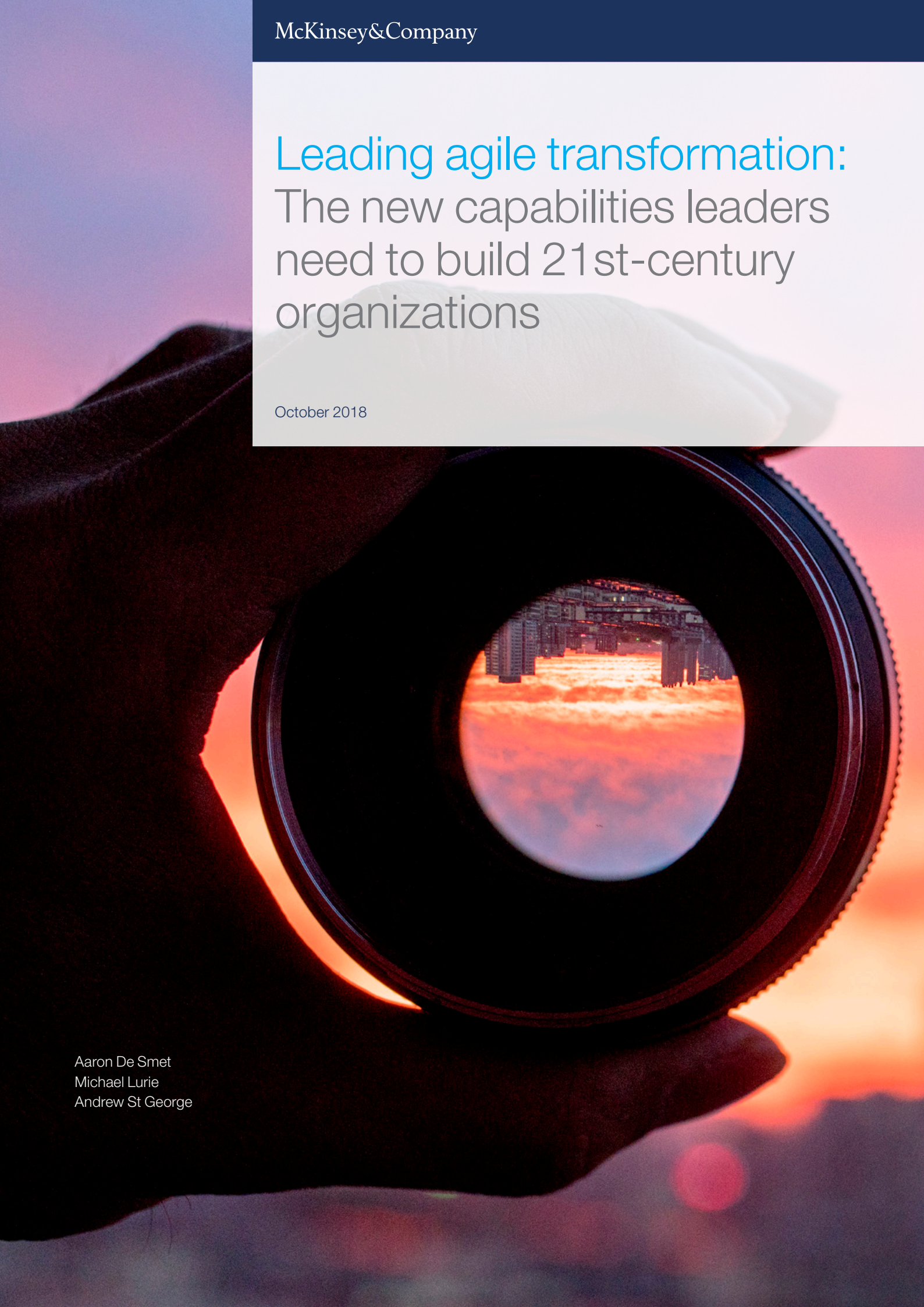


Leading agile transformation: The new capabilities leaders need to build 21st-century organizations

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Introduction

To survive and thrive today, many organizations are undertaking the fundamental shift from a traditional organizational model designed for the industrial economy to an agile model designed for today's digital economy. This paradigm shift heralds a new form of organization that enables innovation, collaboration, and value creation at unprecedented speed, scale, and impact. Agile organizations can develop products five times faster, make decisions three times faster, and reallocate resources adroitly and quickly.

Making this shift can be exhilarating. As one senior leader of a global healthcare company told us, "I've been in business for 25 years, and this is like nothing I've ever done. We're needing to develop a whole new way of seeing the world, our business, and even ourselves. I've never been more excited about what we'll be able to create—and terrified about my ability to do this."

To form and lead an agile transformation successfully, leaders need a new approach. The mind-sets and skills they have carefully honed over years of experience are necessary but not sufficient to lead 21st-century organizations. By evolving their ability to lead, executives can transform their organizations into agile enterprises engineered for the digital economy.

While this paper is written for senior leaders (typically defined as the top three to four levels of leaders), much of it applies to leaders at every level across your organization. It has the following five parts, each of which concludes with a box of summary takeaways:

1. Part 1 summarizes the emergence of agile organizations (for readers unfamiliar with this field) and links to our sister papers for more detail.
2. Part 2 presents our latest thinking on the mind-sets and practices you need to lead an agile transformation successfully.
3. Part 3 focuses on how you can bring a distinctively agile approach to the team, the core unit of agile organizations.
4. Part 4 sets out the capabilities you need to enable agility throughout the organization.
5. Part 5 discusses how your organization can build and embed these capabilities among leaders at every level, starting with senior leaders.

PART 1:

ON THE AGILE STORY

Why agile organizations? Why has this become such an important topic for senior leaders? It's a direct result of the era in which we are living. In this age of our fourth industrial revolution, rapid technological and social change mean an increasing number of sectors are approaching a tipping point at which companies must become agile to compete and survive. Information-rich industries, like technology, publishing, and media, have long operated in this new world; others, like retail and banking, reached this tipping point in the recent past; and some, like pharmaceuticals and energy, are getting there quickly.¹

The pace of these changes is outstripping the ability of our existing private, public, and social institutions to keep up. In our recent research across a range of industries, including technology, only 4 percent of some 2,500 companies surveyed had reached enterprise agility. More and more companies are becoming overwhelmed with the increasing need to enhance customer-centricity, speed, growth, efficiency, and employee engagement—all in parallel.

Characteristics of the traditional organization

So, what is an agile organization, and how different is it from a traditional model? Simply put, the dominant **traditional organization model evolved primarily for stability in a well-known environment: it assumes the world is predictable.** It is based on **the idea of an organization as a machine and tends to favor a static, siloed, structural hierarchy that operates through linear planning and control to execute one or a very few business models.**

However, as the world grows more complex, this view gives rise to more matrix-like structure, more rules, and more control in an attempt to cope. Many organizations are now reaching the limits of this approach, with their people feeling that they are drowning in complexity. The penalty for ignoring this issue can be severe. Nokia, Eastman Kodak, and Motorola, once feted icons of management and innovation, lost their way—not because they weren't smart, but because their organizations were designed for a world that was rapidly disappearing.

Characteristics of the agile organization

Agile² organizations, viewed as living systems, have evolved to thrive in an unpredictable, rapidly changing environment. Agile organizations are both stable and dynamic. They focus on customers, embedding customer-centricity in all they do. They have tried and tested practices that can fluidly adapt and adjust to market changes, innovative technology, customer feedback, and government regulation. They are open, inclusive, and nonhierarchical, evolving continually without the frequent disruptive restructurings required in more mechanistic organizations; and they embrace uncertainty and ambiguity with greater confidence. Such organizations, we believe, are far better equipped for the future.

While there are many different forms of enterprise agility, they share some common trademarks. We have identified and enumerated these in the report *The five trademarks of agile organizations*.³ In summary, agile organizations embody the following novel and highly disciplined set of practices:

- *Agile organizations have a “north star” embodied across the organization.* Guided by this north star, they reimagine both who they create value for and how. They are obsessively customer focused, and they are committed to creating value with and for a wide range of other stakeholders, including employees, investors, partners, and communities.
- *Agile organizations work through a network of small, empowered teams.* They maintain a stable backbone structure but replace much of the remaining traditional hierarchy with a flexible, scalable network of teams.
- *Agile organizations use rapid decision and learning cycles.* They work in rapid cycles of thinking and doing, breaking work down into small packages; executing in short, focused bursts; and frequently recalibrating based on carefully tracked goals and metrics.
- *Agile organizations have a dynamic people model that ignites passion.* They put people at the heart of culture and leadership, engaging and empowering everyone in the organization to create value quickly, collaboratively, and effectively.
- *Agile organizations use next-generation-enabling technology.* They radically rethink their underlying technologies to support quick iterations, higher deployment velocity, and flexibility through new practices and tools.

Many organizations today are somewhere in the middle of traditional and agile approaches, applying some elements of some of these trademarks. As a result, they no longer look like archetypal command hierarchies, but they are not yet agile. To reach and go beyond the tipping point, organizations must apply all five trademarks.

Leadership in agile organizations

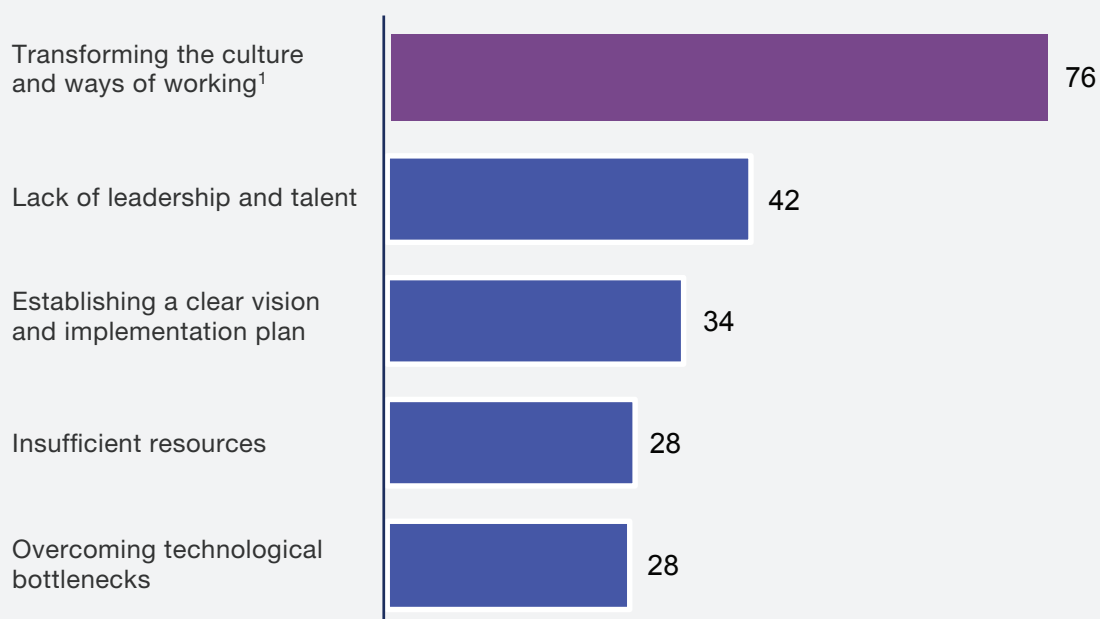
This new kind of agile organization requires a new and fundamentally different kind of leadership. Research has long demonstrated the profound impact of leadership effectiveness on organizational performance and health.⁴ Recent research confirms that leadership is arguably even more important in agile organizations. Leadership and how leadership shapes culture are the biggest barriers to—and the biggest enablers of—successful agile transformations (Exhibit 1).

If you are planning to lead an agile transformation, you must therefore begin by both extending and transcending the competencies that made you successful in the past.⁵ For many years, we have seen leaders as planners, directors, and controllers. In organizations seen as machines, leaders brought certainty, control, and authority based on rank.

Exhibit 1 The greatest enablers of—or barriers to—a successful agile transformation are leadership and culture

Top 5 challenges during an agile transformation

Selected by participants (top 3 selection possible); N=1,411



“ Culture is perhaps the most important element of this sort of change effort. We have spent an enormous amount of energy and leadership time trying to role model the sort of behavior—ownership, empowerment, customer centricity—that is appropriate in an agile culture. ”

– Bart Schlatmann, previously Chief Operating Officer, ING Netherlands

¹Misalignment of agile ways of working with requirements of day-to-day activities, lack of collaboration across levels and/or units, employee resistance to changes, entrenched employee behaviors and mindsets.

Source: McKinsey Global Survey: How to Create an Agile Organization, October 2017

Now, it might be appropriate to explore a new language of leadership: the leader as visionary, architect, coach, and catalyst. For organizations seen as living organisms, the appropriate metaphor might be for the leader to be a gardener— a creative guide and steward who has a nurturing role and a variety of relations with different parts of a garden.⁶ For instance, as a gardener, the agile leader might pay attention to creating the fertile soil and environment that will enable growth and creativity to flourish.

To build and lead agile organizations, leaders must develop three major new sets of capabilities. First, they should adopt new personal mind-sets and behaviors. Second, they should learn to help teams work in new ways. Third, they should learn how to build enterprise agility into the design and culture of the whole organization. In the next three parts of this article, we will look in detail at these three sets of capabilities.

On the agile story: Takeaways

- To what extent does your market environment require your organization to become more agile?
- How traditional or agile is your organization? To what extent do you see the five agility trademarks across all or parts of your organization?
- How ready are your leaders to lead an agile transformation? Is leadership in your organization about planning, directing, and controlling? Or is it about gardening, with the leader as a visionary, architect, coach, and catalyst?
- Which of the three new sets of capabilities are most important for you to learn: agile mind-sets and behaviors, agile ways of working, or agile organization design and culture?

¹ “How to create an agile organization,” October 2017, McKinsey.com.

² The term “agile” as applied to a way of working originated in 2001 with a new approach to software development. As organizations increasingly sought to become more agile in the sense of faster and more flexible, they recognized that principles of agile software development could be applied much more broadly to organizations as a whole.

³ Wouter Aghina, Aaron De Smet, Gerald Lackey, Michael Lurie, and Monica Murarka, “The five trademarks of agile organizations,” January 2018, McKinsey.com.

⁴ It is rare to achieve top-quartile health without top-quartile leadership effectiveness. In fact, organizations with top-quartile leadership effectiveness have, on average, 3.5 times greater the total returns to shareholders over a 3.0-year period than do those with bottom-quartile scores. And organizations that invest in developing leaders during significant transformations are 2.4 times more likely to hit their performance targets.

⁵ Our research has revealed that leaders of all organizations need a core set of baseline behaviors, which are then supplemented by additional situational behaviors to enable the organization to enhance its performance and health. See Michael Bazigos, Chris Gagnon, and Bill Schaninger, “Leadership in Context”, *McKinsey Quarterly*, January 2016, McKinsey.com.

PART 2:

ON TRANSFORMING YOURSELF

A novel approach to leading starts with a new way of being; as Warren Bennis memorably said, "... the process of becoming a leader is much the same as the process of becoming an integrated human being."⁷ Leaders wishing to transform their organizations must begin by transforming themselves, starting with their mind-sets. Our research on organizational health shows that making the leader's mind-set the subject of conscious scrutiny is indispensable to all leadership effectiveness.⁸ Or, more poetically (and with apologies to José Ortega y Gasset): tell me what you pay attention to, and I will tell you who you are as a leader.

Shifting from reactive to creative mind-sets

Changing our mind-set—or adjusting it to the new context—is no easy task, but developing this "inner agility"⁹ is essential in releasing our potential to lead an agile transformation. It is clear from the work of Robert Kegan and many others that leaders of agile organizations must, above all, make a profound personal shift in their mind-sets from reactive to creative.¹⁰

Reactive, or socialized, mind-sets are an outside-in way of experiencing the world based on reacting to our circumstances and other people's expectations of us. We typically default to this mode when challenged—in other words, very frequently during a typical business day—which limits our perspective, focuses us on what can go awry, and causes feelings of fear, anxiety, frustration, and stress.

Creative, or self-authoring, mind-sets are an inside-out way of experiencing the world based on creating our reality and way forward through tapping into and expressing our authentic selves, our core passion and purpose. Being "in the creative" expands our perspective and focuses us on the positive, and we experience joy, fun, love, and flow.

Research shows that most adults spend the large majority of their days "in the reactive," and as a result, traditional organizations are designed to run on the reactive.¹¹ To build and lead agile organizations, leaders must make a personal shift to run primarily in the creative. Think about your typical day. Do you (and your team) spend most of your time reacting to problems and your boss' requests, seeking to control others, and working to deliver perfect outcomes? Or do you spend most of your time pursuing your purpose and passion, trusting and empowering others, and exploring new, and sometimes messy, possibilities?

There are three fundamental reactive-to-creative mind-set shifts we have found critical to foster the culture of innovation, collaboration, and value creation at the heart of agile organizations: from certainty to discovery, from authority to partnership, and from scarcity to abundance.

From certainty to discovery: Fostering innovation

A reactive mind-set of certainty is about playing not to lose, being in control, and replicating the past. This mind-set underlies the way traditional organizations operate through detailed linear planning, by using fixed annual budgets, annual individual-performance goals, and the precedence of narrow expertise and known best practices. It can work well in a predictable environment in which leaders can foresee the future with high degrees of precision.

However, the mind-set of certainty also leads to game playing and waste. For example, budgets planned a year or more in advance, at the end of the annual cycle, are spent exactly as planned, almost to the penny. This mind-set will miss the unforeseen emergent opportunity, the chance to seize or create something new and unexpected. Equally, it will encourage an avoidance of making mistakes and inculcate a culture of conformance and copying. In military terms, it is about fighting the latest war, designing equipment for the previous threat, and seeking to put old equipment (and old training) to new (unforeseen) uses.¹²

Today, leaders need to shift to a creative mind-set of discovery, which is about playing to win, seeking diversity of thought, embracing risk, and fostering creative collision. Leaders must encourage innovation—continual experimentation, testing, and learning. This doesn't mean innovation as one small activity within the business, while the rest focuses on execution. It means building innovation into the core way of working and executing for leaders everywhere.

The following five personal practices, extensions of timeless principles of centered leadership,¹³ can meaningfully contribute to this shift to a mind-set of discovery:

1. **Pause to move faster.** Although counterintuitive, pausing can create space for clear judgment, original thinking, and purposeful action.
2. **Embrace your ignorance.** Listening—and thinking—from a place of not knowing is essential for original, unexpected, breakthrough ideas.
3. **Radically reframe the questions.** Change the nature of the questions we ask ourselves to unblock your existing mental model.
4. **Set direction, not destination.** In unknowable environments, instead of moving to a fixed goal, join your team on a journey with clear direction.
5. **Test your solutions—and yourself.** Quick, cheap experiments can avert major, costly disasters for your business and for you. Thinking of yourself as a living laboratory constantly testing innovative ways of leading makes it exciting, not terrifying.

A mind-set of discovery is found among leaders at Hilcorp Energy, an oil company¹⁴ operating with many agile practices. Hilcorp Energy formulates strategies and plans with an expectation that their plans will form a distribution around what typically happens. The more unpredictable and fast paced the environment, the wider the distribution, with some

spectacular misses that fall short of target and some spectacular wins that seize unexpected opportunities through innovative approaches.

This mind-set is also to be found among leaders at Illinois Tool Works, a leading, diversified maker of specialized industrial equipment. For ITW, a mind-set of discovery has been central to its sustained success over decades. A prolific innovator with over 17,000 granted and pending patents, many of ITW's product innovations emerge from discussions with customers, each focused on developing an ingenious solution to a specific customer problem.

From authority to partnership: Fostering collaboration

Traditional organizations are designed as siloed hierarchies based on a reactive mind-set of authority. The relationship between leaders and teams is one of superior to subordinate. People lower down the career ladder defer to and comply with the wishes of those at more senior levels. In return, senior leaders protect and reward their people. The key questions when we operate with a mind-set of authority are, "Who do I report to, and who reports to me?"

Designed for collaboration, agile organizations employ networks of autonomous teams. This requires an underlying creative mind-set of partnership, of managing by agreement. Such organizations strive to tap into ideas, skills, and strengths through freedom, trust, and accountability, which requires peer-to-peer relationships based on mutual acceptance and respect. Leaders must develop relational expertise, create conditions for effective teamwork, build networks, and burst silos. The key questions when we operate with a mind-set of partnership are, "Who can I help, and who can help me?"

Partnership requires not only trusting, listening, and collaborating more but also being prepared to own and influence less. It also depends on being prepared to challenge the group consensus, welcoming dissent (such as the "obligation to dissent" taught to every new colleague at McKinsey), fostering inclusion, seeking diverse opinion or data, and entertaining plural views. Seniority and advancement—reasonable motivators in all organizations—need not depend on budget size or population in a department but more on depth of knowledge and relationships. A more senior leader might have fewer reports than his or her junior.

Leaders in agile organizations focus on guiding and supporting rather than directing and micromanaging. The well-known research of Google suggested that creating a sense of psychologic safety, where people feel comfortable speaking openly, suggesting ideas, and admitting they don't know, was one of the pervasive characteristics of high-performing teams.¹⁵ Agile leaders focus on creating this environment by encouraging everyone to contribute, facilitating joint problem solving, and encouraging all team members to take accountability for individual and team outcomes.

Applying this mind-set of partnership is central to the success of Morning Star, the world's largest tomato processor. The company empowers autonomous teams to operate without formal leaders, reflecting its deep commitment to freedom and collaboration within and across teams. Every year, colleagues negotiate with their stakeholders a "colleague letter of understanding" that formally commits to partnership, accountability, and reciprocity.

From scarcity to abundance: Fostering value creation

In stable, slowly evolving markets, companies seek to maximize their shares at the expense of others to boost shareholder value. The underlying premise signifies a reactive mind-set of scarcity that focuses on limited opportunities and resources and a win–lose approach. This mind-set is about maximizing the share of an existing pie.

Today's markets, however, evolve continually and rapidly, offering unprecedented challenges and opportunities. To deliver results now, leaders must view their markets and businesses with a creative mind-set of abundance that recognizes the unlimited resources and potential available to their organizations. A mind-set of abundance includes customer-centricity, entrepreneurship, inclusion, and cocreation. Leaders must learn to grow a larger pie by continually seeking win–win options that deliver value simultaneously to all stakeholders.¹⁶

What Apple did after Steve Jobs's return demonstrates this shift to abundance. Instead of continuing to do everything in house, Apple launched iTunes and then the App Store, inviting what became tens of thousands of partners to cocreate an unprecedented ecosystem. By sharing and massively expanding the supply pool in this way, Apple unlocked enormous demand and value potential, enabling it to become one of the most valuable companies in the world.

The reactive mind-sets of scarcity, authority, and certainty no longer fit the ever-changing world. They cause us to focus inward and backward, and they lose sight of amazing opportunities. Making the three fundamental shifts to creative mind-sets of abundance, partnership, and discovery lets us look outward and forward, unleashing the full potential of our people and organizations.

A disciplined approach

While these mind-set shifts might be new and require a significant “letting go” of old beliefs and paradigms, collectively they form a very disciplined approach to leadership. And because of inherent autonomy and freedom, leadership in agile organizations comes from a self-disciplined approach—leading not in fear of punishment or sanction but in service of your purpose and passion.

This approach means, among other things, leading with certain characteristics:

- leading with discovery by applying the following actions:
 - leading more with asking questions versus advocating your opinion
 - listening deeply, with a focus on what you might be missing
 - creating space to pause and reflect
- leading with partnership by applying the following actions:
 - taking responsibility for what is yours

- reviewing your role and clarifying expectations with others
- surrounding yourself with people who think differently from you
- leading with abundance by applying the following actions:
 - identifying new opportunities and unmet needs
 - exploring how to provide more value to attract the resources you need
 - seeking win-win outcomes based on contribution and cocreation

On transforming yourself: Takeaways

- Change yourself first, then the organization.
- When do you show up with a reactive mind-set? When do you show up with a creative mind-set?
- How might you choose mind-sets of discovery, partnership, and abundance more frequently? What would be the impact on you and those around you?
- What disciplined practices might you adopt to be in a creative mind-set?

⁶ There are many cultures and world literatures that relate to growth and production in this way. Lawns can be cut or left to grow new wild plants; weeds are not always weeds; pests might be useful; equally, vegetables need strict timing and precise care, while trees need benign neglect and occasional pruning; and so on. Such are the many relations—and the languages—that leaders of agile organizations might consider.

⁷ Warren Bennis, *On Becoming a Leader*, Reading, MA: Addison-Wesley Publishing Company, 1989.

⁸ Organizational Health Index by McKinsey, 2010.

⁹ Sam Bourton, Johanne Lavoie, and Tiffany Vogel, “Leading with inner agility,” *McKinsey Quarterly*, March 2018, McKinsey.com.

¹⁰ See for example: Robert Kegan and Lisa Laskow Lahey, *Immunity to Change*, 2009, Harvard Business Review Press; Robert J. Anderson and William A. Adams, *Mastering Leadership*, 2016, Wiley; and Frederic Laloux, *Reinventing Organizations*, 2014, Nelson Parker.

¹¹ See Carol S. Dweck, *Mindset: The New Psychology of Success*, New York, NY: Ballantine Books, 2016.

¹² For brilliant accounts of adaptive, agile warfare in the modern world, see Rupert Smith, *The Utility of Force: The Art of War in the Modern World*, New York, NY: Vintage Books, 2005; and Stanley McChrystal et al, *Team of Teams: New Rules of Engagement for a Modern World*, New York, NY: Portfolio, 2015.

¹³ Sam Bourton, Johanne Lavoie, and Tiffany Vogel, “Leading with inner agility,” *McKinsey Quarterly*, March 2018, McKinsey.com.

¹⁴ “Digging deep for organizational innovation,” *McKinsey Quarterly*, April 2018, McKinsey.com.

¹⁵ Laura Delizonna, “High-Performing Teams Need Psychological Safety. Here’s How to Create It,” August 2017, HBR.org.

¹⁶ The attractiveness of win-win is supported by research on open and closed mind-sets (Carol Dweck or Seth Godin) and successful negotiation (Roger Fry, William Ury, and Howard Raiffa).

PART 3:

ON TRANSFORMING THE TEAM

After shifting to new mind-sets and behaviors, the second major set of capabilities needed by leaders of agile organization is learning how to help teams apply new agile ways of working. Teams are the core unit of agile organizations, so understanding and helping teams implement agile methods are key skills for all leaders of such organizations.

Helping teams work in new ways

How might you help teams work in new and more agile ways? And what does this new way of working require of you as a leader? There are three essential leadership requirements that follow from all agile ways of working.

First, leaders must learn to build teams that are diverse, empowered, and connected. Small, dynamic, and high-performing teams are the main organizing unit of agile organizations. Leaders must learn to empower and trust team members to work without constant updates, briefings, micromanagement, and approvals—all costly forms of oversight. Rather, leaders should agree on clear end-to-end accountabilities and business goals with teams, leaving it to team members to decide how best to act.

When building such teams, leaders must also learn to build and lead different kinds of agile teams, including multidisciplinary teams that can help break down silos, self-managed “monodisciplinary” teams to provide excellent service, and temporary teams made up of people who “flow to the work” to get key things done. In many cases, the team leader might not be the functional boss, so expertise and organizational knowledge from all members can create both stability and dynamic capability within—and beyond—each team.

Another part of team building is that leaders must make sure their teams have the right people with the right mix of perspectives on a given issue, which may change over time as the team addresses different issues. Leaders must create space for real listening, foster creative collision of perspectives, and make sure every voice is heard, not for consensus, but to take perspective and to ensure true diversity. You must ask, “Do we have the right diversity to ensure perspective and system thinking on the issue at hand?”

Second, leaders must allow and encourage agile teams to work in rapid cycles to enable them to deliver greater value more efficiently and more quickly. Leaders must help teams focus on important and urgent tasks through rigorous prioritization (creating a backlog). This cuts the friction inherent in multitasking. During this effort, leaders must help teams undertake intense, focused work to complete top-priority tasks, judge for themselves whether these efforts delivered value, and regroup and adjust plans for the next cycle.

Third, all leaders must keep agile teams focused on the customer¹⁷ and on creating value for customers. This includes both external customers and internal customers for whatever product or service the team is providing. Leaders must help their teams deeply understand customers, particularly their unmet and potentially even unrecognized needs. They must help their teams focus on creating innovative, whole solutions for customers, recognizing that the value that flows to all other stakeholders starts with value for customers. Throughout this task, leaders must also help teams focus on beginning to deliver value very quickly, producing minimum viable products in close collaboration with, and to meet the distinct minimum needs of, target customers.

Design thinking and business-model innovation

We have found that in addition to being able to lead in this new agile way of working, it is important for leaders to understand the key elements of two other relatively new disciplines: design thinking and business-model innovation.

Originating in industrial and other forms of design, design thinking is a powerful approach to developing innovative customer solutions, business models, and other types of systems. This begins with understanding the entire customer experience at each stage of the customer journey. Using tools such as the customer-journey map, agile teams explore the full set of customer needs—their core needs for product and service features; their need to discover, learn about, evaluate, test, and buy; their need to install, use, protect, maintain, and enhance products and services; and their need to identify and align themselves with the brand and its purpose. This understanding should then lead to generating a broad range of ideas through divergent thinking, synthesizing these into a rich set of options through convergent thinking, and testing, selecting, and developing options rapidly based on customer feedback.

In organizations that are agile rather than just executors of tasks, each team is viewed as a value-creating unit, or as a “business.” And they pursue business-model innovation at every opportunity. Agile organizations are obsessed with their customers, so each team focuses on clearly defined internal or external customers, with a mission to understand and meet fully the needs of those customers. To do so, teams must learn to operate as full-fledged businesses in several key respects, with the accountability to define innovative product or service offerings, define agile processes to produce and deliver these offerings, and secure the input providers and resources they need to do so. As such, leaders at every level need a sound understanding of the key elements of a business model and how any and all of the elements can be reimaged to deliver net value to all stakeholders. The key to value creation is to build business models through which everyone wins. Airbnb, for example, enables people looking for places to stay and people looking to rent out unused space to find and transact with each other easily.

On transforming the team: Takeaways

- Build open, diverse, and empowered teams, encouraging plural views and dissent.
- Support working in rapid cycles, with rigorous task prioritization; focused, short bursts of work; and frequent reflection to measure and learn.
- Encourage your teams to focus on your customers, understand their needs deeply, and cocreate win–win solutions with them.
- Explore opportunities to deploy design thinking and business-model innovation.

¹⁷ Sam Bourton, Johanne Lavoie, and Tiffany Vogel, “Leading with inner agility,” *McKinsey Quarterly*, March 2018, McKinsey.com.

PART 4:

ON TRANSFORMING THE ORGANIZATION

After shifting individual mind-sets and behaviors and applying agile ways of working at a team level, the third action for senior leaders of agile organizations should be transforming the organization. If you aspire to scale and embed agility across the whole organization, you must develop new organizational-leadership capabilities in three areas: learn to distill and express a compelling purpose (the north star), apply the principles and practices of agile organization design, and shape an agile organizational culture.

Purpose: Find the north star

The first distinctive organization-level skill leaders need to develop is the ability to distill a compelling purpose for their organization in conversation with people across the enterprise. Purpose amounts to a clear, shared, and compelling aspiration: the north star of the organization. While this has long been important for all organizations, it takes on increased importance and a specific manifestation in agile organizations. Because agile organizations comprise open networks of autonomous units, a defined, common purpose is particularly important as a foundational element of coherence and stability across the system. And in a world where all stakeholders have more information and more choices available to them than ever before, it is critical that this shared aspiration is deeply meaningful and resonant to all.

The organization's north star guides and frames everything that the organization is and does, from high-level strategic discussions to day-to-day tactical decisions at the front line. Over time, it becomes deeply embedded across the organization and in its wider ecosystem. Leaders must learn that this unity of purpose, manifest in an organization's people, is becoming a source of competitive advantage every bit as viable as—and in many ways more robust than—capital, intellectual property, design, technology, and physical resources.

To tap into people and meaning across the organization in the best manner, the purpose cannot be designed in a day or two by top management at an off-site meeting. Rather, leaders must foster enterprise-wide conversations around purpose, in everything from global, real-time, video meetings to small departmental sessions. They must learn to see and hear when the north star is clearest in their many interactions and discussions across the organization. And here, the power of simple questions, long recognized by thoughtful leaders, is of particular benefit: What are we really solving for? How will we know—beyond numbers—that we are being successful? And why would this matter? What would become possible? What then?

Design: Apply the principles and practices of agile organization design

The second organization-level skill leaders need to develop is the ability to design the strategy and operating model of the organization based on agile organization principles and practices. Most senior leaders of traditional companies have a well-honed skill set in this area that reflects traditional company design as a relatively concentrated, static system: one or a very limited number of major businesses, each with a long-established business model, typically coexisting somewhat uneasily with a set of corporate functions that seek to define and enforce common functional policies across the business units.

To design and build an agile organization, leaders need a very different set of skills based on a different understanding of organizations. They must learn to design their organization as a distributed, continually evolving system. Such an organization looks like a network of smaller empowered units, with fewer layers, greater transparency, and leaner governance than a traditional model, with fit-for-purpose decision processes and a rapid cycle-performance model that enables the whole organization to plan and execute in daily, weekly, monthly, and quarterly cycles. This distributed approach underpins the agile organization's ability to sense and respond quickly to market changes, shift resources and capabilities to where they will generate the most value, and constantly adjust in a volatile and unknowable environment.

More specifically, leaders must learn how to disaggregate existing large businesses into a much more granular portfolio; transform corporate functions into a lean, enabling backbone; and attract a wide range of partners into a powerful ecosystem.

Granular portfolio of businesses

To change a small number of large businesses into a large number of small, focused businesses ("microbusinesses"), leaders must think, typically, along three dimensions: markets, products, and value chain. Each of the microbusinesses should align clearly with the organization's guiding purpose, its north star. For example, Haier comprises over 2,000 such microbusinesses, ITW comprises 84 divisions and over 800 businesses, and ING comprises dozens of microbusinesses aggregated into 13 "tribes."

Leaders must learn to empower each microbusiness to innovate a business model that delivers more value to its specific mix of customers, employees, partners, and other stakeholders as well as to the system as a whole. And rather than seeking to manage the details of each microbusiness, senior leaders should learn to manage them as a portfolio. They should also learn how to move resources from slower to higher growth continually to achieve and sustain growth and profitability.

Lean, enabling backbone

Leaders must learn to design the backbone, or platform, capabilities that support and enable these microbusinesses. Rather than being run by traditional controlling corporate functions, these must be designed in collaboration with the microbusinesses to deliver clear value to them by providing them tools and capabilities that help them accomplish their missions more quickly, effectively, and efficiently. This often includes designing novel approaches to core cross-functional processes, such as strategy, budgeting, capital investment, performance management, and infrastructure support.

Partner ecosystem

Leaders must also learn to design the organization's partner ecosystem, comprising external supplier, channel, development, alliance, and strategic partnerships and collaborations. Here, the focus is on identifying, attracting, engaging, and cocreating with a wide range of partners. The aim is to foster "open innovation," greatly expand the organization's reach and capabilities, and shape the evolution of the industry or sector.

A basic approach should apply across all of these elements of agile organization design. In agile transformations, senior leaders should not be designing all the details of the new organization. Rather, they should learn to focus on evolving a high-level blueprint to give overall coherence and guidance to the system. Also, they should engage and empower people across the organization to cocreate the new elements. The primary mechanism for doing so is through experiments. Rather than implementing exhaustive, detailed design of and for the whole organization, senior leaders should learn to catalyze quick, low-cost, and low-risk experiments in each of the areas previously discussed to learn what works and what doesn't and to change course quickly as needed.

Culture: Shape an agile organizational culture

The third organization-level skill leaders need to develop is the ability to shape a new culture across the organization. The culture within agile organizations differs sharply from that of traditional organizations. Given the openness and freedom people experience in an agile organization, culture arguably plays an even more important role here than in traditional organizations. The culture of agile organizations should grow from the creative mind-sets of discovery, partnership, and abundance and their associated behaviors. And in addition to accruing new behaviors, leaders should focus equally on removing unwanted behaviors. Agile thinkers, such as Eric Bowman, talk of the importance of unblocking, removing friction, and jettisoning today's practice as leaders foster a new agile culture.

To shape this culture, leaders must learn how to undertake a multifaceted culture-transformation effort that centers on their own capabilities and behavior. Three of the four components of the influence model, McKinsey's research-based approach to shaping culture,¹⁸ are about leadership: role modeling, fostering understanding and conviction, and building capabilities.

While the influence model can be applied to shift culture in any organization, it takes on a different and distinct flavor in an agile organization.

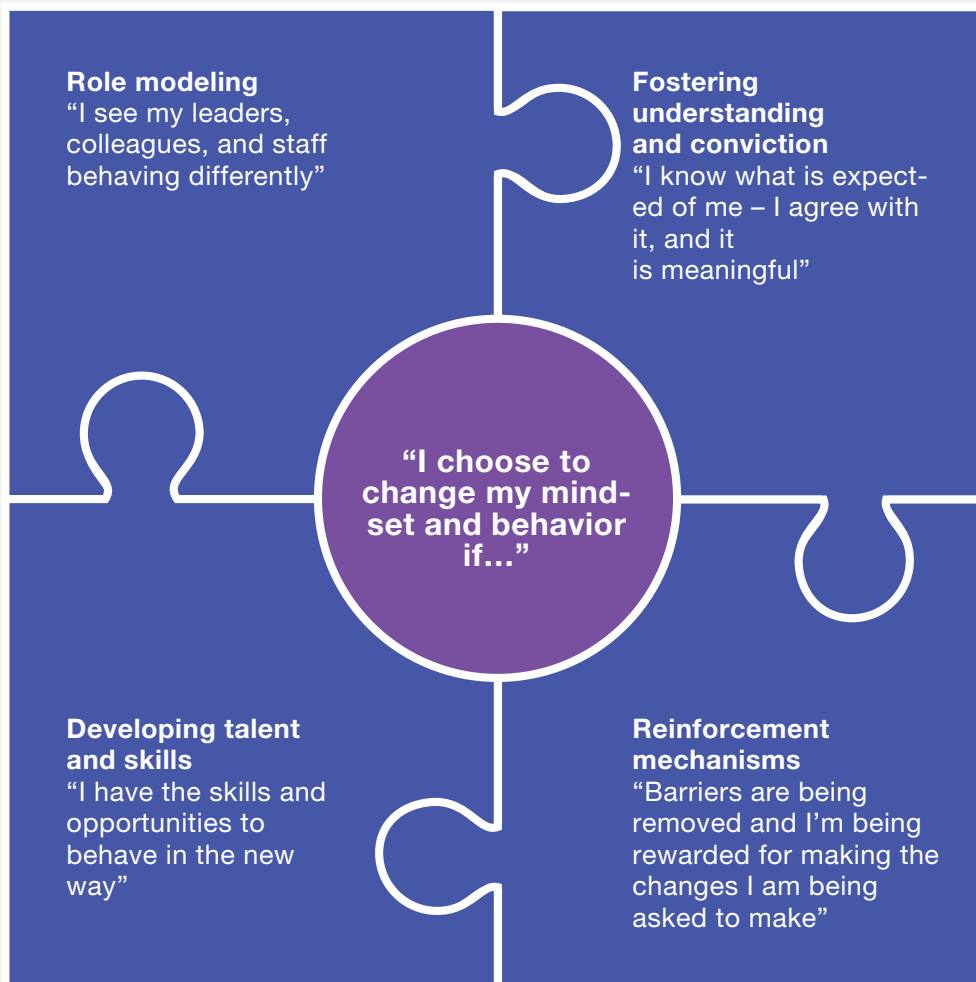
Role modeling

The first step in an agile transformation is for senior leaders to develop new mind-sets and behaviors, as previously described. It is critical that this is an authentic commitment and transformation: leaders need to "walk the talk" and begin personally behaving in different ways. Probably the greatest influence on an organization's culture is the demonstrated behavior of its collective leaders. While this has long been true, as hierarchies collapse, transparency increases, and position power erodes, people are closer than ever (quite literally) to their leaders. What previously could have been kept hidden on the top floor and behind closed doors is now visible to all—and available to be shared instantly in high-definition video with the world.

Fostering understanding and conviction

The second way in which leaders can shape culture is through cocreating and articulating the way forward—most importantly, the organization’s purpose as previously described in the agile organization-design section. In traditional organizations, the top team formulated the end-state vision and message, which then got cascaded down the organization in beautifully crafted communications. In agile organizations, the focus is on direction, not destination, and it is evolved with people across the organization in a highly interactive way. Senior leaders might gain as much inspiration from the energy and ideas of frontline teams

Exhibit 2 Four influence levers help shift mind-sets and behaviors in support of desired change.



Source: Scott Keller and Colin Price, “Performance and Health: An Evidence-Based Approach to Transforming Your Organization,” 2010.

as the other way around. The emergent story is thus deeply meaningful to people across the organization.

In agile transformations, leaders must learn to engage with a wide range of stakeholders across the organization, listening, sensing, and synthesizing different perspectives. As a clear, aligned message emerges, leaders must learn to communicate with authenticity and passion, most powerfully through storytelling. Essentially, leaders must engage the whole organization in a sustained conversation over time. Buurtzorg, the market-leading home nursing provider in the Netherlands, illustrates this beautifully. Buurtzorg's clear vision and passionate commitment emerges from people across the organization in large group sessions, inspirational team innovations, and individuals continually reaching out to, and getting meetings with, the CEO to share their passion. The CEO sees his role primarily of listening, sensing, and sharing and by noticing what is emerging and bringing it quickly to people across the organization to ignite further passion and energy.

Building mind-sets and capabilities

Just as leaders of agile transformations began by developing their own mind-sets and capabilities, they must foster capability building across the organization, giving everyone the opportunity to build the new mind-sets and skills they will need in the new environment. This includes building leadership capabilities in those who are not formally people managers (individual contributors) and building new skills, such as the ability to influence rather than direct, manage conflict constructively, work in ambiguity, manage complexity, think creatively, take initiative without being told exactly what to do, and take accountability, even without full control.

Agile organizations go well beyond traditional notions of learning and development by weaving learning into the fabric of daily activity to become true learning organizations. They embrace a culture in which support of learning forms part of working life and its regular operations, daily routines, and conversations. Every meeting and encounter is simultaneously an opportunity to work on learning goals, pursue business excellence, and help people become more capable versions of themselves.¹⁹

Reinforcement mechanisms

Leaders also play a key role in the fourth component of the influence model, which is putting in place different organizational-design elements as reinforcement mechanisms, as previously discussed in the agile organization-design.

This agile approach to culture complements and aligns with the design transformation. As senior leaders begin role modeling and cultivating new skills and mind-sets, they do so through initiating and running experiments in various parts of the organization. The design and culture work begin mutually reinforcing each other, all in pursuit of the organization's purpose. Here, the opportunity for wholesale transformation presents itself: both leaders and the teams they lead work together to cocreate the agile organization of the future.

On transforming the organization: Takeaways

- Cocreate a deeply resonant organizational purpose with participation across the organization, then broadcast it at every opportunity.
- Explore a holistic new agile design for your organization, creating it as a network of empowered microbusinesses supported by a lean backbone, working in high collaboration with external partners.
- Shape a new agile organization culture within your organization through personally modeling, and developing in others, new mind-sets and behaviors; fostering understanding and conviction around your core purpose; and ensuring the new agile design reinforces the new mind-sets and behaviors.
- Engage people across the organization in cocreating the new agile organization design and culture through constant experimentation and learning.

¹⁸ Tessa Basford and Bill Schaninger, "The four building blocks of change," *McKinsey Quarterly*, April 2016, McKinsey.com.

¹⁹ Robert Kegan and Lisa Laskow Lahey, "An Everyone Culture: Becoming a Deliberately Developmental Organization," 2016, Harvard Business School Press.

PART 5:

AN AGILE APPROACH TO DEVELOPING LEADERS

We have looked at the emergence of agile organizations and explored the three sets of leadership capabilities they require in mind-sets and behavior at the team level and for the organization as a whole. Now the questions are: How do you go about developing these capabilities among the leaders in your organization, and is there a distinctly agile way to do so?

Many organizations start their agile pilots in discrete pockets. Initially, at least, they can build agile leadership capabilities there. But to scale agility through an organization successfully, the top leaders must embrace its precepts and be willing to enhance their own capabilities significantly. Eventually, a full agile transformation will need to adopt the entire senior leadership across the enterprise, typically defined as the top three to four levels of leaders. For large organizations, this represents a population of several hundred leaders, most of whom are deeply experienced senior executives who have spent their careers in the industry. Catalyzing tangible shifts in individual and collective mind-sets and behaviors across this population requires a comprehensive and carefully designed “capability accelerator” seamlessly integrated into the agile transformation. In our experience, five elements are essential.

Enterprise-agility coaches

The first step is to build a cadre of enterprise-agility coaches supported by a leadership-transformation team. Senior leaders need guides on their journey. Such guides can translate concepts and make them practical, help senior leaders make the profound personal shifts in mind-sets and behavior needed, and help them apply their learning to shift the architecture and culture of the organization. In recognition of this need, a new kind of expert—the enterprise-agility coach—is emerging. These professionals combine a deep knowledge of agile organizations, senior-level facilitation and coaching skills, and expertise in organizational transformation.

To achieve a leadership transformation at the scale necessary, you need to develop a cadre of such experts, able to work closely with your HR and leadership-development group, agile-transformation team, and agile team coaches. To support this group, you will need a core leadership-transformation team that sits within either your HR organization or the overall agile-transformation team. This leadership-transformation team operates as the stable platform for the enterprise-agility coaches and is responsible for designing and executing the remaining four steps described next.

Top-team journey

The next key element of developing agility in leadership is getting the top team engaged in developing their own capabilities. All senior leaders will take their cue from the executive team, so it is essential to engage the top team early on and invite them to initiate the journey for themselves, both individually and as a team. Shifting mind-sets and behaviors can be more challenging with the top team than with other teams, so a high degree of skill by the enterprise-agility coaches working with the top team is needed. All the same, this challenge must not be shirked: the top team very likely needs to undertake at least some level of transformation.

Immersive leadership experience

Creating an immersive leadership experience and rolling it out to all senior leaders is the next step. In our experience, the core of the leadership capability-building effort is an immersive leadership experience, which can be anything from a concentrated effort over three or four days to a learning journey over several months. This experience should help participants develop all the new leadership capabilities we previously described—agile mind-sets and behaviors, agile ways of working, and agile organization design and culture.

This immersive experience, facilitated by the enterprise-agility coaches, should comprise a wide range of interactive learning modes and activities through which leaders get to experience and explore new mind-sets and skills, learn from each other, and practice application in a safe environment. Simulations and real-life experiments provide the chance to practice leadership skills and try new approaches in a realistic environment that is both safe and challenging. These scenarios can simultaneously exercise and strengthen the leadership of self, team, and organization.

Just as the organization has to make an evolutionary leap, so must leaders. As individuals, we are wired for habitual thinking and action. Agile transformation will shake the core identity of the leader: learning to stand and play at the edge of uncertainty triggers many fears. This is why immersive programs rich in experience, reflection, and dialogue focus not only on developing skills and knowledge but also changing how you think.

Application through organizational experiments

The fourth step in developing leaders for an agile organization is to link leadership learning to existing initiatives and new experiments. All learning sticks best through application. Leaders should be invited to connect their learning to agile-transformation initiatives already under way and to launch new experiments to begin testing out some of their learning. In doing so, they will begin to introduce the new mind-sets and capabilities to their teams and others across the organization. Existing initiatives can also be scrutinized, reimaged, and redesigned to be more agile. Enterprise-agility coaches should work closely with leaders and their teams to help them apply and deepen their knowledge and skills as well as practice their new mind-sets and behaviors in the crucible of daily reality.

In this way, the leadership capability-building initiative can become a foundation of the broader agile transformation, either in support of the blueprint of a deliberate

transformation already under way or as the potential catalyst for a more organic, emergent approach. Either way, as experiments are launched in various parts of the organization, senior leaders will begin to develop the capabilities of others and shift the culture, and excitement and momentum will begin building across the organization.

Agile tempo

Finally, you should roll out leadership capability building at an agile tempo. For the core leadership-immersive experience, as well as for the ensuing experiments and broader capability building, it is vital to create a way to bring stability to the initiative without in any way limiting its dynamism and creativity.

A key practice is to leverage the agile approach of operating in quarterly cycles: in every quarter, the leadership experiences, experiments, and culture shifts over the past 90 days are reviewed, and plans and priorities for the next 90 days are finalized. When done with high involvement and transparency, this quarterly cycle helps bring a natural cohesion and alignment to the leadership capability-building initiative, provides opportunities for sustained and shared learning, and enables continuing flexibility to adjust as the initiative quickly grows and changes.

An agile approach to developing leaders: Takeaways

- Engage or develop a cadre of enterprise-agility coaches supported by a leadership-transformation team.
- Design a tailored journey for the top team.
- Create an immersive learning experience for all senior leaders across the enterprise.
- Link and apply the learning to existing and new agile-transformation experiments and initiatives.
- Frame and roll out the leadership initiative in 90-day cycles.



Agile transformation is a high priority for a rapidly increasing number of organizations. For many, their survival quite literally depends on it. Those making the transition successfully are setting and achieving substantive improvements in both performance and health. Our latest research demonstrates they are simultaneously delivering enhanced growth, profitability, customer satisfaction, and employee engagement.

More than any other factor, the key enabler to a successful agile transformation is to help your leaders, particularly your senior leaders, develop the mind-sets and capabilities to design, build, and lead an agile organization. Doing so will enable your organization to succeed and thrive in the exciting and ever-changing kaleidoscope that is today's reality. ■

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