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The five trademarks of agile organizations

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The five trademarks of agile organizations

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THE OLD PARADIGM – ORGANIZATIONS AS MACHINES

A view of the world – a paradigm – will endure until it cannot explain new evidence. The paradigm must then shift to include that new information. We are now seeing a paradigm shift in the ways that organizations balance stability and dynamism. First, the old paradigm. In 1910, the Ford Motor Company was one of many small automobile manufacturers. A decade later, Ford had 60 percent market share of the new automobile market worldwide. Ford reduced assembly time per vehicle from 12 hours to 90 minutes, and the price from USD 850 to USD 300, while also paying employees competitive rates.[1]

Ford's ideas, and those of his contemporary, Frederick Taylor, stemmed from scientific management, a breakthrough insight that optimized labor productivity; it opened an era of unprecedented effectiveness and efficiency. Experts describe Taylorist organizations such as Ford as hierarchical and specialized – depicting them as machines.[2] For decades, organizations that embraced this machine model drew the best talent, and outperformed other organizations.

DISRUPTIVE TRENDS CHALLENGING THE OLD PARADIGM

Now, we find the machine paradigm shifting in the face of the organizational challenges brought by digitization, technological advances, and the evolving war for talent. The increased volume, transparency, and distribution of digitized information require organizations to engage in multidirectional communication and collaboration with customers, partners, and colleagues. Disruptive technologies such as automation, machine learning, and the Internet of Things challenge established business models. At the same time, employers find themselves engaged in a new war for creative, adaptive talent.

Machine organizations have a hard time engaging with the new environment. Fewer than 10 percent of the nonfinancial S&P 500 companies in 1983 were still in the S&P 500 in 2013.

1 "100 years of the moving assembly line," Ford Motor Company, ford.com

2 Gareth Morgan, Images of organization, Beverly Hills, CA: Sage Publications, 1986

According to our research, companies today adapt their strategy and their structure with greater frequency than in the past. 82 percent of them went through a redesign in the last three years. Most of these redesign efforts fail – only 23 percent were implemented successfully.[3]

THE NEW PARADIGM – ORGANIZATIONS AS LIVING ORGANISMS

The trends described above are dramatically changing how organizations and employees work. The agile organization is dawning as the new dominant organizational paradigm. Truly agile organizations are both stable and dynamic. They design stable backbone elements that evolve slowly and support dynamic capabilities that can adapt quickly to new challenges and opportunities. A smartphone serves as a helpful analogy; the physical device acts as a stable platform for myriad dynamic applications, providing each user with a unique and useful tool. Finally, they mobilize quickly, are nimble, empowered to act, and make it easy to act. In short, they respond like a living organism (Exhibit 1).

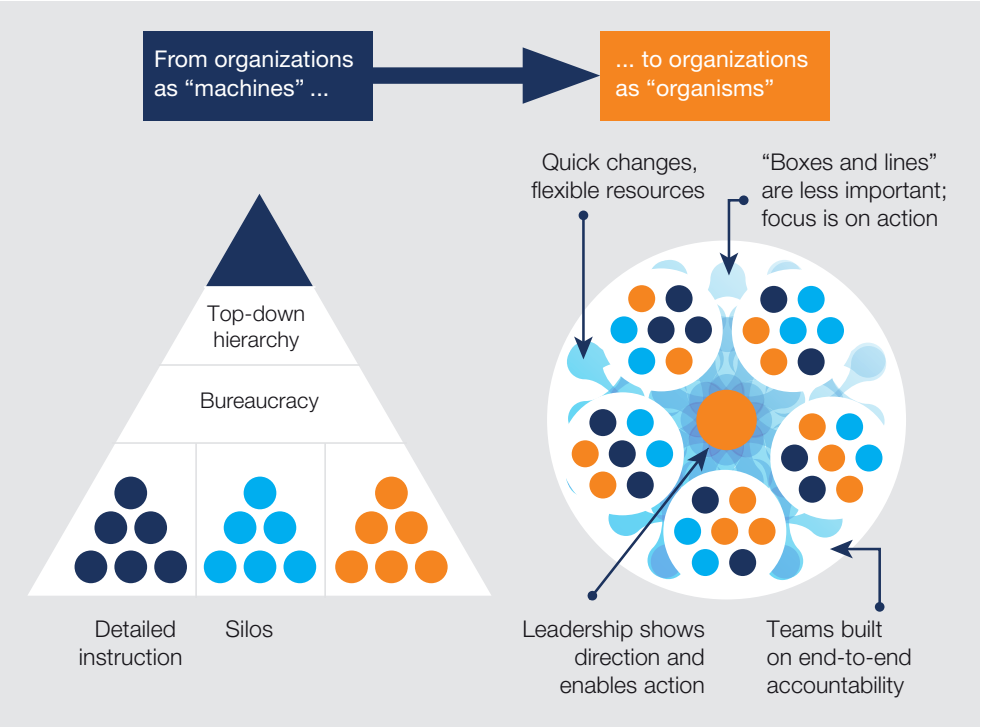
An agile organization (designed for both stability and dynamism) is a network of teams with a people-centered culture that operates in rapid learning and fast decision cycles enabled by technology, and that co-creates value for all stakeholders. The operating model has the ability to reconfigure strategy, structure, processes, people, and technology quickly and efficiently to capture value-creating and value-protecting opportunities as they emerge. An agile organization thus adds velocity and adaptability to stability, creating a critical source of competitive advantage in volatile, uncertain, complex, and ambiguous (VUCA) conditions.

When pressure is applied, the agile organization reacts by being more than just robust; performance actually improves as more pressure is exerted.[4] Research shows that agile organizations have a 70 percent chance of being in the top quartile of organizational health,

3 See Steven Aronowitz, Aaron De Smet, and Deirdre McGinty, "Getting reorganizational redesign right," McKinsey Quarterly, June 2015, McKinsey.com

4 We include in our sense of agile the idea – coined in the work of Nicholas Taleb – that it is "anti-fragile"

Exhibit 1
Agile organizations are emerging as the new dominant organizational paradigm



the best indicator of long-term performance.[5] Moreover, such companies simultaneously achieve higher revenue growth, lower costs, and a more engaged workforce:

- A global electronics enterprise delivered USD 250 million in EBITDA, and 20 percent share price increase over three years, by adopting an agile operating model.

- A global bank reduced its cost base by about 30 percent while significantly improving employee engagement, customer satisfaction, and time to market.

5 Michael Bazigos, Aaron De Smet, and Chris Gagnon, "Why agility pays," McKinsey Quarterly, December 2015, McKinsey.com

- A basic-materials company fostered continuous improvement among manual workers, leading to a 25 percent increase in effectiveness and a 60 percent decrease in injuries.

As a result, agility – while still in its early days – is catching fire. This was confirmed in a recent McKinsey Quarterly survey report of 2,500 business leaders.[6] According to the results, few companies have achieved organizationwide agility but many have already started pursuing it in performance units. While less than ten percent of respondents have completed an agility transformation, most companies have much higher aspirations for the future. Three-quarters of respondents say organizational agility is a top or top three priority, and nearly 40 percent are currently conducting an organizational agility transformation.

THE FIVE TRADEMARKS OF AGILE ORGANIZATIONS

While each of the trademarks has intrinsic value, our experience and research shows that true agility comes only when all five are in place and working together. They form the organic system that enables organizational agility (Exhibit 2). Linking across them, we find a set of fundamental shifts in the mindsets of the people in these organizations. Make these shifts and, we believe, any organization can implement these trademarks in all or part of its operations, as appropriate.

1. Co-create value with and for all stakeholders – from scarcity to abundance

To meet the continually evolving needs of all their stakeholders, agile organizations design distributed, flexible approaches to creating value, frequently integrating external partners directly into the value creation system. Examples emerge across many industries, including:

- Modular products and solutions in manufacturing

- Agile supply chains in distribution

6 Karin Ahlbäck, Clemens Fahrbach, Monica Murarka and Olli Salo, "How to create an agile organization," McKinsey Quarterly, October 2017, McKinsey.com

Exhibit 2

Trademark		Organizational agility practices
Strategy 	"Boxes and lines" less important, focus on action	▪ Shared purpose and vision ▪ Sensing and seizing opportunities ▪ Flexible resource allocation ▪ Actionable strategic guidance
Structure 	Network of empowered teams	▪ Clear, flat structure ▪ Clear, accountable roles ▪ Hands-on governance ▪ Robust practice communities ▪ Active partnerships and network ▪ Open physical and virtual environments ▪ Fit-for-purpose accountable cells
Process 	Rapid decision and learning cycles	▪ Rapid iteration and experimentation ▪ Standardized ways of working ▪ Performance orientation ▪ Information transparency ▪ Continuous learning ▪ Action-oriented decision making
People 	Dynamic people model that ignites passion	▪ Cohesive community ▪ Shared and servant leadership ▪ Entrepreneurial drive ▪ Role mobility
Technology 	Next generation enabling technology	▪ Evolving technology architecture, systems, and tools ▪ Next-generation technology development and delivery practices

- Distributed energy grids in power
- Platform businesses, e.g., for transport or accommodation.

Agile organizations that combine a strong shared purpose and vision with a flexible, distributed approach to value creation can rapidly sense and seize opportunities. They continuously monitor changes in their business environments, seeking customer feedback and input in a range of ways (e.g., product reviews, crowd sourcing, and hackathons). They use tools like customer journey maps to identify new opportunities to better serve customers, and generate ideas for new solutions and initiatives through both formal and informal mechanisms (e.g., online forums, in-person events, and start-up incubators). These companies can also allocate resources flexibly and swiftly to where they are needed most. They use standardized, fast resource allocation processes to shift people, technology, and capital rapidly out of slowing businesses and into areas of growth. These processes resemble venture capitalist models which use clear metrics to allocate resources to initiatives for specified periods, subject to regular review. Senior leaders of agile organizations play an integrating role across these distributed systems, bringing coherence and providing clear, actionable, strategic guidance around priorities and the outcomes expected.

2. Network of small, high-performance teams – from hierarchy to autonomy

Agile organizations maintain a stable top-level structure, but replace much of the remaining traditional hierarchy with a flexible, scalable network of teams. Networks are a natural way to organize efforts because they balance individual freedom with collective coordination. To build agile organizations, leaders need to understand human networks (business and social), how to design and build them, how to collaborate across them, and how to nurture and sustain them.

An agile organization comprises a dense network of autonomous and empowered teams that operate with high standards of alignment, accountability, expertise, transparency,

and collaboration. However, the company must also have a stable ecosystem in place to ensure that these teams are able to operate effectively:

- **Clear, flat structures** that reflect and support the organization's value-creation architecture. Teams can be clustered into focused performance groups ("tribes") that share a common mission. These groups vary in size, typically with a maximum of 150 people. This number reflects both practical experience and Dunbar's research on the number of people with whom one can collaborate effectively.[7]

- **Clear, accountable roles** that allow people to interact across the organization and focus on getting work done, rather than lose time and energy because of unclear or duplicated roles, or the need to wait for manager approvals; roles can be shared and people can have multiple roles.

- **Hands-on governance** where cross-team performance management and decision rights are pushed to the edge of boundaries;[8] this frees senior leaders to focus on overall system design and provide guidance and support to responsible, autonomous teams that focus on day-to-day activities.

- **Robust communities** of knowledge and practice as professional "homes" for people, with responsibilities for attracting and developing talent, sharing knowledge and experience, and providing stability and continuity as people rotate between different operating teams.

- **An ecosystem** of internal and external partners that provides access to the best talent and ideas and lets partners co-develop new products, services, and solutions; the external network can include suppliers, competitors, and customers as well as academic, not-for-profit, and government entities.

7 https://www.bloomberg.com/news/articles/2013-01-10/the-dunbar-number-from-the-guru-of-social-networks

8 David S. Alberts and Richard E. Hayes, "Power to the Edge: Command and Control in the Information Age," Command and Control Research Program Publication Series, April 2005 reprint, www.dodccrp.org

- **Open physical and virtual environments** that empower people to do their jobs most effectively in the environment most conducive to them; these environments offer opportunities to foster transparency, communication, collaboration, and serendipitous encounters between teams and units across the organization.

Like the cells in an organism, the basic building blocks of agile organizations are small fit-for-purpose performance cells. Compared with machine models, these performance cells in agile organizations typically have greater autonomy and accountability, are more multi-disciplinary, are more quickly assembled (and dissolved), and are more clearly focused on specific value-creating activities and performance outcomes. They can be comprised of groups of individuals working on a shared task (i.e., teams) or networks of individuals working separately, but in a coordinated way. There are various distinct types of such performance cells (Exhibit 3). They can be combined to create multiple tailored approaches.

The three most commonly observed agile ways of working today include:

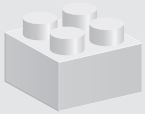
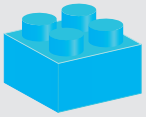
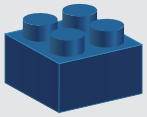
- Cross-functional teams
- Self-managing teams
- "Flow-to-the-work" pools.

However, other models are continuously emerging through experimentation and adaptation.

3. Rapid, iterative learning and decision cycles – from rigid planning to adaptive innovation

Agile organizations work in rapid cycles of thinking and doing that are closely aligned to their process of creativity and accomplishment. Whether it deploys these as design thinking, lean operations, agile development, or other forms, this integration and continual rapid

Exhibit 3
Questions to ask when determining the right agile model

Agile blocks	Description	Nature of work	Processes (examples)
Cross-functional teams 	Coordination between product owners on priority and vision; coordination across teams on how to deliver Teams composed of different functional expertise and from different levels of the organization	Typically team-based, connected, and integrated	Product development, product launch
Self-managing teams 	Self-managing, stable teams define their ways of working and are jointly accountable for end-to-end performance against set key performance indicators	Typically team-based, stand-alone, repetitive	Customer services, sales, manufacturing
"Flow to the work" pools 	Pool of individuals staffed to different tasks full-time, based on priority of needs; tasks can vary from hours to months	Typically individual, stand-alone, repetitive	Corporate services (HR, legal, etc.)

iteration of thinking, doing, and learning forms the organization's ability to innovate and operate in an agile way.

This rapid-cycle way of working can affect every level. At the team level, agile organizations radically rethink the working model, moving away from "waterfall" and "stage gate" project management approaches. At the enterprise level, they use the rapid-cycle model to

accelerate strategic thinking and execution. Early adopters of rapid-cycle models see increases in productivity in the magnitude of 30 percent.

There are several characteristics of the rapid-cycle model:

- **Rapid iteration and experimentation.** Teams produce a single primary deliverable (that is, a minimal viable product or deliverable) very quickly, often in one- or two-week "sprints."

- **Standardized ways of working.** These facilitate interaction and communication between teams. Examples include common language, meeting formats, social networking, and in-person time during the sprint.

- **Performance orientation.** Agile organizations explore new performance management approaches based on shared goals and KPIs, and measure business impact rather than activity.

- **Full transparency of information.** Every team can access the information they need, and share information with others, quickly and easily.

- **Continuous learning.** Everyone can freely learn from their own and others' successes and failures, and build on the new knowledge they develop in their respective roles.

- **Quick, efficient decision making.** Agile organizations prefer 70 percent probability now to 100 percent certainty later.[9]

9 See Aaron De Smet, Gerald Lackey, and Leigh Weiss, "Untangling your organization's decision making," McKinsey Quarterly, June 2017, McKinsey.com

4. People-centered culture and leadership – from control to empowerment

An agile organizational culture puts people at the center. They can then create value quickly, collaboratively, and effectively. Organizations that have done this well have invested in an environment that promotes leadership that empowers and develops its people, a strong community that supports and grows the culture, and the underlying people processes that foster the entrepreneurship and skill building needed for agility to occur. Agile leaders act as visionaries and coaches, rather than as planners or controllers. They are catalysts that motivate people to act in team-oriented ways and to become involved in making the strategic and organizational decisions that will affect them and their work. We call this shared and servant leadership.

Agile organizations reinforce their culture by creating a cohesive community of like-minded people. They use fit-based recruitment and positive peer pressure rather than rules, procedures, or hierarchy. People processes help sustain the culture: clear accountability paired with the autonomy and freedom to pursue opportunities, and the ongoing chance to have new experiences. Employees in agile organizations exhibit entrepreneurial drive, taking ownership of team goals, decisions, and performance. For example, people proactively identify and pursue opportunities to develop new initiatives, knowledge, and skills in their daily work. Agile organizations attract people who are motivated by intrinsic passion for their work and aim for excellence.

In addition, talent development in an agile model is about building new capabilities through varied experiences. Agile organizations allow and expect role mobility. An open talent marketplace supports this, which provides information on available roles, tasks, and projects as well as people's interests, capabilities, and development goals.

5. Technology enablers – from service functions to seamless integration

For many organizations, such a radical rethinking of the organizational model requires a rethinking of the technologies underlying and enabling their products and processes, as well as the technology practices needed to support speed and flexibility. Agile organizations will need to provide products and services that can meet changing customer and competitive conditions. Traditional products and services will likely need to be digitized or digitally enabled. Operating processes will also have to continually and rapidly evolve, which will require evolving technology architecture, systems, and tools.

Organizations will need to begin by leveraging new real-time communication and work management tools. Implementing modular software architecture enables teams to use technologies that other units have developed. Technology should progressively incorporate new technical innovations like containers, microservice architectures, and cloud-based storage and services.

In order to design, build, implement, and support these new technologies, agile organizations integrate a range of next-generation technology development and delivery practices into the business. Business and technology employees form cross-functional teams, accountable for developing, testing, deploying, and maintaining new products and processes. They use hackathons, crowd sourcing, and virtual collaboration spaces to understand customer needs and develop possible solutions quickly. Extensive use of automated testing and deployment enables lean, seamless, and continuous software releases to the market (e.g., every two weeks vs. every six months). Within IT, different disciplines work closely together (e.g., IT development and operations teams collaborate on streamlined, handover-free practices).

OUTLOOK

Some organizations are born agile, some achieve agility, and some have agility thrust upon them. In our work with pioneers of agility, we observe four distinct stages to make the five trademarks of agility a reality in an organization:

- Agile foundations
- Agile experimentation
- Agile scale-up
- Continuous evolution.

To learn more about how to begin the journey towards an agile transformation, see "The journey towards an agile organization" (September 2017). It is available through the authors of this article. And look out for the upcoming articles on the future of working and the e-enabled agile bank of the future, both of which are part of our evolving compendium on "Leadership in a disruptive world."

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