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TAKING AGILE TRANSFORMATIONS BEYOND THE TIPPING POINT

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AGILE HAS PROVED ITS value in industries far afield from software, where it was born. But when companies expand agile beyond the pilot phase, they often run into challenges as friction develops between traditional and agile teams.

At this tipping point, senior leaders face a crucial choice. Do they limit the use of agile and its benefits—including speed, customer focus, and employee engagement—or do they unlock far greater value by changing the operating model so that agile becomes the norm rather than the exception? Committing to a new operating model requires a transformational approach, led from the top.

The Benefits of Agile

When a customer or a business challenge requires input from different parts of a company, it's logical to bring together and empower people from those disparate areas to find a solution. Software developers embraced this idea by creating multidisciplinary teams whose daily and

weekly operating rhythms generated minimum viable products that could be tweaked and improved in response to customer feedback. This way of working increases customer focus, output orientation, and team empowerment. Software that emerged from this process met customer needs far better than software that was developed through conventional methodologies.

What's good for tech firms and startups, it turns out, is also good for more traditional companies. Fighting off fintech startups, banks were perhaps the first organizations outside of pure technology companies to embrace agile. But agile has now expanded into a wide variety of digital-enabled industries, and agile principles are being adopted far beyond software development. (See "Taking Agile Way Beyond Software," BCG article, July 2017.)

To date, most companies limit agile to what we call the delivery organization—typical headquarters functions such as marketing, product management, digital channels,

and IT. As agile spreads, it looks and feels different, depending on the underlying nature of the work. What agile means for the delivery organization, for example, is different from what it means for contact centers and operations. But the overall mindset and principles should remain consistent.

As many organizations have found, the payoff is worth the effort. Companies that have adopted agile at scale have increased customer satisfaction by delivering better products faster while simultaneously improving efficiency and employee engagement.

Managing the Transition

Companies cannot proceed with agile pilots forever. Eventually, they have to decide whether to take the next step and achieve scale with this new way of working.

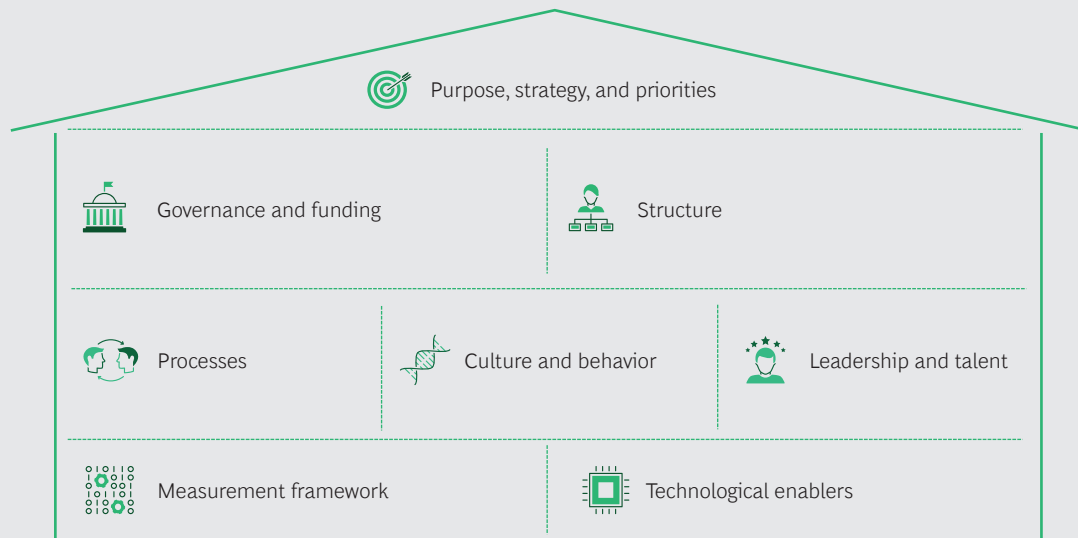
The rest of the organization can become resentful when agile teams make decisions and progress more swiftly and as they receive resources that might otherwise be dedicated to more traditional business-as-usual initiatives. Similarly, when the number of agile teams grows, they become more difficult to manage as an exception. The embedded bureaucracy often takes hold again, and agile’s benefits start to slow and ultimately disappear. Unsurpris-

ingly, the morale of the agile teams sags with the return of hierarchies and slow decision making. Managing both agile and traditional tracks is challenging. Companies can either quarantine agile in relatively isolated parts of the business or fully embrace agile at scale.

Agile is a fundamentally different way of working that requires a change in culture, values, and behaviors. Achieving these changes at scale requires alterations to the context in which people work. And the only effective approach to changing the context at scale is to transform the organization’s operating model. (See Exhibit 1.) Organizations need to change underlying structures and roles, systems, governance and funding mechanisms, and career paths in order for agile to take hold. They also should seek to ensure that agile teams work in the same location—a challenge for companies with teams scattered far and wide. These changes require the full commitment of the CEO and other senior leaders.

A top-down transformational approach may seem counterintuitive. After all, the goal of agile is to empower rather than control teams. But structurally changing the operating model can succeed only when the top team leads. This can be a scary transition, especially for leaders, but

EXHIBIT 1 | The Eight Elements of an Agile Operating Model



Source: BCG analysis.

it allows companies to fully capture the value of agile across their organization.

A New Role for Leaders

Leadership looks different in an agile organization. One key role of agile leaders is to ensure alignment around purpose, strategy, and priorities. Leaders need to communicate what they want and why, and then empower their teams to figure out how to achieve it. The greater the alignment that leaders create, the more autonomy they can grant.

In the C-suite and right below it, leaders can sometimes be siloed, internally oriented, risk averse, and motivated by their own performance metrics rather than those of their team. They have risen to the top ranks by operating in ways often counter to agile. Accustomed to overseeing budgets and business cases, these executives instead need to set clear objectives and guardrails and then give agile teams the responsibility and resources to achieve those goals. In providing visible support for agile teams, they must demonstrate openness, trust, and collaboration.

Not all leaders can make this transition. For example, one Asia-Pacific company un-

dergoing an agile transformation replaced one-quarter of its top 40 leaders with individuals who better embodied agile values, such as collaboration and teamwork.

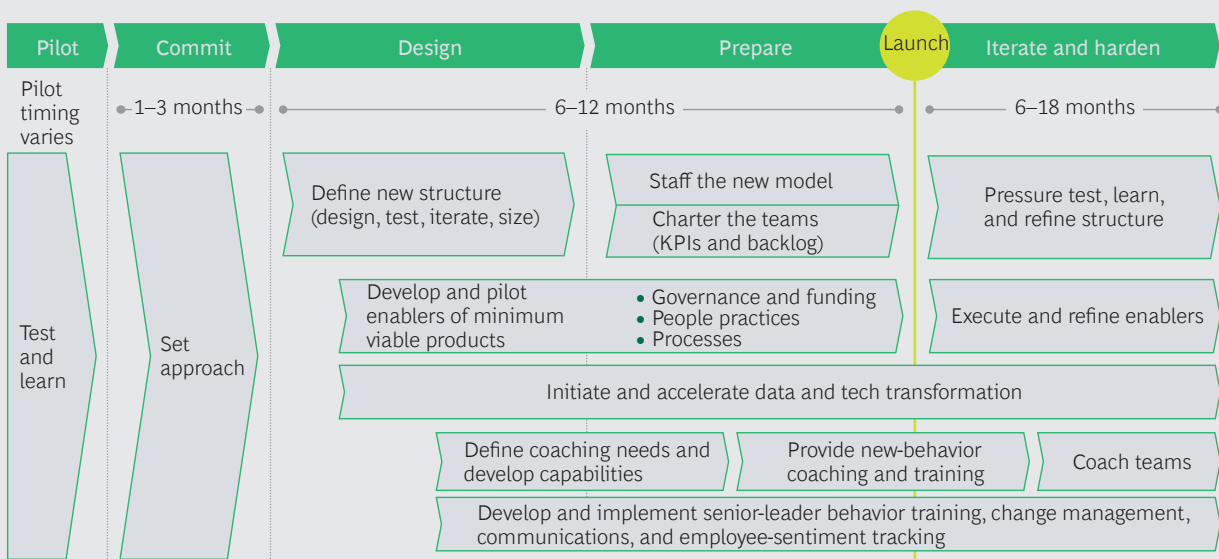
Middle managers will also face challenges. Those who have grown up inside silos will need to learn how to manage cross-functional teams and delegate decision making to employees closer to the field. They may even need to return to doing the daily work rather than only managing other people. The coordination activities that consumed so much of managers' time are increasingly handled within and between teams.

What's Different About Agile Transformations

While agile may be a fundamentally different way of working, many of the steps to become an agile organization are familiar to any executive who has gone through a successful corporate transformation. (See Exhibit 2.) The steps of committing, designing, preparing, and refining are variations of any large-scale change.

What's different is that the transformation itself needs to be conducted using agile methods. One premise of agile is that learning through trial and error is the best way

EXHIBIT 2 | A Typical Journey Launching an Agile Model



Source: BCG analysis.

to discover answers to essential questions. The transformation should rely on a minimally viable approach to analysis, skills, and technology. Iteration is core to agile. Once an organization takes the first steps toward an agile transformation, the process unfolds through continual refinement and adjustment. A willingness to adapt is the *raison d'être* of a successful agile transformation and of the agile-leadership mindset.

Are You Ready?

We are bullish on agile because we've seen it create greater employee engagement, higher product quality, faster product delivery time, and stronger financial performance.

At the same time, top-down agile transformations are challenging. Leaders need to reflect on whether they're willing to commit fully to new ways of working and leading and whether their organization can withstand the tumult of such a transformation.

IN A DIGITAL world, we think the choice is clear. Agile provides two crucial strengths: the alignment to ensure that resource allocation and strategy are in sync, and the autonomy to promote the agility needed in a fast-moving economy. You should start with a series of pilots. But it takes a full-scale transformation to reap all the riches and rewards of agile.

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