

THE INTERCONNECTED BUSINESS

How midsize businesses achieve value through holistic management strategies

Introduction

Midsize businesses around the world have shown remarkable resilience and ingenuity throughout the COVID-19 pandemic. But stabilizing operations and financial performance will be a priority for many of these companies for years to come. Smaller organizations often suffer more than their larger peers when times are tough, facing harsher realities in terms of financial risk, talent retention, and capacity for innovation.

One way of approaching these challenges is a management philosophy—sometimes called systems thinking—that focuses on the interconnected nature of digital organizations. This means understanding relationships within and beyond the organizational firewall as elements that must function as part of a cohesive strategy. Doing this well requires using data-driven technologies to understand relationships between different parts of the business, responding dynamically to the needs of customers and employees, and optimizing processes for collaboration within the organization and with external partners.

Recent research from Oxford Economics and SAP on midsize businesses shows that these organizations have been navigating a difficult year in similar ways as their larger peers. But staying competitive will require capitalizing on the traits that make midsize businesses inherently suited to holistic, interconnected management, including their capacity for agility, visibility into all parts of the business, and close relationships with employees and partners.

Analysis of our research shows that midsize businesses are:

- Beginning to think holistically about their organization and its partners, and considering interconnections across functions, even as they struggle to break down traditional organizational silos and share information with external partners.
- Turning to tools that optimize collaboration—specifically those that analyze and share data across organizations.
- Changing strategies to be more sustainable, increase transparency, and better pinpoint customer wants and needs.

Organizations that are furthest along in adopting an interconnected management approach tend to report superior results in terms of employee productivity, customer interactions, and revenue growth. Midsize businesses should look to the management tactics used by these leading organizations to achieve similar levels of success.

Building interconnectivity

Balancing the sometimes-competing priorities of resilience, agility, and efficiency requires an interconnected approach to management. That means sharing data and rethinking processes to better understand interdependencies across the business, threats and opportunities, and the dynamic needs of customers, employees, and partners.

Building the connections needed to make this happen is not always easy. Nearly one-third (29%) of midsize businesses cite a lack of coordination between different departments as a top internal challenge, and 44% cite effective collaboration across functions as a major barrier to transformation initiatives. Most midsize businesses understand that this will likely become even harder as they strive to meet goals: more than one-quarter (28%) expect maintaining communications across business functions to become more difficult as the organization grows.

Making these connections is expected to pay off. Nine out of ten midsize businesses agree that interactions with the finance function (which tend to support efficiency and strategic decision-making) are important or critical to the success of the organization. Interactions with other areas of the business—including IT, marketing, services, and support—also rank highly in terms of strategic importance.

Nearly two-thirds of our respondents report at least moderate progress toward digital transformation, and well over half have found ways to tighten communication, data-sharing, and process management capabilities across all areas of the business. Midsize organizations have also made headway integrating business processes; however, talent and workforce issues, along with data collection and analysis, are still works in progress. (Figure 1)

For some, these efforts are already beginning to pay off: 42% of midsize businesses that report integrated business processes have led to a reduction in costs and spend; 41% with integrated talent and workforce strategies cite boosts to customer experiences; and 35% with integrated data collection and analysis say it helps them make more informed decisions.

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Fig. 1: Achieving interconnection through integration

Q: To what extent are your organization's business functions integrated in the following ways?



Data-driven, technology-enabled

Responding to disruption and positioning for future growth depends on having the information needed to make strategic decisions for all parts of the business. For example, midsize businesses must be able to predict how a disruption with one of their core suppliers might affect financial operations and payroll in the next quarter, ensure that employees in different functions are working toward the same goals, and understand how changing regulations in various geographies will affect their day-to-day processes.

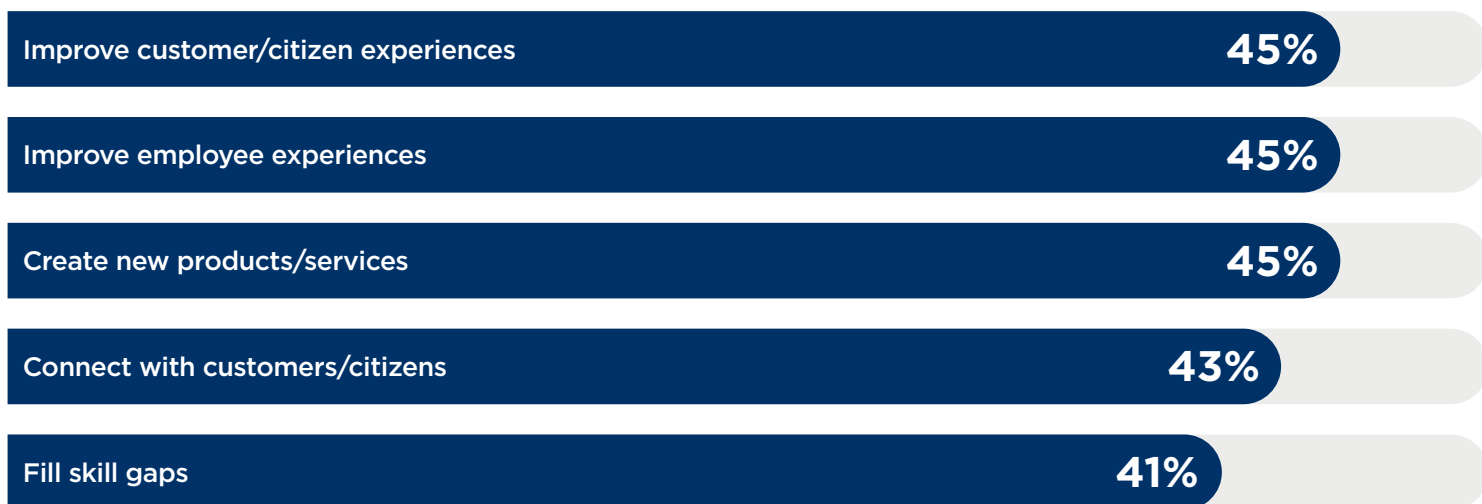
Achieving this level of visibility requires information. Many say they have access to data—a majority say they have the employee productivity data (59%) and risk reduction data (57%) they need—but getting full value from this data depends on having the capacity to make meaning from it. We found that midsize businesses struggle with analytics to interpret data; few have sufficient resources to support analytics-based decision-making, with just 39% saying they have enough of this type of data. This may explain why few (just 32%) are acting on the insights they gain from data analysis.

Not having the right talent and processes are often barriers to data analysis, too. Relatively few have taken critical steps in understanding that information, like retraining employees to work with data (29%), establishing partnerships with other organizations (26%), or changing processes or business models to collect more data (21%). Growing consumer concerns over the use of personal data may stall future analysis capabilities unless midsize businesses ensure security, privacy, and ethical use of information as they design their data strategies.

Leaders from our surveys tend to be better than others at sharing data effectively. These organizations are significantly more likely to say that their data-sharing practices have paid off: they have increased their ability to connect with customers, create new products and services, fill skill gaps, and improve experiences for both customers and employees.

Fig. 2: The data sharing imperative

Q: To what extent do your data-sharing practices improve your ability to do the following?
“To a great extent” and “To a transformative extent” responses, combined



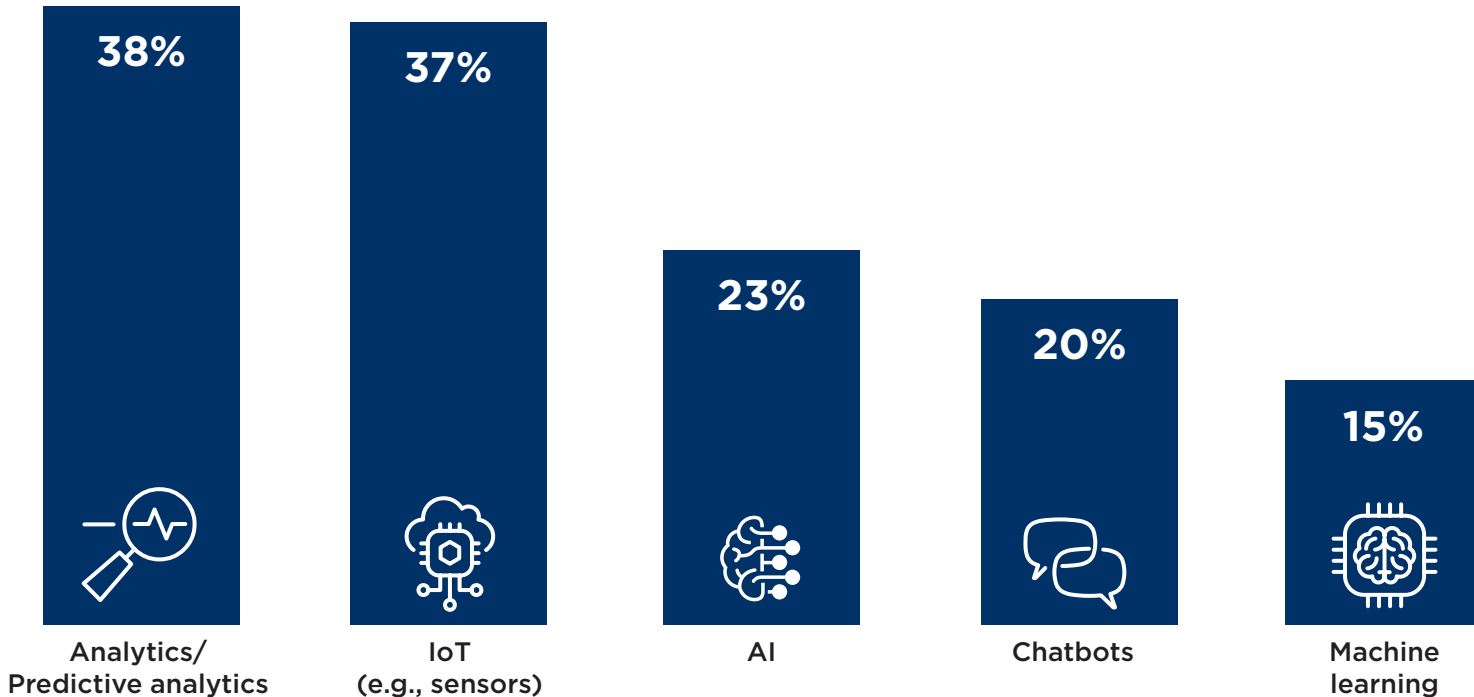
Ultimately, making these changes around data collection and analysis will require a strong IT infrastructure, an area where many midsize businesses lag their larger competitors. Other research programs from Oxford Economics show that midsize businesses are further behind in building up their emerging technologies—an understandable gap, given competing operational priorities and sometimes-limited resources.

However, midsize businesses often have the advantage of less cumbersome legacy technology, which can jumpstart adoption of new tools across the business. Our survey respondents are at work on this IT transformation, with nearly two-thirds saying they are effectively modernizing their IT systems, and many focusing investments on analytics, IoT, artificial intelligence, and machine learning.

Automation is another strategic priority, cited by over half of midsize businesses executives as critical for customer service improvements, business management, and operations. If implemented strategically, this should serve midsize businesses well in the long run: 45% say they expect automation will increase process efficiency by reducing error, risk and cost, and 43% expect an increase in productivity through intelligent process automation.

Fig. 3: The tools of change

Q: In which of the following technologies has your organization as a whole prioritized investment over the past three years? (Respondents could select all that apply.)



Leadership pays off

We sifted through 3,000 survey responses to identify companies that are outperforming their peers by certain key measures of systems thinking. This leader group makes up just 6% of all respondents and indicates that companies of all sizes are still catching up to the immense management challenges of the digital era. Midsize businesses should follow the examples of these leaders in order to boost performance and increase their ability to compete with larger rivals.

A single survey cannot establish a clear causal link between behaviors and outcomes, but we can say leaders greatly outperformed other respondents in areas including innovation, employee engagement and retention, and profit margin increases over the past three years. They are also more focused on culture and social initiatives and more likely to say their approach to social issues is rooted in how they organize the company.

Leaders are far more likely than other respondents to say they have integrated communication and data-sharing processes across the business, increased transparency into operations, broken down organizational silos, and invested in collaborative technologies. Each of them reports that they have created and taken meaningful action on a clear and consistent purpose-driven vision.

Fig. 4: Leaders share information—and reap the rewards

Q: To what extent do your data-sharing practices improve your ability to do the following?
To a great extent” and “to a transformative extent” responses of companies of all sizes.



Prioritizing purpose

A truly interconnected business is organized around clearly defined organizational goals—ambitions that should ultimately give employees, partners, and customers a sense of purpose that translates into stronger business performance.

Midsize businesses understand that the needs and preferences of individual customers and employees can be the difference between success and failure. In fact, changing customer wants and needs is cited as the top external barrier to meeting organizational priorities—ranking even higher than competition from larger organizations. Evolving customer expectations include visibility into the way businesses manufacture or source their products and services (47%), prompting businesses to adjust their processes and culture to elevate sustainable practices.

More than half of respondents view sustainable practices as important to providing the high-quality experiences their customers demand, and many have made efforts to increase transparency across the supply chain. And as the consumer push for sustainable business continues to grow, midsize businesses are increasingly creating (and acting on) a clear purpose-driven message around sustainability and adjusting products and processes accordingly.

Cultural decisions around company purpose are likely to pay off—if done well. By our definition, all leaders in our survey have created and acted on a clear, consistent purpose-driven message on sustainability or social advocacy to a significant or complete extent. But we also found that these high performers reap benefits from these decisions; for example, they are more likely to have incorporated sustainable alternatives for products and processes (91% vs. 65% others), with 33% noting that this decision has improved the organization’s overall productivity.

Fig. 5: Creating a purpose-driven culture

*Q: To what extent have you executed on the following business decisions?
“To a significant extent” and “Completely” responses*



Conclusion

Midsize businesses across industries are laying the foundation to help reach interconnectivity. Their efforts to strengthen communications between functions are beginning to yield results, as seen through their overall cost reduction and boosts to customer and employee experiences. Further focus on collaboration with external partners, data analytics, and purpose-driven processes should position them for future recovery and long-term competitiveness against their larger rivals.

Advancing these new management tactics will require performance improvements in a number of areas.

■ **Leave organizational silos behind.** Connecting all parts of the organization depends on standardizing processes, establishing strong data-sharing practices, and understanding how different parts of the organization work together.

■ **Strengthen relationships with suppliers.** Collaboration goes well beyond the bounds of the organizational walls, especially as customers demand more transparency into supply chain operations. Securely sharing information with partners and broadening communication channels can improve visibility into operations and allow for better long-term decision-making.

■ **Level up the workforce.** Retraining employees to analyze and make meaning from data is a great first step in establishing strong collaborative strategies. Upskilling is also a major contributor to industry reputation, which will help attract and keep the best staff from leaving for competitors.

■ **Treat corporate values as an asset.** Undergoing a digital transformation is an opportunity to build a rich, purpose-driven culture that incorporates sustainability, social advocacy, and other big-picture issues—a strength that should help midsize businesses differentiate their offerings from the pack and open new doors moving forward.

About the research: Beyond the crisis

Oxford Economics was commissioned by SAP to conduct a survey of 3,000 business executives. The survey was conducted between March 2020 and May 2020 via computer-assisted telephone interviewing. Because the data was collected during a time of heavy disruption from COVID-19 and the associated economic crisis, results shed light on SMB strategies for long-term success.

Respondents come from the United States, Canada, Mexico, Brazil, France, Germany, the United Kingdom, Nordics (Norway, Finland, Sweden, Denmark), India, Japan, Singapore, Australia, and New Zealand. All respondents come from organizations with over \$500 million in revenue; one-third come from organizations with \$500 million to \$999 million in revenue, one-third from organizations with \$1 billion to \$9.9 billion in revenue, and one-third with \$10 billion or more in revenue.

About the research: Digital, resilient, and experience-driven

Oxford Economics was commissioned by SAP to conduct a survey of 2,000 senior executives from small and midsize organizations across industries. The survey was fielded between February 27 and April 30, 2020 via a mix of computer-assisted telephone interviewing and online links. Because the data was collected during a time of heavy disruption from COVID-19 and the associated economic crisis, results shed light on SMB strategies for long-term success.

Respondents come from the United States, Canada, Mexico, Brazil, Colombia, Germany, Spain, Russia, the United Kingdom, France, Italy, China, India, South Korea, Singapore, Philippines, Japan, Australia, and New Zealand. All respondents come from organizations with annual revenues or budgets ranging from just under \$10 million to just below \$1 billion, as well as employee headcounts below 1,000 employees; in India, some respondents had up to 2,000 employees.