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Building Management Processes to Support Agility

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No society can provide its members with a high quality of life unless it has effective organizations.

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Although well-designed and executed management processes are prerequisites for agility, flexible and fast management processes keep organizations on their toes and prevent rigidity from settling in.

In recent years, the word "agility" has entered the business lexicon like few other terms in recent memory. Today's strategists extol the importance of strategic agility and resilience. IT professionals talk about the need for agile software development. Yet even as agility is mentioned more often and in more management contexts, we believe that the core concept is misunderstood. Agility refers to an organization's ability to make timely, effective, and sustained changes that maintain superior performance.

An essential feature of agility is repeatability. Agile organizations continuously adjust to changing circumstances by, for example, launching new products or eliminating old ones, entering new markets or exiting underperforming ones, or building new capabilities. This requires management processes that can support adaptability over time.

Agility Routines and Management Processes

To develop our ideas on agility, we studied performance data from the largest public, global companies in 22 industries between 1980 and 2012. We also administered strategic change and organizational design surveys in more than 50 companies. We sought to understand the factors that explained sustained levels of high performance and concluded that organizational agility required four routines:

- The ***strategizing*** routine establishes the purpose, direction, and market position of the organization, and supports what management professors James O'Toole and Warren

Bennis referred to as a "culture of candor" that expects organization members to challenge the status quo.

- The ***perceiving*** routine connects organizations to their external environment; they can accurately sense and interpret relevant shifts better than their peers do.
- The ***testing*** routine encourages organizations to experiment with different ideas, allowing them to learn on a continuous basis.
- Finally, the ***implementing*** routine facilitates day-to-day changes in products, operations, structures, and systems, but more importantly, orchestrates the development of new capabilities, business models, and strategies.

Routines and capabilities are what allow organizations to get things done reliably and repeatedly. Some, such as lowering costs or improving quality, enable organizations to keep pace with a changing world. Others, such as designing superior customer experiences or reducing the time it takes to achieve profitability in new markets, can provide distinct advantages. The agility routines play the critical role of making continuous change possible and profitable.

Management processes -- the fundamentals of planning, organizing, controlling, and motivating, as described by Peter Drucker, Henry Mintzberg, and others -- operationalize routines and capabilities. They align goals throughout the organization, develop capital and operating budgets, define roles and responsibilities, hold people accountable for results, and reward employees in a systematic fashion. They are the nuts and bolts that make agility possible.

To support agility, all management processes need to be designed well, and *some* of them must be designed for change. Well-designed management processes are fit for purpose. They support the execution of existing strategies and capabilities. However, executives in agile organizations are suspicious of management bromides that support overly efficient and unnecessarily complex management processes in service of defending a competitive position. They see these as futile attempts to sustain the unsustainable and overcommit the organization to institutionalization. As a result, some management processes must also be flexible and appropriately fast. Flexible and fast management processes keep the organization on its toes and prevent rigidity from settling in. They help companies string together momentary competitive advantages that sustain high performance.

Designing Good Management Processes

Good management processes align resources to the strategy and apply the "plan, do, check, act" logic of continuous improvement popularized by quality guru W. Edwards Deming. These systems should focus attention and resources on the economic logic of the firm and channel resources to their most important activities. Many organizations fail to do these basics well or consistently. In addition, organizations often fail the "check" step by making invalid assumptions regarding performance or skipping over this step entirely. While good management processes are a necessary condition for survival, they are not sufficient – witness the long list of companies, including Circuit City, Motorola, Borders, and Xerox, whose management practices *didn't* adapt to a changing world. Clearly, detecting bad management processes is more difficult and subtle than the ravings of megalomaniacal CEOs or the larcenous activities of Enron executives.

Among the companies in our database that performed the management basics exceptionally well were The Brioche Pasquier Group (BPG), a multinational bakery headquartered in Les Cerqueux, France, and Netflix, the provider of streaming digital content based in Los Gatos, California.

The Brioche Pasquier Group. The Brioche Pasquier Group (BPG) relies heavily on a rolling three-year strategic plan that it develops with broad participation from the field and provides the basis for its six-month planning and operations cycle. Each production and sales facility has profit and loss responsibility for its local market, and the company's priority action plans contain a set of initiatives focused on enhancing current and future results. If the three-year plan highlights the importance of developing a more sophisticated sales and business development capability to capture future market share, site-level plans may address sales capability development as well.

The priority action plan also contains initiatives from a bottoms-up process. Every six months, managers facilitate a two- to three-hour "mini-diagnosis" with their teams. They encourage employees to identify the difficulties, defects, and dysfunctions encountered in their work and propose improvement initiatives. Although most initiatives are local, enterprise-wide changes can also be suggested. A coordination seminar among production managers and the key functional staff validate the site's priority action plan. All this happens in a couple of weeks.

The aligned initiatives and projects are codified into individual or team-based improvement plans, that focus on improving current performance or how "slack resources" can be used to try out new ideas (for example, new kinds of in-store demos) to drive future success.

Over time, the improvement plans have essentially replaced job descriptions. Twice a year, individuals and teams identify objectives and actions related to their work that they think can improve short-term performance or develop future capability, and also do a review of the previous plans. BPG uses this as an opportunity to distribute monetary bonuses (funded by savings or new value realized) to the individuals and teams whose actions contributed to the results.

Netflix. Netflix management sums up the overall corporate philosophy with the words "freedom and responsibility." The company wants every manager to be a leader, never settles for a mediocre hire, pays high salaries, and gives managers tremendous latitude rather than lots of rules to follow. Reflecting this philosophy, the planning and goal alignment process begins with a quarterly business review. Everyone leaves the meeting with a clear understanding of key issues: what's important, what is and *isn't* working, next steps, and how the organization will approach growth for every product and market. That information is available to anyone in the organization.

Netflix doesn't draw a distinction between being a good leader and being a good manager. Planning, leading, and holding people accountable at Netflix are part of an organization capacity to get the right stuff done. It is a system. Leading people is not a function of one's position in the hierarchy or an individual trait to be taught to the high potentials. There is an expectation that anyone can take initiative, make decisions, and influence others in line with the company's strategy. Everyone gives and gets feedback--from team members, supervisors, managers, and customers. There is a shared belief at Netflix that good results depend on people weighing in with their perspectives. It's part of an overall system that stresses transparency. Getting alignment on direction and getting results the right way are critical. People who fail to achieve these are asked to leave the company.

We found that having the fundamentals right -- having well-designed and well-executed management processes – is only a prerequisite for agility. Sustaining high performance was a function of whether certain processes were flexible and fast.

Designing Agile Management Processes

Good management processes support strategy and capability execution; *agile* management processes help to change capabilities and other organization features quickly when change is necessary. Netflix, for example, has shifted its strategic capabilities at least three times since its founding - from distributing DVDs to movie streaming, from negotiating for distribution rights to creating and developing its own content, and from piggy-backing on server farms owned by third parties to building and operating its own content delivery network. Netflix is currently learning to operate through international regulations as a global business. BPG, meantime, has transitioned from a single brioche plant and one local market to multiple factories, products, and production technologies. Along the way, it has learned to orchestrate complex international supply chains and adapt its capabilities to a multinational environment. These transformations were facilitated by the way the management processes were designed.

Importantly, not all management processes need to be designed for flexibility and speed. Some, such as those governing the core business at Netflix and the manufacturing and delivery processes at BPG, just need to be extremely reliable and incorporate continuous improvement tools such as Six Sigma. For the management processes that are central to adaptation, such as resource allocation, performance management, and new product development, however, speed and flexibility are critical to assure that new strategies and capabilities can be implemented seamlessly.

Increasing Flexibility and Speed in Management Processes

One essential aspect of agile management processes is flexibility, the ability to operate effectively without being tied to a rigid set of steps. Thus, flexible management processes are different from simple process improvements. Flexibility requires having a clear understanding of what the management process is supposed to achieve, functional links to a portfolio of inputs, and the freedom to adapt the process as necessary. While the purpose of the process must be well established and widely shared, the information needed by the process, and the means to the ends shouldn't be fixed or narrow (see **"Making Management Processes Flexible and Fast").**

Making Management Processes Flexible and Fast

<table>
<tr><th rowspan="2">Well-designed Management Processes</th><th colspan="2">Agile Management Processes</th></tr>
<tr><th>Flexible Management Processes</th><th>Fast Management Processes</th></tr>
<tr><td>• Aligns resources/behaviors to business strategy
• Follows a continuous improvement "plan-do-check-act" logic
• Supports and aligns with other management processes</td><td>• Tight alignment around the process's purpose and outcomes
• More focus on effectiveness than efficiency – how the process is conducted can vary
• Accepts a wide variety of inputs</td><td>• Cycle times adjusted to fit the rhythm of the market
• Simple, not overly complex, processes that are easily explained
• Relevant information is widely shared and transparent</td></tr>
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Agile management processes are not only fit for purpose, but flexible and fast. They support the execution of existing strategies and capabilities.

For example, most people agree that the purpose of goal setting is to ensure individual and team alignment to strategies and objectives. However, just aligning top-down objectives is not adequate. In addition to coming from management, goals can come from customer requests, compliance mandates, internal customer requirements, or be based on personal development objectives. How to achieve alignment, then, should not be overly specific.

The priority action plan process at BPG is flexible because the goal of developing a clear and shared plan is widely understood and has two primary inputs: a top-down source in the form of a strategic plan, and a bottom-up source in the form of the mini-diagnoses. It is based on a changing portfolio of objectives and strategies that are reviewed annually at the company level. Knowing that the company's long-term direction is always under review sends a powerful message that nothing is permanent. At the plant-level, input from the workforce about what is not working and what needs fixing helps set the agenda for what types of future investments are needed. Netflix's planning process is similar to BPGs in that business reviews send objectives down the organization so people pay close attention to strategy alignment. The company's leadership philosophy gives managers wide latitude to innovate in ways that are consistent with their job function, the product they are supporting, and the market. Netflix's freedom and responsibility framework ensures a portfolio of inputs, gets alignment without over-specifying behaviors, and encourages effectiveness and variety over standardization.

Agile management processes are also appropriately fast. Agile organizations match process cycle times to the pace of environmental and business change. Whereas traditional management processes revolve around commitments to performance targets for defined periods (for example, one year), agile companies resist tying management processes to fixed time frames that may not properly align with the pace of change. The rationale is clear: without flexibility, employees will focus on goals and budgets that are outdated rather than doing the right things at the right time. Speed is also enabled by simplicity and transparency.

Rather than using a conventional annual cycle, BPG's easily explained priority action plan is tied to a semi-annual cycle. Executives share information and their thinking about the company every six months, and they interact with employees and managers in a variety of planning, strategizing, and operating processes. There is very little that is not widely known at BPG. Netflix, for its part, has found that, given the rapid pace and the level of uncertainty in its business, a quarterly focus is appropriate. Netflix executives are committed to putting information into the hands of the people who do the work and making sure that the information flows up and down to everyone who needs it.

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Pursuing innovative organizational structures, breaking the rules, and challenging the fundamentals of managing and leading make for great headlines, but they cannot create an effective and adaptable organization unless the basics are already in place. Agile organizations aren't created overnight. They require patient and committed leaders who attend to how the various organizational systems work together. In every organization we studied--even the ones that displayed high levels of agility--managers always said the same thing: "There's still so much we need to learn." Alignment, another classic management principle, is as relevant in the future as it is today.