Building an Agile Organization

Introduction

What does agility mean? Cutting edge work done by two senior McKinsey consultants, Aaron De Smet and Chris Gagnon provides us a lot of insights. Those who want to get an in depth understanding should listen to the full podcast, which was referred to me once again by my good friend, Debiprasad Banerjee.

(http://www.mckinsey.com/Insights/Organization/Going_from_fragile_to_agile?cid=other-eml-alt-mip-mck-oth-1512)

Before we begin, a quick word on the Organizational Health index (OHI) created by McKinsey. The index, based on one of the largest corporate databases in the world, weights the attributes of successful organizations and tries to find out what makes them different from the pack. To measure agility, McKinsey looks at speed and stability. McKinsey measures speed by asking survey respondents how well their organizations take important decisions quickly and adjust rapidly to new ways of doing things. McKinsey measures stability by asking respondents how well their organizations use clear operating goals and metrics, standards and objectives for measuring work, structures that promote accountability and processes to document knowledge and ideas.

Key insights

The most important insight from the OHI research is that speed and stability are not inconsistent. The most agile organizations invariably strike the right balance between speed and stability. Even as they move fast, these companies ensure that there is a stable backbone that addresses core what- is- in- it –for- me issues of employees like performance evaluation, feedback, compensation, learning and development. Because of the stable backbone and a feeling of security that the core issues are properly addressed, employees can embrace change with more confidence and commitment.

Small companies are good at moving fast but they can lose the momentum if the chaos is not effectively managed. Indeed, many of them stumble and fall as they try to scale up without the necessary systems and processes. On the other hand, large companies have a sense of stability but they can become bureaucratic and get bogged down by rules and procedures. The agile organizations combine the best of both worlds.

The most agile organizations learn to strike the right balance between stability and speed across three key dimensions- structure, governance and processes.

Structure: Unlike bureaucratic organizations, the agile ones do not give too much importance to the lines and boxes that are characteristic of an organization chart. People know where they belong, i.e. their primary affiliation. Yet, they are able to move around nimbly in cross functional teams working closely with different stakeholders.

Governance: Decision making in agile companies is characterized by the right balance between stability and dynamism. The agile companies clearly lay down how decisions will be taken- when decision making will be top down, when it will be completely decentralized and built into rules and procedures and when it will involve collaboration among different BUs. It is in the third kind of situations that the agile companies operate on a different plane. Where decisions have to be made in collaborative style using task forces, these companies establish clear charters for committee participants and clarify their responsibilities—avoiding, in particular, overlapping roles. This is the stable backbone. But these companies can also respond quickly to changing circumstances by dynamically rotating individual members of such committees, holding virtual meetings when necessary, and using meetings for intense discussions and real-time decision making rather than for sharing status updates through endless presentations. (Think of a typical meeting we attend and visualize what happens!)

Processes: The best companies invariably standardize their core processes and then allow nimbleness and speed around this stable backbone. People understand how key tasks are performed, who does what, and how (in the case of new initiatives) stage gates drive the timetable for new investment. This in turn helps these organizations to move more quickly by redeploying people and resources across units, countries, and businesses. In contrast, when such standardization is lacking and different units come up with their own versions or variants of their processes, employees spend too much time on internal discussions about best practices, methodologies, and process frameworks and not enough on actively improving their own ways of working. *Comment: You can apply six-sigma only after the process has stabilized! That is why it is important to industrialize, simplify and standardize processes.*

Another key insight from McKinsey is that in today's world, the traditional paradigm of strategy following structure is not valid. This paradigm developed by well-known business historian, Alfred Chandler (His book, Strategy and Structure is mandatory reading for most B School students.) was appropriate for a reasonably stable environment. Today, strategies have to be nimble and keep pace with the requirements of the market place. And every time the strategy changes, organizations do not have the luxury of embarking on a major restructuring exercise. De Smet and Gagnon draw an analogy. The hardware and operating system of a computer do not (and cannot afford to) change that frequently but the apps that sit on top, can and must keep evolving in dynamic fashion. What the best organizations do is to create a stable backbone around which initiatives can be launched, cross functional teams can be formed and tasks executed as agile projects. Life becomes a series of projects in agile organizations.

Attributes of agile organizations

What kind of attributes characterize an agile organization? *Invariably, they have a bias for action.* Failing fast and learning from failure are key to being agile. Today, companies do not have the time for elaborate planning and validation exercises. They have to move fast and in the process failures are bound to occur. As long as people learn from failures, that is going to be fine. A related attribute of agile organizations is the willingness and ability of people to tell each other the truth. They will not pretend that everything is going right. In contrast, in bureaucratic organizations, people will not be prepared to admit a failure when it happens and are more likely to cover up their tracks when things go wrong.

In the most agile companies, people know how to handle a matrix structure. They are aware they report to a person who will evaluate their performance but they also know they are accountable to a number of other people on various dimensions. People take a broader perspective. Instead of simply managing upwards and keeping the boss happy, they take into account the interests of different stakeholders and act in ways that benefit the organization and not just the department in which they are housed.

Yet another attribute is the way roles are defined. *Agile organizations know that the use of job description to define roles is an anachronism today.* Roles do not get defined on a piece of paper. Rather they evolve as people in the teams talk to each other and become clear about what is expected out of them. People essentially try to find answers to the following questions. What am I accountable for? How should I spend my time? How should I do my job? How should I work together with a colleague? What can I decide on my own? What should I decide in consultation with others? *Comment: If people keep coming back to their reporting manager saying that they need more clarity, they can be referred to this podcast! In today's world, our role in many cases, must be defined broadly and is limited only by our imagination.*

Innovation and agility go together. *A key insight from McKinsey is that an excessively federated approach to innovation can be counterproductive.* True, top leaders should not micro manage. But they do have the crucial task of setting priorities and providing top down guidance. In agile organizations, this top down guidance helps people to make the right choices and tradeoffs while deciding what kind of innovation projects to take up. And what is strategy if such tradeoffs are not made?

Concluding notes

In a McKinsey Quarterly article, Prof Julian Birkinshaw of London Business School and author Jonas Ridderstrale point out that, agile organizations must work and take decisions with a different kind of dynamic. They must evolve into *adhocracies*. (Adhocracy is not a new term. It has been around for quite some time now. In fact I learnt this concept when I was in B-School in 1990!) In bureaucracies, formal authority and power matter. When faced with a difficult decision, the tendency is to kick it upstairs. In meritocracies on the other hand, data and analytics drive decisions. In an adhocracy, the culture is to experiment—to try a course of action, receive feedback, make changes, and review progress. In a bureaucracy, superiors tell their subordinates what to do, and so on down the line. In a meritocracy, decisions are made through argument and discussion, and everyone is entitled to weigh in with a point of view. The decision-making model in an adhocracy, in contrast, is experimental, which means consciously spending less time on internal deliberations and focusing more on trying things out with customers to gain rapid feedback.