Why business agility matters

A global study from Pega
What does it mean for a business to be agile?

Definition of agile:

adjective agile
1: marked by ready ability to move with quick easy grace an agile dancer
2: having a quick resourceful and adaptable character an agile mind¹

When you think of the word agile, what comes to mind? A runner, ready for the starting gun? Maybe it’s a poised wild creature, moving gracefully and audibly. Or perhaps machinery – an expertly engineered car grasping every sharp corner, pivoting easily to the next.

To be agile is to be many things in concert: ready, competent, swift, graceful. These core attributes are the tenets upon which the Agile software development methodology was founded. And for a long while, the Agile methodology proved a powerful framework, enabling organizations to create great software.

But what does it mean in a business context? In its simplest form, this nuanced version of agility encompasses the same attributes: speed, readiness, ease. But what makes a business agile are the ideals of proactivity and dynamism. A baseline measure of agility is the ability to react nimbly to a change in one’s environment. A business that is agile must be able to react nimbly, but also consistently, in harmony throughout its ranks, all while using each pivot to its sustainable competitive advantage.

We at Pega define business agility as a dynamic state of readiness that empowers an organization to balance speed and stability through operational discipline, adaptive leadership, and smart technology, to rapidly exploit change and complexity.

Our research goals

In this study on business agility, we set out to answer three questions:

1. How prevalent is business agility, in theory and in practice?
2. How do organizational goals shift around business agility, and what role does it play in attaining these goals?
3. How does business agility contribute to organizational performance, and how can this be measured?

Does it matter if your business is agile?

Through our research, we learned:

- The presence or absence of agile processes, methods, and other frameworks had clear effects on the goals organizations set and achieved, how they perceived their internal and external workings, and how they benchmarked themselves on their competitive abilities.
- Business agility adopters realized tangible, far-reaching impacts such as faster product delivery time and increased revenue and profits.
- Adopters also saw cultural and organizational shifts toward improved collaboration between business and IT, and alignment around common objectives – achievements no less important than profits earned.

In short, our findings demonstrate it does matter if your business is agile. In business and beyond, responsiveness to change – and the nature and staying power of that response mechanism – is a large determining factor of future success.

¹ https://www.merriam-webster.com/dictionary/agile
In August 2017, Frost & Sullivan conducted a global survey of 437 senior executives working in financial services and insurance, healthcare, telecommunications and high technology, public sector and government, and retail.

Our survey respondents are senior-level personnel who are responsible for the purchase and deployment of IT software and technology solutions. All respondents have a direct line of sight to their organization's experience with – and need for – solutions for customer engagement, customer relationship management (CRM) applications, customer service, onboarding, and marketing or sales automation.

**Research methodology**

**Company size by revenue**
- Under $100 million: 32%
- $100 million to less than $500 million: 18%
- $500 million to less than $1 billion: 18%
- $1 billion to less than $10 billion: 24%
- $10 billion to less than $25 billion: 4%
- Over $25 billion: 5%

**Region**
- North America: 58%
- Europe: 35%
- Asia Pacific: 7%

**Industry**
- Telecom and high technology: 27%
- Financial services and insurance: 18%
- Retail: 23%
- Healthcare: 12%
- Public sector or government: 20%
The business agility movement and its revolutionaries

The concept of Agile as a methodology entered software development practices in the early 2000s. After widespread adoption and success, its entrance into the business lexicon occurred primarily as an appropriation for use outside of coding, such as using sprints and rapid iteration in non-technical areas. Although reworked Agile tools and processes have become increasingly prevalent in many areas of business, true business agility is not a subset of the greater Agile methodology. As presented here, the concept of whether or not a business has adopted agility is defined by the nature and scope of all employed processes, tools, and cultural alignment techniques.

Exactly how prevalent is adoption? Of the total population surveyed, more than 40 percent of respondents categorize themselves as agility adopters. About 35 percent of respondents are planners, with an active budget in place, or plans to start adopting within the next one to two years. The smallest subset of respondents – 20 percent – are non-adopters, with either no business agility initiatives planned within the next one to two years, or no plans to adopt at all.

In terms of differences between these three populations, adoption is more prevalent in Europe, with the highest rate of respondents (46 percent) reporting as adopter organizations. Comparatively, an additional four percent of North American adopter organizations claim business agility as essential to their strategy, as opposed to simply working toward incorporation in strategic planning. Regardless of regional differences, organizations worldwide recognize the inherent value in adoption, as adopters and planners in all regions far outweigh the number of non-adopters.

The pendulum swings through an industry lens. The telecom and high-tech sector leads as the only industry with an over 50 percent adoption rate – 55 percent report themselves as adopters. The lowest proportions of adoption are seen in healthcare and the public sector, at 31 percent and 30 percent, respectively. Public sector organizations also have the highest rate of non-adopters at 34 percent.
### Agility and business objectives

Coupled with the stages of agility maturity, it is vital to understand the personas associated with these three distinct populations. In order to assess commonalities intrinsic to each of these groups, as well as the disparate qualities that set them apart, respondents were asked to rank a set of business goals by importance. After obtaining these rankings and segmenting via factor analysis, our research showed that goal categories tended toward distinct attributes, clustered by the following: readiness, speed, transparency, dynamism, and aversion.

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<td></td>
<td>Having strategic flexibility to anticipate changes that may be disruptive,</td>
<td>Prioritizing methods to move quickly, but in an ably, consistent fashion.</td>
<td>Encouraging information flow and building stronger teams with better morale and</td>
<td>Proactively remaining ahead of competitors by continuously striving for</td>
<td>Sensitivity to risk.</td>
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<td></td>
<td>and using them to one's competitive advantage.</td>
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<td>decision-making across all levels and functions.</td>
<td>excellence and pioneering insights.</td>
<td>Reducing project risk</td>
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<td>Flexibly using resources to rapidly adapt to disruption</td>
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<td>Better managing distributed teams</td>
<td>Using multiple channels to engage customers</td>
<td>Reducing project costs</td>
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<td>Responding rapidly to shifting markets or disruption</td>
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<td>Improving business and IT alignment</td>
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<td>Enhancing the ability to manage changing priorities</td>
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<td>Empowering teams with transparent decision-making</td>
<td>Driving insights from data with advanced analytics</td>
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<td>Improving engineering discipline</td>
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Not only did goals tend to converge based on agility-related tactics, but when mapped against the three stages of agility maturity, goals fit naturally across the spectrum: organizations that favored disruptive, forward-reaching techniques were more likely to fall in the adopter or planner category. For example, organizations that prioritize speed are 32 percent more likely to be adopters. Similarly, those tending towards dynamism are 22 percent more likely to adopt. Not surprisingly, adopters are also 23 percent more likely to prioritize readiness – the quality underpinning sustainable competitive advantage. Most notably, organizations that favor ease and transparency in their culture – despite these goals being ranked lowest in the macro hierarchy – are 35 percent more likely to be business agility adopters.

If readiness, speed, dynamism, and transparency are goals that fit hand-in-hand with business agility adoption, motivation not to adopt lies squarely in aversion-based goals. Looking to both reduce costs and avoid risk, averse organizations are highly sensitive to change – and not in a positive way. These companies do not seek to push the boundaries of cultural or operational agility. In fact, they are typically non-adopters, and are 27 percent more likely than their surveyed counterparts not to adopt.

In terms of overall importance, the whole population naturally prioritizes goals such as enhanced product quality and increased productivity – 67 percent and 66 percent of organizations deem these goals as paramount to all others, respectively. Although most cultural alignment goals were clustered at the bottom of the rankings, one notable callout rose to be squarely featured: 61 percent of organizations surveyed prioritized improved business and IT alignment.

High up on the priority list for all organizations were the two aversion goals – reducing project costs and reducing project risk, identified as important for 55 percent and 53 percent of companies, respectively. For those organizations which prioritized these as markedly more important, most identified as non-adopters.
Agility and the realization of success

Every business has aspirations and metrics by which to measure success in attaining these goals. It turns out that an organization’s relationship to agility has a big impact on whether or not goals are realized, and how relative success in the market is perceived. When mapping objectives against their success rate, it’s no surprise that the adopter population came out on top.

In order to get a better idea of the changes adopters see when implementing business agility methods and strategies, let’s take a closer look at this population. Adopters are comprised of two types of organizations: strategic adopters, for whom agility is an essential part of their strategy, and adopters who are not yet strategic in their implementation. On average, the strategic adopter group enjoys over a 25 percent increase in satisfaction across all key business metrics (Figure 1). The greatest difference in satisfaction between strategic and non-strategic adopters is seen in the areas of product quality and business and IT collaboration, as an additional 32 percent of strategic adopter respondents tout agility’s impact on these metrics. Overall, about six in ten strategic adopters have experienced this positive difference across all key areas.

Figure 1:
Metrics where agility has a great impact: strategic vs. non-strategic adopters

<table>
<thead>
<tr>
<th>Metric</th>
<th>Strategic Adopters (%)</th>
<th>Non-Strategic Adopters (%)</th>
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<tr>
<td>Customer satisfaction</td>
<td>82%</td>
<td>56%</td>
</tr>
<tr>
<td>Business value</td>
<td>66%</td>
<td>39%</td>
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<tr>
<td>Product quality</td>
<td>72%</td>
<td>40%</td>
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<tr>
<td>End-user satisfaction</td>
<td>63%</td>
<td>38%</td>
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<tr>
<td>Business and IT</td>
<td>71%</td>
<td>39%</td>
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<tr>
<td>On-time delivery</td>
<td>64%</td>
<td>33%</td>
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<tr>
<td>Driving innovation</td>
<td>58%</td>
<td>38%</td>
</tr>
<tr>
<td>Team productivity</td>
<td>63%</td>
<td>39%</td>
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Agility’s advantages: A closer look

On competitive advantage

In order to get – and stay – ahead of competitors, the agile organization utilizes its entire arsenal. When analyzing key performance metrics around competitive advantage, we divided these into two groups:

1. Responsiveness to customers and market shifts

   The ability to satisfy and retain customers by delivering excellent customer experience, innovation, and rapid response to market shifts. Success here leads to maximized customer lifetime value.

   - Maximizing customer lifetime value
   - Overall customer satisfaction
   - New products, services, and innovations launched
   - Quality of customer experience
   - Increased customer retention
   - Rapidly responding to shifting markets and disruption

2. Ability to grow profitably

   The ability to grow profitably, both through revenue and profit. This is accompanied and partly driven by new customer acquisition.

   - Profit growth
   - Overall profitability
   - Revenue growth
   - New customer acquisition

In terms of responsiveness to customers and market shifts, adopting agility has even more positive impacts, especially when benchmarked against competitors. Over 80 percent of strategic adopters rate overall customer satisfaction and quality of customer experience higher than their industry counterparts. This group is also empowered to maintain competitive advantage in their industry with the speedy launch of new products, services, and innovations. In fact, for strategic adopters, more than 70 percent would rate their performance across retention, acquisition, and profitability as higher than their competitors, with 72 percent claiming their ability to rapidly respond to shifting markets as another metric in which they outperform others.

Those with no plans to adopt agility – a subset of the non-adopters – also report strong satisfaction across many key metrics, including quality of customer experience. However, the highest levels of satisfaction are much more cost-oriented and centered around the ability to profitably grow – 80 percent of these respondents report their revenue and profit growth, as well as overall profitability, as higher-performing than their industry counterparts. Unsurprisingly, planners experience the lowest levels of satisfaction across both responsiveness to customers and ability to grow – just under 60 percent –
with the lowest levels of competitive satisfaction seen in their ability to rapidly respond to shifting markets and disruption. Non-adopters do report positively on certain competitive abilities, especially those tied to cost and risk reduction.

Organizations that begin the journey to agility maturity may not see adopter-stage benefits immediately, as they exist in a state of flux. Improved competitive performance is achieved by adopters, across all key metrics – a stark difference when compared with non-adopters. The most compelling argument for agility’s impact on competitive advantage is seen within the adopter segment: evolving from non-strategic to strategic adopter means realizing a jump in satisfaction with competitive performance from 62 percent to 79 percent – a 27 percent improvement.

Lastly, and perhaps most importantly, responsiveness to customer and market shifts remains a natural antecedent to the ability to grow profitably. By establishing a customer base, deepening that relationship by responding to its changing demands, and maximizing its lifetime value through retention, organizations may realize profitable growth. However, one cannot exist without the other, strengthening the argument for a balanced focus on agility at all internal and external touchpoints. Despite non-adopter satisfaction with cost and risk reduction, strategic adopters – more than twice as responsive to shifts in customers and markets – are also 71 percent more likely to grow profitably.

**On software development**

The scope, length, and various other attributes of software projects certainly vary from company to company. But what are the notable callouts when these attributes are mapped against the agility journey? To start, let’s take a look at the average length of software projects. Adopters have, on average, the shortest lengths for development projects. Both strategic and non-strategic adopters report that roughly 68 percent of their software projects are delivered in six months or less. This shifts significantly for planners, for whom less than 50 percent of projects last six months or less. And for non-adopters, 51 percent of projects last seven to twelve months, with about 15 percent lasting more than a year.

In regard to project success, what do failure rates look like for these groups? Adopters enjoy the lowest overall average failure rates, with strategic adopters reporting that 57 percent of all projects have a 25 percent failure rate or less. Planners see a slight shift in their distribution: those with an active agility project and budget see 53 percent of projects with a failure rate of 25 percent or less.

Although non-adopters see the aforementioned failure percentages at similar rates, agility stage does have a notable impact on the lens through which failure is viewed. With the ability to quickly and consistently deliver better products to positive customer reactions, stressors influencing revenue and ROI targets are lessened – successes become the implicit result of a higher quality product, delivered on time. Coupled with shorter-length projects, adopters also see a shift in how they define project failure. Adopters measure success and failure for their software projects primarily via the difference between what is delivered and what is expected by the business, as well as overall end-user satisfaction at rates of 46 percent and 47 percent, respectively. This picture is much different for non-adopters: their definition of failure is focused on end-user satisfaction, with 56 percent reporting this as the primary measure of success, and 57 percent citing project delivery – an obvious correlation with the extended length of projects they report – and successfully achieving revenue targets.
**Business and IT collaboration**

At its core, our definition of business agility suggests that organizations, in order to fully realize speed, proficiency, and dynamism, must react, move, and operate as one. This means that in order to successfully build and release products that make customers happy, companies must incorporate both business and IT stakeholders throughout the life of each software project. Some of our most interesting findings came in the form of data on business and IT collaboration, defined as the involvement of non-technical stakeholders in development projects.

Adopters overwhelmingly enable collaboration, with about 60 percent stating that business stakeholders were very involved in project development. For the other two groups, this number fell to under 40 percent, with 17 percent of non-adopters reporting that business stakeholders were very involved, and 44 percent not involved at all in project development. As for what that contribution entails, 68 percent of adopters – the highest percentage of all groups surveyed – state their business stakeholders outline requirements and user stories, and 56 percent state this same group pushes updates and features to production. While the aforementioned metric holds at 71 percent for non-adopters, only 13 percent report their business stakeholders as pushing updates and features.

The most telling metric in this area revolves around plans to increase business stakeholder involvement in development. Accordingly, 25 percent of adopters answered yes, despite already fostering high levels of business-IT collaboration in their day-to-day operations. Regardless of the positive impact this has on these organizations, fewer than 10 percent of respondents with no plans to adopt will start engaging with business stakeholders over the next few months.

Overall, adopters are more likely to be inclusive at all levels and across all functions, explaining why they are more apt to open development initiatives to input from business stakeholders. There’s no secret as to why: the benefits of collaboration entail a better end-to-end result, in both internal and external reactions. As for resistance to this practice, most strategic adopters defined improper project vetting as a reason for business-IT challenges. The story is much different for non-adopters, the majority of whose cross-functional team challenges lie in requirements being either poorly articulated – or not at all – to IT.

“In order to successfully build and release products that make customers happy, companies must incorporate both business and IT stakeholders throughout the life of each software project.”
Barriers to agility

Why not pursue business agility?

With so many reported benefits, it may be difficult to see what, specifically, would push organizations away from adopting this process and culture shift. Besides cost and risk reduction, the two primary goals keeping organizations from adoption, 47 percent of respondents stated a lack of executive sponsorship or insufficient support. Dedication to agility must start at the top, and be prevalent within all parts of an organization. Both lack of experience with agile methods, as well as cost-to-reward ratio, were identified as barriers to agility at 43 percent and 41 percent of respondents’ organizations, respectively.

However, when mapping these inhibitors against current agility journey stage, planners and non-adopters differed slightly in their responses. Planners did not specify leadership buy-in as their top barrier to achieving agility. In fact, the two prominent barriers they identified were a lack of experience with agile methods, as well as too high of a cost-to-reward ratio. When segmenting planners into two groups, those with an active project and budget and those planning to start within the next one to two years, the barrier of lacking executive sponsorship and poor support jumped from 28 percent to 48 percent. This difference is even greater, still, when moving from planner to non-adopter: the percentage reporting lack of executive sponsorship is 64 percent for those not adopting in the next one to two years, and 53 percent for those who do not plan to adopt at all. Thus, leadership promotion and prioritization of agility – support that starts at the top – is one of the most impactful determinants in whether an organization moves from non-adopter to planner.

“Leadership promotion and prioritization of agility – support that starts at the top – is one of the most impactful determinants in whether an organization moves from non-adopter to planner.”
Conclusion

Through our research, we have learned that although the concept of business agility may be nascent for some organizations, conscious adoption of its tactics is only growing due to its demonstrable positive impacts. Agile organizations are more likely to attain their goals and be highly satisfied with the journey toward these achievements. Business agility not only empowers an organization to proactively move forward toward its objectives, but provides an operational foundation by which this activity is stabilized. Culturally, businesses that adopt these measures see heightened collaboration and visibility at all levels, most especially between business and IT.

On our own journey to learn more about those leading the way, we’ve discovered that the future-driven organization has great potential to realize success by enabling itself to be responsive, adaptive, dynamic, and expedient – in short, agile.
ABOUT FROST & SULLIVAN

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