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CORPORATE RESEARCH FORUM

November 2015

Organisation Agility

"Agile firms know that their strategies, capabilities, and business models are 'wasting assets'. They understand that the current pace of change means the factors which have value and help to make their organisation competitive today will soon become obsolete. Organisations need to be able to adapt to survive, but they need to be agile to remain ahead of the competition."

Chris Worley and Gillian Pillans, Report authors.

ceo Center for Effective Organizations

NEOMA BUSINESS SCHOOL

CORPORATE RESEARCH FORUM

Organisation Agility

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Chris Worley and Gillian Pillans

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About CRF

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- Its annual programme of research, events and publications fully reflects members' interests, in addition to the annual international conference. Side meetings and interest groups are also initiated to meet challenges that members might have.
- Contributors are acknowledged experts in their field with a worldwide reputation as leaders and innovators in management thinking and practice.
- Sharing and collaboration among members is a key feature of CRF's activities. We actively encourage networking at all events, and especially through member lunches and HR director dinners.
- CRF is led and managed by highly-regarded former HR professionals who have a passion for delivering excellence in the leadership and development of organisations and people.

CRF's goal is to be valued for excellence, rigour, relationship building and providing an independent view which, together, lead to measurable improvement in members' people and organisation performance.

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About CEO

The Center for Effective Organizations (CEO), at the University of Southern California's Marshall School of Business, brings together researchers and business executives to jointly explore critical organisation issues that involve the design and management of complex organisations. The Center's mission is to improve how organisations are managed. In order to carry out their mission, the Center focuses on research that leads to actionable thought leadership.

- The Center's research scientists and faculty are widely recognised as thought leaders in the fields of organisation effectiveness and design, change management, human resources management, strategy, sustainability, leadership, and other management areas.
- Research results are published in leading academic journals, books, and practitioner publications.
- The Center's network of corporate sponsors is comprised of leading corporations that represent a cross-section of organisations with a global presence.

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The Center for Leadership and Effective Organisations is NEOMA's flagship research centre. Its mission is to develop, deliver, and share the leadership and organisational knowledge that matters most to sustained performance and effectiveness. As part of one of the largest and most powerful networks in the French Business School landscape, NEOMA has:

- 300 international partners in 75 countries / 46,000 graduates / 200 key corporate partners
- 3 international accreditations
- 3 campuses: Rouen, Reims and Paris
- 9,000 students
- The Confucius Institute, first "Business" Confucius Institute in France.

Executive Summary

"Agility is a dynamic capability that allows an organisation to make timely, effective, and sustained responses to environmental change. It is more than 'good management' … Agility allows the organisation to adapt, over and over again, in meaningful ways to support above-average performance over long periods of time." **Worley et al, 2014**

1. Agility is an advanced and dynamic management capability. It allows the organisation to make timely, effective and sustained changes, to stay ahead of the competition in a fast-changing business context, and deliver sustained high performance relative to peers over long time periods.
2. Agility is key to long-term superior performance, but it is also relatively rare. In an analysis of CRF member organisations, we found that only 17% met the financial standard of agility.
3. Agile organisations possess four 'routines' – that is, unique ways in which they develop and execute strategy and accelerate/drive change.
   - The **Strategising** routine describes how agile organisations establish an aspirational purpose, develop a widely-shared strategy and manage the climate and commitment to execution.
   - The **Perceiving** routine concerns how agile organisations monitor their environment to sense changes, and rapidly communicate these perceptions to decision-makers who interpret and formulate appropriate responses.
   - The **Testing** routine describes the unique approaches agile organisations have to setting up, running and learning from experiments.
   - The **Implementing** routine describes the ability and capacity of agile organisations to implement both incremental and discontinuous change.

   Our survey results suggest that the more of these routines an organisation has the better it will perform. Organisations that have deployed three or more routines tend to be more agile than those with two or fewer.
4. We tested out the agility routines with a selection of CRF member organisations. We found the following differentiating characteristics of higher performers.
   - A clear sense of purpose, beyond making money, that is consistent with the promises they make to customers and is played out in the day-day-day experience of employees.
   - A high-trust, transparent culture, where employees are treated like adults, are trusted to act in the organisation's best interests and are encouraged to 'tell it like it is'.
   - A strong sense of accountability, with clear ownership of objectives and results, and expectations that people will deliver what's required without the need for micro-management or second-guessing.
   - Flatter, more flexible, externally-focused organisation designs that maximise the 'surface area' between the organisation and its external environment, and break down organisational silos through informal networks and cross-functional integration.
   - Open and transparent communication flows between the top and bottom of the organisation, and across internal boundaries.
   - Flexible resourcing, so there is enough capacity to redeploy resources in response to changing demand.
   - A culture that's open to learning from experiments and using that learning for continuous improvement.
   - Change is viewed as continuous, not episodic, and change management capability is widely distributed and embedded throughout the organisation.

"We find that, increasingly, organisations are realising that the ability to transform themselves constantly is a key source of competitive advantage." **Matt Crosby, Head of Expertise, UK and Ireland, Hay Group**

5. We consider the implications of organisation agility for HR, both in terms of designing agile HR practices and HR's role in supporting the organisation to become more agile. Depending on the people strategy, the design of the HR function and the capability of HR professionals, HR can either help or hinder the organisation's attempts at becoming agile. As a minimum, HR must be fit for purpose – that is, deliver services that support the business strategy and be capable of continuous improvement. But agile HR has two distinct additional features.

   - ***Flexibility:*** processes can be operated effectively under different circumstances.
   - ***Speed***: processes operate at a speed that reflects the cycle time of the business, the pace of change in the business and its external environment, and have high levels of transparency.

   In practice, 'flexibility' might mean managing talent differently in a new venture compared to a well-established business within the same organisation. 'Speed' may require moving away from default annual processes in areas such as goal setting, resource allocation and rewards.

6. As well as operating differently, we find that the capabilities required of HR are different in agile organisations.

   - Strong business and commercial skills are integrated with a deep understanding of the business strategy and external environment.
   - Analytic and consulting skills to diagnose appropriately, and competence in organisation design and implementation to develop suitable solutions.

7. We consider the practical steps organisations can take on their journey towards agility.

   - Action should be guided by diagnosis. Do you have a clear corporate identity? Does it resonate both internally and externally? Is your strategy clear and widely shared and understood? Which agility routines do you already possess and which need to be developed?
   - Implementing an organisation development process should focus on three key areas.

     i. The skills and knowledge required to make the capability operational.

     ii. The systems and structures that make the capability repeatable.

     iii. The experience and learning that make the capability effective over time.

8. Building organisation agility requires organisations to take a 'whole-systems' view.

   - The agility routines are built on basic management practices, but it's the ability to build an integrated system of routines and practices that confers agility.
   - Becoming agile is not about implementing a one-off change programme or 'transformation'. Agility requires ongoing commitment to continuous learning and adaptation.

1

INTRODUCING ORGANISATION AGILITY

Topics covered

Introduction

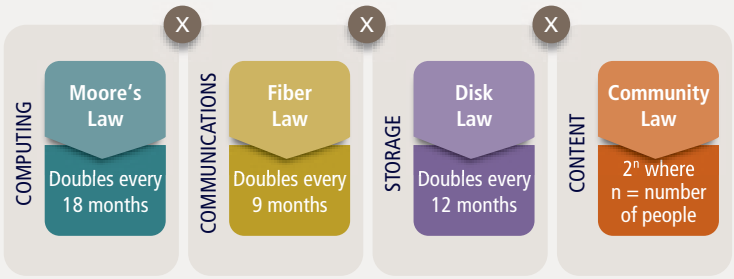
This chapter defines organisation agility in the context of this research, explores why it is particularly important to organisations today, and describes the connection between agility and organisation performance. We also summarise the findings of the CRF member survey and member financial analysis undertaken as part of this research.

Our beliefs about the future determine our decisions, behaviour and the results we achieve, as these historical examples show.

- "We don't like their sound, and guitar music is on the way out." – Decca Recording Co rejecting the Beatles, 1962.
- "There is no reason anyone would want a computer in their home." – Ken Olson, President, Chairman and Founder of Digital Equipment Corp, 1977.
- "The concept is interesting and well-formed, but in order to earn better than a 'C', the idea must be feasible." – A Yale University management professor's feedback to Fred Smith (who later founded FedEx) on his paper proposing a reliable overnight delivery service.
- "If excessive smoking actually plays a role in the production of lung cancer, it seems to be a minor one." – Dr WC Heuper, National Cancer Institute, 1954.

Predictions about the future, of course, are fraught with peril. But few people doubt that a variety of megatrends are driving change in organisations. Take, for example, the fundamental dynamics of technological change (Figure 1). In computing, even before 'big data', our ability to process information was increasing according to 'Moore's Law', which states that the overall processing power for computers doubles every 18 months.

Figure 1: Drivers of the digital infrastructure



- Our ability to communicate has proceeded over wire, telephone lines, DSL and broadband networks as well as 2G, 3G, 4G, and ultimately faster, mobile networks.
- Cloud storage will radically reshape how we make data available.
- YouTube uploads over 100 hours of video every minute.

Each of these drivers represents a significant pressure on the way organisations operate. But, more powerfully, each of them interacts with the others in multiplicative ways. They are forcing organisations to empower front-line employees to make more and more operational decisions, to operate in real time, and to reconfigure their structures, systems and processes accordingly. And the pace of change will only accelerate.

In short, technological and a variety of other social, ecological and workforce changes compel organisations to address the subject of agility.

Research method

The research for this report involved creating and analysing three distinct databases.

- We emailed an online survey, consisting of 19 agility-related questions (see Appendix) and questions on perceived organisational effectiveness measures (financial performance, customer satisfaction and employee satisfaction) to CRF members in July and August 2015. It generated 181 responses from approximately 150 different organisations. We summarise the survey analysis in 1.3.
- Where possible, we gathered financial performance data (for example, return on assets and return on equity) for CRF member organisations from publicly available sources, in particular the Bureau van Dijk AMADEUS database. We categorised CRF members according to their 2007 NAICS code, and compared their financial performance between 2003 and 2012 with the two-digit NAICS code industry average. We categorised firms that had above average performance for eight or more years as potentially agile. This allowed us to make comparisons with Worley, Williams and Lawler's original research on agile organisations, summarised in *The Agility Factor: Building adaptable organisations for superior performance* (2014) (see Reading List). We summarise the financial analysis in 1.3.
- The report authors completed hour-long, semi-structured interviews with senior HR executives from 18 CRF member organisations. The interviews attempted to sample from both 'potentially agile' and 'non-agile' firms based on the financial results. Analysis of the answers from both categories helped us to generate conclusions about the characteristics of management and HR practices that best support organisation agility.

What is agility?

Agility is an advanced and dynamic organisation-level capability. It represents the ability to make timely, effective and sustained changes when and where those confer a performance advantage.

- Agile organisations are able to make timely changes because they can sense or anticipate relevant shifts in their external environment better than their peers.
- Agile organisations make effective changes because they do a better job of selecting and executing the ones that will help them counter challenges in their environment.
- Agile organisations make sustained changes. Any change is meaningless unless it solves the problem it was intended to address, and the benefit lasts. However, **the changes implemented in agile organisations do not become a permanent or institutionalised source of inertia; they are always subject to and ready for reform.**

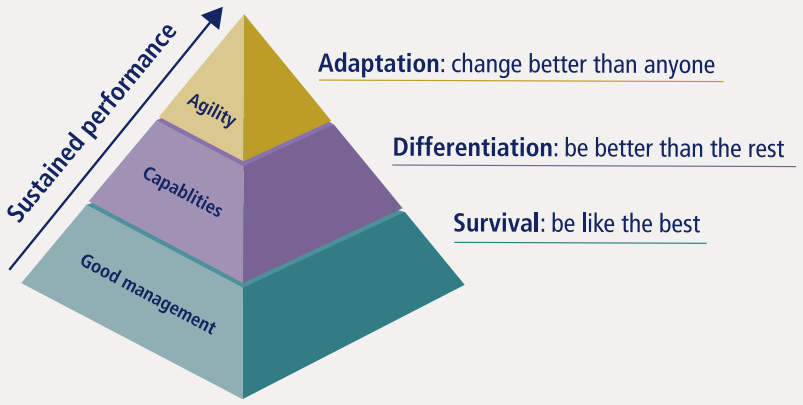
Fundamentally, agility is a repeatable resource that gets used over and over again. It represents an investment in change. Agile organisations see change – not stability and efficiency – as the key to current and long-term performance.

But while defining agility helps to dispel a number of myths and misunderstandings about the meaning of the term, organisations – and HR functions in particular – need a way to assess their own agility and to understand what levers to pull to improve it. That is the purpose of this CRF research project.

1.1 The agility pyramid

Our task is facilitated by understanding the agility pyramid:

Figure 2: The agility pyramid – the pivotal role of differentiated capabilities



The capabilities level in the pyramid describes the source of current performance and value creation (see Figure 2). Capabilities represent the ability and capacity of an organisation to get certain things done. 'Ordinary' capabilities, such as lowering costs or improving quality, allow the organisation to keep pace with a changing world. Other capabilities, such as designing superior customer experiences or developing new products faster or more efficiently, or gaining scale in emerging markets, are often called 'differentiating' capabilities. They add value in distinct ways. Organisations that can identify, develop and implement ways to be better, faster or cheaper than their competitors are able to achieve above-average profitability.

However, as organisations grow or become more successful, there is a strong motivation to invest in a variety of structures, technologies and human resource systems that preserve, protect and defend a competitive advantage by raising switching costs, protecting intellectual property or fine-tuning competency models to support existing operations. This is a fundamental teaching in most business school and leadership development programmes, but it is misguided. Managers often hurry to make specific, and in some cases large and irreversible, commitments to sustain the advantage. Too many energy companies, for example, became too expert at coal or nuclear power generation and were ill-prepared to make the shift to wind and solar.

The cruel joke is that in attempting to preserve an advantage, an organisation's capabilities can become institutionalised, rendering them inert and vulnerable to shifts in their external environment. This means that an organisation change that might be relatively easy to execute during early stages of success can become more difficult over time. Much of the diversity of talent, knowledge and technology that would support new ways of operating is dismissed or extinguished in favour of consensus, efficiency and a 'one-best-way' of doing things. Organisations that are rewarded for institutionalising effective capabilities often feel betrayed by changes in their environment.

Agile firms are engaged in a dangerous game. On the one hand, they know they must develop differentiated capabilities to drive above-average performance in the current period; on the other, they understand they can't over-invest in capabilities that won't serve them in the future. The only thing we know for sure in a VUCA world (volatile, uncertain, complex and ambiguous) is that a strategy and capability set that confers competitive advantage today will soon be obsolete. The role of the agility routines is to keep the organisation focused on the capabilities that deliver profits today while also looking out for the capabilities it will need in the future. The routines give organisations the power and ability to change their capabilities.

What facilitates the effective deployment of capabilities today and tomorrow are the management practices at the bottom of the pyramid.

The good management practices

Management practices are the familiar activities associated with planning, organising, leading and motivating an organisation. Good management involves, among other things, being able to formulate a strategy and objectives, develop capital and operating budgets, and reward employees in a systematic manner. Both agile and non-agile organisations operate these good management practices. But agile firms design them differently.

Agile organisations are characterised by management systems that are designed to be '**fit for purpose**', **flexible**, and **fast**.

- To be **fit for purpose**, management processes must effectively align resources and behaviours to business strategies and corporate mission/values, and be able to improve continually.
- To be **flexible**, they must be effective today but designed to adjust and adapt as required by changing environmental demands, changing strategies and new capabilities.
- To be **fast**, they must recognise that change can happen more frequently than every 12 months.

Traditional organisations, with their annual budgets, annual performance appraisals, merit-based pay systems, silo structures, internally-focused scorecards and hierarchically-defined leaders, not only constrain the ability of the organisation to shift capabilities, but they also make everyday changes difficult. Innovation, experimentation and responses to market opportunities are held hostage to an annual timetable and complaints that "it's not in the budget." Change requires a jolt to the system from a new leader, a market disruption, or some other act of rebellion. Agile firms, however, can change their most basic management practices easily, which enables their capabilities to change and supports the execution of the agility routines at the top of the pyramid.

- Agile organisations have fit, flexible and fast methods for allocating people, money, time and other resources to their most important uses, and balance short- and long-term horizons.
- They have incentive systems that recognise and differentiate high and low performers, shift reward and recognition types (for example, bonuses, key assignments, etc), and pay for both execution and change.
- They define leadership as an organisation capacity, not an individual trait, and view anyone in the organisation as capable of influencing change.

The routines of agility

At the highest level of the model, agility comprises four routines: the capacity to (1) strategise in dynamic ways; (2) accurately perceive changes in the external environment; (3) test possible responses; and (4) implement day-to-day changes in products, technology, operations, structures, processes and systems as well as capabilities as a whole.

Routine	Description
Strategising	How top management teams establish an aspirational *purpose*, develop a widely-shared *strategy*, and manage the climate and commitment to *execution*.
Perceiving	The process of broadly, deeply and continuously monitoring the environment to *sense* changes, rapidly *communicate* these perceptions to decision-makers who *interpret* and formulate appropriate responses.
Testing	How the organisation *sets up, runs, and learns from experiments.*
Implementing	How the organisation maintains its *ability and capacity to implement changes,* both incremental and discontinuous, as well as its ability to *verify the contribution of execution* to performance.

- **Strategising** involves establishing the purpose, direction and market positioning of the firm as well as creating an internal climate and culture where these strategic issues can be challenged and changed.
- The **perceiving** routine is a complex structural, communications and decision-making process for gathering and processing information about current and future environments. Agile companies are especially adept at bringing future possibilities to bear on current decisions.

"I view my role as 'Chief Linkage Officer'. HR is one of the few functions represented at board level that cuts across the entire organisation." **Jeremy Campbell, Chief People Officer, Ceridian**

The routines of agility *(continued)*

- More important than innovation alone is **testing** – the ability to 'try things out' on a small or large scale and to learn from those experiments. Agile organisations encourage innovation but also tolerate a good deal of the right kinds of failure.
- The **implementing** routine is responsible for the execution of the current strategy as well as the implementation of new capabilities and strategies. No organisation can rightfully claim to be agile unless it can demonstrate the ability to carry out change, and agile companies have histories of successful transformations, restructurings, product rollouts and policy changes.

We will explore these routines and the HR implications throughout this report.

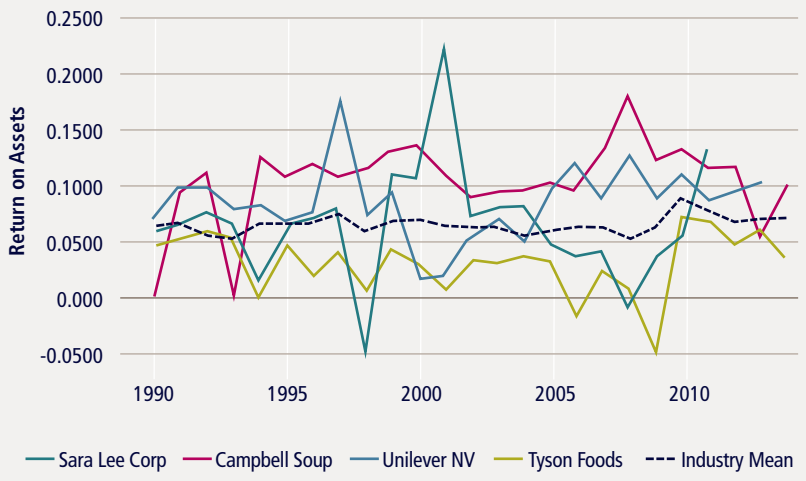
1.2 Assessing agility

There are three standards for assessing agility. Two of them are outcome related, one is organisational.

1. The first outcome standard is **operational**. Agile organisations must be able to demonstrate the ability to change, especially the capacity to develop and implement new capabilities that differentiate the firm under different environmental circumstances. For example, the BT case study in chapter 4 shows how BT not only adapted to a variety of technological, social and economic changes as a regulated phone company, but also developed new operational and strategic capabilities as ownership, regulatory and technological contexts changed. One of the best examples of this type of change is Nokia. Over its 100-year-plus history, Nokia has shifted its core operating capabilities from pulp and paper, to a diversified commodity and technology conglomerate, to electronics, to mobile phones, and is currently remaking itself into a network infrastructure, software and services technology firm.

2. The second outcome standard is **financial**. Organisations with the ability to make timely, effective and sustained change should perform consistently higher than the average of their competitive group over time. Meeting this standard is an admirable achievement. In Worley, Williams and Lawler's original research, financial data were collected on more than 400 firms in over 22 industries between 1980 and 2012. An updated example of how that analysis works is shown in Figure 3 below. It shows the profitability of four selected firms in the fast-moving food and beverage consumer goods industry between 1990 and 2014.

Figure 3: Financial performance of selected firms between 1990 and 2014



3. The third standard of agility is **organisational**. Organisations must have the strategies, structures and systems that can drive change and sustained performance, and they must understand that change and performance are the result of capability, not just luck. People in the organisation must agree that it is able to strategise, perceive, test and implement.

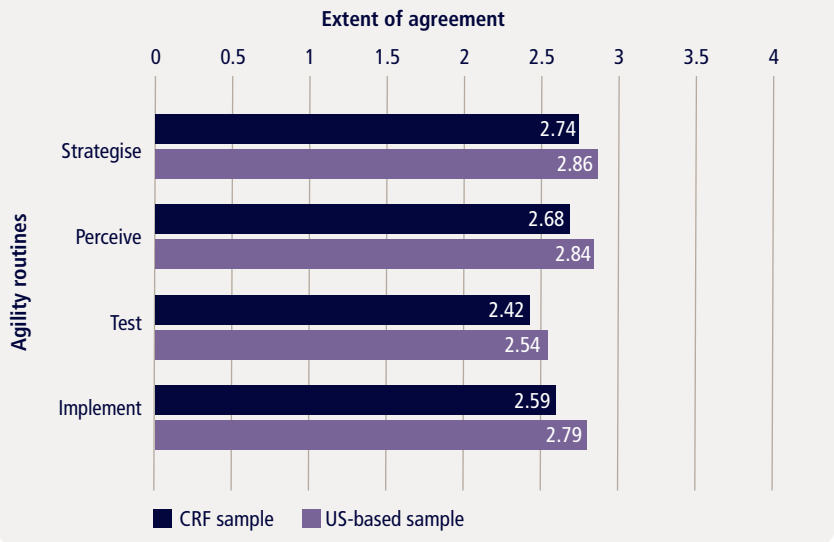
"We've now made it a core part of our strategy development to reflect on how agile we are and how agile we need to be. It's critical in enabling us to respond quickly to new entrants in our market."
Scott Kelly, Chief Human Resources Officer, Hitachi Data Systems

CRF member survey findings

The survey we conducted as part of this research asked CRF members to rate their firms on 19 agility-related organisational factors (see the Appendix for a list of questions). The 19 agility-related questions were clustered into the four agility routines (Figure 4).

- The highest-rated routine was **strategising**. The overall average of 2.74 suggests that most firms are between 'neutral' (a 2.5 on a 4-point scale) and 'agree'.
- **Perceiving** was the second highest-scoring routine, followed by **implementing**.
- **Testing** was the lowest-scoring routine, and the average of 2.42 suggests that more firms disagreed than agreed with items related to the way they flexibly allocate resources, encourage innovation and learn.

Figure 4: Comparing results of CRF survey with US sample



Interestingly, the 'encouraging innovation' item was one of the highest-scoring individual questions, while 'flexible resource allocation' and other items in the scale scored low. **It's clear that 'encouraging innovation' is not good enough: organisations must also be able to move resources to take advantage of ideas and opportunities and learn from prior experiments and projects.**

Figure 4 also suggests that the agility routines in the CRF sample follow a similar pattern and are roughly equal (if a bit lower) in size to the US-based sample*. For both samples, the highest-scoring routine was 'strategising' while the lowest scoring routine was 'testing'.

A firm's overall agility is indicated by the number of routines that exceed a data-based threshold. Two common thresholds are the intra-sample average (which is useful for within-industry comparisons) and a threshold based on analyses of the US sample. For this cross-industry study, we used the conservative thresholds estimated in the original research (Strategising > 2.81; Perceiving > 2.71; Testing > 2.56; Implementing > 2.66). The results are shown in Figure 5.

*The sample size for the US-based study was 58 firms, while the sample size for the CRF study was 151.

Differentiating the financial performance of agile organisations

Across all of the industries examined in the original research, the same patterns of performance were found.

- About 13% of the firms displayed what we called the 'chronic underperformer' pattern. As shown in Figure 3, Tyson Foods beat the industry average only 8% of the time.
- By far the most common pattern (68% of all firms) was what we called the 'thrasher'. Thrasher performance fluctuated, often wildly, between very high performance and very low performance. In Figure 3, Sara Lee demonstrates this pattern: its return on assets exceeded industry average profitability 50% of the time.
- Finally, in every industry there was always one, two or sometimes three firms that consistently beat the industry average. Overall, only 18% of the firms achieved this level of performance. In the consumer products industry, Unilever beat the industry average 83% of the time while Campbell Soup Company, despite its traditional and somewhat stodgy image, exceeded the average 88% of the time, and has done so for a long time. The financial outcome standard suggests that organisations need to post above-average profitability at least 80% of the time over relatively long periods.

Thus, while survival is a necessary but not sufficient condition for agility, it is not the same thing. Firms that have survived over a long period have clearly adapted, but that doesn't necessarily mean they are agile. Organisation agility is manifest in a variety of organisation changes that result in sustained, above-average performance.

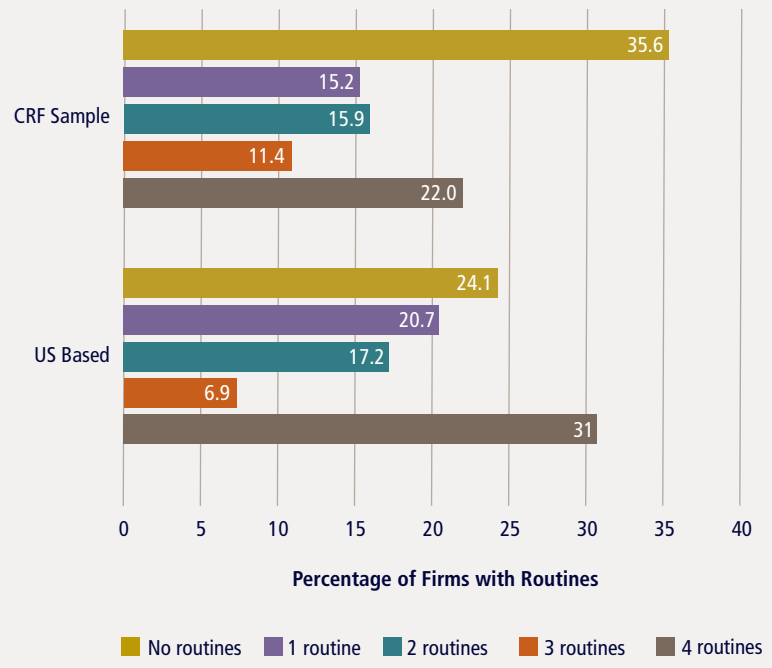
CRF members' financial performance

We analysed the financial performance of CRF member companies using a similar method to the original research, which was conducted largely among US-based multinationals. Of the 107 member companies for which we were able to obtain sufficient data, the results are set out in the figure below.

Industry	Number of firms	Percentage of firms with above-average returns at least 80% of the time
Retail and Consumer Business	26	23%
Life Sciences and Healthcare	10	40%
Manufacturing	7	14%
Travel and Transportation	6	17%
Energy and Resources	12	17%
Technology, Media and Telecommunication	19	16%
Financial Services	10	10%
Professional Services	17	25%
Total	**107**	**17%**

The percentage of firms in an industry that achieved 'above-average' profitability over a nine- or ten-year period 80% of the time varied by industry. Life science and healthcare companies were more likely to achieve sustained high performance (40%) than financial services companies (10%). Overall, 17% of the sample could be classified as having sustained, above-average performance. This percentage compares favourably with the US-based sample, where 18% of 424 firms in 22 industries over 32 years could be classified as sustained, above-average performers.

Figure 5: Percentage of firms with agility routines



Over one-third (35.6%) of the firms in the CRF sample had no agility routines above the threshold level. Another one-third had three or four routines. By comparison, 24% of the firms in the US-based sample had no routines above the threshold level and 38% had three or four. The US-based sample deliberately sought out firms with sustained high performance and, as a result, over-represents potentially agile firms (as opposed to a random sample). By contrast, the CRF sample is more random, with the CRF data suggesting a more normal distribution.

So, using this classification scheme, approximately one-third of the CRF sample passes the organisational standard, compared to under one-fifth (17%) passing the financial standard.

1.3 The link between agility and performance

Agility is not a mere academic fantasy or executive soundbite. It has important payoffs. In the original research, organisations with three or four agile routines at the top of the pyramid were seven times more likely to have sustained levels of above-average performance over the 32-year period between 1980 and 2012 (See Figure 6).

In the CRF survey results, comparing agility scores with measures of organisational effectiveness provides some insights into the role of these routines and capabilities. As shown in Figure 7, across the three results (financial, customer and employee), the reported level of effectiveness rises the more agility routines there are.

Figure 6: Percentage of years ROA was above the average

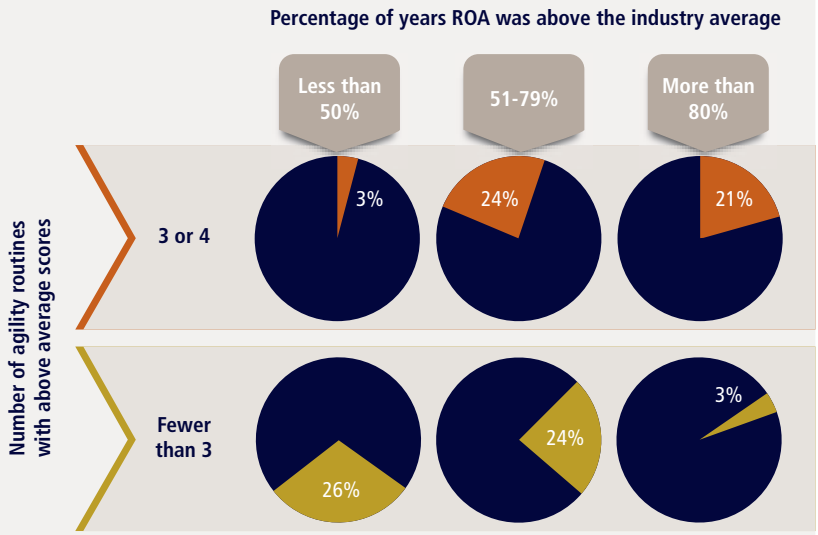
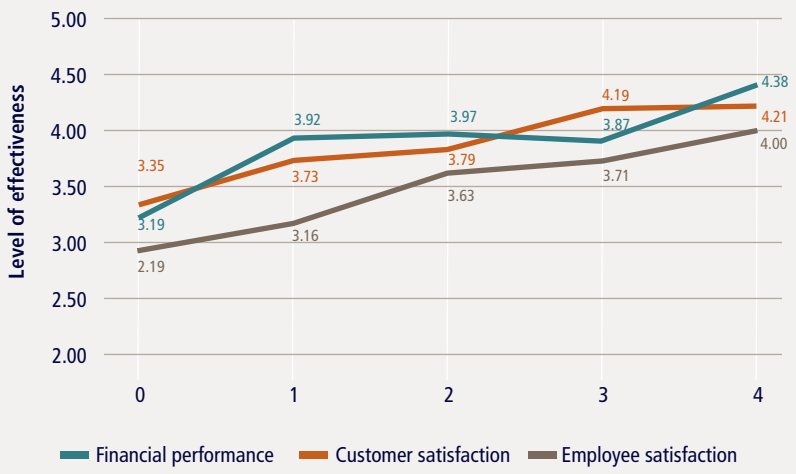


Figure 7: Number of agility routines above threshold



For perceived financial performance (versus the industry average) and customer satisfaction outcomes, firms with no agility routines reported significantly lower results compared with firms that possessed at least one routine above the conservative threshold. For employee satisfaction, firms with no routines scored significantly lower than firms with two, three or four routines; firms with one routine scored significantly lower than firms with two or four routines; and firms with three routines scored significantly lower than firms with four routines.

CRF survey demographics

The survey responses break down as follows.

- 181 responses representing 151 organisations across a range of sectors. The two biggest sectors were financial and professional services firms (15% and 20% respectively). Public sector, life sciences and healthcare, and a broadly-defined manufacturing sector each make up about 10% of the sample.
- 31% of the survey responses came from leaders of centres of expertise, such as talent management and organisation development. Around the same number of responses came from functional HR directors and HR business partners. About 12% came from chief human resource officer-like positions.
- The 151 firms were fairly evenly distributed in terms of size. There was a healthy representation of small and medium-sized organisations as well as large corporations. The median size for the sample was between 10,000 and 50,000 employees.

Although consistent with the US-based data, this result should be interpreted carefully. In the CRF sample, the same person rated both the strength of the agility routines and the organisation's effectiveness, and there is often a conscious and/or unconscious bias to align and justify ratings. People who say their organisation is flexible are more likely to say their organisation is effective.

However, the inference seems clear: **even one strong agility routine has a powerful payoff in at least one perceived dimension of effectiveness**. HR is in a good position to affect all four routines. However, if we think of HR's primary contribution being to employee satisfaction, then the stakes rise a bit. The data suggest that each additional agility routine possessed by the organisation provides significant incremental benefits for employee satisfaction.

In today's fast changing, complex world, it would seem that agility – the capacity for organisations to adapt to their environment more quickly and effectively than competitors – is more important than ever. Organisations that succeed in operationalising the routines of agility are more likely to be outperformers in the longer term.

In the following chapters, we look in more depth at what the agility routines mean in terms of:

- how organisations are designed, managed and led
- how people management practices can support or hinder agility
- practical steps to take to build more agility into the organisation.

2

CHARACTERISTICS OF AGILE ORGANISATIONS

Topics covered

Introduction

This chapter considers the characteristics of agile organisations in more depth. We discuss the key themes emerging from interviews with a selection of CRF members, comparing and contrasting examples of agile and non-agile practices. Case studies from CRF members illustrate the key messages.

"Agility is the dynamic capability that allows outperforming firms to sense and respond to their environments and to rapidly reallocate resources, build new capabilities, and, perhaps most important, jettison the assets and activities that no longer create value." **Worley et al, 2014**

2.1
The routines of agility

The agility routines described at a high level in chapter 1 can be broken down further into 12 critical elements, which define how these routines play out in practice.

Routine	Critical elements	Description
Strategising dynamically	Sense of shared purpose	The purpose or mission (outcomes other than profit or growth) and the business model (how we make money) are widely shared. Values embedded in these statements drive behaviour on a daily basis.
	Change-friendly identity	There is a clear sense of 'who we are' and 'what inspires us'. This long-term strategy explains success and encourages the organisation to change.
	Robust strategic intent	The current business strategy relevant in today's market, described by its breadth, differentiation and aggressiveness, but seen as momentary and flexible.
Perceiving environmental change	Sensing	The organisation explores the future deeply, and many parts of the organisation touch the environment continuously.
	Communicating	Information from the environment gets to decision-makers rapidly, in an unfiltered way. Information flows easily, in both directions, between the bottom and top of the organisation.
	Interpreting	Information is evaluated on the basis of the company's existing identity, intent, business model and risk tolerance.
Testing responses	Slack resources	Capable resources (people, money, time, tools) are available and can be readily deployed to experiment with new ideas.
	Risk management	These experiments are bounded by clearly agreed criteria for judging success and failure; the possibility of failure is accepted, as a vehicle for learning.
	Learning	Experience with running experiments is captured and applied with each new round, so that the company's capabilities are continuously improved.
Implementing change	Management and organisational autonomy	Executives delegate sufficient authority to line and business managers so that the company can execute changes with success; there is no second-guessing from HQ, only alignment around basic strategic objectives.
	Embedded change capability	The pragmatic ability to change collective habits, practices and perspectives is embedded in line operations, not isolated in staff groups.
	Performance management	Clear, unambiguous, accepted performance measures and targets are based on business-model drivers with rewards that matter.

Source: Williams, Worley and Lawler, 2013

"Strategising, perceiving, testing and implementing are not discrete processes pursuing a single-minded notion of efficiency or profit maximisation, but an integrated and mutually reinforcing set of routines designed to discover, develop and implement new possibilities." **Worley et al, 2014**

Strategising

The *strategising* routine reflects the way executives manage and define purpose and strategy, and how they engender a climate in the organisation that is conducive to executing change. Few would argue that having a clear, relevant and shared strategy is an important, well-accepted contributor to organisation effectiveness. However, agile organisations don't define strategy like other firms. For them, strategy has three explicit parts:

- a sense of shared purpose
- a change-friendly identity that is nonetheless stable enough to ground the organisation
- a robust strategic intent that clarifies how the firm differentiates itself.

'Thrashers' and 'underperformers' (defined in chapter 1) lack one or more of these. They either have no clear or shared purpose, no integrated view of the central, enduring and differentiated reasons for success, or they embrace outdated notions of 'sustainable' competitive advantage.

Perceiving

The *perceiving* routine is about understanding the context within which the organisation operates. Agile companies take special care to sense and communicate accurately what is going on in the environment. The indicators of perceiving are:

- a flat structure that is tightly linked to its business environment, including customers, financial markets, regulators and other stakeholders
- an effective process for developing future scenarios
- open channels of vertical communication
- transparent business, operational, financial and competitive information.

Employees are skilled at communicating their perceptions of the external world in unbiased and unfiltered ways to company decision-makers, and they have the support and knowledge they need to interpret those messages as important or unimportant, opportunity or threat. All three elements of perceiving environmental change are essential. Sensing without communicating is wasteful; communicating without interpreting is just noise.

Thrashers and underperformers are often overly inward looking and politicised. They find a high level and intensity of communication and transparency congenitally difficult. They are too busy vying for turf, resources and position to consider dispassionately the implications of outside signals. The external focus of agile companies, on the other hand, enables them to face up to brutal facts and embrace versatility.

Implementing

The *implementing* routine is responsible for executing the *current* strategy and implementing new capabilities and strategies. No organisation can rightfully claim to be agile unless it can demonstrate the ability to carry out change. Agile companies have histories of successful transformations, restructurings and merger integrations, and they excel at new product rollouts, policy changes and compliance mandates. Agile companies have mastered the programme management capabilities needed to convert successful tests and promising innovations into widespread practices. Their organisations are flexible enough to adopt them with full and unambiguous commitment – and with the speed, certainty and precision they need.

To do that, most agile companies deploy some form of talent management and performance management that supports change without sacrificing effectiveness. Their systems are characterised by high levels of managerial autonomy and shared leadership. Performance targets are objective and unambiguous, and positive and negative consequences are real and transparent. Their change capability is not confined to a staff function at headquarters, but is embedded throughout the organisation. Once a decision is made, managers charged with implementing it are monitored, but not micro-managed.

Testing

More important than innovation alone is setting up, running and evaluating tests of new products, capabilities, systems, processes or businesses. Agile organisations test and refine the insights gained from the perceiving process through a broad range of relatively low-cost experiments. They encourage innovation but also tolerate a good deal of the 'right kinds' of failure. Effective testing and innovation activities can include gathering further intelligence, trying out new ideas on a small scale or launching full-scale product development programmes. In most cases there are explicit risk management processes, with valid success criteria, so the plug can be pulled if the test fails. The testing routine is incomplete without continuous learning to capture the insights from successful and unsuccessful experiments. These learnings are shared across all relevant parts of the company. Dedicated learning and continuous improvement systems condition organisations to never rest on their laurels or believe they have 'cracked the code' once and for all.

Thrashers and underperformers often worship at the altar of efficiency, building massive six-sigma units that are unleashed on everyone, everything and everywhere. They do not understand the strategic potential of slack resources. Agile organisations consciously build organisational slack in the right places. They hire people, spend money and allocate time that doesn't go directly to the bottom line, but allows the organisation to deploy resources rapidly against opportunities that may or may not pay off, without jeopardising day-to-day operations. The higher staffing levels play an important role in capturing and disseminating learning that the organisation can use later, because they free up time for studying and learning.

"As an organisation, we've invested a great deal in helping our people get their heads around BT's core purpose and how it should guide and motivate. It's been energising for people, and has stimulated creativity and innovation." **Hugh Hood, Director of Leadership, BT**

Case Notes – A culture for 'grown-ups'

Bunzl, the international distribution and outsourcing company, has built a strong culture of trust across its highly decentralised organisation. The centre doesn't set individual objectives; instead it gives each business unit financial targets and leaves it to them to work out how to hit them. However, divisions must act in line with the group's financial controls and corporate responsibility policies including the code of ethics.

Specsavers, the retail optical group, places a strong emphasis on treating others as you would like to be treated. Employees can use the company intranet to have open dialogue about any topic they choose. Sometimes people post trivial comments, but the company trusts users to self-police. Mark Moorton, Director of HR, UK, said: "We treat people as adults and let the conversation run. There might be some daft comments, but colleagues most often sort it out between themselves."

Hitachi Data Systems has recently stopped tracking how much leave people take, instead trusting them to work as much as they need to in order to deliver their objectives, and to know what is and isn't acceptable. The company also plans to eliminate its expenses policy, instead trusting people to act in the company's best interests. This is also likely to significantly reduce the time (and associated cost) spent on managing expenses.

In the rest of this chapter, we share the results of interviews we conducted with a selection CRF member organisations, to understand how agile they were and what characteristics either supported or impeded their agility.

2.2 Clear sense of purpose

Most of the organisations we interviewed have a clear sense of what they are in business for, beyond making money, and were able to articulate that purpose. In some cases their purpose is encapsulated in a short and memorable phrase, like British Airways' 'To Fly To Serve', Tesco's 'Serving Britain's shoppers a little better every day' and EY's 'Building a better working world'. In other cases it is summarised in a set of principles. For example, Unilever's Sustainable Living Plan (SLP) is its commitment to double turnover while halving environmental impact. Some organisation purposes have changed little over time: John Lewis Partnership's Constitution, in place since 1950, states that the Partnership's ultimate purpose is the happiness of all its members (employees), through their worthwhile and satisfying employment in a successful business. Others, including Unilever's SLP, were launched more recently. In some cases the organisation's purpose is less about the products and services it offers than about the business model itself. For example Bunzl, the international distribution and outsourcing company, has a highly decentralised business model that gives people the opportunity to run their own business as they see fit, something that is highly valued within the organisation.

We found that what differentiates agile from less agile organisations is not so much the presence of a sense of purpose, but the extent to which:

- the stated purpose actually plays out in reality
- the purpose is connected, in important and emotional ways, to the company's history
- people at all levels are able to translate the purpose into their day-to-day work
- the internal purpose is consistent with the promise made to customers and other external stakeholders.

For some of the less agile organisations we interviewed, although customer service was expressed as a core element of organisation purpose, cost pressures meant a different reality for the front-line staff: saving money feels more highly valued than delivering excellent service.

More successful organisations manage to unify internal and external views of what the organisation is there to do. Doug Baillie, CHRO of Unilever, said that the SLP resonates with people both inside and outside the organisation: "The principles underpinning the SLP are now well understood by our 175,000 people, and are becoming part of how our people engage with their work every day." The SLP also links directly with the brand promise. For example, the Lifebuoy soap brand is playing a key role in improving child mortality rates by reducing waterborne diseases, one of the biggest killers in emerging markets. EY's statement of purpose, 'Building a better working world', not only describes what the firm tries to deliver to clients, but also enhances the employer brand because it resonates with the Millennials the firm wants to employ.

"We talked openly about assuming positive intent through the merger between Penguin and Random House. So people knew some would have their toes trodden on as we found our way around the new organisation, but we encouraged people to assume this was accidental." **Neil Morrison, Group HR Director, Penguin Random House**

2.3
Grown-up' culture, based on trust

A common theme of interviews with CRF members was that agile organisations have distinctive cultures, described by interviewees as 'adult' or 'trust-based'.

- People are trusted to make good decisions and act in the best interests of the organisation.
- There is an assumption that employees' intentions are honourable and that they can be relied on to 'do the right thing', even if they sometimes make mistakes.
- In many cases employees are encouraged to think like owners of the business.
- There is an absence of politicking around decisions.
- There is little tolerance for 'childish' behaviour. For example, Unilever acknowledges that working in a complex multi-dimensional matrix organisation can be challenging at times, but expects people to 'get over it' and learn how to work with it rather than complain about it.

See the column for some examples.

By contrast, less agile organisations were characterised by the following.

- Large amounts of time and energy spent managing impressions (especially upwards) and expectations, rather than focusing on achieving goals and objectives.
- Dissonance between stated values and behaviours, so leaders might say they expect certain standards of behaviour, but they don't meet those standards themselves.
- A parent/child relationship between managers and subordinates, with managers being highly controlling and critical.
- Reluctance to try new things for fear of being blamed if the experiment doesn't work.
- Controlling costs or managing performance by adding layers of sign-off, thus creating bureaucracy and slowing down decision-making, instead of assigning clear accountabilities and trusting people to make good decisions.

2.4
A strong sense of accountability

A recurring theme from interviews with the more agile organisations was the care they take to clarify who is accountable for what, ensure there is no overlap of accountabilities between individuals, and hold individuals to account for their performance. These organisations are distinguished by the following features.

- The culture and tone set by leaders gives people ownership and expects them to deliver on expectations without being told what to do or their performance being closely monitored.
- People are expected to treat the business as if it is their own, and make decisions accordingly.
- There are clear governance frameworks in place, which are no more or less complex than they need to be, and are followed in practice.
- Politics are not allowed to get in the way of good decision-making.

Case Notes – A culture for 'grown-ups' *(continued)*

Publisher **Penguin Random House** has built a culture of 'trust the expert'. UK CEO Tom Wheldon has set the tone by making it clear he is prepared to trust people's judgement. When someone pitches an idea, it's assumed they have done the required due diligence. Once a decision is made, the business is prepared to back the idea with investment and resources without asking for multiple business cases or forcing people to jump through various approval hoops. This allows the business to move quickly to secure new writing talent or take a risk on an unknown quantity. In another example, the company stated in writing a key principle of its talent policy: "Managers cannot impede their people's careers, and, as a quid pro quo, employees who are looking for a new job need to be open with their manager before they look for new opportunities". Managers reinforced this philosophy with consistent action – so once a few cases had gone through, people could see this was more than just rhetoric.

A key theme of **BT's** transformation from a state-run utility to a dynamic telecommunications, technology and media company (described further in chapter 4), is 'candour'. The company needed to move away from a culture where people spent large amounts of energy managing the impressions of others (that is, putting a favourable gloss on everything rather than being honest), towards one where it was clear about its expectations and objectives, and leaders were able to challenge themselves and others to deliver high performance. BT's talent philosophy is grounded in leaders identifying future leaders. A key element of this is the expectation that leaders have adult, honest conversations with their people about their performance, potential and development.

"Getting leaders to take deep personal accountability aids agility, because they are more likely to react quickly and think ahead, and won't just wait for someone else to make the decision for them."
Geoff Tranfield, Group HR Director, IMI

High-accountability organisations

Bunzl has grown mainly through acquiring successful owner-run businesses in the markets it operates in. Bunzl sustains that sense of ownership through a 'light-touch' integration and management framework, which sets clear financial targets but allows the previous owners a large degree of autonomy to run their business in the way that works in their market.

Specsavers' business model is built on joint venture partnerships in its stores. The company encourages all its people, including support staff, to think of Specsavers as their own business and act with that degree of ownership.

Unilever uses a 'Do-It' framework to determine decision-making rights. This defines who **D**ECIDES, who **O**WNS a decision, who's **I**NFORMED, and who **T**RUSTS that the decision is correct and implements it.

Penguin Random House has a culture of 'proceed until apprehended'. People are expected to ask for the resources to develop their ideas when they need them, rather than waiting for the next business planning or budget cycle.

Engineering group **IMI** has built a culture of individual accountability, where people are expected to think ahead, react quickly and take ownership of decisions.

EY has tried to counter the difficulties of making decisions across a global organisation by working with its 14,000 co-owners (partners) to clarify accountabilities. The firm has achieved a level of global integration beyond any of its competitors by establishing a clear governance framework that clarifies who owns what, while simultaneously allowing countries and regions to voice their opinions on the organisation's direction.

Less agile organisations, on the other hand, can be unclear about who is ultimately accountable for key decisions in the business, or lines of accountability are blurred between individuals and/or functions. This can lead to duplication of activity or an inability to make decisions at speed. As one of our interviewees commented: "Even when decisions have apparently been made, they can still be challenged or implementation slowed down. Often, the incremental improvement in outcomes is pretty small compared to the cost of reaching consensus."

Organisations seeking to become more agile often find they need to make a choice between achieving consensus around decisions and moving quickly. Many of the less agile organisations we interviewed talked about how their definition of consensus results in slower decisions or decisions being revisited once made – something that rarely results in better decisions.

See the column for some examples from our interviews.

2.5
Flatter, flexible, externally-focused organisation design

Not only do agile organisations feel different in terms of their culture and sense of accountability, but they also *look* different in terms of organisation design. Our research flagged up a number of features that characterise the design of agile organisations.

- They tend to have flatter structures, with fewer layers, minimal hierarchy and broader spans of control.
- They achieve 'maximum surface area' with their external environment. They do this by being close to their customers and decentralising decision-making as much as possible. They define roles and responsibilities in such a way that people are expected to watch and understand the trends associated with particular stakeholders and bring those observations to bear on decisions.
- They keep a close eye on the competition, have mechanisms to scan the horizon, identify emerging customer needs or potential opportunities, and notice looming threats before anyone else.
- Even large, complex organisations can create a 'small company' feel, for example by keeping unit size small, which allows them to respond to market developments at pace. This sometimes means a trade-off between achieving economies of scale and responsiveness to customer and market needs, but while the structure may not always be optimal, business results typically compensate for any efficiency losses.
- They work well across organisational silos by building and maintaining informal networks and designing processes that cut across boundaries. They don't let functional boundaries slow work down. Agile organisations avoid bottlenecks by empowering junior staff to resolve problems together with colleagues in other functions without having to refer decisions upwards.
- They don't focus so much on what's happening internally that they lose sight of developments in their external market. They don't rest on their laurels or believe they are unique or better than everyone else.

"We find that giving people a high degree of flexibility to run their business as they see fit, within the framework of a small number of financial controls and corporate standards, leads to a more agile and adaptable organisation." **Celia Baxter, Director of Group HR, Bunzl**

Case Notes – Agile organisation design

Hitachi Data Systems (HDS) operates in a market where the nature of competition has changed fundamentally: it used to compete against the likes of IBM and Hewlett-Packard, but now counts new players such as Amazon among its rivals. HDS needs to be ready to respond quickly to market developments. The management team explicitly reflects on how agile the organisation is as part of strategy development. It reviews its marketplace constantly, and uses 'design thinking' (which draws upon logic, imagination, intuition and systematic reasoning to solve complex problems) to develop and test new products. The senior team reviews the business direction monthly, and takes decisions in 'real-time' about changes in focus. Rather than have annual plans and budgets that become out-of-date as soon as the ink is dry, HDS has a growth plan, which it regularly resets as circumstances change.

Unilever has a strong 'affiliative' culture (one that places a high priority on constructive inter-personal relationships), which can make it difficult to balance consensus-building and operating at speed. But its strong customer orientation helps it to reconcile these competing interests: it puts the customer at the heart of all decision-making. The company also constantly reviews its organisation structure and processes. Reducing the number of layers and widening spans of control has allowed it to respond to market changes quickly. When Procter & Gamble reduced the price of all its shampoos Unilever responded within 24 hours.

Bunzl's organisation design is based in the main on small business units. People have a strong sense of accountability, and they run the business as if it were their own. Indeed, many of the businesses continue to be run by former owners who have sold to Bunzl. Keeping it small means people know and trust each other, and also creates a greater surface area of the organisation in direct contact with customers. Bunzl has steered away from a matrix structure, preferring to keep the design simple, and instead encourages people in pivotal positions to build informal networks. Celia Baxter, Director of Group HR, said: "We keep it as simple as possible; we don't over-complicate and we don't over-invest. For example, we haven't implemented a single integrated IT system across the Group as most of our business is local and there is little trade across borders." Although a more centralised structure might yield better economies of scale, Bunzl's ability to respond quickly when business conditions change more than compensates for this. The decentralised structure is complemented with tight financial management, so any divergence from plan is spotted quickly.

BDO, the accounting firm, operates through a network of local offices that enjoy strong relationships with clients. Local offices have substantial discretion, which means they can respond to client needs quickly and flexibly. Whereas BDO's competitors focus on scalability and optimal resource allocation, BDO's approach means they are often closer to customers than their rivals, and can offer a differentiated level of service.

Specsavers' flat structure allows for flexibility and speedy execution of decisions. The structure is underpinned by a non-hierarchical culture. The founding family is still heavily involved and promotes a culture of challenge and openness. Senior management is also viewed differently from the way it's seen in other organisations. Rather than being seen as sitting at the top of a hierarchy, senior managers are instead viewed simply as having responsibility for a function. The UK retail division was recently restructured from a smaller number of large regions to a larger number of smaller regions, each of them covering fewer stores but enhancing the relationship between store Partners and head office functions.

Penguin Random House's 'federal' structure creates a large surface area between individual publishing titles and customers. This, combined with speedy decision-making, means the business can respond quickly when it needs to secure a hot property, or take advantage of a topic that is of interest to its customers.

InterContinental Hotels Group (IHG) is increasingly breaking work into cross-functional projects, which connect diverse groups of people and forge connections across the business. For example, the company ran a project to assess the organisation culture, which brought together a team of senior people from across the business to discuss and provide feedback on the current and desired organisation culture and what actions to take.

IMI, the specialist engineering company, has manufacturing processes that require people to work together across functional boundaries, which breaks down silos and hierarchy.

In FMCG company **PZ Cussons**, individual country organisations have complete autonomy to respond to developments within their markets. For example, the company wrong-footed its competitor Johnson & Johnson in Indonesia by running a 'Beautiful Baby' contest, which worked well in that market but would not have succeeded elsewhere.

"There's a relentless focus on the customer. Whenever a decision is taken, we try to imagine there's a customer sitting in the room, and listen to what they have to say." **Leena Nair, Senior Vice-President Leadership & Organisation Development, Unilever**

Case Notes – Communications in agile organisations

Human capital technology company **Ceridian** has a monthly 'Communications Day', which involves a member of the senior management team visiting every location each month. Directors share the latest news from the business and get feedback from employees. Each visit includes a 'You said … We did' session summarising actions taken (or not) as a result of feedback. Directors are realistic and transparent about what they can and can't do. According to Jeremy Campbell, Chief People Officer, this pays off when there are tough decisions to explain or justify. "This two-way transparency means we can find out quickly if there's a problem. It also allows us to take the temperature of the business and debunk rumours. People may not like the message but they appreciate the honesty."

At **Penguin Random House** there are lots of informal conversations taking place between employees and senior management. For example, the CEO has a monthly breakfast with new joiners where he asks them to share the things they have observed that they didn't expect, or glaring issues that should be brought to his attention. He meets regularly with people who have been in the business for some time to take the pulse of the organisation and ask them to share anything he needs to be aware of. He also chairs an employee forum, which serves as a clearing house for testing ideas and seeking feedback. The company also runs multi-disciplinary and multi-level creativity and innovation sessions where people can propose new ideas in a democratic forum. Ideas that are supported are then put forward to the CEOs of the relevant divisions for further development. According to Neil Morrison, Group HR Director, the overall communications framework is built on transparency. "We try to tell people about things that affect them as soon as we can – otherwise people second guess-things. We prefer to deal with the shock of the truth rather than the fragmentation that comes from rumours and made-up stuff. We want people to get on with their jobs and not be like rabbits in the headlights in the face of change."

2.6 Open and transparent communication

The ways in which agile organisations communicate with their people, gather and respond to feedback from the front line, and communicate up and down the organisation hierarchy and across functional silos, is distinctive. Communications in agile organisations are notable in two key ways.

- Information flows smoothly top-down, bottom-up and across organisational functions and units.
- The tone of communication is realistic. People describe what's really going on in the business, and leaders are open to challenge from employees.

So what do communications look like in more agile organisations? Several themes emerged from our interviews.

- People at all levels are encouraged to provide input and feedback to senior leaders, and 'tell it like it is'. The culture supports people who constructively challenge things they don't agree with.
- People trust leaders sufficiently that even the more junior employees feel able to raise issues without fear of reprisals or negative career repercussions. Establishing this trust can take time and leaders have to be seen to respond appropriately.
- Leaders pay attention to feedback from day-to-day interactions, formal communications and staff surveys. This results in tangible change.
- Leaders accept that they don't know the answers to everything and can learn from more junior colleagues.
- Leaders communicate the actions they have taken as a result of the feedback they get. Where they don't act they explain why rather than sweeping the issue under the carpet.

Less agile organisations – even those with a relatively sophisticated communications capability – fail to make the most of opportunities to interact with staff at all levels. They tend to do the following.

- See communications as a one-way, top-down mechanism, which affords people less and less opportunity to challenge decisions the further down the line the message goes.
- Have too much distance between leaders and the front-line staff who serve customers, thus missing out on opportunities to improve products and services or build better customer relationships.
- Fail to recognise the practical implications, for either customer experience or employee engagement, of decisions taken, because they are too far from the action.
- Have better communications within functional silos than across functional boundaries. People are therefore less likely to consider the impact of a decision on different parts of the organisation.

"We've brought design thinking into the way we develop strategy. It's an iterative process, based on ongoing reviews of the market. We use rapid prototyping to develop and test our responses to competitor actions, and we build at the pace of the market." **Scott Kelly, Chief Human Resources Officer, Hitachi Data Systems**

2.7 Flexible resources

Agile organisations have sufficient capable resources (people, time, money and tools) to deploy readily to experiment with new ideas and exploit opportunities as they arise. However, the investments they have to make in testing, failing, implementing and learning mean they can't be 'lean and mean' always and everywhere. Maintaining some slack allows them to respond quickly to opportunities without jeopardising day-to-day operations.

By contrast, firms that 'hire and fire' resources as demand changes on a short-term basis may find they lack the capacity to anticipate shifts in their market, or build new capabilities required for changes in strategy. One interviewee commented: "We have been guilty of making short-term decisions to remove roles, which has an immediate impact on the bottom line, but over time we realise we have lost long-term value, and have to re-hire the skills we've lost, sometimes at even greater cost." Similarly, another interviewee found that strict zero-based budgeting meant there was little room to build in capacity for innovation and experimentation. Other organisations talked about the difficulty in getting approval for projects outside of the annual budgeting cycle – which can sometimes mean the opportunity has gone by the time funding does become available.

Agile organisations also build mechanisms to identify where resources need to be deployed, and deploy them in a timely way. Our interviews flagged up a number of examples of how organisations are tackling this challenge.

- **'Boundaryless' budgeting**. Unilever's approach to budgeting and forecasting is highly dynamic. It operates a monthly budgeting cycle that allows resources to be reallocated quickly, as needed. For example, Unilever was able to respond within a day to P&G's decision to reduce the price of shampoos. Unilever still prepares an annual plan, which sets the 'guardrail', but resources can be reallocated and targets revisited in response to market changes. Doug Baillie, CHRO, said: "We still plan, as it sets the direction and expectations, but we're not so wedded to the plan that we won't make adjustments as circumstances change."
- **Rapid redeployment**. Bunzl maintains a low fixed cost base, which allows it to move resource around flexibly, as needed. Management keeps a close eye on resource allocation to identify opportunities for improving performance. For example, when a lease is due to expire, plans are rapidly implemented so the organisation doesn't carry unnecessary cost. Celia Baxter, Director of Group HR, said: "People are used to the ebb and flow as we reallocate resources quickly."
- **Greater use of virtual teams**. Specsavers has found that greater use of virtual teams allows it to be adaptable and responsive. Mark Moorton, Director of HR, UK, commented: "I've never known an organisation with as many virtual teams. It helps us be flexible, and get on and deliver against our business priorities."
- **Choosing where to have tight processes and where to have some slack**. There will be certain areas – safety-critical manufacturing processes, for example – where scope for creativity is limited. However, by providing frameworks and boundaries around certain business-critical processes, Geoff Tranfield, Group HR Director of IMI, finds that it's easier to be clear with people where opportunities lie outside these constraints, so that they can direct their creative energies towards the types of innovations that will ensure future business success.

Case Notes – Communications in agile organisations *(continued)*

Unilever has built a strong culture of collaboration and relationships across the complex matrix organisation, over many years. There is a variety of top-down and bottom-up listening forums and focus groups, as well as regular two-way dialogue between senior leaders and front-line people.

Specsavers uses the intranet to support the culture established by the founding Perkins family, which encourages questioning and challenge. For example, a decision to alternate the annual staff party with a family day generated discussion and the company allowed these views to be aired. Ultimately the discussions became self-policing without any management intervention, as 'voices of reason' counterbalanced any critical comments.

In **PZ Cussons**, leaders have been careful to maintain a 'can-do' culture as the business has grown, by being hands-on and highly visible. Leaders travel a lot to be close to local markets. The tone is set by CEO Alex Kanellis. His style is very open and involving, so, for example, when he wanted to learn about how e-commerce works, he sat with more junior people who had grown up in that environment, who could teach and advise him on how the company should tackle e-commerce.

Tesco's new CEO, Dave Lewis, has introduced various changes aimed at building a new culture and making the organisation less hierarchical. Recently, for example, Lewis and his executive committee ran an event involving 8,000 employees from across the business. The event was an opportunity to present the new strategy and encourage questions from colleagues across the business.

"I've never known so many virtual teams in one organisation as we have here. We create new teams, they work together and then disband and move on. That gives us the flexibility we need to get on and do things." **Mark Moorton, Director of HR, UK, Specsavers**

Case Notes – The mindset of a learning organisation

We found that organisations that are better at learning from experiments talk differently about how they approach experimentation and risk taking.

- **PZ Cussons** uses lots of pilots to test out ideas. It is comfortable implementing a solution that's 'good enough' rather than 'perfect', knowing it can improve it over time if it's successful.
- **IMI's** approach is 'we'll try this out, and if it doesn't work, we'll just try something else (within the confines of key safety and operational processes).'
- **Unilever's** heritage is rooted in a pioneering spirit, all the more important in today's VUCA world. The organisation has built a culture that supports risk taking and experimentation. Senior leaders are highly visible in local markets, engaging with customers, making decisions to move things forward and supporting trials.
- **Penguin Random House** operates in an industry that's undergoing major change with the rise of digital publishing. HR Director Neil Morrison says that the organisation's capacity to absorb change has increased as it's gone through each cycle of change. "When the merger between Penguin and Random House took place, the management team made it clear that it was inevitable that things would go wrong, and some people might feel their toes had been stepped on. But they made it clear that the change should be tackled in a spirit of positive intent."

- **Aligned roles.** British Airways have aligned learning and development roles as they amalgamated the six learning academies into one global learning organisation. This has enabled them to remove duplication, and build collaboration, business insight and agility.

2.8 Willingness to experiment and learn from experience

A key differentiator of agile organisations is their ability to run experiments, extract learning from those trials, and accept that, when an experiment doesn't work out, it's less a failure than an opportunity for learning.

Central to this is the concept of **Plan – Do – Review**. Many organisations are exceptionally good at 'Plan' and 'Do' but fall down on 'Review'. **But learning is essential to codify the reasons for successful tests so the success can be repeated**. Learnings from projects that are not successful provide important lessons on how to avoid mistakes in the future or document assumptions that may prove useful at another time. For organisations used to operating at a fast pace, it can be difficult to exercise the patience and commitment required to capture learning from projects. Even more difficult is having the persistence to implement changes as a result of what has been learned and make sure they stick. One of the tricks here is not to be too ambitious: begin by implementing ideas on a small scale, watch carefully what happens and learn from the work.

HR can play a key role here by integrating learning mechanisms into the organisation's design. This might simply happen through informal conversations, but organisations that don't do this as a matter of routine may need to set up review workshops, focus groups or networks, or use social media to elicit views and share experiences. Below are some examples.

- **Ceridian** set up a project team 'Live in a Day', which had to work out how to reduce the time taken to get a new customer live on its outsourced HR system from 30-40 days to just one day. This was a cross-functional team comprising five or six people. "Having a clear business goal and bringing people together in a team that worked across organisation barriers meant we achieved our objective," said Jeremy Campbell, Chief People Officer.
- Following a major restructure in the retail business, **Specsavers** conducted a review – led by the Organisational Effectiveness team in HR – to understand what had worked, what hadn't, and what would be done differently in future.
- **BAe Systems** has built a Knowledge Transfer Methodology to assist organisational learning. It is based on a community of internal and external stakeholders, and includes retirees in order to retain people's expertise once they have left the organisation.

We found that agile organisations have a different attitude to experimentation (see the column for some examples). A difficulty that less agile organisations seem to face is a belief that it's unacceptable to launch an experiment and then fail. One of our interviewees commented: "It's just not in our corporate culture to stop projects that have been signed off, but aren't working out." This leads to behaviours such as not trying anything new in case it fails, or 'putting lipstick on the pig' by attempting to make an unsuccessful venture look as though it was successful. Over time, this creates a culture where people are unwilling to take risks in order to grow the business, and the organisation fails to adapt over the long term.

Another important factor in today's corporate world, where change is seemingly constant, is being prepared to reprioritise activities, stopping projects when higher-priority activities come along. One interviewee said: "I find it impossible to prioritise the 15 'top-priority' projects I'm working on, never mind all the others." Some organisations are more conscious of this difficulty and take care to reprioritise when circumstances change.

- **PZ Cussons** discusses what's happening in the business and what needs to be reprioritised on a weekly basis.
- **Penguin Random House** regularly 'cans' projects that aren't working out.

2.9
Change is viewed as normal and continuous

Agile organisations tend to view change as normal: they try to avoid engaging in periodic 'transformation' episodes, which are at high risk of being rejected because they're perceived as 'not invented here'. From our interviews, the organisations that do this well share two characteristics.

1. **A well-integrated change philosophy and approach shared by all managers.** Change capability is embedded in the line organisation, rather than being a separate change management 'function'. Change activities are seen as part of the 'day job', rather than being developed separately from 'business as usual' activities.
2. **The Programme Management Office (PMO) is a well-integrated enabler of change.** Of those organisations with a central PMO, the more successful ones take a different approach to project management, reporting and governance from those organisations with more traditional PMOs. They are less concerned with taking the lead in driving change on behalf of the organisation, and more concerned to equip individuals and teams to deliver change within the line organisation. In short, the more successful PMOs seem to focus on helping teams or projects to be successful rather than running bureaucratic processes.

The combination of these two factors means that agile organisations have an organisation culture that is better prepared for the constant change in their environments and able to offer practical support to deliver necessary change.

Some examples follow.

- **Specsavers'** PMO is focused on making project teams effective – getting them set up fast, working well together, breaking down the barriers to co-operation and disbanding quickly.
- **Hitachi Data Systems'** PMO is focused on making project teams effective – getting them set up fast, working well together, breaking down the barriers to co-operation and disbanding quickly. The PMO has a remit to focus on 'big ticket' items. It minimises time spent on onerous progress reporting, instead providing tools and support to design and development teams. It operates flexibly, focusing on areas where it can have the biggest impact and then moving on.
- **Tesco** has a single Transformation function that ensures a common process for managing and communicating change across the organisation. This helps speed up the pace of change.
- **IMI's** approach to change management is to focus on communicating clear objectives and benchmarks, rather than following a highly structured, centrally mandated change methodology. This affords people within the organisation a degree of autonomy in deciding how to execute against those objectives.

"Our leaders are now required to manage incredibly high levels of complexity and make sense of data noise. They also have to navigate through the matrix that's inevitable in a large organisation. So they need to build their capacity to think systematically and quickly." **Doug Baillie, Chief Human Resources Officer, Unilever**

- **Bunzl's** approach to change is to treat it as evolution, not revolution. The key variable cost of the business is employment costs and therefore relatively small restructuring exercises occur in the normal course of business as contracts are gained or lost. Acquisitions of normally small businesses occur regularly and disposals are made as needed, and while the centre sets clear objectives and targets, it doesn't dictate how those should be achieved. When entering a new country or customer segment, Bunzl tends to acquire businesses that are already well-run and successful, so there is little need to 'fix' them, and only financial integration is required. Once established within a country or customer segment further 'bolt-on' acquisitions are undertaken with different levels of integration required according to the business.
- **Penguin Random House** has discovered that treating change as continuous and inevitable has allowed it to build 'change muscle', becoming more expert over time. HR Director Neil Morrison said: "We found, a bit like in the sports world, the more training and practice you do, the more agile you become, because you get used to the movements required and you build muscle memory." For Morrison, the way the business culture has developed to treat change as a normal part of working life, has helped. He highlighted five key features of how change is handled within Penguin Random House.

  1. Open discussion at board level around the issues emerging within the business that need to be tackled, and to determine priorities for action.
  2. Responsibility for working through the detail of what the change will look like and how it will be implemented, is devolved as much as possible.
  3. Checking back up and down the line – have we got this right and are we aligned?
  4. Leaders held collectively responsible for delivery.
  5. A focus on the human and behavioural aspects of change.

3

WHAT DOES AGILE HR LOOK LIKE?

Topics covered

Introduction

This chapter addresses more specific concerns about the role of HR in agile organisations. We initially discuss the rough contours of HR's role and strategy in the organisation and the implications of agility on the function's design. We then present and discuss the key themes voiced in the interviews with a selection of CRF members, comparing and contrasting examples of both agile and non-agile HR practices.

"If you get to the point that your performance management system is so complex and cumbersome that it's slowing down the organisation, and discouraging risk taking and experimentation, you have to change it." **Doug Baillie, Chief Human Resources Officer, Unilever**

Increasing flexibility in HR processes

What agile HR processes share is flexibility – the ability to operate the same process effectively under different circumstances. This is different from simply adjusting or making continuous improvements. Flexibility is achieved by creating a portfolio view of diverse inputs into a management process. The types of information needed by the management process and the sources of that information should not be fixed or narrow. Flexible HR processes utilise a variety of inputs and don't rely on a particular set of features.

For example, most goal-setting processes emphasise the importance of vertical alignment – that is, ensuring that individual and team goals are aligned with annual strategies and objectives. This is part of being 'fit for purpose'. Agility, however, recognises that just aligning top-down objectives is not enough. Equally important (and potentially more important) goals can come from customer requests, internal customer requirements or personal development needs. For instance, one US healthcare insurance company provides managers with the following guidelines for setting objectives. During quarterly performance conversations, a supervisor reviews and establishes three types of goals – business related, operational and personal – to ensure that multiple inputs are considered. Flexibility is achieved because the supervisor and the employee (and, by implication, the whole organisation) can adjust the emphasis of the work – towards the present or the future, the organisation or the department, and the department or the individual.

3.1 Designing agile HR systems and processes

Fundamentally, HR's function in an agile organisation is no different from its function in a traditional organisation. However, depending on the choices made regarding people strategies, the design of the function, and the capability of HR professionals, HR functions can help or hinder business strategy and support or constrain the organisation's attempts to become more agile.

As described in chapters 1 and 2, agile organisations possess a set of routines – **strategising, perceiving, testing** and **implementing** – that allow them to understand when and how to change the differentiating capabilities that confer above-average profitability. What allows that change to happen is a set of management practices that are **fit for purpose, flexible** and **fast**.

The agility pyramid discussed in chapter 1 implies that good HR processes are necessary for strategy and capability execution. A firm can't become agile unless it has solid basics in place: that is the essence of being 'fit for purpose'. For HR, that means focusing on what's important and value-adding rather than chasing the latest management fad, keeping processes as unobtrusive as possible, minimising bureaucracy, improving continuously, and eliminating, digitising or outsourcing administration.

Agile HR processes go beyond these basics by supporting new capability development and other organisation changes. That is, agile HR processes contribute to the efficient deployment of the differentiated capabilities that generate profit today and enable changes to those capabilities quickly when that becomes necessary. **Agility requires HR to have a deep and sophisticated level of understanding of the external environment, business strategy and key objectives, and to be capable of adapting HR processes dynamically to meet evolving business needs**.

In addition to possessing the features of any good management process, agility depends on HR processes having two additional and distinct design features.

1. **Flexibility**. This may be obvious but it is rarer and more difficult than you might think.

2. **Speed**. Agile HR processes operate at an appropriate, but usually faster, 'clock speed'.

HR functions achieve flexibility in management processes by increasing the diversity of inputs. They increase speed in management processes by increasing transparency and adjusting cycle times to reflect the specific needs of the business. See the column on this and the following page for more detail.

"We have a strong philosophy of leaders developing leaders. It's line leaders, not HR, who have ultimate responsibility." **Leena Nair, Senior Vice-President Leadership & Organisation Development, Unilever**

Characteristics of agile HR practices

In the following table, we consider what the agile principles of flexibility and clock speed might mean for the key HR processes of talent management, performance management, leadership development and change management. The next section describes practical examples from our research.

	Increasing flexibility	Increasing clock speed
Talent management	• All line leaders view nurturing talent as their responsibility, not just something abdicated to HR. That way, when they are called on to release people to make the career moves required to develop talent, they are prepared to do it. • Talent is viewed as an organisation-wide resource. People move across the organisation and they are not forgotten when they take an assignment in a different part of the organisation. • Talent planning begins with business strategy – 'where we need to be' rather than 'this is who we have today'. • Strategic workforce planning processes focus attention on the future. • Talent management takes account of both internal and external supply and demand. • Talent lists are regularly checked and updated as business needs and the readiness of individuals change. • Decisions are based on data. Systems provide insights and allow talent data to be sliced and diced as needed. • Discussions lead to action. • The mechanisms used to deliver the career experiences people need, for example combining project roles, secondments (possibly outside the organisation), action learning and mentoring, as well as more traditional job assignments, are flexible. • Trying different options out and reviewing to see what works is encouraged. • Taking calculated risks on people is accepted. Making sure there's a way back into the business for people given high-risk assignments.	• Cycle times and time horizons are appropriate to the business cadence – is a once-a-year talent review right for your business? • People don't stay 'ready now' for long without a move, or 'ready in two years' without making progress. Talent lists are updated regularly in line with the speed of change in the business, and people who are not progressing don't stay on lists of top talent. • The time horizon for talent reflects the business strategy horizon (or may be even longer if you need to plan for scarce skills that take many years to develop). • Assignment lengths are matched to the needs of individuals or the organisation. • Policies are widely shared and visible.

Increasing the clock speed of HR processes

A second feature of agile HR processes is an orientation to speed that matches process cycle times to the pace of environmental and business change, and involves as much transparency as possible. 'Clock speed' doesn't just mean fast, although that is one dimension. While many organisations have caught the bug and are moving to faster cycle times in many of their HR processes, they may be doing so purely for the sake of speed. **However, making people do things in a hurry is not agility. Agility is having a strategy and capabilities that help organisations focus attention and resources on the right HR processes to accelerate change.**

Traditional goal setting, rewarding, planning and resource allocation processes, for example, demand commitments to performance targets for defined periods, often a year. As a result, if they motivate behaviour at all, they cause individuals to focus on achieving goals and acquiring skills that may quickly become outdated. Despite this, employees resist changing them because their bonuses and salary increases depend on the 'commitments' they've made to achieve them. In a similar way, annual cycles of budgeting and incentives tied to meeting budgeted numbers can hold an organisation's change agenda hostage for a year.

"The way you staff projects and key roles can really help or hinder agility. If your view as an organisation is that talented people can work across functions or business units, rather than seeing people in silos, that's much better for agility." **Gregor Thain, Vice-President Global Leadership and Learning, Intercontinental Hotels Group**

	Increasing flexibility	Increasing clock speed
Performance management	• The culture values high performance, so performance management is not just about a conversation between an individual and their manager. • Goal alignment happens top-down, bottom-up, and horizontally, with a clear line-of-sight top to bottom. There are multiple goal sources (for example, a client-facing person's goals may be determined by client rather than internal metrics). • Metrics are clear and appropriate. • System is aligned to, and seen as valuable by, the business, not just a distraction or irritation. • Variable compensation and recognition are clearly linked to desired business outcomes. • Multiple formal and informal communication channels for feedback.	• Goal setting, feedback, and reward cycle times appropriate to the business cadence. • Goals are regularly reviewed and realigned to reflect changing business priorities. • Goals achieved and incentives/recognition awarded are visible throughout the organisation.
Leadership development	• Shared vision, purpose and values that promote diversity of leadership style within boundaries. • Leadership development closely aligned to business strategy. • Leadership development is oriented to supporting diverse leadership styles, not just the factors that made current leaders successful. • Strong external focus – opening leaders' eyes to the world outside the organisation and bringing in expertise and faculty from outside. • Programme design firmly rooted in adult learning theory. Programme participants are instructed in how to learn, so they can find their own learning opportunities. • Classroom learning is enhanced by real-life work experience, such as job assignments and action learning. • Line managers are engaged in learning so they can make sure learning continues on the job. • Leadership development and talent management closely interconnected – not operating as separate silos.	• Potential leaders get strategically relevant job experiences at the right time to enhance their development. • Job moves for emerging leaders are planned several moves ahead, but the plan is kept flexible. • Multiple formal and informal communication channels, for example, giving leaders the opportunity to have frank discussions and ongoing dialogue with current leaders. • There are honest conversations with emerging leaders about where their development gaps are, what they need to learn and how they can build those experiences.
Change management	• The organisation culture is open to continuous change. • Line managers are trained in areas such as design thinking, consulting, analytical and communications skills. • The PMO/central change or OD team is skilled in teambuilding, facilitation and consulting, rather than focused on onerous reporting, governance processes or event planning. • Shared processes and tools are developed, but these are adaptable and light-touch, not cookie-cutter.	• Priorities are kept constantly under review. • Projects are 'canned' in a timely way if they are not delivering or if circumstances have changed. • 'Design thinking' is used to develop and test prototypes and alternatives, rather than running massive discontinuous change programmes.

"We find setting objectives on a quarterly basis enables us to be more agile and flexible. When you set objectives annually, so often you find those objectives are already redundant by the time you've got to the six-month mark. Quarterly objectives mean we can move things around quickly to adapt to what's going on in the market and what needs to be done. It's not just about setting objectives, it's more about the ensuing conversation and discussion" **Mark Moorton, Director of HR, UK, Specsavers**

3.2
Agile HR – examples from practice

These case notes describe some real-life examples of practices described in the figure opposite.

Talent management

- **Specsavers** is shifting its talent philosophy away from a focus on moving UK talent to other international locations towards thinking more about talent as a global resource. This has meant increasingly facilitating moves in all directions across the organisation, not just UK-out. Another way the company is building flexibility into its talent processes is by using secondments to move people around the business to build experience.
- **Penguin Random House** finds that, although there's a formal talent process that's fit for purpose, in reality most moves take place through conversations among leaders. HR focuses on helping to create opportunities and moving people quickly. The company sometimes takes risks on talent, perhaps moving people before they are fully ready (an example of improved clock speed). Critical to persuading people to take on assignments is providing reassurance that they have a route back if things don't work out or they want to come back. Over the years, through building up a track record of delivering on these promises, people have come to trust that it is safe to accept these types of assignments.
- Reflecting the pace of change in its markets, both in terms of market opportunities and the availability and expectations of talent, **IMI's** local market teams aim to identify resource needs two to three years out and plan accordingly.
- Although many of the organisations we spoke to find they need to speed up their processes, aligning talent strategies with the cadence of the market can actually mean slowing things down. For example, **BAe Systems** runs major government defence contracts, which take many years to complete. It has to balance the desire of employees to build careers by moving roles on a regular basis with the need for continuity in relationships with government clients. In some cases this has meant lengthening assignments from a typical two-year stint, or crafting transitions on and off programmes at natural transition points in the contract. This often suits government clients as well as meeting the needs of the organisation.
- Hotels group **Hilton Worldwide** faces particular challenges when it enters new markets that are not used to the exacting service levels required to deliver a consistent standard globally. Its recent entrance into Kazakhstan is an example. Hilton fits the talent management cycle to the fast pace and short cycle times of the business. Particularly in new markets, it needs to hire and get people operational quickly. The company uses social media to support fast, cost-effective recruitment. It immerses people in the Hilton ethos by telling them the Hilton story in a compelling way, and trains people in the delivery standards required by that ethos.
- The accountancy and consultancy firm **KPMG** recently set up a Tax Centre of Excellence to respond to clients' needs in a more agile way. Tax compliance work has significant seasonal peaks and troughs, which means resources are stretched for part of the year and underutilised at other times. Working with the UK-based Agile Future Forum, the firm developed the concept of 'Intelligent Working' for the centre. Features include employing staff on annualised hours contracts, so people work longer hours at peak times and fewer hours when demand is slack, but continue to receive a regular income, and allowing people in certain roles to work from home. Changes to the firm's supporting HR systems and people processes were required to support these new working models. The Centre has been a success, and KPMG is considering extending the model into other parts of the firm.

"Sometimes HR can come up with ideas that are intellectually interesting, but when it comes to implementation in the business, leaders have neither the time nor the interest in working out what to do with it in practical terms. HR has to do a better job of explaining the benefits in commercial and organisational terms." **Geoff Tranfield, Group HR Director, IMI**

Performance management

- **Hitachi Data Systems** has eliminated people processes that were cumbersome and added no value, which, over time, should result in the number of HR policies falling from 78 to around 15-20. Other processes have been streamlined. For example, performance management has been reduced from a 12-page form to a one-page document focusing on the employee's role in supporting the business strategy. Performance management is now designed to be a forward-looking dialogue focused on eliminating the obstacles to success. The company has eliminated forced ranking and decoupled compensation from the performance review process. Data analysis showed weak or non-existent links between salary increases and performance ratings, so the highest performers didn't necessarily get the biggest rewards. Business units are now empowered to make their own compensation decisions and they have to fund changes themselves. There is no longer an annual compensation round, which saves both management and HR time.
- Similarly, **Unilever**, in response to feedback from the 'Clusters' (geographical units responsible for execution in different markets), radically simplified its performance management process.
- Recent graduates at **EY** have been taken out of the performance appraisal process altogether – although they still have conversations with their counsellors around professional growth. This allows them to concentrate on passing their exams without the pressure of having to achieve good performance ratings. The firm has also introduced 'Counselling Family Trees' for performance management. These bring together communities of people in small groups to talk openly about how the firm is performing and provide feedback to partners.
- A key current priority for **Specsavers'** HR team is driving a number of 'Future Focus' projects, one of which is designed to ensure that individual performance goals are aligned with the business's ambitious growth plans, or 'moon-shot goals'. Director of HR, UK, Mark Moorton described how this has been translated into three key actions for HR: (1) communicating business goals better so people can understand how they play their part; (2) improving the way individual goals are recorded and shared; (3) implementing measures to check that better goal alignment is actually happening in practice.
- **Specsavers** reviews performance against objectives – and pays bonuses – on a three-monthly cycle, which reflects the speed of operations within the business. The company has found that annual objectives become out of date too quickly, so setting quarterly objectives allows it to be more responsive.

Change management

- Sometimes operating at speed is only possible if the groundwork has already been done. Once **BT's** operating committee of the board had signed off the organisation's leadership change programme (described in more detail in chapter 4), HR moved from sign-off to implementation in five weeks. However, it had taken a year's work to get to that point, in terms of agreeing the approach with the top team and getting alignment around what to do.
- **Hilton Worldwide** manages change in much the same way that it manages its regular business operations. The company has run three-day organisational effectiveness workshops across three regions to build capability and has developed common processes and communications frameworks for change programmes, which piggy-back on existing operational processes.
- For **Unilever**, constant change has become such a given in today's fast-moving environment that, in the words of CHRO Doug Baillie, "if the world suddenly became stable and predictable again, we wouldn't know what to do." Unilever's approach to change management is light-touch and flexible rather than 'cookie cutter'. There are some common processes, for example to support stakeholder alignment and the definition of vision. But change works with the organisation's 'affiliative' culture. The rhythm of change activity follows the natural cadence of the business. So change priorities and the ownership and progress of particular projects are discussed as part of regular business meetings, and are not treated as a separate function or workstream.

"We live in a world of governance and compliance, and a lot of what HR does can be seen as an inhibitor by others in the organisation. So we have to overcome that perception by challenging ridiculous policies and practices and simplifying things. We have to think 'does this make sense?', 'does it benefit the business?'." **Ben Bengougam, VP Human Resources EMEA, Hilton Worldwide**

3.3
The capabilities required of agile HR

Agile HR needs to design processes that are responsive and flexible to the changing needs of the business, and ensure it is keeping pace with the speed of change in the organisation. Not only does agile HR look different, but the capabilities required of HR professionals in agile organisations are also different.

Deep understanding of the business strategy and external environment

HR people in agile organisations need to be, first and foremost, business people. They need to be skilled in translating the business strategy into tangible people plans.

In addition, HR can play a key role in 'maximising surface area' by connecting people to the world outside the organisation. CRF's experience over 20 years suggests that HR professionals can benefit substantially from sharing ideas and experience with other organisations, and without any danger of revealing competitive information.

For example, hotels group IHG has made increasing leaders' capacity to deal with the uncertainty and volatility inherent in today's business environment a key element of leadership development. HR arranged for senior IHG leaders to visit six different companies – across a range of industries from hi-tech start-ups to long-established FMCG and retail businesses – in six days. This helped open the leaders' eyes to the world outside IHG, think about how they can learn from other industries and thus help them build their learning agility.

Analytical and consulting capabilities to diagnose, design and implement a variety of solutions

- Designing agile HR systems and processes is a high-order skill set requiring strong diagnostic and analytic competencies, organisation design knowledge, and project and change management skills.
- Successful implementation is dependent on having the confidence to be courageous, to confront authority appropriately, to call out what needs to be done, to influence and cajole others, and to persevere.
- As well as skills, HR needs to create the capacity for this higher-order work, while ensuring that it continues to deliver a good level of service to the organisation on day-to-day people activities. This means streamlining or outsourcing where possible (such as through employee self-service).

There seem to be two principal reasons for the dearth of such capabilities among the HR community.

1. The typical design of the HR function seems to be fragmented and based on old principles, which prevents the diagnosis, design and delivery of HR processes being integrated.
2. Many HR professionals style themselves as 'Business Partners' but lack the business and consulting skills, and the credibility, to perform this role successfully. In many organisations, considerable upskilling is required. The column provides some examples of where the HR function has played a leading role in implementing some of the elements required for agility.

Case Notes

- **Hitachi Data Systems**' HR team has set up cross-functional teams charged with identifying opportunities to improve performance, coming up with new designs and implementing them. One project resulted in reducing the sales commission reporting cycle from three months to three days, increasing the visibility of performance data and improving employee satisfaction.
- In **Unilever**, HR is playing a lead role in helping the whole organisation reduce its response times by streamlining and clarifying decision rights and simplifying processes. 'Project Half' is an ongoing programme which reviews internal processes to ensure they are fit for purpose. The aim of Project Half, which reflects the company's Sustainable Living Plan, is to double the impact of processes while halving the effort by removing waste and bureaucracy. The project is run as a continuous cycle, focusing on ten core processes at a time.
- HR in **EY** has actively promoted employee engagement and inclusiveness for many years. Over time, HR has built a strong reputation within the firm, and is highly regarded and trusted. This means when HR 'speaks up', partners tend to listen and follow recommendations.
- Jeremy Campbell, Chief People Officer at **Ceridian**, finds that HR is the only board function that cuts across the whole organisation, so he sees his role as 'Chief Linkage Officer'. HR and Marketing work closely together. The nature of Ceridian's business – outsourcing of people processes – means that internal conversations with employees and external conversations with customers cover similar issues, so it makes sense for HR and Marketing to aim to speak with one voice.

"We have a long history of moving people around the organisation. There's a healthy view of the value of rotations and building experience on the job, and top leaders see it as their responsibility to manage this directly." **Cathy Doyle Heffernan, Global HR Director, PZ Cussons**

Case Notes *(continued)*

- In **PZ Cussons**, HR is involved in all key business meetings. Cathy Doyle-Heffernan, Global HR Director, said: "In business meetings, there's typically a lot of discussion about 'how do we get this done?', and HR is heavily involved in those discussions."
- In **Bunzl**, corporate HR keeps out of the operational detail, trusting business units to do what's right for them. There are a small number of umbrella HR policies that set the tone and context, but there are very few 'must-dos'. Celia Baxter, Director of Group HR, said: "This is how we do it and it works for us. We ignore fads and fashions and plough our own furrow, but we don't get complacent. HR has a good sense of when to get involved and when to 'butt out'. HR has the confidence and business credibility to say 'we can leave this well alone; it will work better if we don't try to make it more complicated'."
- **Penguin Random House's** approach to HR reflects the culture described in chapter 2, which seeks to treat employees like adults. HR sets a broad framework with rules of engagement around key elements of the people plan, such as diversity. When it comes to individual details, however, HR largely leaves it up to the individual to resolve directly with their line manager. This means that HR doesn't have to act as 'parent' – and doesn't get blamed if the manager says no. Neil Morrison, HR Director, said: "My philosophy around performance management is that the most important thing is for managers to make sure they have a proper conversation with their people at least once a year, and make sure there is time for people to talk to them when they need to."

Conclusion

Organisation effectiveness is as much about properly aligning goals and making the right talent available at the right time as it is about having the right products in the right markets. However, agile organisations also need HR processes with flexibility and speed. They must be able to adjust and adapt as often as changes in the environment demand, without skipping a beat.

One of the secrets of agility is how dependent an organisation is on its basic, everyday management processes. HR executives must design HR practices, leadership philosophies and resource allocation processes that both support the deployment of current capabilities and build new, more sophisticated capabilities required for agility. HR processes need to be designed with built-in flexibility in order to support continued performance when the agility routines signal the need for new capabilities.

Basic HR management processes are critically important.

- Pursuing radical design ideas, breaking all the rules and ignoring the fundamentals of managing and leading organisations may make for great headlines, but will not create an effective organisation unless the basics are right. It makes no sense to abandon performance ratings, crowd-source feedback or eliminate hierarchy if the organisation can't do the basic management processes well.
- Agility is not about adopting best practices or benchmarks. HR processes must be designed first in support of the firm's objectives, and second with flexibility and speed in mind.

There are no quick fixes in the transformation to agility. In every organisation we interviewed, even those that are highly agile, the story was the same: "There's still so much we need to learn." Becoming agile requires patience and committed leadership. It is a journey that never ends. While there are ways to accelerate the transformation, becoming agile requires time, effort and close attention to how the different organisational systems work together. Alignment, another classic management principle, will remain as relevant in the future as it is today.

4

BECOMING AGILE – CONSIDERATIONS FOR PRACTICE

Topics covered

Introduction

In this chapter, we step back from the description of agility and the HR systems that support it to suggest several 'how to's' and explore some 'lessons learned'. Based on interviews and experience, we provide suggestions and recommendations for how to start the transformation journey to agility. Along the way, we explore two case studies that reflect these issues. We then draw some overall conclusions from our research.

"The journey to establish good management is long and hard. Agility is several leagues beyond that. But for managers, customers, employees and shareholders, the journey seems to be worth it."
Worley et al, 2014

From operational to strategic agility

Organisations with one or two routines are often operationally agile. They have the ability to adapt at some level. For example, execution requires thousands of adjustments to operations on a continuous basis. In that respect, execution is the most important source of current performance. However, focusing attention on current activities can blind an organisation to changes in its environment that it needs to adapt to. Even agile organisations make mistakes from time to time. The depth and scope of the global financial crisis of 2008, and the recession that followed it, caught many firms, even the well-prepared ones, off guard. Organisations can demonstrate agility in one area but not in others. For example, several of the organisations we interviewed could be described as operationally agile on a day-to-day basis, but struggle to respond with the same degree of agility to longer-term strategic threats, competitor moves or market shifts. They retain their operational agility because they:

- can mobilise people quickly and flexibly in response to crises or to deliver short-term objectives
- have slick operational routines that are well understood and executed
- have a sense of shared responsibility, so people don't want to let the system down.

This can lead to good performance in the short term and can represent the basis of change. However, the true test of agility is whether they can stay ahead in their industry over the long-term.

Tesco's long history of success was interrupted recently by a marked decline in the company's fortunes. Yet the features of the business that still possess the characteristics of fitness, flexibility and appropriate speed, are helping the organisation respond. The case study in the column describes how the retailer took its eye off the ball, and what it is doing to get back on track.

4.1 Becoming agile

Given the complexity of the agile capability, is it possible for non-agile organisations to become agile or should they just throw up their hands and live with the highs and lows of being a thrasher? The answer is that becoming even a little more agile is worth the effort because the path is obvious and the benefits are tangible. A complete transformation to agility is clearly not an easy journey, although plenty of organisations have made important and beneficial changes. Transformation requires a long-term commitment from the firm's leadership and persistence in implementing and sustaining new management systems.

The agility pyramid introduced in chapter 1 not only helps describe the architecture of agility, it also implies a roadmap for becoming agile. Organisations that want to become more agile are advised to follow the pyramid from the bottom up by ensuring first and foremost that their management practices are 'fit-for-purpose' to support differentiated capabilities. They must then elevate these management practices to a higher level of sophistication. In other words, making management practices fit for purpose is an absolute prerequisite of agility, but this on its own may only be good enough to support the agility necessary for survival.

To become agile and achieve consistently above-average performance, an organisation's management processes must be integrated with the capabilities that will consistently (but momentarily) create value in ways that are important to customers – and then be able to change and support new capabilities when the time comes. Management practices must be aligned with strategy, be co-ordinated and integrated with each other, and have flexibility and speed designed in.

This is an important point worth explaining further, and we will use the management process of leadership development as an example. Organisations that want to sustain their better-than-average performance often believe that it is important to replicate the leadership behaviours and philosophies that created success in the first place. As a result, and recognising that new leaders will be needed in the future, they establish and validate leadership competencies and launch leadership development programmes for their high-potential managers to spread those competencies. They apply a traditional 'scale and leverage' process to the human capital in the organisation, just as they would for any other form of capital. This kind of leadership system serves the existing strategy: it is fit for purpose and improves with feedback from participants. In pursuit of alignment, these competencies are embedded into performance management systems. People are rated and ranked on how well they cleave to a set of expected behaviours. In this case, the differentiated capability required by the strategy is supported by the leadership development and the performance system, and the two HR systems are aligned with each other. The alignment ensures that success is perpetuated **as long as the environment doesn't change**. That assumption, as we all know, is not viable.

"No single resource, routine or capability can sustain performance; only a system of resources, routines and capabilities working, changing and learning together can do this. The more agility routines the organisation has and the more they complement each other, the higher the level of performance." **Worley et al, 2014**

To become agile, the design and operation of fit-for-purpose management processes must be supplemented. The big difference in the step up from management processes that support differentiated capabilities to the management processes that support agility is that they must also be flexible and fast. The agility pyramid's foundation of management practices that supported the organisation's survival and effective competition must now be designed to change easily. This is easier to establish as a legitimate concept in today's changing world because the market rewards companies for reliably delivering today's results and abandons them just as quickly when their performance inevitably declines as a result of a strategy and organisation design becoming suddenly irrelevant. Organisations that are rewarded for institutionalising effective capabilities often feel betrayed by changes in their environment. The same investors who praised management for their brilliance now vilify them for their lack of foresight. **The clear but uncomfortable truth is that sustainable performance requires reliability *and* innovation, exploitation *and* exploration, stability *and* change.**

By contrast, agile organisations define leadership as an organisation capacity that can change with changing times. To achieve that, leadership must be defined as a responsibility that is shared throughout the organisation, and not as a set of narrow and rigid competencies possessed by a small cadre of high-potentials. Rather, when moments arise when it's not clear what to do, or when an existing policy needs to be challenged, agile organisations need everyone to:

- come forward and catalyse action
- be effective in resolving conflicts, making trade-offs, and getting the right things done to achieve results or make changes.

This will only happen if the organisation develops and supports a leadership philosophy of shared responsibility, including the view that there is no one 'right' leadership style or set of competencies that can be listed on one page. **Agile organisations work properly when all employees know the strategy and are aware of the environment, are expected to 'speak truth to power', and take initiative to get work done.** Such a leadership system – like the other management processes in an agile organisation – have the two distinct, additional features described in chapter 3. They are flexible and they operate at an appropriate clock speed.

This is the good news of agility implementation. The basic management processes that keep the firm aligned and operating today are the same ones that will keep it aligned, operating and adapting in the future. Become agile is about making management practices fit for purpose, including alignment and continuous improvement, and then flexible and fast.

4.2 Diagnosis drives action

Any effective organisation development process, including building agile capabilities, begins with an assessment or diagnosis of the firm's strengths and weaknesses. The list of recommendations for becoming agile would be extremely long if it were not filtered through a careful understanding of the organisation's existing practices, design and capabilities. Before embarking on an effective agility journey, organisations first need to tackle three diagnostic dimensions.

Case study – Tesco

A few years ago Tesco was one of the most successful retailers in the world, with a track record of anticipating customer needs faster than its competitors, spotting market opportunities ahead of rivals and launching industry-leading innovations.

- Tesco was the first supermarket to launch its own loyalty programme, 'Clubcard', which was a game-changer in terms of developing loyalty and customer insight.
- In response to the recession of the early 1990s, it developed huge out-of-town stores, offering customers convenience and value for money. It was also the first to launch a supermarket own-brand 'Value' range in 1993.
- It anticipated the trend for smaller urban convenience stores by launching Tesco Metro in 1994. By 2013, one pound in every eight spent in the UK was spent at Tesco.

Success, however, has been followed by challenges. It has been widely reported that Tesco misjudged the needs and behaviours of shoppers and allowed low-cost competitors to steal a march. It also received criticism from some quarters for the mistreatment of suppliers and decided to check its ambitions for international growth, withdrawing from the Fresh and Easy venture in the US and selling its Korean business. After being appointed as CEO, Dave Lewis also had to deal with the fallout from accounting irregularities and a fall in profits. As a result, Tesco has had to take decisions to win back the trust of customers.

The organisation retains many of the features that can restore it to prominence, and is using them to help it turn the business around. For example, the business has a history of operational agility.

- Tesco has only six work levels, which means decisions can go from top to bottom quickly, and that information from the bottom doesn't get overly filtered as it moves to the top.
- There's a consistent way of managing performance, which is well understood by everyone, and a 'can-do' culture.

Although people within functions work very well together, co-ordination across functional boundaries has been more difficult to build. The degree of change and transformation going on within the business has made it difficult to get the whole organisation pointing in the same direction.

Dave Lewis's arrival has signalled a refreshed change agenda. Many of the actions being taken are consistent with the agility routines we describe throughout this report.

Case study – Tesco *(continued)*

- Tesco refocused and revitalised its purpose. 'Serving Britain's shoppers a little better every day' is supported by a new set of 'Big Six' measures, which are designed to 'help the company focus, simplify and improve the way we do things across the Group'. The measures seek to balance the financial requirements of turnaround in terms of sales, profit and cash, with what's important for customers, colleagues, suppliers and communities. The Big Six are as follows.
  - o Customers recommend us and come back time and again.
  - o Colleagues recommend us as a great place to work and shop.
  - o We build trusted partnerships.
  - o Grow sales.
  - o Deliver profit.
  - o Improve operating cash flow.
- The company refocused on the Plan – Do – Review cycle described in 2.8 with the aim of building a learning-focused organisation. Tesco's historically strong emphasis on all three parts of the cycle had become less rigorous. Planning and doing became priorities, at the expense of reviewing. New efforts are focused on all three steps to ensure that reviewing and learning lead to adjusting actions accordingly and making management processes more fit for purpose.
- Tesco is relaunching its learning strategy to reflect the business's change of direction and the learning needs of Millennial employees.
- The company is spending a lot of time thinking about how to strike the right balance between autonomy and control in its management processes. For example, it is building a stronger change capability in the centre to better co-ordinate implementation activities across the organisation and align projects with business strategy. It is also thinking hard about which decisions it needs to decentralise to improve autonomy in the right places.
- There are also signs of a shift in leadership philosophy toward more open communication and shared responsibility. For example, offices in the new headquarters campus are open plan. Leaders don't have private offices, the company has removed special car park spaces for executives, and there is no longer a separate 'executive floor'.

Latest reports suggest the turnaround plan may be starting to work. Employees, analysts and investors will be watching the performance of Tesco and its management team closely over the coming years.

- **Do you know yourself?** To be agile means to know your identity and culture well, to understand why the organisation has been successful in the past, to know how stakeholders see the organisation, and to be clear on the organisation's mission or purpose – beyond profit and loss – that binds everyone together. This is usually a process of discovery rather than invention. The organisation's identity in traditional, non-agile, or thrasher firms is often buried under recent crises, regulatory threats, past mis-steps, or long periods of inattention. The first diagnostic process and organisational intervention is to articulate the organisation's identity and shine a light on it.
  - o Is your organisation's purpose clear and visible? Does it resonate with both long-term employees and recent hires?
  - o Is your purpose distinctive and inspirational?
  - o Does your purpose ring true in terms of what you value and reward in the organisation?
- **Is the strategy clear and shared?** Too many business strategies are goals dressed up as broad interests. Being number one in your segment or the provider of choice is not a strategy, it is an objective. The members of agile organisations know why and how the organisation makes money (or, in not-for-profit or government sectors, deliver benefits). Many people, from the C-suite to the shop floor, can tell you why customers buy your products and services.
  - o Is your strategy 'good enough?' Any strategy has to be responsive to environmental demands, so it's important that it specifies the key dimensions, such as the breadth of products, services, markets and technologies the organisation will address; the amount of risk and investment it will take on; and the things that differentiate the firm from its competitors. While the top management team needs to be committed and clear on these issues, it is important not to fall into the trap of believing that consensus means being perfect. 'Analysis paralysis' is not a characteristic of agile organisations. Nor is driving out variation to the point where everyone must agree. When the environment is changing quickly, it's more important to be close than perfect, clear rather than exhaustive.
  - o How well understood is the business strategy at all levels of the organisation? This is easily determined by going out and talking to the front-line people and seeing what they say. Think *Undercover Boss*, the UK TV show where executives interact under-cover with the people who do the day-to-day work. If it's not well understood, look in the mirror and don't point fingers. Think hard about how the strategy could be communicated better and differently.
- **What routines of agility does the organisation already possess and what management processes are strong and weak?** It is not unusual for an organisation to already have one or sometimes two of the agility routines. As we demonstrated in chapters 1 and 2 with the CRF sample, even one agility routine improves the chances that people in the organisation perceive it as effective, and that perception is an important baseline for positive change. The data from the original study suggest that organisations need to possess at least three out of four of the routines before real, above-average, consistent performance becomes the norm. It is critical, therefore, to know how the organisation stacks up. The 19-question survey used with CRF members is a quick and easy way to get a handle on the routines (see the questions in the Appendix). Going deeper into the different and specific management practices may require a more extensive inquiry.

"Early on in the process of transformation, we put a lot of emphasis on 'candour'. The CEO recognised that people's expectations in terms of message clarity were a critical factor in whether we would be successful or not." **David Young, Head of Leadership Development, BT**

4.3
From traditional organisation to agile capability

The most common catalyst for agility among traditional organisations is a crisis or disruption. However, the transformation almost always begins with top management support and it almost always ends with power being distributed.

This is the 'paradox of leadership' in the shift from traditional to agile. **To implement a shared leadership philosophy, a top-down decision has to be made.** It is doubly difficult when you realise that, today, the typical CEO tenure is only six to eight years. Thus, most CEOs are tempted to initiate rapid, gargantuan changes in pursuit of 'big, hairy, audacious goals', to quote Jim Collins and Jerry Porras, authors of *Built to Last*. This rarely works and is the primary driver of the thrasher performance pattern. What does work is consistency and patience. The transformations taking place at BT, Tesco, Siemens and others are marked by not one CEO's tenure, but many.

Case Notes – BT

Over the past 15 years, former state monopoly BT has been pursuing a remarkable transformation. When Ben Verwaayen joined as CEO in 2002, the company was at a low ebb, having faced stiff debts, high pension liabilities from privatisation, sold its mobile arm, facing intense competition, and needing to reach regulatory clarity. The group faced a financial storm and needed a clear strategy around which to mobilise and focus action.

Today's picture looks very different. The company is outperforming peers in the telecoms sector globally, on consistent cost transformation and profit growth, and its share price reached a high of 481p in July 2015, having recovered steadily from its nadir of 72p in 2009. BT's 'near death' experiences meant the organisation had to reinvent itself just to survive. To thrive over the long term meant making choices that are clearly in line with the agility framework.

The first stage of the turnaround focused on getting out of the immediate crisis, making tough decisions and instilling discipline to get the finances back on track. There was a clear focus on improving profitability by significantly reducing the cost base, emergency fundraising and disposals. Eventually, BT repositioned itself strategically as a communications and media business, moving into direct competition with players such as BSkyB. It has done this through 'big bet' investments, such as acquiring TV sports rights, building a superfast broadband network, and the upcoming proposed purchase of mobile business EE.

But the first stage also had to address cultural aspects that would have a long-lasting impact on performance. Financial order might well be restored, but if BT was to become a growth business, the focus needed to shift towards innovation, purpose and longer-term vision. A by-product of establishing discipline was that people ended up simply following the rules. It became necessary to evolve the culture to support the desire for growth. Hugh Hood, Director of Leadership, said: "The pace of change in the industry and BT's ambitious goals meant simply publishing a plan and expecting people to deliver on it wasn't realistic. We needed to equip people to make decisions on a day-to-day basis consistent with the challenging objectives." This was achieved partly through fiscal discipline, but also by stripping away the entitlement culture.

Once BT had established the business fundamentals, it began thinking about responsible growth. Supporting this new strategy has been a change programme that has sought to build sustained long-term performance and a capacity to keep changing over time in response to BT's fast-moving marketplace. It has been based on a systemic approach, working on many different aspects of the organisation's design, culture and processes simultaneously. Some of the key elements include the following.

"The challenge lay not so much in what the ten leaders at the top were doing, but in the thousands or tens of thousands of decisions made every day. Senior leaders were important, but we needed a critical mass for agility to become a reality." **Hugh Hood, Director of Leadership, BT**

Case Notes – BT *(continued)*

- **Absolute clarity around purpose and goals.** Building clarity and winning buy-in to the organisation's new sense of purpose – and using that to guide the actions people take and energise the workforce – was a key starting point. This began with the CEO talking about the opportunity the business faced and what that meant for him personally. But it was not simply an exercise in transmitting objectives from the top to the bottom of the organisation. "Change could only become a reality when the aspirations of the top team translated into the 10,000 decisions taken across the business every day," said Hood. It has been an iterative process, based on conversations across the organisation about what needed to be achieved, why and when. The company has also clarified accountabilities. David Young, Group Head of Leadership Development, said: "The process of getting clear about what we will do and who is accountable for what is emerging as a core competence of the organisation."

- **Analysis and persuasion to build senior leadership support for the change agenda.** Through a combination of data analysis and storytelling, the executive team came to believe that the growth targets could only be met by a shift in attitudes and behaviours across the organisation. This was not an overnight success: it took a year to gather the data and gain the conviction of the top leaders in the culture change agenda. However, once agreement was secured, things moved fast: it took five weeks from the operating committee of the board sign-off to kicking off the leadership change programme.

- **Building a culture to support growth.** The leadership change programme looked at what the organisation would feel like as a growth company, for both employees and shareholders. It became clear that the culture needed to shift away from being directive towards an environment where the degree of 'challenge' implied by the ambitious business targets would be accepted and welcomed. People were used to 'managing the impressions' of others and being told what to do, so discussions in the early stages focused on developing 'candour' in conversations. This has been a difficult process for both leaders and employees, and has been particularly threatening for middle managers who historically controlled the conversations between those above them and the people who reported to them. So the business had to equip people with techniques to work differently in an environment of transparency and increased speed. A bespoke leadership development programme was developed. It was piloted by the CEO and his direct reports before rolling out to the top 600 leaders and 10,000 beyond. The programme was designed using faculty from top business schools, but is now delivered by BT executives, which helps drive home messages around the top team's commitment to behaviour and culture change.

- **Investment in changing core HR processes to be consistent with the target culture**. Over the past several years the organisation has invested several millions of pounds in new HR systems and leadership development programmes to support the culture change. For example, the focus of talent management has shifted away from a small elite of top talent, which had the potential to turn off the vast majority of employees. Now, the process is more meritocratic. Talent discussions cover all employees, and there is much more movement of talent across different parts of the firm. This has improved the focus on succession pipeline for top jobs, because people are building the kind of broader experience that equips them for top leadership roles.

- **Tackling the 'unpopped kernel'.** Significant transformations often change the basic assumptions of the employment relationship as well as traditional bases of power. These new assumptions demand new behaviours from people, some of whom may be resistant. The new ways of working don't suit everyone, and some have opted to leave. But change resisters who remain must also be addressed. Continued attention is required to make sure behaviour change is sustained. David Young said: "If we ignore behaviours which work against what we're trying to achieve, it sends an important signal that we're actually not serious about this."

BT's recent strategic moves, such as the planned acquisition of mobile operator EE and building TV content, suggest BT is testing its ability to respond quickly to strategic threats and market opportunities. At a macro level, the company appears to have been successful in building alignment around the change in strategic direction. But some parts of the organisation remain tough nuts to crack. For example, the company still ranks lower than its aspirations for customer service. Change of this magnitude is an ongoing process of building capabilities and adapting mindsets. It requires attention and nurturing to make sure the new, more flexible behaviours become the norm. This suggests that future HR systems, such as rewards and recognition, may need to be adjusted. So although much has been achieved, BT is still only part-way through the journey.

4.4
Practical pointers for implementation

The BT and Tesco cases demonstrate two very common approaches to becoming agile. In both cases, the transformations were based on clear assessments of the situation and the organisation's strengths and weaknesses. Diagnosing the existing routines and management practices is an important starting point for change. Any successful implementation of a new capability, including the agile capability, must plan for three factors:

- the skills and knowledge required to make the capability operational
- the systems and structures that make the capability repeatable
- the experience and learning that make the capability effective over time.

In this final section, we describe several of the more common tactics and initiatives.

1. With respect to the skills and knowledge associated with the agile capability, organisations have found the following interventions helpful.
   - The knowledge base in most organisations is rooted in technical, operational and financial disciplines, and change knowledge often resides only in small pockets, such as the HR function. Pursuing agility is a statement about the importance of change, which can be backed up by investing educational resources in making the organisation more 'change-able'. Two of the more common approaches are:
     - adopting a common change management model and training everyone in the organisation to understand and apply that model
     - creating a centre of expertise where the knowledge can be used throughout the organisation.

2. With respect to the systems and structures that make the agile capability repeatable, organisations have found the following helpful.
   - Review and redesign a variety of organisation features and management processes, such as work designs, decision-making processes, resource allocation systems and HR systems with agility in mind. This involves adjusting the clock speed of the process to the pace of change in your industry. Remember, it's not just about being fast, but also about being able to respond in an organised and systematic way when and where it makes sense. Clock speed is increased through decreases in cycle time and increases in transparency.
   - The systems also often need to be made more robust. Organisations need to increase the systems' flexibility by opening them up to more inputs from external-facing people, different functions, teams and individuals to maximise alignment and to make sure feedback from front-line staff is seen by the board.
   - Increase the extent to which the organisation is in touch with the outside world as a way of generating information about what's happening in your environment and how you need to respond. Structurally, an organisation's surface area can be increased by the following actions.
     - Increasing spans of control.
     - Changing job definitions to make it clear that people are expected to bring this information into the organisation.
     - Differentiating functions, for example by splitting marketing from sales or creating multiple engineering units, each focused on a different discipline.

Key lessons learned

Our experience in working with organisations to improve agility has highlighted the following key lessons.

- A whole systems view of design and change is necessary: you can't just try one thing in isolation and expect everything else to fall into place.

Everyone has heard of the advice 'Keep it simple, stupid', or KISS for short. For presenters, it reminds them that the best way to get their point across is to describe information as simply as possible without throwing away important detail. In the journey and transformation to agility, there is an equally important rule: ITSS – or 'It's the system, stupid'. One of the really difficult messages for leaders to hear – but one they can't escape – is that agility is the result of multiple systems working together. As we see in the BT and Tesco cases, they are not changing just one thing, such as new product development processes or leadership development programmes; they are orchestrating multiple changes that are aligned with each other and with the organisation's intended purpose, mission and strategy.

- The transformation to agility needs to be viewed as a continuous journey of constant capability development – not a one-off redesign. As soon as you have become more agile, the chances are your competitors will have done so too, so you need to keep progressing in order to stay ahead.

HR can play an important role in highlighting the need for change and in influencing and educating the top team on the philosophy and intricacies of the change.

"Agility is a very high-order management capability that involves complex interactions and sound judgement. Very few large corporations exhibit agility. However, those that do consistently outperform their industry peers." **Worley et al, 2014**

- Breaking up large business units into more self-contained ones – although this must be tempered by increased investment in lateral co-ordination (see the 2014 CRF report *Emerging Approaches to Organisation Design* for a more detailed description of how to design lateral organisations and networks).
- Setting up a recurring system of focus groups or networks for customer-facing staff to feed intelligence back to decision-makers.
- Thinking about what mechanisms you need in place to feed that learning back to the organisation more widely, or into the strategy development process more specifically.

3. With respect to experiences and learning processes, organisations have found the following helpful.

- There has to be a healthy 'testing' routine. Use the 'learning' routine to design some experiments, evaluate what worked and didn't, and choose what to roll out further. Set up small visible 'experiments' or 'pilot projects'. These should involve a broader range of organisational membership and stakeholders than usual in such projects. Be particularly careful if the project 'fails'. 'Good' failures need to be encouraged, not punished. For any experiment, charge the team with conducting a thorough post-mortem and producing and sharing the lessons.
- Identify parts of the organisation, or individual leaders, which might be open to running an experiment in being more agile. If the experiment works, get them to promote it in other parts of the organisation.
- From a mindset perspective, take leaders out to visit customers/suppliers/partners/governments. Many executives are surrounded by systems that insulate them from outside information and visits can give them more visceral insights into emerging trends, internal complaints and the potential impact of changes on the organisation.
- Find management practices that are 'just ok' and make them better rather than starting afresh. Goodwill can easily be lost by declaring a system broken, chartering a task force with visible executive support, and telling it to transform the practice. It's easy for the people who were working hard in the first place to become disenfranchised. Instead, borrow from the agility routines and do some learning. Find out what is working in the process, make some tests and adjustments, and demonstrate the principle of 'fit for purpose'. The change often goes much faster and results achieved much quicker.

"If the world became stable and predictable again, I'm not sure we would know how to manage it. Volatility and complexity have become the new normal." **Doug Baillie, Chief Human Resources Officer, Unilever**

4.5 Conclusions

Just as the cheetah hunting on the African Savanna has to combine speed and flexibility to catch its prey, so organisations looking to stay ahead in today's VUCA world need to become agile.

Unlike Kodak, which saw the demise of film but could not make the adaptation to digital technology, FujiFilm took a different course. It reviewed its corporate assets and intellectual property and thought long and hard about how to use its strengths to avert the impending disaster. The result was a shift into cosmetics and healthcare, and today FujiFilm is among the firms working on a cure for Ebola.

Agile firms know that their strategies, capabilities, and business models are 'wasting assets'. They understand that the current pace of change means the factors which have value and help to make their organisation competitive today will soon become obsolete. Organisations need to be able to adapt to survive, but they need to be agile to remain ahead of the competition.

As we describe throughout this report, what sets agile companies apart is not so much that they do different things – which contribute to their differentiated performance – it is that they do things differently. Like other firms, agile organisations develop strategies, allocate resources, and manage their talent. However, they do these things with inbuilt flexibility and the capacity to adapt as rapidly as their technologies, competitors and markets do. They build capabilities to sense change in their context early, and respond quickly enough to stay in front. They have a strong sense of purpose that guides their actions. And they take time to learn from experiments in order to adapt and improve.

Developing agility is not about a one-off change programme. Nor is it easy. It requires rigour, discipline and ongoing investment in improving management practices. It requires a whole-systems approach, an integrated view of how the organisation's systems, processes and strategies work together. Hoping that a new structure or the latest round of layoffs will finally 'solve' the problem is deluded. The superior performance achieved by agile organisations suggests that an integrated approach and its associated investments are necessary and worthwhile.

The HR function is uniquely placed to alert the organisation to the advantages of becoming more agile and to help it build the required capabilities. To do this, HR must have strong business acumen and influence. HR needs to consider whether its practices are fit for purpose to support agility, and whether people processes need to be made faster or more flexible.

So where to start on the journey to agility? Agility requires a foundation of good management practices. That means meeting business needs continually. But these practices also need to be designed and developed with flexibility and speed in mind. The starting point is to understand the strengths and weaknesses of the organisation's existing practices and, in particular how to increase the exposure of the organisation to the outside world.

The pace of change is not going to abate. Nor is the complexity of multiple changes interacting with each other to create enormous uncertainty. The capacity of organisations to build and sustain agile routines and the management practices that support them, and the ability to sense and adapt to shifts and disruptions, is likely to become ever more important.

Recommendations for HR professionals looking to build agility

1. If agility is important for your organisation, both HR and senior leadership need to define it, focus on it and nurture it. Otherwise it will not flourish as an organisational capability.
2. Is your leadership capable of building and leading an agile business? Do the people In key positions have the skills and attitude required? If not, what can you do about it?
3. Are people processes (performance and reward, talent, leadership development, change) designed to be fit for purpose, flexible and fast? Are your processes over-engineered or overly rigid? Or do they synchronise with the clock speed of your business, minimise bureaucracy, and focus on what really matters? Are they continuously reviewed for effectiveness?
4. Does the organisation design support agility? Have you designed in lateral processes and networks to facilitate communications and effective decision making? Could you increase the 'surface area' with external stakeholders? Do you need to develop organisation design capability within HR?
5. Is your organisation able to refocus resources rapidly as needed to support new opportunities? What actions could be taken to build this capability? Can project teams be organised and disbanded with minimal disruption?
6. Does HR have the skills, capacity and credibility to support organisation learning and facilitate change? How could this be improved?
7. Are you clear about the areas where your organisation is agile currently, and where it needs to improve? In what ways can the HR function help the organisation develop greater agility?
8. Do your HR leaders have the commercial and organisational skills required to translate strategy into appropriately business-focused people actions? Are HR's priorities aligned to the business imperatives, or it there too much focus on work that's interesting to HR?

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APPENDIX

Effectiveness/Performance Questions

Item	Traditionally, this organisation…	Strongly Disagree (1)	Disagree Somewhat (2)	Agree Somewhat (3)	Strongly Agree (4)
1	…has a unifying purpose or mission other than profitability and growth				
2	…spends a lot of time thinking about the future				
3	…encourages innovation				
4	…considers the ability to change a strength of the organisation				
5	…develops strategies with flexibility in mind				
6	…puts as many employees as possible in contact with the external environment, especially with customers				
7	…has enough budget "slack" so that people can develop new products or better ways of working together				
8	…has a well-developed change capability				
9	…has a culture that embraces change as normal				
10	…allows information to flow freely from the outside to units and groups where it is most valuable				
11	…has flexible budgets that respond to marketplace changes				
12	…rewards seniority more than performance				
13	…has core values that reflect a change-ready organisation				
14	…shares financial and business strategy information with all employees				
15	…is capable of shifting its structure quickly to address new opportunities				
16	…pays for skills and knowledge that contribute to performance				
17	…regularly reviews learnings from change efforts				
18	…has formal mechanisms to connect senior management with people at all levels of the organisation				
19	…encourages managers to develop the leadership skills of their direct reports				

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