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DOING AGILE RIGHT

Transformation Without Chaos

HARVARD BUSINESS REVIEW PRESS • BOSTON, MASSACHUSETTS

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

Library of Congress Cataloging-in-Publication Data

Names: Rigby, Darrell, author. | Berez, Steve, author. | Elk, Sarah, author.
Title: Doing agile right : transformation without chaos / by Darrell Rigby,
Steve Berez, and Sarah Elk (Bain & Company, Inc.).
Description: Boston, MA : Harvard Business Review Press, [2020] | Includes index.
Identifiers: LCCN 2019054607 | ISBN 9781633698703 (hardcover) |
ISBN 9781633698710 (ebook)
Subjects: LCSH: Agile project management. | Success in business.
Classification: LCC HD69.P75 R33 2020 | DDC 658.4/06—dc23
LC record available at https://lccn.loc.gov/2019054607

ISBN: 978-1-63369-870-3
ISBN: 978-1-63369-871-0

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48-1992.

To those who share our belief that great businesses should produce better people—and to the colleagues and clients who make our own work and growth so fulfilling.

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DOING AGILE RIGHT

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AGILE ORGANIZATION, STRUCTURES, AND PEOPLE MANAGEMENT

Creating an agile enterprise nearly always involves changes in a company's operating model and in all that the operating model entails. Roles and responsibilities need to be redefined and decision rights adjusted. Core management practices and procedures must be refined. Talent management practices have to be reconsidered and basic ways of working overhauled. Organizational structures must often be reshaped as well. Unless leaders decide to change everything at once—seldom the best option—they must figure out how to sequence and test all these changes in good agile fashion. It's a tall order. People who are accustomed to bureaucratic methods—most leaders, in other words—often find themselves tempted to look for a shortcut.

The most common temptation, without a doubt, is to redo the company's structure and stop there. It seems so easy! You can reshape the org chart just by moving around the boxes and reporting lines. Restructuring lets you remove people and costs. It lets you fill important roles with individuals who are supportive of the change you have in mind. If you change the jobs, you might think, you will force changes in how people approach their work. Changing the ways of working, in turn, will change outputs and outcomes. Presto: an agile enterprise.

A related temptation is copying. We have mentioned the danger of copying earlier in this book, but it's particularly germane to the question of organization because you can actually look at some other company's org chart and take that as a guideline. So let's examine the org chart of Spotify, the Sweden-based music-streaming company that is probably the most frequently emulated agile organizational model of all (figure 6-1).

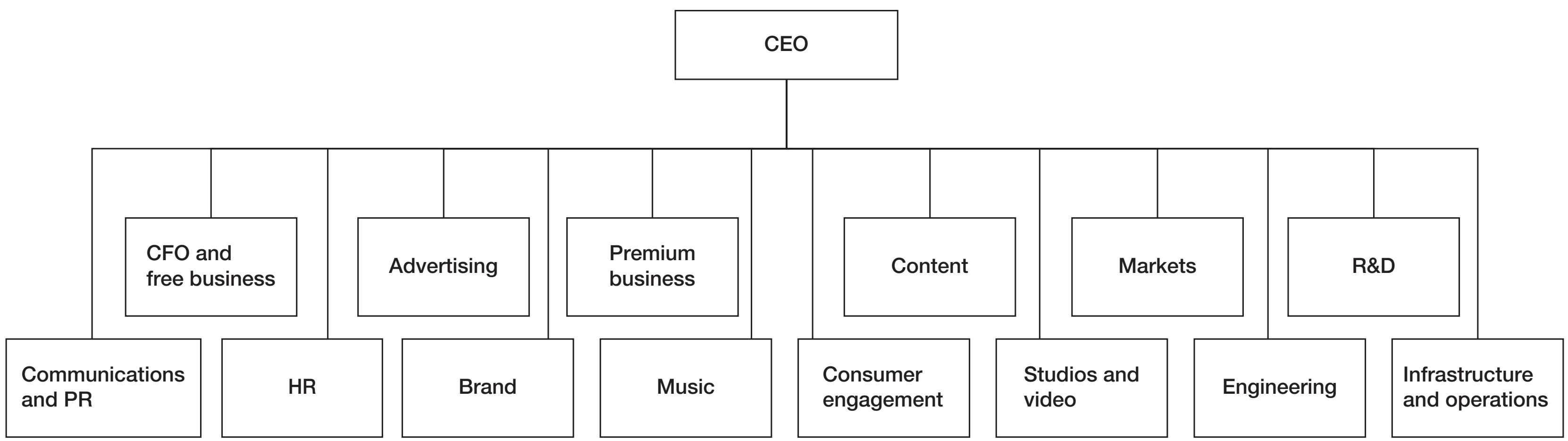
As you inspect the illustration, you may be surprised. It probably looks a great deal like your own company's org chart, and indeed like the org chart of nearly any traditionally organized enterprise. Of course, if you were to dig down deeper, you would find a lot of *squads* and *tribes* and *chapters* and *guilds*, all relatively unfamiliar terminology. But most of these agile teams and other groupings are embedded within Spotify's R&D function. Other people, those in the operations and support and control functions, are organized into traditional departments. R&D does account for about half the employees of this digital-native company. In other companies, however, the proportion of employees focused on agile innovation may be only 10 or 15 percent.

We offer these observations to introduce three points:

- An organization's operating model should not be confused with its formal structure—it includes accountabilities and decision rights, a management system, leadership behaviors, culture, collaboration methodologies, and so on, in addition

FIGURE 6-1

Spotify organization chart



Source: “Spotify,” The Official Board, https://www.theofficialboard.com/org-chart/spotify (accessed January 22, 2020).

to structure. Changing the structure doesn't automatically alter any of these elements.

- The process of changing an operating model is as important as the change itself. People need time to create—and get accustomed to—a new model. Moreover, organizations are complex systems, and predicting exactly how any given change will affect the organization is hard. Testing, learning, and step-by-step scaling are usually essential.
- Operating models need to be customized to each company's strategy and situation, not blindly copied from someone else. Lifting parts of an agile organization's structure and applying them to an entirely different company is dangerous.

Fortunately, there are better, more holistic ways to change an organization. This chapter discusses our recommendations, such as why we seldom begin with restructurings and why tuning the talent engine is a critical and often underestimated lever in the transition. We'll illustrate them with the experiences of Bosch, a company you have already read about, and those of other companies as well.

Envision the Future Operating Model

Most human resource executives can recite Alfred D. Chandler Jr.'s famous quote: "Unless structure follows strategy, inefficiency results."[1] But structure isn't the only thing that follows strategy. The entire operating model—structure; leadership; planning, budgeting, and reviewing; even processes and technology—must follow strategy, integrating and harmonizing the pieces to make the company more valuable than the sum of its parts.

Corporate strategy determines where to play, how to win, what business units will be required, and how they will operate. For example, is our strategy most likely to succeed with centralized divisions, decentralized business units, or a matrix organization that tries to capture the benefits of both scale and autonomy? Once these decisions are made, two more become critical: How many business units should we have, and how should we define them so that business unit leaders have the authority to quickly make tough trade-offs without causing problems for other performance units? Define business units correctly and you create highly empowered leaders who take full ownership for delivering results. Define them incorrectly and you create intracompany overlaps and chaos.

To define business units, executives often use simplifying shortcuts and mathematical clustering techniques. Calculate the amount of cost sharing among operating units. Determine their potential to share capabilities. Measure the overlaps in current customer purchasing patterns. If these quantifications yield high numbers, then combine the operations into a single business unit. If not, separate them. These techniques can yield quick insights into effective business definitions in current market conditions. But the work isn't finished until you work backward from customer needs. Business units exist to satisfy customer needs profitably, not to crank out products. Printed encyclopedias and Wikipedia are in the same business, even if their cost structures and manufacturing processes are quite different. The same is true of incandescent light bulbs and light emitting diodes (LEDs). Business definition and matrix choices that give a company an advantage in meeting today's customer needs must not impede its ability to change how it meets customer needs in the future.

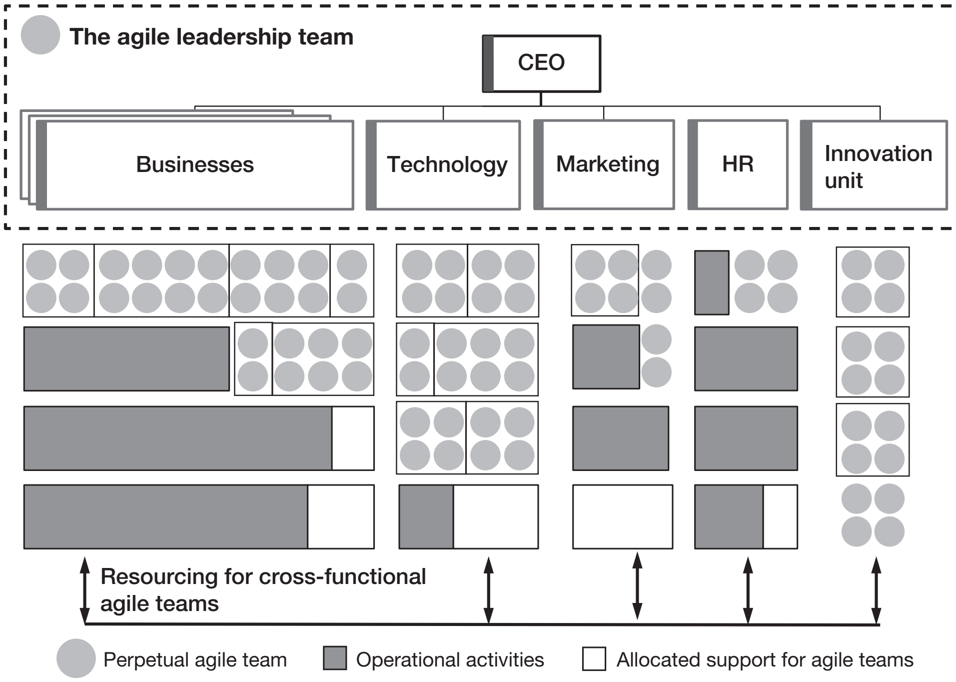
Bad business definition is a leading cause of rising business mortality rates. Physical retailers get destroyed by Amazon. Chemical photography is ravaged by digital cameras. Typewriters are wiped out by word processors. Video rental companies are bankrupted by video streaming. These are all because too many businesses define their boundaries by how they make products instead of why customers buy them. Then, suddenly, new competitors seem to come out of nowhere. There is no cost sharing with current products. The innovations require entirely new capabilities. And some of the customers that buy these new products aren't even current customers. In order for business units to both run the business and change the business in such turbulent times, they must be defined in ways that proactively encourage them to continuously adapt to changing customer needs.

Agile teams can provide that adaptation, and proper business definition should guide where they are placed and how they are used. Placing agile teams within the right business units improves the odds that their innovative work will be adopted and scaled quickly and effectively. Ensuring that agile teams do not break the business unit into fragments that destroy responsibility and accountability improves performance. Giving agile teams customer-oriented missions helps leaders to change their businesses with—or even in advance of—changing customer needs.

When executives do this correctly, they create a structure that looks something like figure 6-2. Agile innovation teams will be spread throughout the company. Except for disruptive innovations that fall outside of existing business units or across several of them, agile teams will be located as close as possible to the operations that must adopt and scale them. This recommendation runs contrary to many scaling models, which prefer to pull the teams away from operations and cluster them together in large tribes. But there are good reasons for business owners to own agile teams whenever possible. First, the best leaders are change oriented. When accountability for change is removed from a business unit, the move takes away a leader's vision, creativity, and inspiration. He or she is no longer leading the business into the future. Companies that want high-performing leaders need to empower them and design accountabilities that let them lead. Second, generating creative ideas is not usually the hardest part of successful innovation. Scaling is. Building a prototype is relatively easy compared to profitably scaling that prototype across the business. Unless line managers own innovative solutions, those solutions will lie fallow inside the snazziest of innovation labs.

FIGURE 6-2

What might the structure of an agile enterprise look like?



An organization's structure is the easiest part to illustrate, but it's important for companies to sketch out their entire operating model. How will decision rights work? Who sets budget levels? Where is an employee's home base? Who handles recruiting, training, performance reviews, compensation, promotions, and career tracks? Which functions should be centralized shared services versus decentralized operations? How are cost allocations determined? Can business units decide to purchase shared services from outsider third parties? Can shared services sell their services to outsider third parties? No structure will ever be perfect. The good news is that it doesn't need to be. By intelligently mixing all the elements of the operating model, executives can ensure that no single element constrains success. A structure change may not be needed—or else it can be significantly delayed in order to focus on changes in areas such as decision rights, leadership, and ways of working. Forming agile teams may not even require changing reporting lines for employees. Agile team members would still report to their home departments, but their managers would act as long-term professional development coaches rather than as day-to-day supervisors. Daily activities would be planned and executed with the teams.

Figure Out How—and How Fast—to Get There

A company embarking on an agile transformation has a built-in advantage over companies seeking other kinds of changes, because it has the tools of agile at its disposal. It naturally has to ask how far it wants to go, how fast, where to start, and how to sequence the changes. If its leaders are familiar with agile principles (and we hope by now that they are), they will understand that the appropriate sequence is test, learn, and scale. They will also understand that they must engage the organization in the process, designing and cocreating changes to test with people from every discipline and level of the company—no closed doors. At each phase, the design process will need to clarify what work is to be done by which group and who will be responsible for each key decision. Agile works best when decisions are pushed down the organization as far as possible, so long as people have appropriate guidelines and expectations about when to escalate a decision to a higher level.

The company also needs to take into account the entire landscape of proposed changes in the operating model: not just structure but changes in accountabilities and decision rights, in the management system, in leadership, and so on. It can speed up or slow down based on how things are working out. Companies that move with deliberate speed to create pull from other teams generally achieve better business results than those that try to move as fast as they possibly can. The latter group usually find themselves creating disruption in the organization without any obvious benefit, thereby undermining their claims for the future.

Bosch Power Tools offers an almost textbook case of these precepts. The division took a carefully sequenced, multiyear approach to becoming an agile enterprise. The first pilot teams were in the home and garden business unit. After learning from the pilots for about six months, leaders began expanding the number of teams until they eventually encompassed the entire unit. The division then began transforming its other five business units in sequence over a two-year period. At this writing, Power Tools is focusing on how to improve the support and control functions, such as finance, HR, and logistics.

At the outset, the division established five pillars to guide its transformation: strategy, organization, leadership, processes and methods, and culture. As each new business unit began the process, volunteers from every level and department staffed temporary project teams to design the new organization. The discussions were wholly transparent, and the teams used an iterative process to incorporate feedback and adapt accordingly. In one unit, the team responsible for organization structure used Lego blocks of different colors to represent various disciplines. The exercise allowed team members to discuss and test how people would be deployed under different alternatives. Building a prototype was much more powerful and inspiring than drawing boxes and lines on paper.

Over time, the leaders of Power Tools learned from their experience and adjusted their approach. By the time they launched the third business unit, for instance, they were spending the first two months on the *why*, so that people would understand the reasoning behind the transformation. And although they focused on structure during the first year of the process, they concluded after a year that collaboration and culture required more emphasis. Ways of working were more important and represented a bigger change than the structure alone. Leaders also significantly increased their focus on supporting new leadership behaviors, holding leadership days across the enterprise. And they made significant investments in learning. Depending on their positions, some people might attend a leadership academy while others attended functional academies. Employees received focused feedback and coaching. They learned agile basics, design thinking, and mindfulness. Having agile coaches in place early on helped each business unit understand the new approaches and drive productivity improvements.

Power Tools did undergo a sizable change in structure, and company leaders view it as a key enabler of the agile transformation. The new structure broke down functional silos, created smaller P&L units, and reduced the levels of hierarchy from five to three. But the company made the change carefully, piloting it first and then implementing it over three years. Also, structure was just one of several tracks, and in fact the bigger impact may have been on ways of working. Over time, the division created fifty-five business teams with end-to-end accountability and decision rights, even including manufacturing. This change, combined with the agile leadership process described in chapter 4, sped up decision making. The teams were close to their units' operations, which allowed for faster response times when issues cropped up. Decisions that once went up the manufacturing silo and then over to other relevant silos could now be made on the spot. "We all belong to one purpose team," said Daniela Kraemer, a business owner in light drilling and chiseling. "For instance, we have a plant in China. People at the plant detected a problem with a supplier, involving the switching elements, and stopped production. That same day, we took countermeasures, and the sales and marketing teams communicated with customers. We could not have been faster. We were solving the problem together."[2]