direction is to identify the vision and strategy needed to transform so as to keep up with the megatrends by defining an appropriate business model. This typically entails asking the questions of what the ambition is to be successful, what needs to be done to be successful, and lastly how it will be done, i.e. what the strategic agenda will look like. While this strategic realignment is crucial, the underlying business structure is of equal importance. A business model is enabled by an effective operating model, which communicates and incorporates the strategic decisions for its employees and customers.

Therefore, it is imperative to assess the functionality and effectiveness of the operating model to identify key changes needed to align to the new strategic vision.

Below is an overview of the key components that make a successful and effective operating model:
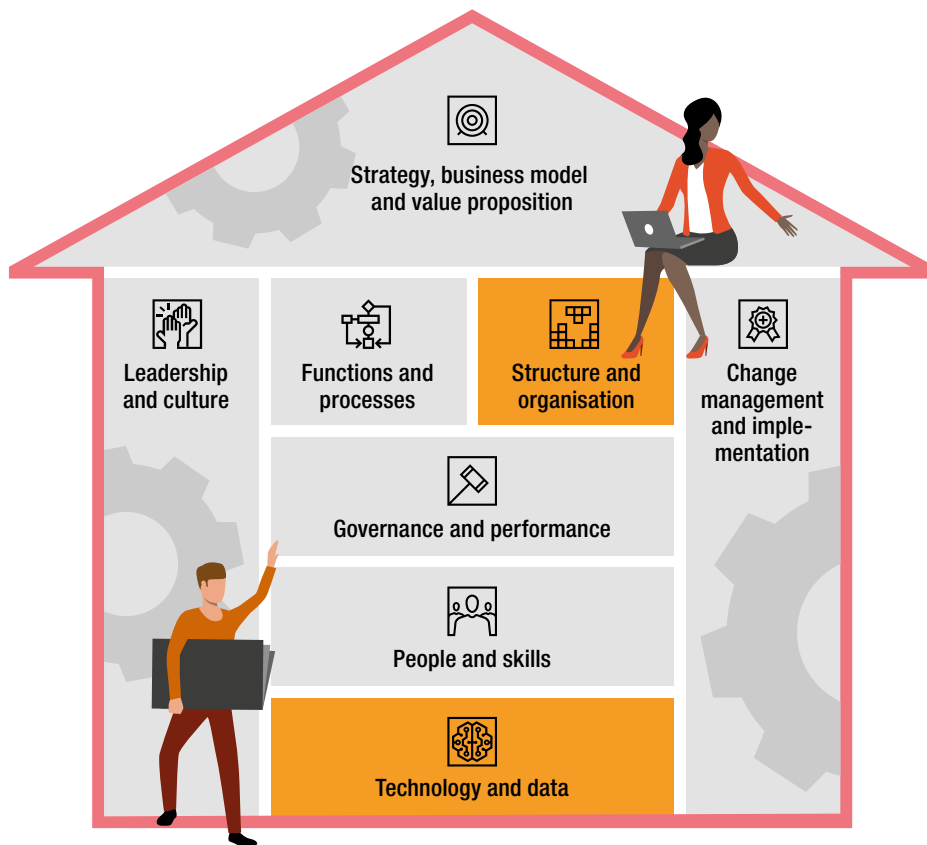

Figure 1: (Target) operating model framework

While each of these components is crucial in building a winning (target) operating model, this article focuses on two specific areas: the (i) structure and organisation and (ii) technology and data components of the above framework, deemed imperative and most relevant regarding the megatrends facing global society and economies. The following chapters focus on the potential of agile structures and emerging technologies.

How organisations can benefit from an agile organisational structure

The megatrends combined with the fast-changing environment are key factors impacting organisations and their respective strategic outline today. Having the right operating model in place is key to being prepared to quickly respond and adapt to the fast-paced way of doing business.

The challenges in an established, extended and highly regulated market are numerous and range from dispersed teams, to high domain and technical complexity, and regulatory scrutiny. Today, most of the organisations separate business from IT functions in their organisational structure and split the responsibilities around running and changing the business into silos. This often translates into a hierarchic and plan-driven approach to doing business where the focus lies on the current projects, not the value of the underlying product in the long term. Enterprise agility on the other hand seeks a pragmatic and adaptive way of structuring the business to focus on products,

services and solutions aligned with customer needs. Businesses seeking to adopt agile methodologies in their organisational structure and culture are restructuring their business model to have their identified value streams in the focus of their operating model. The value streams are structured to integrate business and IT capabilities to be able to adapt faster to changing requirements. Hence, every part of the organisation is helping to achieve increased customer satisfaction and reduced operating costs, and contributing to higher employee engagement.

There are different levels of maturity of an agile organisational structure, ranging from combining IT run and change capabilities and teams to a fully unified model where business and IT are fully integrated from a run and change perspective. Strategic priorities and the as-is operating model need to be assessed to identify which level of maturity fits best with each organisation.
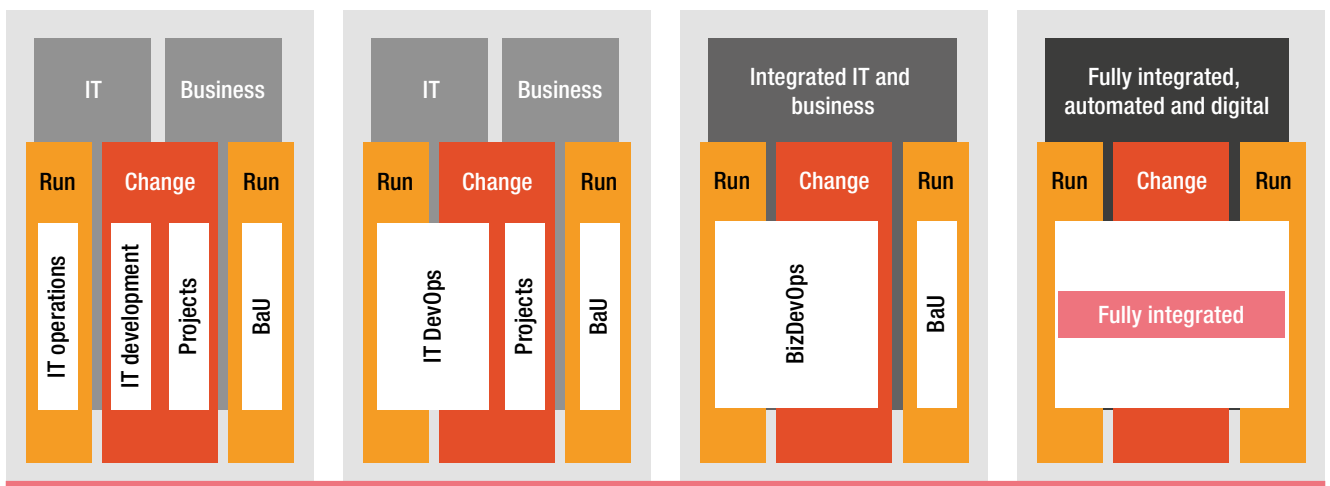

Figure 2: Illustrative view of different agile maturity models

One of the key benefits of agile models is that business and IT have an aligned roadmap and that feedback from internal and external stakeholders can be addressed much faster. Time to market, fast delivery, scalability

and better collaboration are just a few of the benefits that come from embracing agile operating models. This allows organisations to keep pace with rapid changes and continuously be one step ahead.

Digital and emerging technology levers underlying the transformation journey of businesses

Businesses may wonder whether it is worth the cost and effort required to transform their current operating model. Yes, it is. Leveraging digital and emerging technology levers is a key driver of success across any industry. Embracing emerging technologies will help to gain a competitive advantage in the market. Highlighted below are a few examples of emerging technologies that are disrupting business models in various industries.

Digital lever	
Artificial intelligence (AI) and machine learning	Artificial intelligence refers to a branch of computer science dedicated to building machines and programs capable of performing tasks on their own whilst improving their skills by learning from the execution. Further potential in AI lies in automating middle and back-office processes, the Internet of Things and big data management. Immense research is being devoted to sales forecasting, customer needs prediction and improved communication across all areas of business.
Big data analytics	The enormous amount of data that companies process needs to be analyzed using new and advanced forms of technologies. Data has to be understood in order to be leveraged for the respective decision-making process. This complex process of examining big data to uncover patterns, trends and correlations can improve a business's view of the customer as well as the business itself.
Cloud-powered solutions	Cloud technology solves the problem of storing data locally by allowing access to shared storage solutions provided with additional levels of security and scalability. The cloud is more present than ever. It helps improve accessibility and security by outsourcing the management and storage of data to advance convenience and prevents loss of data. Furthermore, the workforce gets a productivity boost by being able to share, collaborate and work remotely with more ease.
Distributed ledger technology (DLT)	DLT or blockchain, which is a sub-category of DLT, consists of decentralized databases that are managed by various participants. There is no central authority that acts as arbitrator or monitor. DLT or blockchain aims to create more visibility and transparency, reduce cost through avoiding intermediaries, and increase the speed of the underlying transactions. Transaction information once recorded on DLT or blockchain can only be altered, if at all, by having consensus from the participating parties. DLT and blockchain can change the way we do business and has created a lot of new opportunities in the payment, capital market, supply chain management, insurance and many other areas.
Robotic process automation (RPA)	RPA is a software technology that allows for a set of tasks to be automated, emulating humans interacting with digital systems and software. This automation of tedious tasks with more reliance and speed improves flexibility and responsiveness, streamlines workflows and can be leveraged to optimize processes in almost every business area.

The following examples demonstrate how businesses benefit from their transformation journey built upon digital levers:

1. **Artificial intelligence (AI) cloud solution increased customer support experience and employee satisfaction:** A multinational investment bank implemented a cloud solution using AI-powered chatbots to scale customer messaging interactions with conversational AI. The bots were fuelled with the most experienced customer service agents' conversational understanding and factual expertise to independently answer routine customer requests. That way, customers not only profit from bundled knowledge but can also be assured that their requests are handled in a fair and consistent way. The implementation did not only increase customer satisfaction but also lightened pressure on the service agents.

2. **Distributed ledger technology (DLT) maximizing transparency and trust with smart contracts:** Two international (re)insurance companies worked together to pioneer a DLT-based system providing legally binding "smart" contracts. In this new form of entirely digital processing of contracts, advantages on the legal, technical and operational side of business are expected. For the first time, these companies have automatic certainty over the regulatory compliance of their contract as well as its security and internal compliance with corporate requirements such as the dual-control principle. Contracts cannot be altered without the agreement of all parties involved, thus building the necessary resilience in each of their corporate systems as well as removing the need for costly and time-consuming reconciliation between counterparties.

3. **Integrated machine-learning-powered solution improves resilience and increases efficiency in the anti-money-laundering (AML) framework:** A multinational banking organisation based in APAC recognised the power of technology and co-created an integrated solution around its existing AML framework powered by artificial intelligence and machine learning. This additional layer to existing AML models and techniques allows the firm to obtain better insights into the transaction activity of its high-risk customers and increase resilience against potential money laundering activities. Following implementation, the firm observed a significant increase in the efficiency and effectiveness of its operations. In addition, the use of advanced data analytics within its AML framework has enabled the organisation to identify risks faster and more accurately, strengthening the overall resilience of its compliance function.

4. **Use of robotic process automation (RPA) in the insurance industry to boost productivity and optimise costs:** Numerous examples have recently shown how the insurance industry, a highly regulated industry still heavily reliant on documents, can benefit from RPA in terms of both productivity and cost savings. It has been possible to take out standard insurance policies (e.g. for privately used vehicles) online in a few minutes for quite a while now, but insurers are going one step further and have started automating further processes and product lines. According to recent studies, insurers have the potential to automate one-fourth of their processes by 2025, mostly within their operational processes. Automatisation using technology such as RPA leads to remarkable productivity gains within claims registration/processing and fraud detection, underwriting and pricing as well as policy administration and servicing. In addition, automation allows for stronger regulatory compliance, reducing the risk of errors and regulatory breaches previously resulting from manual controls.

Benefits of being agile in structure and leading in technology

There is a broad range of benefits that could result from embracing an agile transformation journey and enabling emerging technologies. Below are a few examples of the main benefits:
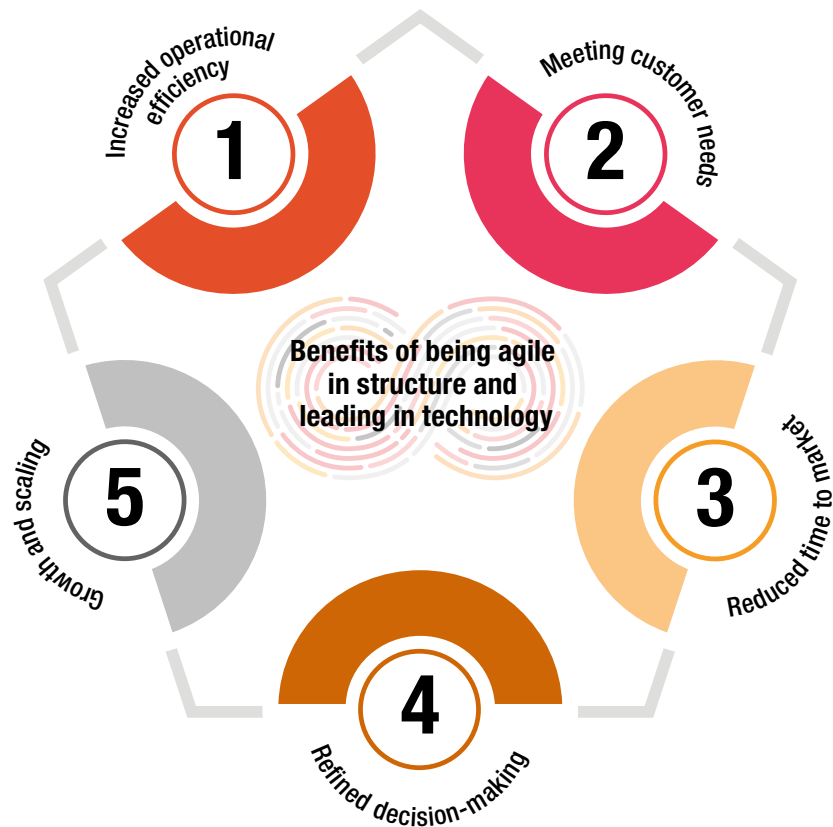

Figure 3: Examples of benefits resulting from being agile in structure and leading in technology

1. Increased operational efficiency:
Disruptive technologies such as RPA, AI and DLT acting as the differentiator pushing automation and operational efficiency to the next level. DLT-based smart contracts, for instance, enable an advanced overview of business transactions by guaranteeing transparency and efficiency. Enhanced communication through agile collaboration models and based on immediate feedback and more efficient resource allocation help to reduce duplication of work. This not only reduces costs but also increases employee well-being and more time can be allocated to boosting innovation.

2. Meeting customer needs:
Being agile means being close to the customer. In pushing for more feedback and quicker adaptation, enterprises are able to change with the market as quickly as it does. Doing so by having an agile organisational structure in place that enables swift adaptation to customer feedback will increase customer satisfaction and over time drives cultural change. Customer-centricity is key in a digital area and analysing the underlying customer data efficiently through automation and machine learning helps organisations to better understand their customer needs and respond to them appropriately.

3. **Reduced time to market:** Agile collaboration models enable organisations to deliver more scope in the same time frame and, much more importantly, to deliver the right scope at the right time. By additionally leveraging emerging technologies such as big data analytics to understand what changes are required at what time and by enabling automation as part of the process, or even by making use of DLT to cut transaction processing times, businesses can benefit from reduced time to market and faster execution.

4. **Refined decision-making:** Combining systematic big data analytics and agile collaboration models results in a powerful tool for every organisation that shouldn't be missed out on. This tool will enable organisations not only to make the right decision but also to make it faster. The decision-making process is key to be able to compete on the market and to continuously have a competitive advantage, enabled by technological and structural capabilities.

5. **Growth and scaling:** Agile processes and digital levers serve as the basis for companies to grow and expand in new countries, markets and customer segments. Underpinned by a solid technological basis, new products and services can be pushed to the market faster and keep pace with innovation and further development of the business.

Objectives and key results (OKRs) help to quantify and measure whether goals are achieved and if benefits shown above are unlocked. KPIs, such as customer satisfaction, business agility and time to market can be calculated and determined using net promoter scores, periodic self-assessments or the frequency of releases. This can deliver a comprehensive overview on the direction in which and pace at which an organisation is transforming and increases transparency throughout the whole process.

It is safe to say that the organisations of the future are subject to fundamental shifts on their way to growth and prosperity. With the rapid change in emerging technology and digitisation, it is paramount for organisations to stay flexible and competitive. The importance of customer-centricity, incorporation of technology and agility in doing business simply cannot be underestimated.

# Let's have a conversation about your transformation journey

We have a broad range of experience in supporting our clients with agile transformations and advising on how organisations can benefit from emerging technologies. Contact us to discuss the potential of your business and how your organisation can benefit from emerging technologies and enterprise agility.

Contacts

Patrick Akiki
Partner, FS Management
Consulting Lead,
PwC Switzerland
+41 79 708 11 07
akiki.patrick@pwc.ch
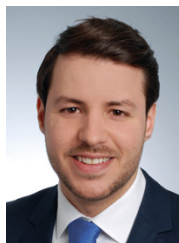
Dario Orteca
Senior Manager, Business, Blockchain
and Digital Asset Transformation,
PwC Switzerland
+41 79 238 62 78
dario.orteca@pwc.ch

Mark Hussey
Director, Blockchain, DLT and
Token Business Advisory Lead,
PwC Switzerland
mark.hussey@pwc.ch

Beate Fessler
Senior Manager
Change & Transformation Advisory,
PwC Switzerland
beate.fessler@pwc.ch

Key contributors

We would like to thank **Andri Lang** and **Nicola Kreutzmann** for their valuable contribution to this publication.