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Organization Practice

Organizing for speed: Agile as a means to transformation in Japan

Japanese working practices may help or hinder the adaptation of agile approaches that can increase an organization's speed and customer centricity. Addressing five main areas can allow leaders to master the transition to enterprise agility.

by Donovan Carreira, Maya Horii, Minyoung Kim, and André Rocha

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Japanese companies led the world in the 1990s. They were exemplars of hardworking, disciplined, well-functioning organizations, continuously improved through *kaizen*, and were revered for their management style and manufacturing processes. Japanese companies featured as leaders in many sectors, including semiconductors, electronics, and automotive. They were admired for their work ethic and teamwork. Their hierarchical command and control organized employees effectively in manufacturing and other sectors where following rules was of high importance alongside the imperative of continuous improvement.

However, our recent research has revealed that Japanese organizations on average have the lowest score in McKinsey's 2019 Organization Health Index survey. The survey, which has been taken by more than five million respondents to date, measures the health of an organization in terms of its outcomes and management practices. Notably, the results show that Japanese organizations score very poorly, especially in measures of external orientation, where they rank in the bottom quartile of global responses (Exhibit 1). Perhaps what made Japanese companies so successful in the 1990s is proving to be less advantageous now.

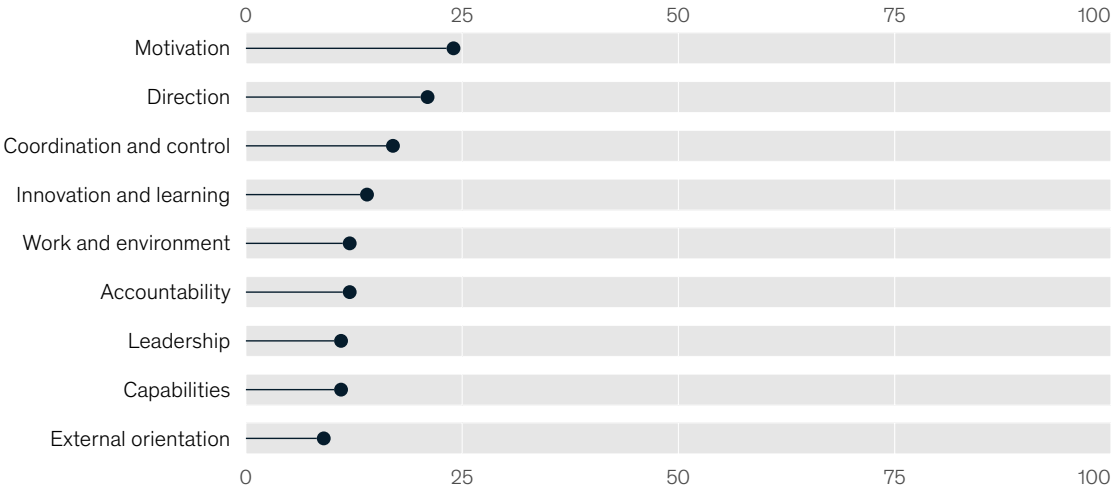
If so, why might this be? Some characteristics of Japanese working practices and organizations might now be hindering adaptation. In essence, we think five culturally embedded ways of working might be making it harder for Japanese companies to change with the rapidly changing world, although they contain practices that might work in concert with an agile approach:

— *Task orientation over outcome orientation.* Narrow job descriptions do not exist in typical Japanese companies; rather, people belong to a particular unit. This blurs individual roles and responsibilities, and people focus more on inputs, tasks, and presence than on outcome and customer impact. However, the flexibility in such job descriptions might well be a prelude to an agile approach.

Exhibit 1

Japan's Organization Health Index scores are in the global bottom quartile, with external orientation the worst-scoring dimension.

Organization Health Index (OHI) scores for Japan measured against global benchmark,[1] percentile



[1]OHI scores measured as percentage of respondents having selected "Agree" or "Strongly Agree" for the underlying statements of each dimension (Japan, n = 101,433 respondents from 36 companies).
Source: McKinsey OHI database, 2019

Five culturally embedded ways of working might be making it harder for Japanese companies to change with the rapidly changing world.

— *Weak customer/user feedback loop.* While "the customer is superior," and sales forces often go out of their way to do what the customer asks for, many companies underinvest in customer research, usability testing, and customer or user feedback. The results may include poor user experience and outdated design. Even so, the ethic of customer focus might be a good precursor to an agile approach.

— *Generalists over specialists.* Not only are employees seen more as members of the organization than as performers of a specific job, companies often rotate them from one role to another every few years. This results in having fewer professionals with specialized education and extended experience. However, this fluid movement fosters generative listening and knowledge of others' roles, which, in turn, are a basis for agile teams.

— *Perfectionist mindset.* A long-standing spirit of craftsmanship and attention to detail created a cultural norm of achieving perfection before handing over work or sharing it with others. Sensitivity to criticism is high, while the concept of co-creation is not well developed, because organizations are siloed. Nonetheless, the primacy of the task is of vital importance in the agile ethic.

— *Hierarchy and limited opportunity for dissent.* Lifetime employment, while gradually changing, creates an environment where a negative performance evaluation or failure could be detrimental to one's career. The resulting tendency is to create a more consensus-oriented work environment. Agile is not inimical to the need for consensus, especially when employees can take part in team evaluations and set their own performance targets.

These definitions suggest clear incentives and opportunities for rapid and radical change in many practices—indeed, for company-wide transformations. But these powerful imperatives are not yielding successful company transformations. In fact, in recent years in Japan, transformations have tended to fail or stall; many companies are now stuck after a series of failed efforts. On average, transformation efforts in Japan have only a 30 percent success rate, and the share by industry goes as low as 16 percent for digital.[1]

Enterprise agility: The current opportunity

In 2020, the COVID-19 pandemic gave multiple organizations an impetus for change, and it may be a catalyst for changes already taking place in the nature of work. The crisis has been for many companies a wake-up call to finally get moving. Now we see potential to go beyond traditional transformation and move toward agility. For instance, organizations have tried remote working for many years, but Japan's state-of-emergency declaration really moved the needle; people can now adapt to online conference calls and to seeing subordinates

[1] McKinsey research conducted in January 2018 (n = 1,793, weighted by sector and globally).

infrequently. Such changes are positive not only for helping companies in the current pandemic, but also for making them more attractive to younger talent and a more diverse workforce.

We believe that, as Japanese organizations return to their physical offices and adapt to the next normal, there is a unique opportunity to use this national change momentum to go beyond tactical quick fixes on working hours or location and actually shift to a holistic enterprise-agility model.

As we refer to it, enterprise agility is a quality displayed by organizations that have fully embraced an agile mindset, and this requires a paradigm shift in ways of thinking and behaving.[2] Sending employees to agile training programs or hiring agile practitioners is usually not enough to achieve sustainable enterprise agility. The core values and principles of agile, as described in the "Agile Manifesto"[3] (which derives from software engineering), center around embracing change, face-to-face communication, customer collaboration, frequent deliveries of working-product increments, and self-organizing teams. We believe that achieving such enterprise agility is a fundamental enabler for Japanese organizations to succeed in their transformation efforts.

Agile as a means to transformation

Having an agile organization should not be considered an end goal on its own. Instead, the transition to an agile organization is a means to capture significant business value rapidly by achieving change across multiple dimensions. In our experience, we have most often seen impact along several dimensions,[4] and the COVID-19 pandemic has highlighted two further benefits of enterprise agility:

— *Higher customer-satisfaction scores.* An agile organization places a strong focus on the customer. Agile teams do extensive user research, qualitative and quantitative, and focus on solving user pain points, as opposed to simply adding features to their product. Every piece of work should have clear value assigned to it, and work not delivering value gets deprioritized. Assumptions about user needs are continuously validated by running experiments, analyzing user behavior, conducting usability testing, and collecting user feedback. Importantly, this thinking also applies to internal customers, as when an HR team collects feedback from business and functional units. Agile organizations tend to have a strong mindset of minimizing waste, such as not directing time and resources to activities that do not add customer value.

— *Higher employee-satisfaction scores.* It is a well-known fact that Japan faces a severe shortage of skilled talent. This is, of course, driven by the evolution of its demographics, but another factor is a significant change in the mindsets and attitudes of younger generations. Millennials have been raised in a digital world, globally connected, having more access to information than any generation before them. While they value income, they place similar importance on experiences such as how purposeful their work is or how much freedom and creativity they can exercise. By definition, agile organizations focus on empowering individuals and teams and on pushing decision making down in the organization as much as possible. This leads to a work environment that is much more attractive for younger talent and more rewarding for all employees. In turn, the greater employee satisfaction reinforces improvements in productivity.

— *Superior operational performance.* Japanese organizations are often good at executing the work that falls entirely within one function. However, a typical improvement area is their ability to collaborate well across functions, not getting slowed down by organizational

[2] Daniel Brosseau, Sherina Ebrahim, Christopher Handscomb, and Shail Thaker, "The journey to an agile organization," May 2019, McKinsey.com; Aaron De Smet, Michael Lurie, and Andrew St. George, "Leading agile transformation: The new capabilities leaders need to build 21st-century organizations," October 2018, McKinsey.com.
[3] Kent Beck, et al., "Manifesto for Agile Software Development, agilemanifesto.org.
[4] Wouter Aghina, Christopher Handscomb, Jesper Ludolph, Daniel Rona, and Dave West, "Enterprise agility: Buzz or business impact?," March 2020, McKinsey.com.

barriers, reporting lines, or political sensitivities. Agile addresses this challenge in a foundational way, by structuring the organization as a network of small cross-functional teams, which are equipped with all the skills needed to deliver on their assigned mission. For example, a product-development team might consist of one or two people possessing each of the required capabilities: mechanical engineering, electrical engineering, industrial design, and testing. Breaking such organizational walls can significantly increase operational performance in terms of productivity, speed, and quality and cost of the outcomes. Research shows that agile organizations have a 70 percent chance of being in the top quartile of organizational health, the best indicator of long-term performance.[5]

— *Greater resilience.* The inherent resilience of agile organizations has become even more relevant in a world struck by the sudden disruption of COVID-19 lockdowns, with a substantial share of corporate employees across the globe moving to a remote work setting. A common misconception is that agile is equivalent to chaos and lack of a stable way of working. It is actually the opposite. In an agile world, the organization consists of a large network of small, strong, empowered, and autonomous teams, which do not depend on top-down guidance and decisions for their day-to-day work. By design, these teams have most of the capabilities needed, as well as a systematic set of agile practices and rituals, such as regular backlog refinement, sprint planning, a daily check-in meeting, frequent customer or user feedback, and other tools that allow them to make quick decisions and immediately respond to a changing environment. This stable backbone provides each team with the information and mechanisms to continue performing well in the event of a disruption.

— *Increased flexibility.* In an agile organization, each team begins a new sprint with a planning session and wraps it up with a review of the work that has been done. Now imagine that, for whatever reason, the priorities of the organization suddenly change—for example, because the demand for a certain product has dramatically increased while other products have become much less relevant for customers. With an agile organization in place, it is easy to redirect the teams to focus on the new priorities. The

Organizations that have achieved greater maturity in their application of agile have fared better during the pandemic.

[5] Michael Bazigos, Aaron De Smet, and Chris Gagnon, "Why agility pays," *McKinsey Quarterly*, December 2015, McKinsey.com.

operating infrastructure and mechanisms are already in place; dealing with rapid changes is part of the culture and mindsets.

The current COVID-19 pandemic has proved to be a test of resilience and flexibility, revealing the value of enterprise agility in an organization. According to McKinsey's research with Harvard Business School during COVID-19,[6] organizations that have achieved greater maturity in their application of agile have fared better during the pandemic (Exhibit 2).

Beyond the buzzword: Concrete practices that define agile organizations

Agile started as a movement in software development, but the principles behind it are applicable much more broadly. We talk of enterprise agility as referring to the cultural, organizational, structural, and operational shift that organizations undergo when adopting the agile mindset in a comprehensive manner.

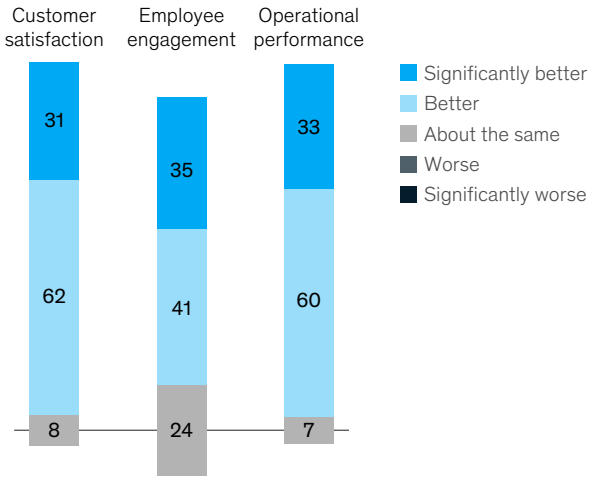
Because of the long and rich history of agile, leaders interested in bringing agile to their organizations may be overwhelmed by an abundance of frameworks, methodologies, and jargon (for example, SAFe, Scrum, tribes, and squads). While frameworks can be helpful, in particular for creating a common language among all stakeholders, every organization and indeed every department within will have its own circumstances and needs. Finding the right expression of agile may require continuous experimentation and customization to ensure that the value of agility is captured.

In our experience, cutting across these specific frameworks and terminologies, successful agile organizations display five fundamental "trademarks,"[7]

Exhibit 2

When faced with the COVID-19 crisis, agile business units had an overwhelmingly better response than nonagile business units.

Self-assessment between agile and nonagile business units of the same organization,[1] % of respondents



[1]Question: How did your agile business units react to COVID-19 compared to your nonagile business units?
Source: McKinsey COVID-19 research on agile organizations, n = 25 organizations

[6] Christopher Handscomb, Deepak Mahadevan, Euvin Naidoo, Lars Schor, Marcus Sieberer, and Suraj Srinivasan, "An operating model for the next normal: Lessons from agile organizations in the crisis," June 2020, McKinsey.com.
[7] Wouter Aghina, Karin Ahlback, Aaron De Smet, Gerald Lackey, Michael Lurie, Monica Murarka, and Christopher Handscomb, "The five trademarks of agile organizations," January 2018, McKinsey.com.

Exhibit 3

Going from a linear hierarchy to an agile organization requires touching the entire operating model.

Strategy

- Clear why for agile
- Top-down led transformation setup

Structure

- Self-managing end-to-end teams
- Unit design and logic
- Chapters and communities
- Agile top team

Process

- Team-level agile methods
- Organization-level steering and governance (eg, QBR)
- Performance and health tracking

People

- Culture change
- New capabilities (eg, agile coaches)
- People model
- Communications, transition plan

Technology

- Decoupled systems
- Processes and skills (eg, DevOps)
- Enabling technology

which any leader can use as guiding principles to decide which new practices should be employed. These trademarks can be mapped against the organization's strategy, structure, process, people, and technology (Exhibit 3).

Strategy: A North Star embodied across the organization

Agile organizations reimagine both those for whom they create value and the way they create it. They are intensely customer focused, irrespective of whether these customers are internal or external. To meet continuously evolving needs from multiple stakeholders, agile organizations do not hesitate to integrate customers and partners directly into their operations, enabling them to provide rapid feedback or cocreate new products and services.

To ensure coherence and focus, agile organizations set a shared purpose and vision—their "North Star," which helps people feel personally and emotionally invested. By combining their North Star with a distributed approach to value creation, agile organizations can rapidly identify and seize opportunities. Individuals across the organization search for changes in customer preferences and the external environment. They act upon these changes with the support of senior leadership, which provides guidance on priorities and encourages a flexible reallocation of resources when appropriate.

Structure: A network of empowered employees

If individuals are expected to search for and pursue opportunities, they must be empowered to do so. Here lies a fundamental shift in mindset needed for agile organizations. Traditional managers may think, "People need to be directed and managed; otherwise they won't know what to do, and there will be chaos." In an agile organization, the mindset becomes, "When given clear responsibility and authority, people will be highly engaged, will take care of each other, will figure out ingenious solutions, and will deliver exceptional results."

Leaders are responsible for creating an environment where teams and individuals can be at their best. Practices include the design of structures for different teams based on their activities: cross-functional squads for product delivery (for example, product management, marketing, IT, and engineering), self-managing cells for recurring activities (for example, customer service, manufacturing, and finance), and flow-to-work pools for expert roles that need to be temporarily allocated to projects (for example, risk, legal, talent management, and

communications) (Exhibit 4). Other practices are a constant focus on clarity and accountability of each individual's role, pragmatic governance mechanisms that encourage direct communication between teams (to minimize intermediaries and overhead roles), and the establishment of communities of practice to share knowledge, experiences, and standards across teams. Think of the common practice of setting up a cross-functional task force with a clear purpose, which many organizations recently experienced in the crisis.

One can think of the agile organization as a wide network of permanent task forces operating in a well-structured and harmonized way. This is a major departure for many hierarchy-driven, structured Japanese organizations, and it requires leaders to trust self-organized individual members.

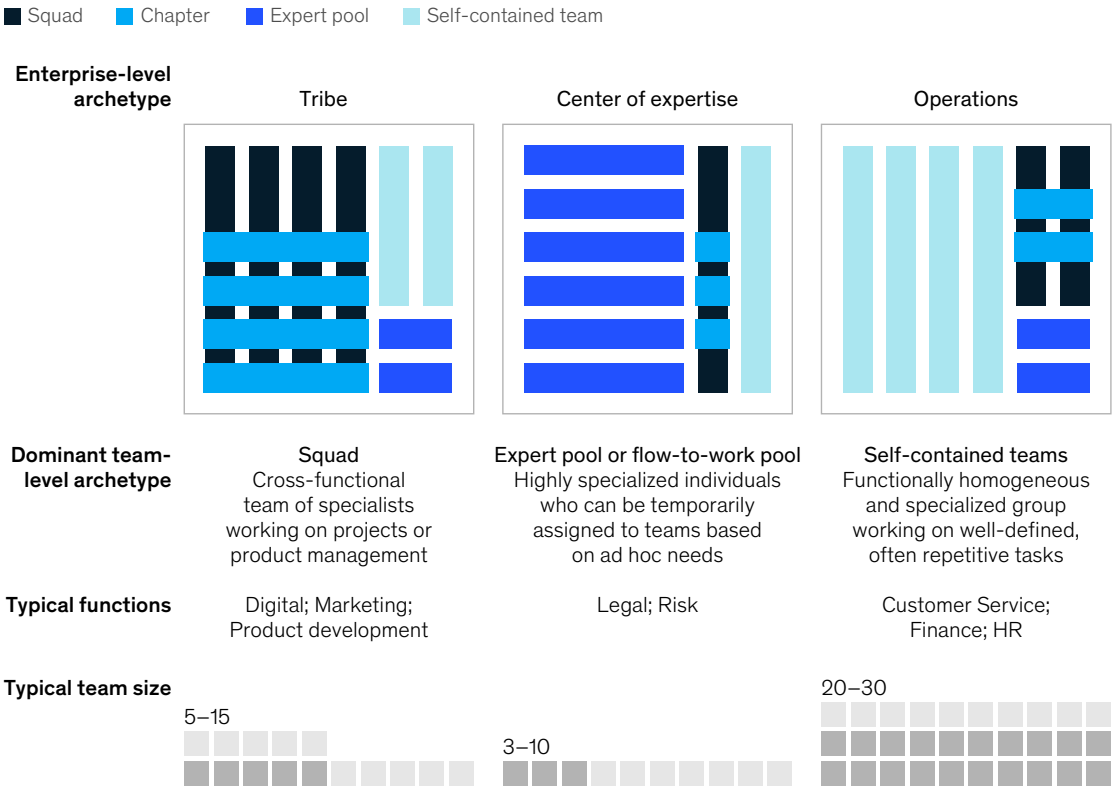
Process: Rapid cycles of decision making and learning

Along with this continuous pursuit of new opportunities comes the need for experimentation and the ability to accept and learn from failures. After all, organizations cannot empower employees unless they remove the fear of failure and reward the ability to take calculated risks. Agility acknowledges the fact that organizations operate within a constantly evolving environment that demands flexibility and responsiveness—perhaps at odds with the Japanese tradition of perfectionism. This materializes as tangible changes in the operating model at all levels of the organization.

Exhibit 4

Agile organizational units typically make use of multiple team-level structures, depending on the activities they need to perform.

Dominant team structures for different organization archetypes



At the team level, delivery will often be orchestrated in so-called sprints: priorities and deliverables are established in rapid cycles (typically of two to four weeks, with some teams even delivering more often). This forces teams to deliver tangible value during each sprint and allows rapid shifts in priorities.

At the enterprise level, the planning, budgeting, and funding cycles also need to be shortened. For example, the yearly strategic planning may be replaced by quarterly business reviews (QBRs), during which the combined results of every team are assessed against broader, longer-term objectives, as derived from the North Star, and changes of direction or priorities can be quickly and transparently cascaded down to the entire organization. These QBRs may be linked to venture-capital-style funding of projects, whereby a project may be rapidly canceled or repurposed if it fails to meet its quarterly expectations. This stands in stark contrast to traditional models, where programs may run significantly over budget and over time until their eventual completion.

People: Dynamic people model that ignites passion

An agile organizational culture puts people at its center, both as a consequence of other practices (such as the need to empower) and as an enabler for those practices (investing in people development to establish strong leaders that further elevate the organization). Agile organizations create a cohesive community with a common culture, where norms are reinforced through positive peer behavior and influence in a high-trust environment, rather than through rules, processes, or hierarchy. Here, the importance of cohesion in Japanese culture plays as a natural strength, though it needs to be balanced by an increased acceptance of constructive disruption—say, in the form of encouraging all individuals to voice their ideas, regardless of seniority. This focus on creating cohesive communities and empowering individuals makes agile organizations attractive places to work for high-performing talent and enables individuals to develop their capabilities fully.

Technology: Next-generation enabling technology

At many traditional organizations, technology may be one of the factors holding back their ability to deliver quickly and afford experimentation. Supporting the responsive and iterative operating model we have described requires a radical rethinking of technology, including ways of working within and in collaboration with the technology department. For Japanese companies, this can be a particularly important challenge to overcome, as many companies are structurally dependent on external vendors or dedicated IT subsidiaries not tightly integrated with the business. There are two natural places to start:

— *Digital collaboration tools.* Many companies started deploying digital collaboration tools in response to the COVID-19 crisis and the imperative of remote work, including a shift toward electronic documentation and virtual approval processes.

— *Shift toward cloud-based infrastructure.* This is a fundamental speed enabler for further changes in the IT environment, such as the transition to a more modular architecture (leveraging APIs and well-defined services) and the adoption of DevOps tools and practices.

Embracing agile in the Japanese context

The promise of enterprise agility is real and attractive across all sectors in all geographies. At the same time, large Japanese organizations are struggling to translate the theory into action. Their apparent hesitancy is understandable, given that enterprise-wide transformation entails sweeping changes and inevitable disruption touching every aspect of operations. Nevertheless, in several ways, agile is well suited for Japanese players.

First, a historical perspective suggests that the fundamentals of agile are actually at the heart of leading Japanese companies. The principles

of agile organizations are deeply inspired by the lean management philosophy, first introduced by Toyota and adopted by many other Japanese manufacturers.[8] Agility brings the same focus on waste minimization outside of manufacturing but expands the definition to include bureaucracy and perfectionism.

Also, there is a close similarity between the concept of a North Star and the Japanese practice of *hoshin kanri*. Both rely on setting a strategic direction and objectives for the company; these can then break down into smaller goals for each unit, helping the organization stay focused on the activities needed to deliver on the strategic direction.

Furthermore, enterprise agility promotes the continuous-improvement mindset, or *kaizen*, which is already common across Japanese companies. Agile places continuous improvement at the heart of its operating model, in particular through the sprint retrospective meetings. At the end of the sprint, the members of each team hold a discussion about how to improve their way of working and collaboration, identifying which practices to keep and change.

Finally, Japanese organizations have a very strong ability to execute. True, Japanese executives and working-level people alike may spend much time fully digesting and aligning with a certain transformation needed in their organizations. However, once they are convinced about the direction, they are among the best in the world at diligent execution.

We have seen some Japanese organizations building on these strengths to implement enterprise agility and capture its benefits (see sidebar, "Agile in a Japanese pharmaceutical organization").

Japanese organizations intrinsically have several attributes that make them well suited for embracing an agile operating model.

[8] Stefan de Raedemaecker, Christopher Handscomb, Sören Jautelat, Miguel Rodriguez, and Lucas Wienke, "Lean management or agile? The right answer may be both," July 2020, McKinsey.com.

Agile in a Japanese pharmaceutical organization

A global pharmaceutical company has recently transitioned the entire Japanese business unit to an agile operating model. Much as we see in many other global cases,[1] this agile transformation in Japan has been enabled by a set of key success factors:

Clear strategic rationale and consensus on the reason for change
Everyone, down to each individual squad member, was very clear on the overall strategy and why this transition was needed. Internal communication and alignment were very strong on all levels. The full organization understood agile as a means to achieve the overall strategy.

Full buy-in from the leadership team
The leadership team was patient and invested sufficient time in building alignment within the organization prior to the execution. Building consensus on the agile decision took three times longer than designing and implementing the change. Once the execution started, nothing held back the progress. Additionally, top team and key individuals contributed at least 30 to 40 percent of their time to design the new organization, working as an agile team themselves.

Rapid implementation of front-runners
Getting the organization to believe in the new model requires more than storytelling. The best way to create an internal reference on how agile looks and feels is to deploy front-runner units quickly, setting them up to achieve initial successes. The organization took advantage of the initial unit to build a testing ground while delivering concrete impact along the way.

Transition in one go
The management team decided to transition the entire organization to agile in one go, implementing all elements of the transformation at the same time. This included the key people processes that enabled the culture shift, as well as reimagination of leadership roles and career paths. Additionally, the focus and energy devoted to change management and communication efforts were uncommonly high. HR and communications executives led the agile training right before the go-live date, preparing and delivering a training program that lasted several days.

Culture of valuing and rewarding those who try new things
For several years, the management team had already been fostering a strong culture of trying new things. This was in line with the strategic shift this company was making in customer engagement. Across the organization, employees were encouraged to try new things, and support was willingly given if it was in line with overall strategy. This culture of risk-free experimentation was one of the most valuable intangibles of this company, and it became a strong enabler of the agile transformation.

The impact of this Japanese agile transformation was broadly in line with what is frequently observed in other global companies:

— *Customer satisfaction.* Feedback from customers was almost immediately positive, with customers openly saying that the materials produced were much more suitable to their needs than before. The new operating model could also quickly optimize the channel mix, moving in record time from the traditional and expensive face-to-face interactions to digitally enabled interactions.

— *Employee satisfaction.* The organization not only adopted agile—it really embraced it. The employee satisfaction score shifted from –7 to 33, an impressive uplift in just a few months with the new operating model.

— *Operational performance.* Just a few months into the new operating model, the organization was experiencing a significant acceleration of delivery. For example, creating new campaigns and materials was four times faster than before the transition to agile. Similar benefits were felt in other core business processes, such as the speed in conducting a detailed segmentation.

[1] Daniel Brosseau, Sherina Ebrahim, Christopher Handscomb, and Shail Thaker, "The journey to an agile organization," May 2019, McKinsey.com.

So far, Japanese companies have been relatively slow to embrace the idea of full enterprise agility. One reason might be that Japanese organizations have historically tended to be hierarchical and to focus on detailed planning prior to execution. These and other characteristics are at odds with the agile culture and mindsets.

Even so, Japanese organizations intrinsically have several attributes that make them well suited for embracing an agile operating model. Notable examples are their focus on *kaizen* and their very strong ability to execute.

Which Japanese organizations will be the front-runners in embracing enterprise agility? Some are already out in front, particularly new companies in the tech sector that were born agile. Others will achieve agility through successful planned transformation; still others will have agility thrust upon them by competitors or circumstance. Whichever way, Japanese companies already have within themselves many of the prerequisites for a successful move to enterprise agility.

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