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Planning in an agile organization

Santiago Comella-Dorda, Khushpreet Kaur, and Ahmad Zaidi

Agile organizations rely on an innovative mix of stable and dynamic elements to bring planning up to speed with their fast-paced needs.

Companies large and small are discovering that agility—the ability to quickly reorient the organization toward valuable opportunities—can improve the performance of working groups across the enterprise.[1] Agile ways of working can also reduce risk and create flexibility, because they allow teams to test and validate ideas before the business commits to developing them. These benefits can be lessened, however, if companies don't apply agile concepts to enterprise-wide processes—particularly the planning and budgeting processes, by which companies translate their strategy into decisions about how to allocate people and resources. When agile teams must submit ideas to a planning committee and wait months for funding, they can miss out on precious opportunities to win customers or boost efficiency. At the business-unit level, the company can be slow to reallocate money and resources to endeavors that create the most value.

Most of the techniques that agile organizations use to make planning more dynamic are not new. Rather,

[1] A McKinsey survey found that agile teams of various kinds were 1.5 times more likely to report financial outperformance than other business teams and 1.7 times more likely to report nonfinancial outperformance. Eighty-one percent of respondents in agile units report a moderate or significant increase in overall performance since their transformations began. For more, see "How to create an agile organization," October 2017, McKinsey.com.

they've been tried and tested by companies across industries and geographies. What's apparent, though, is that agile organizations can use them to match the pace of planning with the pace of agile teams. These techniques help corporate planners to ratchet up the frequency of resource-allocation decisions and to grant teams more leeway to spend their budgets, while still ensuring that money and people are deployed productively.

To achieve agility in planning, companies should combine elements that promote both stability and dynamism.[2] The elements that lend stability to agile planning are setting clear strategic priorities and defining closely related objectives for teams. The dynamism in agile planning comes from holding quarterly planning sessions, in which funding is redistributed among business units, and providing teams with support to use funding as they see fit. In this article, we will explore these four elements and illustrate them with examples from several companies.

Focus on a small set of strategic priorities

While an excess of strategic priorities can create difficulties for any organization, it can be especially problematic for agile companies, where empowered teams enjoy the rights to make more day-to-day decisions than project teams at traditional command-and-control companies. Our experience suggests that if agile teams each have their own idea about the company's strategic priorities, then these teams can end up pursuing endeavors that are too diverse to produce significant performance gains in any single area.

Executives at an agile company must therefore agree on a small, well-defined set of priorities—ideally, ten or fewer.[3] These priorities should then guide planning and budgeting decisions at all levels of the organization, such that business units receive extra funding if their main initiatives support the main strategic priorities, and business units assign more funding to individual teams whose work makes a demonstrable contribution to the strategic priorities. Additionally, these priorities should be updated on a quarterly basis to ensure they're still in line with changing customer and market trends. That is not to say that agile companies should not explore and experiment. Experimentation outside the strategic goals is often accomplished by granting teams and individuals certain capacity to pursue their discretionary endeavors. For example, Google encourages its employees to spend 20 percent of their time on projects that they think will benefit the company.

A North American provider of financial and software services developed a five-year strategy consisting of three pillars and eight enablers that translated into more than 25 priorities. Since each priority would require rapid execution and frequent monitoring, leadership soon realized that it could not look after so many priorities at once, let alone explain them all to the company's workforce. To focus its attention, the executive team chose to identify no more than five strategic priorities to pursue every year. Executives also set clear, measurable goals that they could use in quarterly reviews of the company's progress toward its strategic priorities, a practice we explore more in the following section.

2 For more on the way that stability and dynamism together promote agility, see Wouter Aghina, Aaron De Smet, and Kirsten Weerda, "Agility: It rhymes with stability," *McKinsey Quarterly*, December 2015, McKinsey.com, and Wouter Aghina, Aaron De Smet, Gerald Lackey, Michael Lurie, and Monica Murarka, "The five trademarks of agile organizations," January 2018, McKinsey.com.

3 A McKinsey survey found that agile performance units are more likely than other performance units to have "actionable strategic guidance" and a "shared vision and purpose." For more, see "How to create an agile organization," October 2017, McKinsey.com.

Ensure teams have clear, specific goals

Once executives have established the company's strategic priorities, they need to convey those to personnel at every level of the organization. Managers and other employees may be working on hundreds of activities that seem important from their vantage points, so it's important to make sure that everyone puts most of their energy into endeavors that correspond to the company's priorities. We have found that articulating company priorities in a concise memo and distributing it to the entire company greatly helps to orient agile teams toward the same set of high-level priorities.

Strategy memos, however, are ordinarily too general for teams to use as guidance for their day-to-day decisions. Agile organizations should therefore translate strategic priorities into more specific goals that teams can work toward.[4] One way that agile organizations can do this is by establishing objectives and key results (OKRs). An OKR spells out the company's priorities in terms of specific accomplishments and performance improvements. The objective consists of a clearly defined qualitative change, while the key result is a specific, often quantitative performance target that must be met. Agile organizations should set OKRs annually and assess progress against them on a quarterly basis.

The setting of OKRs shouldn't be a strictly top-down exercise. Ideally, staff at each level will be allowed to suggest changes to the OKRs and outline the budget they will need to meet them. These suggestions should be aggregated, reconciled, and taken into account. The idea is not to challenge and debate the premise for every OKR (as an organization might do in a zero-based-budgeting approach), but to make reasonable adjustments to the OKRs. Most organizations will set budget envelopes (fixed amounts of funds, allocated for a duration) at different levels to accelerate the process and reduce variability.

For example, a global financial institution set a strategic priority to make its customer-service journey more efficient. In line with that strategy, it established an OKR to reduce the cost of servicing customers (the objective) by 50 percent (the key result). Achieving the OKR would require coordinated effort among the "squads," or teams, working on different aspects of the customer-service journey, such as product, technology, policy, and risk. To promote alignment among the squads, executives gathered the squad leaders to discuss cost-reduction opportunities and what each squad could do to capture them. Thereafter, each squad was assessed with respect to a single metric: reduction in the cost of servicing customers. The single OKR encouraged the teams to focus on cost-reduction initiatives and deprioritize other activities, while promoting a shared understanding of how the squads would be assessed each quarter.

Accelerate planning cycles to reallocate resources more frequently

Agile teams can turn out minimum viable products (MVPs) in just a few weeks, and they reallocate funding continuously, with priorities being refined every sprint.[5] Because their work rate is so high, these teams can be constrained or even crippled if they must wait for funding to be dispensed in annual cycles. For example, a large North American insurance provider that allocated funds on an annual basis struggled to promptly finance

[4] A McKinsey survey found that agile performance units are 2.2 times more likely than other performance units to maintain "performance orientation." For more, see "How to create an agile organization," October 2017, McKinsey.com.

[5] *Ibid.*

innovative ideas once its customer-facing teams had adopted agile ways of working. A team that conceived a promising product concept would have to wait until the end of the year before it could start working on it—by which time competitors would have already released similar products.

To help teams obtain funding more quickly, the insurance provider set aside a portion of its budget to be allocated on a quarterly basis. The company then invited agile teams to apply for the funding they would need to develop new ideas. Rather than entirely funding a new idea up front, though, the planning committee allocated each team just enough funding to reach the next milestone in a project, then evaluated the outcome before releasing any more funding.

These decisions were made during quarterly planning sessions: gatherings of business leaders from multiple functions, where teams describe their progress and business outcomes with respect to OKRs and outline their plans for future quarters. The leadership group then assesses funding proposals, whether for new projects or for the continuation of existing projects, and decides what to fund.

Here is an example from the insurance company mentioned above. In one quarterly planning session, a team from the employee-benefits business made a case that it needed a new file-exchange system. The team had observed that clients were unhappy about having to spend significant time and resources to prepare flat files with beneficiary details, which operations teams at the insurer would review and correct, placing further demands on clients. The planning committee granted the team enough funding to conduct user research, which confirmed that these error-prone file exchanges accounted for major lags in turnaround time. At the next quarterly planning session, the team presented its research findings, outlined a concept for the file-exchange system, and requested funding to build an MVP. The planning committee fulfilled the team's funding request, which enabled the team to spend the next quarter building the MVP.

Enable teams instead of directing them

Once the leaders of an agile organization have clearly articulated strategic priorities and conveyed them throughout the organization in the form of clear OKRs, they should concentrate on empowering teams and individuals to execute their plans for pursuing the OKRs. This often requires leaders to desist from telling teams what to do and how to do it, and instead allow teams to determine their own courses of action. Leaders then assist teams in carrying out their plans by providing them with adequate resources, as described above, and removing institutional obstacles.

One example of this leadership approach can be found at a North American software provider. While creating the previous version of an online banking platform, the company's leadership had taken a highly directive approach. One year into the development process, though, the company discovered that the platform's design, as specified by leadership, failed to take advantage of cloud-based technologies that would make the platform highly scalable.

When it came time to develop a new version of the platform, the company's leaders restricted their role to defining the vision and providing guidance on which features to include. They then allowed the development team to figure out how best to build the platform. The developers chose to create an MVP by adapting a third-party banking platform that was based in the cloud. That approach proved more efficient, scalable, and technically reliable than coding from scratch—an instance where leadership's deference to technical experts produced a superior result, with the MVP being released within five months (after previous delays of more than a year and a half).

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For many executives, managers, and workers, organizational agility is already a high priority. Nevertheless, at some companies that are going through agile transformations, individual teams have been unable to fully implement agile ways of working because they are hamstrung by bureaucratic planning processes. To help these agile teams realize their potential, executives must integrate agile principles into their planning methods and systems. Stable, enterprise-wide strategic priorities provide the basis for the specific objectives and key results that teams are asked to work toward. With those priorities and objectives in mind, the planning group reviews budgets every quarter, rather than annually, so it can reallocate resources more often to teams that create the most value. Those teams, in turn, receive more authority to deploy funding in service of their objectives and more support from executives—thereby realizing the agility that is conducive to the organization's success. ◆

Santiago Comella-Dorda is a partner in McKinsey's Boston office, **Khushpreet Kaur** is a partner in the New York office, and **Ahmad Zaidi** is an associate partner in the Chicago office.