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The DNA of an Adaptive Enterprise:

Opportunity in a digital economy

WRITTEN BY:

The Economist INTELLIGENCE UNIT

Foreword

Over the past year, enterprise leaders around the world have had to respond to disruption, unpredictability, and unprecedented challenges. Covid-19 changed consumer buying behaviors and accelerated the shift to online unlike any other period we have experienced. And as the economy rapidly migrated online, we witnessed years of innovation compressed into several months as companies adapted their business strategies, accelerated digital transformation, pivoted their business models, and up-levelled their online customer experience.

The way the world interacts and transacts has changed. Across millions of businesses using Stripe, we've noticed that the capacity for businesses to adapt has been a major determinant of resilience and growth, and that adaptive businesses outpace agile ones. An adaptive business initiates change; an agile business reacts to it. The next generation of industry leaders will be companies that anticipate and take action to capture emergent opportunities, using their flexibility as a competitive advantage. They execute on strategies to find new revenue streams, pursue global expansion, and partner to scale faster. According to a recent study from Forrester, adaptive businesses grow at more than three times the industry average.

Jim Stoneham
Chief Marketing Officer
Stripe

At Stripe, we support some of today's most ambitious, fastest growing companies, from high-growth startups to category leaders with more than $1 billion in annual payment volume. We help enterprises adapt to the opportunities of the digital economy, simplify global expansion, optimise payments infrastructure, and add new business models and revenue streams.

We are pleased to support The Economist Intelligence Unit on this research study, which takes a deeper look into the core characteristics that make enterprises adaptive, the strategies leaders are pursuing as online commerce expands, and how the ability to navigate change is an enduring competitive advantage.

Stripe's mission is to increase the GDP of the internet. Now more than ever, we're helping business leaders with an adaptive mindset evaluate and execute on the opportunities ahead. We hope that this report will help you successfully preempt change, identify new possibilities, and move forward, driving future growth.

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About the research

The DNA of an adaptive enterprise: Opportunity in a digital economy is an Economist Intelligence Unit report, sponsored by Stripe. It explores factors that help businesses navigate periods of accelerated change and move toward innovation and future growth.

The analysis in this report is based on a survey of 600 C-level executives conducted in September and October 2020. Around a third of the respondents (34%) are based in Europe, another third (33%) in North America and the balance in Asia-Pacific. Their companies are distributed across a wide range of industries, with the largest representation from the financial services (15%), technology (15%) and retail (11%) sectors. Just over half (53%) of the respondents work in companies earning annual revenue of over US$500m, with the rest earning between US$100m and US$500m. Most of the companies represented (83%) are no older than 20 years, and 44% have existed for fewer than ten years.

Additional insights were obtained from in-depth interviews with founders, chief executives, other C-level executives and subject matter experts. We would like to thank the following for their time:

- Bonin Bough, Chief Growth Officer, Triller; Founder, Bonin Ventures
- Josh Hug, Co-founder and Chief Operating Officer, Remitly
- Sunil Gupta, Edward W Carter Professor of Business Administration, Harvard University
- Navneet Kapoor, Chief Technology and Information Officer, Maersk
- Ian Rogers, Chief Experience Officer, Ledger; formerly Chief Digital Officer, LVMH
- Steve Vamos, Chief Executive Officer, Xero
- Nick Waters, Chief Executive Officer, Ebiquity

The report was written by Denis McCauley and edited by Jason Wincuinas.

Executive summary

The virtues of business adaptability—a capacity to anticipate and respond to change and swiftly, effectively evolve—have never been more apparent than during the covid-19 crisis. The pandemic has brought about profound change, affecting long-standing consumer behaviours and preferences, and in some cases permanently changing competitive landscapes. Businesses had to make consequential decisions in short order—rapidly modifying business models, accelerating digital transformation, seeking out new revenue streams, moving or re-thinking supply chains, entering new product or geographic markets, and improving online customer experiences.

The global crisis has created an inflection point for enterprises—one that is likely to define business success for the next decade. Risks to business are considerable yet organisations that are able to quickly evolve in the face of complexity and uncertainty exhibit the DNA of an adaptive enterprise. These companies are able to successfully navigate disruption while positioning themselves for growth once a wider recovery finally kicks in. Ultimately, a business's ability to adapt can be a competitive advantage in today's global economy. Findings in this report detail characteristics of an adaptive enterprise.

> “The global crises has created an inflection point for enterprises—one that is likely to define business success for the next decade.

Key findings from the study

Adaptability is decisive. Businesses able to maintain or grow revenue under the difficult conditions of the pandemic appear to have made proactive choices in adapting to widespread change. When asked about chief factors enabling success, CxOs point to their firms' ability to change or adopt new business models, serve customers online, and scale in short order to shifts in customer behaviour and demand. Companies suffering revenue declines, by contrast, highlighted struggles with some of these same areas.

Going for growth. The pandemic has not slowed, but instead seemingly accelerated businesses' pursuit of growth or new revenue streams. Survey respondents indicate a strong intention to boost investment in technology and show little support for cost-cutting. Rather than contract their businesses, a majority of CxO respondents—80%—believe global expansion is central to their business viability. Over half—52%—plan to increase the number of countries they trade in over the next year. Only 13% said they would decrease.

Digital is integral. The flight of consumers to digital channels was dramatic in 2020, and CxOs in the survey expect the consumer trends that accelerated during the crisis to gain additional momentum. Among the surveyed companies, 28% say half or more of their company sales came via online channels before the pandemic, 46% indicate the same was true during the pandemic (as at October 2020), while 54% anticipate half of their revenue to come from online channels by the end of 2021. A majority—82%—believe that their customer's shift to online purchasing during the crisis will continue, even after the pandemic is over.

Anticipation is key. Far from all companies were ready for a digital acceleration: 69% of CxOs say their firms under-invested in online strategies before the pandemic. A majority—53%—say they now plan to boost investment in digital transformation over the next 12 months, aiming to improve processes or operations, innovation and customer experiences. The maintained or increasing digital budgets imply a CxO outlook that it's never too late to adapt.

Introduction: A wake up call like no other

For most of the previous decade, management gurus implored businesses to increase organisational flexibility and speed, and invest in corresponding processes, technologies and strategies. When disruption arrives, either gradually or overnight, an adaptive enterprise should be at a competitive advantage and more prepared to adjust business models, add new revenue streams or expand globally to capture any new opportunities that disruption produces. While their competitors might struggle to adjust to a new reality, adaptive enterprises should thrive because they would have already invested in the structural changes or technological tools needed to leverage opportunity.

Yet 2020 was a more disruptive year than management experts could have anticipated. Its all-embracing and rolling shocks took businesses and societies on a tumultuous ride. Never in living memory has an ability to adapt been more vital to emerging stronger on the other side.

On the macro level, whole economies suffered in the covid-19 crisis, with 2020's contractions especially painful in Europe and North America (figure 1). At the micro level, companies of all sizes had to adapt.

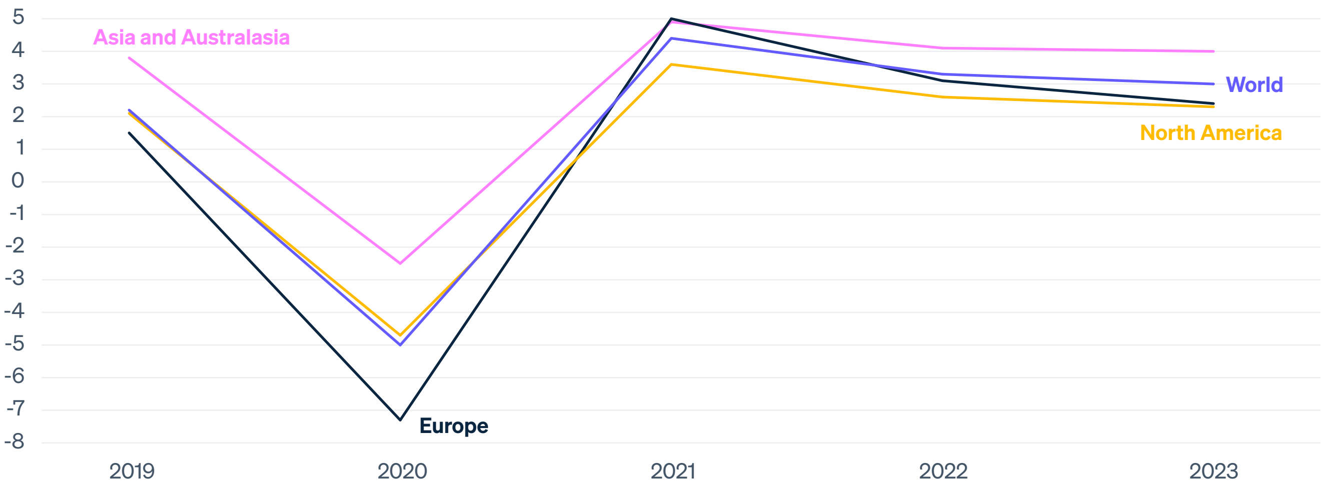
Many needed to:

- adjust or overhaul business strategies as consumer behaviour and demand patterns shifted;
- renew product portfolios quickly to make space for new or adapted offerings to meet new demands;
- re-think supply chains that had become over-extended or overly reliant on vulnerable suppliers; and
- overhaul and upgrade technology strategy and infrastructure in a compressed timeframe.

The challenge has not been easy. The total hit to global GDP from the pandemic and other de-globalising pressures is likely to concentrate in 2021-22, when global trade could contract by US$15trn[1] (in 2020 prices relative to a baseline forecast)—no single country or industry is predicted to emerge unscathed. Still, what many analysts refer to as "the digital economy" appears to be on an upward trajectory, and represents a growing share of enterprise revenue. IDC, a market research and advisory firm, predicts "65% of the world's GDP [is] set to be digitalised by 2022."[2] The firm's forecast for digital transformation investment between 2020 and 2023 is US$6.8trn.

Figure 1: Emerging from the depths?

Real GDP growth, 2019-23 (market exchange rates)



Source: The Economist Intelligence Unit

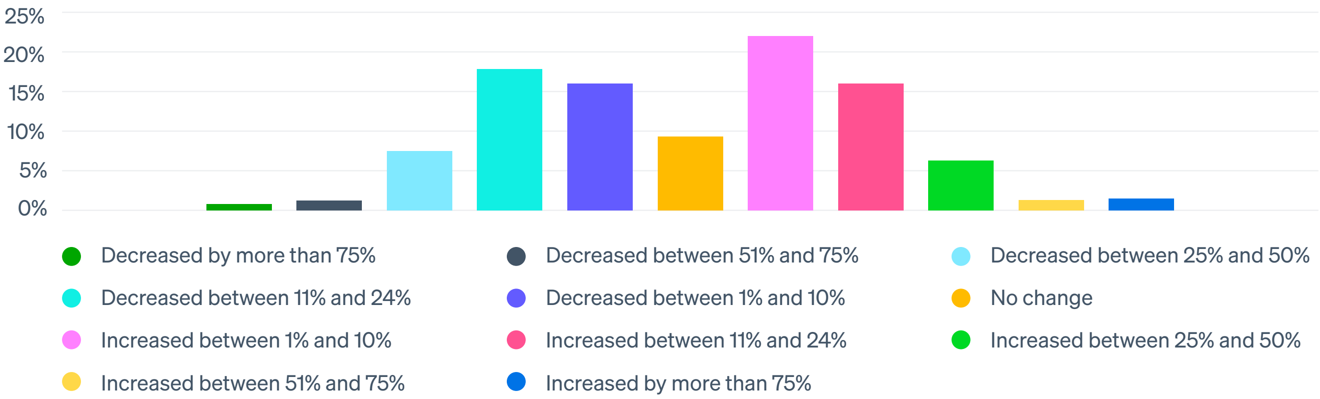
"A key pillar to becoming a future enterprise in a post-covid outbreak era is digital resiliency. We now know that resiliency as we knew it pre-covid is not good enough. We need a new benchmark to futureproof us from forward crisis and disruptions, be it the next infection cycle or the next economic crisis. Digital resiliency is the ability of an organisation to rapidly adapt to business disruptions, leverage digital capabilities to maintain continuous business operations, and quickly adjust to take advantage of changed conditions," Sandra Ng, Group Vice President for ICT research at IDC Asia-Pacific said in a research press release from November 2020.[3]

Many businesses represented in our global survey do appear to have adapted to crisis conditions, while maintaining an eye on future revenue growth. Despite media headlines of business closures, redundancies and collapsing GDP numbers, more CxO respondents (47%) reported revenue growth than those that reported contractions (43%) during the pandemic's first half year. Another 9% say they maintained revenue at a stable level (taken together, we'll refer to firms with stable or growing revenue as "revenue-positive").

Those revenue-positive results in the majority of surveyed firms suggest that either the pandemic has not been as disruptive to business as market consensus predicted, or businesses have been more adaptive to the fierce headwinds and sudden change than originally anticipated. Stockmarkets that recovered dramatically through the end of 2020, corporate profits that have supported those market gains, and data from our survey suggest the latter is the case. This report examines the characteristics that can define adaptiveness in an organisation and help turn challenge into attainment.

Figure 2: Positive edging out the negative

Reported change to revenue over the first half of 2020



Source: The Economist Intelligence Unit

Summary

- Severe shocks to economies during the covid-19 crisis created an unprecedented business challenge, as well as opportunity for enterprises that quickly adapted to change.
- Many organisations proved resilient: more surveyed CxOs report stable or positive revenue growth after the pandemic's onset than report revenue declines.
- The digital era is self-reinforcing; the tools that define it appear to be fundamental to anticipating and acting on the changes the digital era brings.

Adaptability is decisive

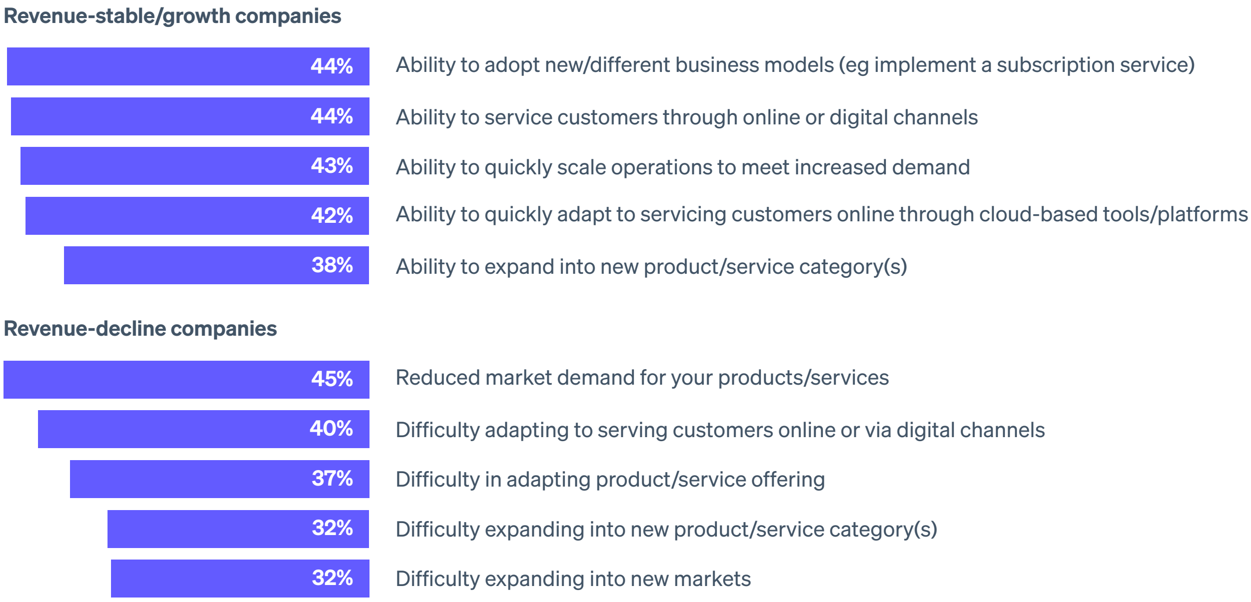
Writing in the Harvard Business Review in 2011, two Boston Consulting Group experts defined adaptive companies as those that "are quick to read and act on signals of change" and "have worked out how to experiment rapidly, frequently and economically—not only with products and services but also with business models, processes and strategies."[4]

Businesses that maintained or grew revenue during the pandemic displayed such adaptive characteristics as they responded to widespread change. When asked about factors that enabled growth, CxOs from revenue-positive firms in the survey chiefly highlighted an ability to shift to new business models (cited by 44%), to service customers via online channels (also 44%) and to quickly scale to meet changes in demand (43%).

CxOs from companies that lost revenue attribute losses first and foremost to drops in demand for their products or services (45%), but they also experienced considerable difficulties adapting in the same areas that the more successful companies from the survey were able to. This includes adapting customer-service channels and product or service offerings (cited by 40% and 37%).

Figure 3: Penchant to pivot

Chief factors contributing to the revenue stability, growth or decline of companies in the past six months



Source: The Economist Intelligence Unit

Businesses originally founded as online ventures, and those that had launched digital transformation programmes some years earlier, likely had an advantage when the pandemic hit. It is logical that an established digital footprint would have been beneficial to companies as their customers migrated online. But even CxOs among the revenue-positive group believe they under-invested in online capabilities prior to the crisis and had to alter course quickly.

Between April and September 2020, for example, 55% of CxOs in the revenue-positive group say their firms altered digital strategy to optimise online purchasing and booking capabilities, and 54% invested in new websites or apps developed in-house. The analogous figures in the group with revenue declines weren't far behind, at 50% seeking to optimise online capabilities and 51% investing in new websites or apps. The results show that CxOs in both groups grappled with the challenge of scaling online operations during the pandemic. In terms of adaptive DNA, the takeaway should be about the constant process needed to incorporate new approaches, strategies or markets into a business model. Altering or optimising strategy—digital or otherwise—is a constant process and accounts for more than a fix-it-and-forget-it approach. Companies that seek to anticipate rather than just respond to market changes should have a better chance to grow in crisis situations, or simply along with changing customer behaviours, and would exhibit an adaptive DNA.

An example from the growth end of the spectrum is Remitly, a US-based firm that facilitates international money transfers. It is among companies experiencing the challenges of increased demand during the pandemic. Co-founder and COO, Josh Hug, who was interviewed for this report but did not take part in the survey, reports a "dramatic acceleration" of customer and usage growth in the past year, especially since the onset of the crisis when access to offline locations sharply diminished. That growth posed challenges of its own, Mr Hug explains, as the company sought to maintain quality of customer service while usage surged.

What enables companies to adapt to crisis conditions? "The number one attribute is the ability to pivot quickly," says Nick Waters, CEO of Ebiquity, a London-based marketing and media consultancy. For example, he highlights that adaptive organisations are ones that "are able to quickly identify new service or product offerings, or tailor existing ones, that address the needs that have arisen." He stipulates that it helps to have a relatively short decision-making chain. "For some time," he explains, "businesses have been trying to de-layer their management structures. Those that succeeded, or already had short decision chains, have been better positioned."

For Sunil Gupta, a Professor of business administration at Harvard University, being adaptive means having willingness among organisational leadership to change their thinking, and quickly if necessary.

"Business leaders acknowledge that they don't have all the answers and that markets may not always react as they anticipate," notes Professor Gupta. "In such situations, executives cannot plan for two years or five years and invest accordingly. They need to adjust based on the data they are seeing." Anticipating future needs of customers and organising operations or processes around that should be seen as a key capability of an adaptive enterprise.

Case study

Maersk accelerates transformation into covid-19's disruption

An example of an adaptive enterprise is A.P. Moller - Maersk, a global logistics company. Despite drops in shipping volumes, the Denmark-headquartered firm managed to boost earnings through the third[5] and fourth[6] quarters of 2020. According to Navneet Kapoor, the company's Chief Technology and Information Officer, Maersk saw significantly increased usage of its online channels and apps, as it launched several new digital platforms enabling improved interaction with its customers. It was able to do this, says Mr Kapoor, because of the investments it had already begun making to develop such tools. "We started on this journey a few years back because we knew this is where the future is, and what our customers would be demanding," he says.

"Our vision is to be the global integrator of container logistics," Mr Kapoor says. This means, among other things, "making it simple for customers to ship and track their order from one end of the world to the other with a click of a button." Data and digital platforms are at the heart of the transformation Maersk is attempting to make, says Mr Kapoor. "We see that customers want to be able to work with us on a self-serve basis, when they want and where they want. It will make their lives a lot simpler."

The global pandemic hasn't slowed the effort down; on the contrary, says Mr Kapoor, it was accelerated in early 2020. The Maersk teams launched six platforms in the first half of the year: for order handling, service delivery, finance and tax, inland management, supply-chain management, and maersk.com. It is in the process of rolling out another five platforms across the firm's logistics business, including for storage and distribution and customs integration.

> "We've used this crisis as an opportunity to accelerate the digital transformation. We've gone after it relentlessly because we knew this is what the customers want.
>
> **Navneet Kapoor**
> Chief Technology and Information Officer
> Maersk

Going for growth

A majority of CxOs (81%) expect overall demand growth in their markets to return to pre-covid numbers by the end of 2021. This optimism appears to have moved CxOs to take measures to not only build resilience into their business, but also to move on executing growth strategies.

“We see a lot of opportunity in underserved markets, and we hope to capture a lot more growth over the next 12 months,” says Mr Hug of Remitly. His comment captures the spirit of the CxOs in the survey, who show little support for cost-cutting and considerable appetite for finding new revenue streams, pursuing global expansion and innovating faster.

In this context, growth appetite should be considered part of the DNA of an adaptive enterprise. This can be evidenced in the 44% of revenue-positive companies from the survey that have been able to change business models during the pandemic by, for example, launching subscription-based products or services or in the 37% that have expanded into new product or service categories.

In an age when trade protectionism may seem ascendant at the national level, on the commercial level the majority of respondents—80%—believe global expansion is integral to their companies' viability.

Over half of the surveyed executives —52%—plan to increase the number of countries they trade in over the next year. Just 13% will reduce their global presence.

> “ We see a lot of opportunity in underserved markets, and we hope to capture a lot more growth over the next 12 months.
>
> **Josh Hug**
> Co-founder and
> Chief Operating Officer
> Remitly

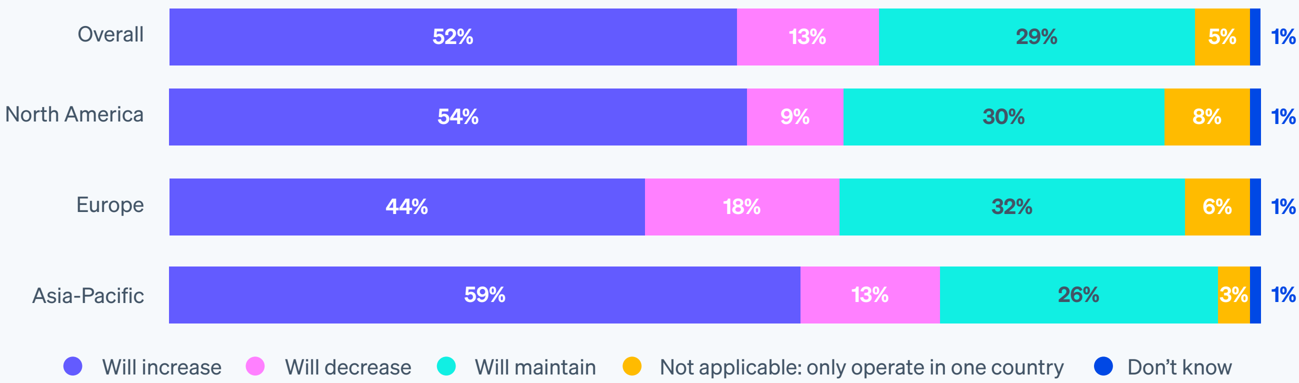
Global for growth

Respondents in Asia and North America appear to have the biggest ambitions for growth: 78% of those in India aim to expand global presence, as do 58% of US-based executives, 56% of those in Japan, and 54% in both Mexico and Singapore.

The US and Australia are the main targets of market expansion among the survey group. Of the relatively few (13%) that plan to withdraw from overseas markets, more plan to do so from China than anywhere else. That result is likely rooted in geopolitical concerns rather than commercial ones. China is the only major economy that grew during the pandemic and is already the largest market in the world for many products and services.

Figure 4: Expansionist agendas

Share of respondents expecting their company to adjust the number of countries traded in over the next 12 months



Source: The Economist Intelligence Unit

Not surprisingly, companies' technological capabilities are at the heart of their growth initiatives. For instance, 43% of CxOs in the revenue-positive group say their firms have been able to scale operations quickly to meet rising demand and 42% have used cloud-based tools and platforms to be able to service customers.

Maersk's aggressive programme to launch digital platforms, says Navneet Kapoor, the company's Chief Technology and Information Officer, "is the key to unlocking our ability to launch new products, to grow the business and to create a market-leading customer experience."

Challenges of securing the digital advantage

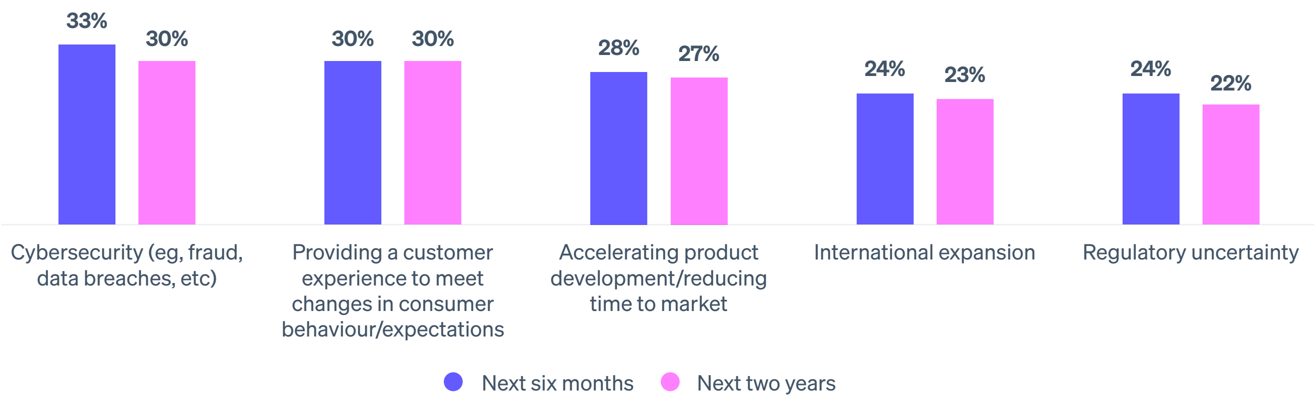
There are still challenges for enterprises to achieve growth as the global economy moves online. CxOs in the survey put cybersecurity—guarding against fraud and data breaches—at the top of the list of business challenges they expect—both short- and long-term—along with struggles to provide a customer experience that meets changing consumer behaviour and expectations.

According to Professor Gupta, CxOs' fixation on security is understandable. "It's the first question that comes up in the boardrooms and audit committees," he says. "As companies put more of their business online and more of their data in the cloud, and as media reports of fraud and hacking proliferate, cybersecurity will always be front and centre for senior management."

The need to ensure cyber protection is self-evident, but doing it is far from straightforward, says Mr Hug. Digital native companies like his have an advantage in this effort, he believes, in that they are more adaptable than those born offline to changes in technology. "We built our business from day one on the premise of the open internet as an attack vector," he says, "and we built with modern, adaptable architectures. That's a hard and expensive transition to make if you're a long-established company that's thought about security differently."

Figure 5: Eyes on cybersecurity

The top challenges or difficulties respondent companies face achieving business objectives over the next six months and two years



Note: Respondents chose multiple answers, totals >100%
Source: The Economist Intelligence Unit

Summary

- An appetite for growth is characteristic of the adaptive enterprise prevalent among the surveyed companies because it necessitates expectations of change and foresight to accommodate it.
- There is a link running through companies' digital initiatives, their efforts to improve the customer experience and their growth ambitions.
- CxOs from the survey seek growth not just by changing business models and launching new products and services, but also through global expansion. Adaptive enterprises typically have global aspirations.

Follow the customer to fuel growth

Customers' flight to digital in 2020 was dramatic. And CxOs in the survey expect trends that accelerated during the crisis to gain momentum, with 82% anticipating their customers' shift to online purchasing to continue even after the pandemic subsides.

While 28% of CxOs say half or more of their customers purchased from their firm through online channels before the pandemic, 46% say that was the case during the pandemic; 54% anticipate that they will see more than half of their revenue from online by the end of 2021.

"A lot of what we've seen happen is not a new trend but rather an acceleration of pre-existing trends. Moving forward, once people realise how convenient it is for them to use their phones at any time, 24 hours a day, then they're highly likely to maintain the new patterns," says Mr Hug, detailing how his company's international remittance service grew during the pandemic. He contends that people seeking to send money transfers may have heard about using an app before, but "they just haven't had the inertia to switch." As in many other cases, covid-19 provided the push for Remitly's customers to make the shift online.

The survey also shows that far from all companies were ready for an accelerated flight to digital. A large majority of the surveyed CxOs (69%) agree that their businesses under-invested in online strategies prior to the pandemic.

"Companies have been pushed to invest in digital transformation for at least the last 5-6 years, probably longer," says Bonin Bough, Chief Growth Officer at Triller and Founder of Bonin Ventures. "But too many have put off investing in their online capabilities and are now having to quickly make up for lost time."

A digital dearth hamstrung companies that saw revenue declines during the pandemic. As noted earlier, a significant percentage (40%) of CxOs in the study report difficulties adapting to serving customers through online or digital channels. "In the early stages of the crisis," says Professor Gupta, "most companies responded similarly—ensuring survival by preserving cash and securing the basics of their business. The later stages brought a division of companies: the smartest ones were the first to see that consumer behaviour had shifted dramatically."

Figure 6: Following customers

Share of respondents saying that half or more of their customers purchased or are expected to purchase goods or services from them via online channels

Source: The Economist Intelligence Unit

Such shifts include growth of online purchasing, contactless payments and digital payments overall. Large majorities—about 70% of surveyed executives—expect continued growth of these consumer practices over the next 12 months.

These approaches are not confined to consumer-facing companies. B2B firms also saw significant change in customer behaviour. Mr Kapoor of Maersk, a company that's essential in many global supply chains, says the evolution has been especially noticeable in how customers prefer to interact with the shipper. For example, he says uptake of the firm's online shipping app and cargo-tracking tool jumped 460% during the first six months of 2020.

Ian Rogers, until early 2021 the Chief Digital Officer of luxury goods group LVMH (and currently Chief Experience Officer with Ledger, a financial technology provider), has seen a mindset shift in the leadership of LVMH's individual business lines when it comes to interaction with customers.

"In 2019," he says, "the CEOs [of those businesses] were treating e-commerce as if it was going to represent 5%, 6% or 7% of their revenue in the future. [Since] 2020, everybody has shifted gears to treat e-commerce like the future 35% of their business."

The crisis started a cycle that is unlikely to abate even as its impetus does. Adaptive business leaders who are still weighing the relative merits of adding or improving digital capabilities should consider the long-term view of the chief executives from the survey. As covid-19 recedes, business leaders expect to move ahead with digitalisation, not return to an old normal.

> "In 2019, the CEOs were treating e-commerce as if it was going to represent 5%, 6% or 7% of their revenue in the future. Since 2020, everybody has shifted gears to treat e-commerce like the future 35% of their business.
>
> **Ian Rogers**
> Former Chief Digital Officer
> LMVH

Digital acceleration

Whether it's making up for lost time or continuing to build on previous efforts, it appears that CxOs recognise the value of technology and are pushing ahead to invest in digital customer experiences, which can also be considered another adaptive quality.

Even during the initial six months of the pandemic, most CxOs in the survey protected technology-investment initiatives or, in many cases, put them on the fast track. While 44% of respondents say their firms kept investments in digital transformation at existing levels during this period, 29% say spending on it increased. Just 21% scaled back.

Over the next 12 months, it is clear that CxOs see opportunity in the capability that digital investment is meant to deliver. A majority of the surveyed firms—53%—plan to further step up digital transformation investment, while 26% expect to at least maintain current levels. Only 11% say they will scale back.

The top technology priorities for surveyed CxOs include adopting software solutions to boost efficiency, as well as investing in artificial intelligence (AI), machine learning and automation capabilities.

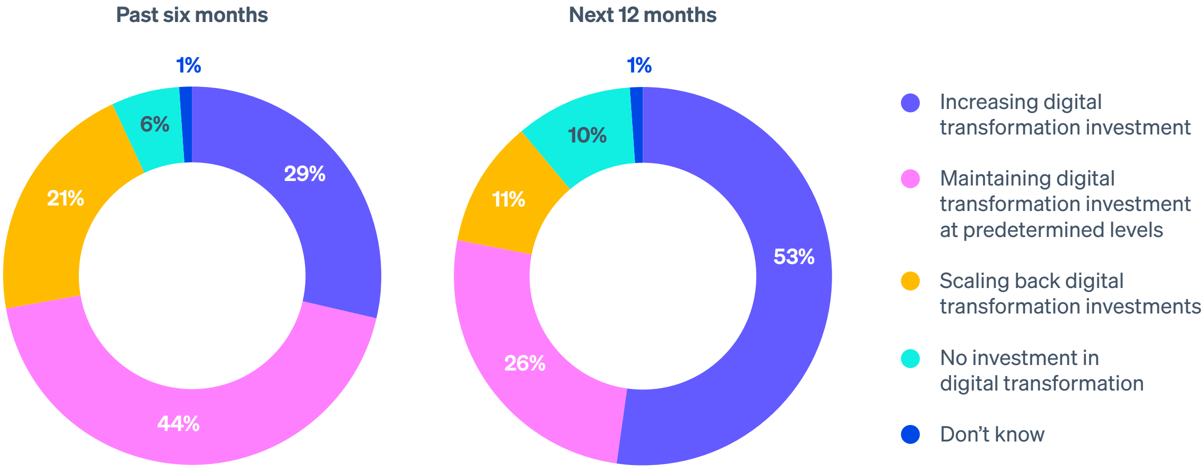
Also on the priority list are investments to improve internal innovation capabilities, online sales and checkout processes, and the online customer experience overall.

CxO respondents are clear on what's driving these priorities—as mentioned, 82% believe their customers' shift to online purchasing will continue in the coming months and years; it seems logical then that a growth opportunity lies in improving a company's ability to serve customers online.

Mr Rogers also sees a direct link between improving the customer experience and company growth. Digital priorities at LVMH include expanding omnichannel sales and customer service, and enabling sales agents to engage in more personalised interactions with high-end customers and prospects. To achieve these objectives, the company is prioritising investments in data analytics and AI. "It's about creating personalised experiences for customers as well as creating operational efficiency," he says. The challenges ahead, he explains, are: "How do we provide a personalised, frictionless online experience? How do we empower a sales associate to know what product a customer might want next?"

Figure 7: Digital acceleration

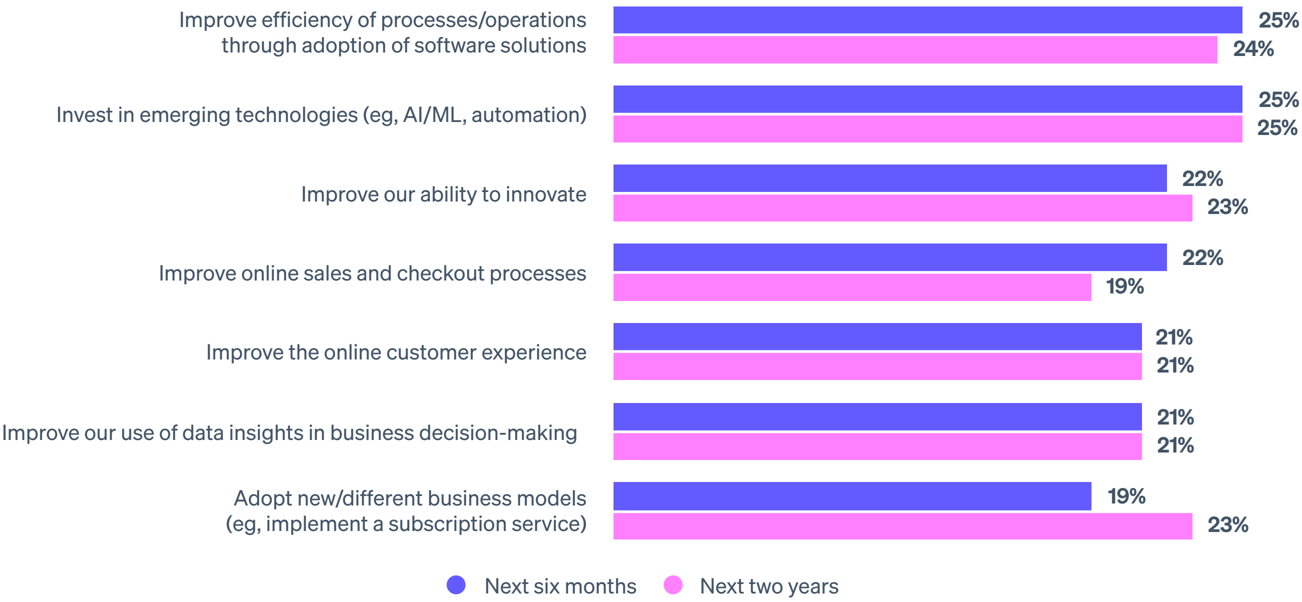
Respondent firms' main approach to investments in digital transformation over the past six months and the next 12 months



Source: The Economist Intelligence Unit

Figure 8: Investing intentions

Respondent firms' main digitalisation priorities over the next six months and two years



Source: The Economist Intelligence Unit

Summary

- Revenue-positive businesses displayed manifestations of adaptability during the crisis, including trying new business models and shifting successfully to serving customers online.
- Most CxOs acknowledge having under-invested in digital capabilities—an adaptability enabler—in years past. They are now looking to make up for lost time.
- Enterprises recognise customer experience as an opportunity to establish or maintain market leadership, and are raising the related digital investment. But incorporating new technology can also require a change to the organisational mindset.
- CxOs see a link between digital transformation and growth and show signs of pushing ahead to invest.

Adapting a digital mindset

Mr Hug believes that relatively young companies, especially those born in the digital era, hold significant advantages over older rivals in terms of flexibility and adaptability. The survey also suggests that younger companies have adapted more effectively to the pandemic than older ones. For example, respondent firms under ten years old are more likely than those over ten to have registered revenue growth in the past six months (51% versus 44%).

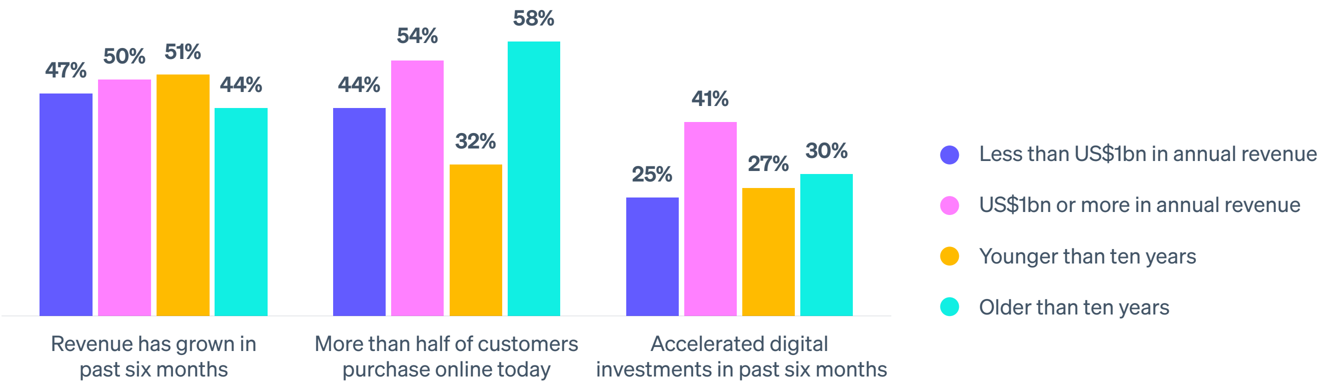
The technology advantage that such companies hold, says Mr Hug, "is that they have built their business on flexible infrastructure that is much more adaptable to new demands." In the past year that manifested itself in, for example, the ease of shifting at scale to remote work - companies managing IT operations predominantly in cloud-based environments found this straightforward to do. When it comes to supporting machine learning and advanced analytics, which help anticipate changes in customer demand, digital-native companies are also largely free of legacy technology constraints. Therefore, shedding heavy legacy operations for new, more nimble ones is a truism that can be applied under the task of defining an adaptive enterprise.

The burden of legacy technology on older businesses is often underestimated, says Mr Waters, especially as they try to adapt to changing conditions. "It takes a lot of re-engineering to make the technology of a pre-digital era company relevant for the digital one," he says. This is the challenge Maersk is having to overcome as it rolls out its digital platforms, says Mr Kapoor. "Much like any large, successful, traditional business, we have technology built over the last few decades that's served us well. But the legacy suite is not very agile. You can't make changes fast to respond to customer needs because you're using different technologies."

Many large, traditional companies struggle with legacy, but size itself does not appear to limit adaptability. While younger companies tend to be smaller, that isn't the most important factor. Surveyed companies with annual revenue over US$1bn are more likely than smaller ones (those with revenue between US$100m and US$1bn) to have maintained sales growth in the previous six months (50% versus 47%).

Figure 9: Big versus small, old versus young

Comparative results, selected indicators, by respondent company size and age



Source: The Economist Intelligence Unit

Before the pandemic, according to respondents, large firms were already more likely than smaller ones to serve more than half of their customers online (44% versus 23%), and they retain that lead today (54% versus 44%). And the larger firms are far more likely to have increased their technology investments during the crisis period (41% versus 25%). Figures for the older firms in the survey on the last two indicators are higher than for their younger peers—and considerably so when it comes to online customers.

Mr Rogers believes a large, sprawling group such as LVMH has advantages in adaptability. For one thing, he says, it is big enough to treat the crisis as an operational challenge and not an existential one.

"That's a great position to be in because we can make quick calls on things and take risks without worrying because we know we'll be back next year," he says. "We can be smart, not scared." Another advantage, according to Mr Rogers, is that the company is decentralised. "We're a collection of several small businesses and a couple of big ones," he notes. "The latter often look at the smaller ones—many operating at micro-scale—and ask what lessons they can learn. Taking a portfolio approach, we can keep a steady hand and be smart operationally."

That outlook bears some resemblance to Mr Bough's hackonomy approach. When he was head of marketing for Mondelēz, a multinational snack maker, he asked lead officers to spend time working with small start-ups. "What hackonomy really stands for is, how do you create value by breaking things? There are many organisations which are going to reap the value creation of breaking themselves or being broken by what we just went through." After covid-19, companies have seen how strategies that had been successful yet were tactically sedate can be quickly overwhelmed. Going forward, more CxOs may see the concept of adaptability as core to running a company.

"It requires a mindset that is accepting of the fact that [companies] have to change," says Mr Bough.

Technology can offer solutions to business problems or risks, allowing companies to adapt. But deploying it is an operational challenge, and one that starts with mindset according to Steve Vamos, Chief Executive Officer of Xero, a cloud-based accounting software platform for small businesses headquartered in New Zealand.

"The reason why I'd start with mindset," he says, "is that getting great use of technology requires a changed mindset because there's no technology you adopt or deploy that doesn't involve change."

While size and legacy are often intertwined, size does not appear to have hindered some of the biggest companies in the world, especially technology giants in the US and China, from scaling quickly to meet demands as the pandemic unfolded. "Big tech firms are a great example," says Mr Vamos speaking about handling change. "They're extremely large and they've been around for a while, but they know how to change and to reinvent themselves, and quickly, too." And he emphasises that "mindset is foundational."

Summary

- Most companies born online have an adaptability advantage over older ones in a lack of legacy burden and ability to tap a modern and flexible technology infrastructure.
- Large businesses may seem hindered by scale and sprawling operations, but the survey shows they still adapt quickly to changing conditions.
- Ability to pivot quickly and effectively may rest partially in digital operations but it is just as much dependent on corporate culture, or mindset, that embraces change.

Case study

Why the "hackonomy" is more alive than ever

Bonin Bough is an author, entrepreneur and renowned in the fields of marketing and innovation. A few years ago he coined the term "hackonomy" to denote an environment in which businesses break processes, structures or even organisations in order to create new value from them. Disrupting organisations in this way is incredibly hard, he says, and not many manage to pull it off.

Covid-19, believes Mr Bough, has shown that companies can change if there is clearly no alternative. In this way, the pandemic has given a strong boost to the hackonomy, although not how he originally envisaged. "I profess that we should break ourselves to create greater value. But covid-19 broke many of us instead, in a way that might not have been as strategic or as focused as we would like. Nonetheless, it created a mindset accepting of the fact that we have to change. Many businesses are going to reap the value creation of breaking themselves."

What those organisations did to change must become part of their "muscle memory", insists Mr Bough. "Their leaders need to remember exactly what they changed during the crisis and the steps they took to change it. "Was it fewer sign-offs? Was it greater connectivity? What were the things that allowed the organisation to change?" They must not lose this knowledge, he says. "They need to be able to replicate it because that's what is going to create continual value for them over time."

The DNA of the adaptive enterprise resides in internalising such learning and then turning it forward to anticipate change in the future.

> "I profess that we should break ourselves to create greater value. But covid-19 broke many of us instead, in a way that might not have been as strategic or as focused as we would like.

Bonin Bough
Chief Growth Officer
Triller

Conclusion

The next generation of market leaders are likely to be companies that quickly adapt as the pace of change in the world accelerates. Economic and technological evolutions are more fluid now than they have been since the second world war. That means corporate ideas of competitiveness need to change too. What's in the DNA of adaptive enterprises is an aim to anticipate future customer needs and take steps to address them, investing in technology to stay relevant. Such businesses use flexibility as a competitive advantage, responding to market disruptions and proactively driving innovation to establish and maintain market leadership.

Based on this study, the following capabilities have helped many companies pivot quickly and effectively during the ongoing pandemic; the same characteristics should help them adapt as business conditions continue to evolve, or when faced with the next disruption:

An adaptive mindset. In the initial stages of the pandemic, senior managers had no choice but to make major operational decisions in hours rather than days or weeks. Those that could adapt accordingly found they were able to weather the pandemic and maintain or even improve their market position. Many unable to adapt to the new environment did not fare as well. Business may be returning to more stable patterns, but these lessons in adaptability and effecting rapid change should not be lost.

Staying ahead of the technology curve. Companies that previously took their time developing online platforms for their customers and suppliers, digitising payments and shifting to the cloud are now regretting it. As difficult as jettisoning legacy systems or practices is, the pandemic has demonstrated to businesses that taking the leap is necessary if they hope to be able to service customers effectively and pivot and scale quickly in fluid environments, which the coming years are likely to be.

A growth orientation. Far from battening down the hatches, cost-cutting or retreating from serving customers in overseas markets, CxOs of adaptive businesses in our survey make it emphatically clear that they're intent on expanding—into new product lines and geographies globally—and they're investing more in technology to help make that happen.

We take great encouragement that covid-19 and protectionist politics have failed to dent the global spirits that have helped fuel business growth and economic development in much of the world for so long. Mastering existing and new technologies, and looking forward to market evolutions, have been instrumental—the DNA—to helping companies to adapt and change. New crises will inevitably arise, and from them new and different business realities will emerge. The art of being adaptive is thus an attribute organisations should seek to foster.

“ I think every company is adaptable. I think really [the pandemic] has given us the moment to learn what are the pieces that we need to put in place in our specific situation, in our specific circumstances that allow for us to pivot and move quickly to change and adapt.

Bonin Bough
Chief Growth Officer
Triller

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