Agility: The Key to Surviving Recession and Digital Disruption
by The Hackett Group

How agile is your business?

What competencies does your team need to survive and thrive in a volatile business environment? Business Services must adopt effective agility improvement practices to effectively respond to changing market conditions. In this report by The Hackett Group and brought to you by Canon Business Process Services, you will learn the roles business services plays in enabling enterprise agility and the value drivers that improve functional agility.

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EXECUTIVE SUMMARY

Business services functions must understand and address weaknesses in their ability to respond to changes in business conditions and disruptive events – i.e., improve agility. Potential disruptors – including risk of a recession – abound: trade conflict with China, political gridlock, a looming debt crisis, geopolitical instability that could affect demand and supply chains, and more. Inability to anticipate and swiftly respond to change impairs both functional and enterprise performance, jeopardizing competitiveness and possibly the future of the company. Recognizing this, business services functions rank strategy enablement as the most important value driver of agility-improvement initiatives. In our study of agility, cultural resistance to change was found to be the most important inhibitor of agility improvement. Further, there is a very significant gap in agility between the study’s peer group and top performers, explained by higher levels of adoption and effectiveness of specific agility-enabling practices by top performers. Business services in the peer group must adopt effective agility-improvement practices to close the gap.

DISRUPTION AND THE AGILITY IMPERATIVE

In a volatile business environment, companies must be able to shape, anticipate and adapt to change in order to survive, let alone thrive. This ability is commonly referred to as agility. In this report, we analyze the impact of economic uncertainty in conjunction with the risk of digital disruption on business strategies, specifically the need for companies to drastically improve agility.

Participants in our Agile Operating Model Study confirmed that they recognize the importance of enterprise agility. Agility is deemed roughly as important to the realization of short-term (annual) objectives as it is to execution of the three-to-five-year strategy and the long-term survival of the company (Fig. 1 on page 2). This means they view agility as a necessity for dealing with short-term volatility (e.g., supply-chain disruptions, recession, commodity price shocks), as well adapting to as longer-term structural challenges (e.g., industry-level digital disruption and deep-rooted shifts in customer preferences). The importance of agility to the achievement of annual objectives is particularly pertinent in light of the current risk of recession. Should this risk materialize, agile companies are in a better position to respond.

The study’s top performers were only marginally more likely than peers to rate agility to be of “high” or “critical” importance to the realization of business objectives. In other words, even business services functions lacking in agility (i.e., the peer group) recognize its critical importance to the enterprise.
Business services functions play important yet different roles in enabling enterprise agility. HR organizations are deeply involved with talent strategy, management-related issues and cultural change; IT with provisioning agile technology platforms and rapid solution development needed to accelerate time to market; finance with providing the analytical services required to sense and anticipate change; and procurement with managing supply risk. GBS organizations, too, are important to enterprise agility, given their ability to rapidly scale capacity up or down as conditions change.

In this report, we look at the agility of business services functions in the aggregate as opposed to individually. The functions rank strategy enablement – intrinsically linked to improving enterprise agility – as the highest-priority business value driver of their initiatives to improve functional agility (Fig. 2). Even the three lowest-ranked dimensions of performance – efficiency, effectiveness and experience – are viewed as almost equally important.

In our study, business services agility performance was measured (see sidebar, bottom left) in terms of ability to support:
- Major enterprise-level disruptive events
- Major function-level events
- Digital needs of the function

Fig. 3 on page 4 paints a picture of a wide agility performance gap between the peer group and top performers, and inadequate ability of the peer group to respond to major enterprise events. However, a majority of top performers consistently meet business needs, resulting in superior enterprise agility. Since all four types of enterprise events shown in Fig. 3 directly impact financial, operational and strategic plan execution and competitiveness, top performers’ superior agility is expected to translate into a competitive advantage and financial outperformance. (See sidebar on next page).

Both the peer group and top performers do best supporting major reorganizations (including downsizing), mergers and acquisitions, which are among the most common disruptive business events. Ability to support an enterprise downsizing will be particularly important if a recession materializes in 2020, as is widely expected.

Next, we turn our attention to business services’ ability to respond to events that are disruptive to the functions themselves, distinguishing between speed of decision-making and execution (Fig. 4 on page 4).
Defining agility
We define agility as “the ability to anticipate or sense disruptive business events and changes in business conditions, and to swiftly make and implement effective decisions in response to these changes.”

At the enterprise level, these disruptions and changes are taking place in the external business environment. Companies’ agility is dependent on internal agility enablers, which include the agility of their business services functions.

Agility performance measurement
Our study used a high-level diagnostic to measure agility performance based on participants’ self-assessed ability to respond to major disruptive events, including downsizing and other operational changes required to respond to an economic recession. The design of actual transformation programs should be based on a consultative approach that is more in-depth and decomposes these high-level events and factors in industry-specific considerations.

Agility performance and enterprise financial performance
Analysis of the financial performance of companies supported by business services functions that are identified as agility top performers reveals that these companies do indeed financially outperform their industry peers (Fig. A). This confirms that superior agility of business services functions is correlated with superior enterprise agility, resulting in competitive advantage.

FIG. A   Agility top performance and financial outperformance
3-year average financial performance of companies whose business services functions are agility top performers

<table>
<thead>
<tr>
<th>Index: 100 = Industry-level performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>SG&amp;A cost as a pct. of revenue</td>
</tr>
<tr>
<td>105</td>
</tr>
</tbody>
</table>

Source: Agile Operating Model Study, The Hackett Group, 2019, and public-domain financial data

Again, we find a very large gap between the two comparison groups. Peers perform poorly, even for a well-understood event like a downsizing of the function. This lack of agility will hamper the function’s response to recessionary business conditions. Ability to implement major service delivery model changes, attract new talent or develop new skills is weaker still. Only 6% of peers consistently meet business needs in making these types of decisions, and only 4% are able to execute them. While substantially more agile than peers, top performers’ difficulty attracting talent quickly is a major issue. Only 36% consistently meet business needs for decision-making and 30% for executing talent plans – the weakest performance level of all events addressed by the study.

Finally, we look at agility performance related to digital needs (Fig. 5 on the page). Enterprise digital transformation is in the process of fundamentally changing value chains and business strategies, making the functions’ ability to support this transformation more critical than ever. In a digital, customer-centric world, many support services are integral to the core business and cannot be isolated from client-facing processes. Consequently, the ability to plan and execute major platform upgrades, develop new digital cross-functional capability, or incorporate new data types and information sources into analytical models has a direct commercial impact on the enterprise, not just the function’s own performance. When G&A functions can seamlessly integrate their services into enterprise value streams¹, time-to-market is accelerated and customer experience is improved.

Against this backdrop, the peer group’s lack of agility relative to digital needs is especially disconcerting. Ten percent or less consistently meet business needs, either in speed of decision-making or execution. Most are unable to incorporate new data types into analytical models. Since an integrated analytics capability is key to value-stream design and optimization, this deficiency may have an impact outside the function itself: Improving its own agility could help the enterprise gain competitive advantage.

¹ Value stream: A series of activities that creates a flow of value ending with delivery of a product or service to a stakeholder (internal or external).
### FIG. 3  Agility performance: Enterprise events

**Extent to which responsiveness of business services organization meets the needs of the enterprise**

<table>
<thead>
<tr>
<th>Event</th>
<th>Peer group</th>
<th>Top performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major new product, service or business-line introduction</td>
<td>13%</td>
<td>55%</td>
</tr>
<tr>
<td>Major enterprise reorganization (including downsizing)</td>
<td>21%</td>
<td>51%</td>
</tr>
<tr>
<td>Major acquisition, merger or divestiture</td>
<td>24%</td>
<td>45%</td>
</tr>
<tr>
<td>Major unplanned, disruptive business event*</td>
<td>10%</td>
<td>54%</td>
</tr>
</tbody>
</table>

* E.g., cybersecurity breach, supply-chain disruption, reputational damage, product recall, geopolitical event, regulatory change, competitive disruption

Source: Agile Operating Model Survey, The Hackett Group, 2019

### FIG. 4  Agility performance: Events occurring in business services functions

**Extent to which responsiveness of business services organization meets enterprise needs**

<table>
<thead>
<tr>
<th>Event</th>
<th>Peer group</th>
<th>Top performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement major cost reduction, including layoffs</td>
<td>21%</td>
<td>55%</td>
</tr>
<tr>
<td>Implement major organizational or service delivery model change</td>
<td>8%</td>
<td>61%</td>
</tr>
<tr>
<td>Attract or develop new talent and skills</td>
<td>6%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: Agile Operating Model Survey, The Hackett Group, 2019
AGILITY INHIBITORS

Having analyzed why agility improvement is necessary, we now consider ways this can be achieved. First, it is important to understand what is preventing business services functions from improving their own agility. The top inhibitor is cultural resistance to change (Fig. 6).

This is no surprise, as the success of any effort to adopt an agile operating model depends on changing behavior and culture. This is notoriously hard and is the root cause of many failed transformation initiatives. Skills deficiencies are ranked as the least important agility-inhibiting factor, confirming it is not so much a lack of specific skills that prevents functions from becoming more agile, but rather inertia and individuals’ resistance to change.

FIG. 6  The five highest-ranked agility-inhibiting factors

1. Cultural resistance to change
2. Organization size/complexity
3. Process complexity
4. Technology complexity
5. Skills deficiencies

AGILITY INHIBITORS

<table>
<thead>
<tr>
<th></th>
<th>DECISION-MAKING SPEED</th>
<th>EXECUTION SPEED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Peer group</td>
<td>Top performers</td>
</tr>
<tr>
<td>Plan and execute major cross-functional technology platform change</td>
<td>10% 52% 62%</td>
<td>59% 25% 84%</td>
</tr>
<tr>
<td>Develop new digital cross-functional capability</td>
<td>5% 49% 54%</td>
<td>42% 52% 94%</td>
</tr>
<tr>
<td>Incorporate new data types and information sources into analytical models</td>
<td>6% 39% 45%</td>
<td>39% 42% 81%</td>
</tr>
</tbody>
</table>

Source: Agile Operating Model Survey, The Hackett Group, 2019

TRANSFORMING THE SERVICE DELIVERY MODEL

Finally, we analyze the types of initiatives that are targeted to improve agility, plus the effectiveness of these initiatives. Fig. 7 (on next page) shows the percentage of organizations that include specific service delivery model components in scope of transformation initiatives aimed at improving agility. Top performers target a broader set of components than peers, with the exception of organization and governance. The widest gap is in the adoption of service design practices.

Further, the effectiveness of the practices adopted by top performers exceeds peers across the board. In most areas, practices rated as effective among the peer group hover in the 70% range, compared to roughly 90% of top performers. This proves that agility top performance is the direct result of the broader adoption of specific practices, and higher effectiveness of these practices.

The study assessed the adoption and effectiveness of over 40 agility-enabling practices across all six SDM components. In Fig. 8 we show the 16 most effective of these, as measured across all functions. All practices are ranked as effective by 85% to 95% of business services organizations using them and should be considered highly effective. Service design and human-capital-related practices are the most prevalent.

Notes:

2 This analysis is based on our SDM framework, which consists of six components. Because the components are interdependent, transformations should be holistic, addressing all of them.

3 The percentage of individual practices considered by respondents to be effective.
FIG. 7  Agility improvement initiatives: Scope and effectiveness, by SDM component

FIG. 8  Practices considered most effective, by SDM component, plus agility inhibitors

*Design thinking, customer journey mapping, etc.  **Digital skills, emerging technologies, etc.  *** Data marts, data lakes, etc.  **** Robotic process automation, cognitive, AI, intelligent data capture, etc.
Most of the practices involve fundamentally new ways of designing, developing and delivering services. For success, they require cultural change and elimination of resistance to the change. Four practices – application consolidation, cloud migration, modern data architecture and adoption of smart automation – are related to technology complexity, underscoring the critical importance of modernizing the technology architecture to improve agility.

While the range of effectiveness levels of the 16 practices is narrow, variance in adoption levels is much higher (Fig. 9). Effective practices with low adoption rates should be accelerated, while those that are already widely adopted should be sustained. Predictably, the most highly adopted practices (over 50%) are mature and well understood (referred to here as “established practices”). These include standardization and simplification of processes, cloud migration, business application consolidation and flexible working arrangements.

The bulk of the most effective practices shown above are considered emerging. These practices are still evolving, as adopters are going through a learning curve leading to improvement of the practice. While all have lower adoptions rates, they are viewed by study participants to be as effective as the established practices shown in Fig. 9.

The most common among those considered both highly effective and emerging are related to human capital and service design. These are particularly promising and include customer-centric service-design tools and methods (e.g., design thinking, customer journey mapping); end-to-end value-stream process design; and iterative, collaborative solution-development methodologies. Many organizations are embracing a combination of these new service design practices.

FIG. 9 Agility-enabling practices: Adoption and effectiveness

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Source: Agile Operating Model Survey, The Hackett Group, 2019
**ACTION ITEMS**

Business services functions must understand and address weaknesses in their ability to respond to changes in business conditions and disruptive events. To improve their agility, they must:

1. Use existing business-partnering relations and other lines of communication with the business (or establish new ones) to improve the dialogue between themselves and the business.

2. Through these channels and partnerships, improve the function’s understanding of the importance of the enterprise’s ability to respond to specific types of business events and disruptors.

3. Analyze the dependencies of enterprise agility needs on functional capabilities (e.g., ability to bring in new talent, develop a new service for integration in a value stream, provide critical data and analysis).

4. Assess the effectiveness of any practices that have already been adopted to enhance agility.

5. Analyze the suitability for adoption of practices that are considered highly effective by external sources (industry peers, external research, consultancies).

6. Develop a roadmap specifying which practices will be adopted, fine-tuned, accelerated or sustained.

7. Given that the most significant inhibitor of increased agility is human resistance to change, establish a strong change-management program.

**ABOUT THIS RESEARCH**

This research is based on The Hackett Group’s Agile Operating Model Study, conducted in early 2019 among finance, procurement, HR, IT and GBS organizations. The objectives of the study were to understand:

- **Strategic context:** Why agility is important for business services organizations.
- **Agility performance:** How organizations perform and what practices and traits distinguish those with high levels of agility.
- **Agility practices:** Current levels of adoption and effectiveness of practices deployed to improve agility.

Participants with superior levels of agility (measured in terms of ability to respond to changes in business conditions or disruptive business events) were labeled “agility top performers.” This group represents 30% of study respondents. The remaining organizations are called the “peer group,” or simply, “peers.”

In addition to this enterprise-level overview of the study results, we prepared a series of reports devoted to each business function.
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Erik Dorr has over 20 years of experience in consulting, research, and advisory roles in information technology strategy, enterprise application suites, and business process reengineering. Before being named to his current position, Erik was senior enterprise research director. Prior to joining The Hackett Group, he held a number of senior management positions, including vice president of IT at a global manufacturing company, where he was also a member of the executive leadership team.

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Principal, Strategy and Business Transformation  
Angela Caswell-LaPierre has over 20 years of industry and consulting experience. She has particular expertise in leading and integrating global business services operations, global finance transformation projects, enterprise-wide transformation management offices, global SAP enterprise resource planning system implementations, process reengineering, change management, and enterprise cost reduction programs. Before joining The Hackett Group, Angela held senior leadership positions at Johnson & Johnson, Pfizer and Interpublic Group, and has directed a number of engagements for Fortune 500 companies undergoing transformational change.

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