

The keys to organizational agility

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The leaders behind McKinsey's work on organization design explain the importance of agility and how established companies can become more dynamic.

Established companies often struggle to become more dynamic—but it's not impossible. In this interview, the leaders of organization design at McKinsey, principals Wouter Aghina and Aaron De Smet, explain what agility means and how organizations can evolve to thrive in an environment that demands constant change. Aghina was interviewed by Monica Murarka, a senior expert in organization design at McKinsey, while De Smet was interviewed by Luke Collins, an editor with McKinsey Publishing. An extended and edited transcript of Aghina's and De Smet's comments follows.

Defining organizational agility

Aaron De Smet: Agility is the ability of an organization to renew itself, adapt, change quickly, and succeed in a rapidly changing, ambiguous, turbulent environment. Agility is not incompatible with stability—quite the contrary. Agility *requires* stability for most companies.

Agility needs two things. One is a dynamic capability, the ability to move fast—speed, nimbleness, responsiveness. And agility requires stability, a stable foundation—a platform, if you will—of things that don't change. It's this stable backbone that becomes a springboard for the company, an anchor point that doesn't change while a whole bunch of other things are changing constantly. (For more on the importance of being both agile and stable, see "Agility: It rhymes with stability," on mckinsey.com.)

In really small start-ups, stability is typically embodied in the founder, and you have a few people around a founder. The start-up out of someone's garage can be just fast and agile without a lot of stability. But as soon as you get any sense of size or scale, you cannot be agile without some sense of stability.

Wouter Aghina: What do we mean by agility? Let me answer that question indirectly. Consider things that are fragile. What's fragile? Fragile is a crystal glass. When we put stress on it, when we exert force on it, it gets weaker or even breaks. So what's the opposite of fragile? We immediately think of words like *resilient*, *strong*, *robust*, maybe even *flexible*, so that it bends

and it gets back to the original condition. But is that really the opposite? Something that stays the same?

The opposite of fragile is something that gets stronger when I exert force or stress on it. In today's environment—with enormous changes coming from both inside and outside of the organization—that's what we think the aspiration should be. That's what I call agility: when you thrive on change and get stronger and it becomes a source of real competitive advantage.

The agility challenge

Wouter Aghina: Agility has always been important for companies. Take the high-tech sector, where I've done most of my work. In that sector, you're often only as good as your last product. That means you have to be agile. Now, having said that, you could think, "I'm not in the high-tech sector, so that's less relevant for me." But with today's levels of uncertainty, ambiguity, volatility in the markets, and globalization, this is starting to be true for any company. It's critical to be agile and quickly respond to change and actually benefit from change. And if you think that you're still in a corner where this doesn't hold true, wait for the disruption to come. Tomorrow it will be relevant for you.

But for big, successful companies—now or in the past—it's very difficult to get agile. Those companies have a legacy. They have grown, and most of them have been successful by actually using what we call a managerial hierarchy—a classical way of managing from the top down, with jobs, with boxes and lines and structures and process descriptions, running and controlling the company from the top. And now, when they try and put some experiments in place to be more agile, to give more space to people, to allow them to be more flexible, what happens? Well, when you are a leader and for 20 years you have been in a managerial hierarchy, what do you do when you really get fearful and uncertain? You go back to what's worked in the past. You exert control, add things, add rules, add processes, add structure.

What you should do is actually a real act of leadership: you have to take things away. You have to reduce the structure, the processes. But that's really difficult. It's much easier and more comfortable to add things because that gives you a, maybe false, sense of control.

Aaron De Smet: Imagine a spectrum: on one end, fast, nimble, agile; on the other end, stable, slow, efficient, more centralized. Many large companies try to find where they want to be on the spectrum. And that's the wrong way to think about it. You need to be both. You need stability *and* this dynamic capability.

If you just move fast and you go away from stability—losing any sense of centralization or quality control or risk management or the ability to capture economics of scale—what you find are these \$10 billion or \$20 billion companies that are trying to act like a start-up. And it doesn't work. They get into all kinds of problems. They don't take advantage of their scale. They take unnecessary risks. Way too many decisions are decentralized. People are reinventing the

wheel. Now, it could work if you've got 20 people in a garage, but, without that stability, it will not work on a global scale.

On the other hand, you have people who swing the pendulum the other way and they become very slow, very rigid, very bureaucratic. And they quickly get stuck because they can't move fast enough to keep up with changes in their external environment.

The critical thing is to have an organization and, importantly, leaders who can think about that backbone of the organization—the few critical things that won't change, at least not very much, not very quickly—that the company can use as stable foundation and springboard. A hardware and operating system, if you will.

The keys to greater agility

Aaron De Smet: There are lots of great, creative, cutting-edge high-tech companies that are agile. Most aren't, but there are few. And those are always held up, and people say, "Well, we can't be like Apple." Well, you don't need to be. The research we've done shows that there are lots of agile companies—large, medium, and small—in all industries, some of them very traditional. (For more on McKinsey's research into the benefits of marrying agility with stability, see "Why agility pays," on mckinsey.com.)

So, a few principles for how to be agile. The first is, set the company up in a way that acknowledges both stability and dynamic capability, including some things that we may not yet know that we need. And do that across three dimensions of how you set up the organization: be both stable and dynamic on structure, process, and people.

A lot of people, when they think of how they design the organization, immediately gravitate toward the management hierarchy—the lines and boxes. But that's just one small element of how you set up the organization. Structure also includes governance and how you set up which committees can approve things and make which decisions and which authorities get delegated and what is contained in a role and what people get to decide. This is all part of the structure.

Processes are extremely important, which is: How does it work? What are the activities that, when you string them together in a particular way, add value? And what are the decisions that are made along that chain of activities? Who makes them? How do they get measured? This is one of the most important things.

When we develop metrics for an organization and set targets and objectives, we find that most organizations—if they think they do it well—the way they do it is they cascade it down the management hierarchy. That's OK, but if that's all you do, you will reinforce whatever silos you've set up in the structure. The structural silos will get worse because at lower levels everybody's working on different objectives.

A better way to do it, or at least a way to complement that approach, is to make sure you've identified key metrics in a process and to make sure all the different functions or business units or geographies that are touching that decision or activity share the same metrics and targets. That helps immensely with collaboration.

It's a simple thing to say; it's not an easy thing to do. Most systems aren't set up to do it. But if you can identify the key value-adding activities and decisions—end-to-end, all the way to the customer—line up decision processes separate from the management hierarchy, make sure those are measured in the right way and that whoever is participating in those activities and decisions share in the objectives and metrics, the problem of silos, which most companies struggle with, gets a lot easier.

And the last principle is around people. You have to think about what's stable and what's dynamic when it comes to people. Now, one of the things that can be very dynamic with people is reallocating resources—using flexible labor or temporary labor. There are lots of things you can do that are very fast. But there are a few things that are often very stable in how you set up your people.

One of them is culture. Culture takes a long time to change; it takes a long time to build up a healthy culture. And it requires a lot of thought. So an organization's culture and some of the key competencies and capabilities that are sources of distinctiveness and competitive advantage are things that typically don't change quickly. And when you see companies that are very agile, they typically have something very special about the people and the culture that they've built.

Wouter Aghina: A question on the mind of many is what they can do to become more agile. There are three domains in the operating model that we have found are very important for that: process, structure, and governance.

Governance, for us, is about decision making. We need speed in decision making, but why do we need stability? Well, we need stability to make good decisions but also to get fast decision making. What has to be stable, for instance, is that you have empowered the people lower down in your organization with a clear mandate that they can take the decisions that they should be taking close to the customer. That has to be clear and it has to be a stable element of your operating model.

Now, let's have a look at structure. What we see agile companies do is they don't change at all very much the main way they structure their company. Agile companies tend to keep the primary and secondary axis of their organization structure pretty constant so that people have a clear home—it's clear to them where they belong, where they build up expertise. On top of that, they provide mechanisms for quickly assembling teams with the right talent to address the challenges and opportunities that are coming up.

They've found a way to very quickly reallocate their people while keeping the structure—the main structure—quite constant. So, again, it's this combination of speed, flexibility, a dynamic model in a stable frame that actually gives you true agility. □

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