

Organization Practice

An operating model for the next normal: Lessons from agile organizations in the crisis

Companies with agile practices embedded in their operating models have managed the impact of the COVID-19 crisis better than their peers. Here's what helped them cope.

This article was a collaborative effort by Christopher Handscomb, Deepak Mahadevan, Lars Schor, and Marcus Sieberer of McKinsey and by Euvin Naidoo and Suraj Srinivasan of the Harvard Business School. It represents views from across McKinsey's Agile Tribe.



For many companies, the first, most visible effects of the COVID-19 pandemic quickly created a challenge to their operating and business models. Everything came into question, from how and where employees worked to how they engaged with customers to which products were most competitive and which could be quickly adapted. To cope, many turned to practices commonly associated with agile teams in the hope of adapting more quickly to changing business priorities.

Agile organizations are designed to be fast, resilient, and adaptable. In theory, organizations using agile practices should be perfectly suited to respond to shocks such as the COVID-19 pandemic. Understanding the experiences of agile—or partially agile—companies during the crisis provides insights around which elements of their operating models proved most useful in practice. Through our research, one characteristic stood out for companies that outperformed their peers: companies that ranked higher on managing the impact of the COVID-19 crisis were also those with agile practices more deeply embedded in their

enterprise operating models. That is, they were mature agile organizations that had implemented the most extensive changes to enterprise-wide processes before the pandemic.

That suggests implications for less agile companies as economies reopen. Should they set aside the agile practices they adopted during the pandemic and return to their traditional operating models? Or should they double down on agile practices to embrace the more fundamental team- and enterprise-level processes that helped successful agile companies navigate the downturn?

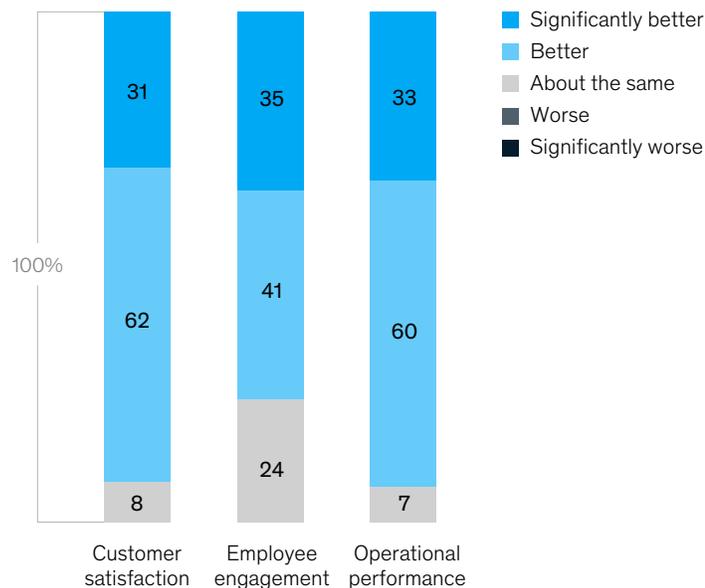
Evaluating the effectiveness of the response

We analyzed 25 companies across seven sectors that have undergone or are currently undergoing an agile transformation. According to their self-assessments, almost all of their agile business units responded better than their nonagile units to the shocks associated with the COVID-19 pandemic by measures of customer satisfaction, employee engagement, or operational performance (Exhibit 1).

Exhibit 1

Business units that had fully adopted an agile model before the COVID-19 crisis outperformed units that hadn't.

Performance self-assessment of agile business units relative to nonagile units in same organization, % of respondents (n = 25 organizations)



Note: Figures may not sum to 100%, because of rounding.

Executives emphasized that the agile teams have continued their work almost seamlessly after the shock, without substantial setbacks in productivity. In contrast, many nonagile teams struggled to transition, reprioritize their work, and be productive in the new remote setup. The alignment between agile teams' backlogs and their business priorities allowed them to shift focus quickly. Stephen Gilderdale, chief product officer at SWIFT, told us his organization reprioritized about 20 percent of its work, and agile teams contributed by quickly aligning to updated priorities: "They knew their business objectives and had sophisticated reasoning for each of them. This allowed them to reprioritize their work within a few days."

Reprioritization comes naturally to agile companies. They do it by embedding customer-centricity in their processes, delaying and empowering the organization, and bringing business and IT together. For instance, an Asian telco had to shut down its offshore call center when the COVID-19 situation started, which resulted in the messaging queue increasing to an average of 36 hours of waiting time. In reaction, managers asked retail staff to support call-center functions, established

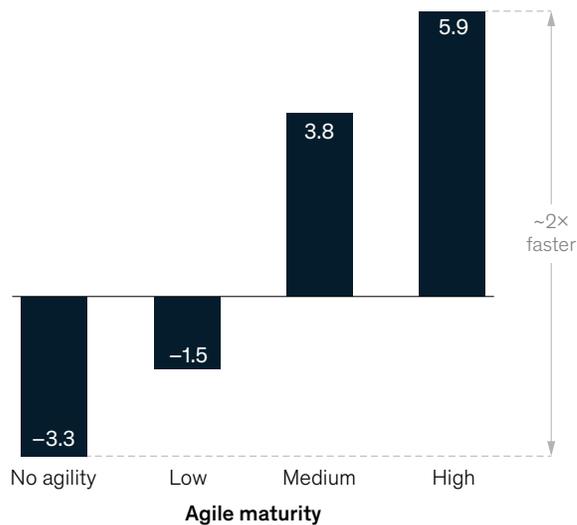
microsites in an offshore location to reopen call centers, and switched on chatbot access for all of their customers. Within a month, the queue had fallen back down to just a few minutes. The leader of the telco's agile center of excellence particularly highlighted that such a reaction could have taken six months in the old way of working. Now, resources could be reallocated quickly, allowing teams to shift focus and deliver digital prototypes within days.

Many of the executives of agile companies we interviewed also highlighted that their organizations reacted faster than their peers. To validate that trend, we analyzed the speed of service adjustment of companies with different agile maturities. For instance, we measured the time that 36 telco providers across 11 Asian and European countries took to launch services in response to the COVID-19 pandemic, such as providing additional data or bandwidth. Results of our research confirm that telco operators that adopted an agile operating model before the pandemic responded significantly faster, on average, than their peers (Exhibit 2). We observed similar trends when measuring the reaction time of banks to launch services in response to the COVID-19 crisis.

Exhibit 2

Agile telco operators reacted faster than peers to the COVID-19 crisis.

Telco-operator reaction time to COVID-19 crisis relative to country average, by agile maturity level,¹
number of days ahead of country average



¹Reaction time of telco operators in Australia, Austria, Belgium, Denmark, Germany, Hungary, Netherlands, New Zealand, Poland, Switzerland, and United Kingdom; measured as number of days between date of 100th COVID-19 infection per country and launch of a COVID-19-specific product or service; reaction time for nonresponders capped at 150% of slowest mover per country; n = 36 (6 with no agility, 12 with low agile maturity, 8 with medium agile maturity, and 10 with high agile maturity).

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The elements of a successful response

Most organizations, agile or not, witnessed a faster pace of decision making as the realities of the COVID-19 pandemic evolved. Under immense pressure to set up an operating infrastructure very quickly to allow hundreds and thousands of employees to work from home, many organizations gave up traditional processes and bureaucracy and solved instead for faster outcomes. Priorities became clearer, and there was a razor-sharp focus on what needed to get done in the very short term as many organizations went into survival mode. Even considering that across-the-board step-up from many organizations, agile organizations managed to outperform.

We asked executives and agile leaders of the 25 analyzed companies which elements and practices helped them and their teams cope with the shock. Their responses fell into two categories: elements at the team level (many of which, incidentally, were also exercised by many nonagile organizations or units) and more advanced, enterprise-level elements, which were only observed in organizations that had already undergone a radical transformation.

Team-level elements

Team-level elements enabled teams to focus and to swarm—or rally those with the necessary skills around a task—to keep work moving on schedule. Even nonagile organizations and units called upon such practices in reaction to the crisis. They included a set of structured events, or ceremonies,

at the team level that allowed teams to keep their pace and rhythm, even if the priorities were changing quickly and team members were no longer co-located. In fact, the events and ceremonies gave the teams platforms for effective, faster decision making as things changed. Some companies increased the frequency of ceremonies—doubling the cadence of status-check sessions, for example, or halving the length of their sprints to cope better with changing priorities. That ensured better communication within the team and provided for regular social interactions. Remote-collaboration tools then helped the teams continue working together and track their progress transparently, even while working remotely.

Consider the experience at MSD Japan, for example. In 2019, MSD Japan transformed into an agile organization so it could adapt to changing environments and customer needs. Its president, Jannie Oosthuizen, told us that the application of agile practices allowed the company to have a seamless up-and-down flow of information. That information flow was enabled by the use of agile ceremonies at each level so that teams could keep the rhythm going and make switches easily and seamlessly. For instance, Oosthuizen described underestimating the impact of the shock on employees and their workloads. For MSD Japan, agile ceremonies provided a regular pulse check of team health and workload. And it realized rather quickly that keeping the agile pace in a remote setting isn't something an organization can do for

a long time, leading it to reduce team workloads consciously.

The ability to restructure an evolving list of product requirements, or backlog, allowed teams to focus on changing customer needs, even as what mattered most to their customers rapidly changed. As Oosthuizen observed, “Even before COVID-19, we were bad at prioritizing, and it’s still a challenge. Looking back, we should have put more focus on it. Then we would have been in a better position to cope with the shock.”

Most agile teams practiced such foundational agile elements before the pandemic, so they could continue their work almost seamlessly under lockdown. As SWIFT’s Gilderdale told us, “At the beginning of the pandemic, our agile teams were able almost seamlessly to move to a remote setup. The agile teams particularly benefited from their cross-functional nature and way of working. They had their tasks transparently described in digital-issue tracking tools and were experienced in using digital remote-collaboration tools. In fact, many nonagile teams started to adopt some of the practices of the agile teams during the pandemic so that they could work remotely effectively.” That adoption of select agile elements by nonagile teams is a trend we saw broadly, and agile coaches often played a key role. We heard from managers at several companies who explicitly reallocated coaches to nonagile teams to help them conduct effective agile ceremonies and more effectively collaborate with each other.

While co-location has often been seen as a prerequisite for the agile way of working, the pandemic has shown that agile teams can be highly effective in a remote setting. The critical success factors have been a stringent adherence to the agile cadence, efficient use of remote-collaboration tools, and the creation of a virtual co-location. Many organizations reported that being remote helped them to be virtually co-located and become more effective. For instance, a product owner at

a global consumer-goods organization described his team as distributed across two geographical locations before the pandemic. When everybody was forced to work remotely, the team’s cohesion increased because every team member was equally co-located.

Enterprise-level elements

Enterprise-level elements helped companies rapidly align their entire organizations around shifting priorities during the crisis. Executives and agile leaders particularly emphasized the importance of empowering cross-functional teams at the lowest level to step up and make decisions essential to coping with the shock.

For instance, the transformation lead of a global financial-service provider attributed its success in managing the pandemic to empowering teams and product owners and having reorganized into almost independent cross-functional teams. That allowed senior leaders to focus on steering the company and engaging with customers. Elsewhere, the transformation lead of an insurance company in Asia told us that his company didn’t require many COVID-19-response committees to cope with the shock. While the company had struggled to set up complex response committees for previous crises—even small ones—its empowered, cross-functional, agile teams were able to react to the COVID-19 shock on their own.

A structured governance process for the regular review and reset of business priorities, top to bottom, across the full organization also helped companies to realign and implement their response strategies. That proved especially helpful, for instance, when it became necessary to shift resources from offline channels to online channels. Multiple companies conducted ad hoc quarterly business reviews (QBRs) two to three weeks before the regularly scheduled cadence to review the priorities of their business units. For instance, MSD Japan CEO Oosthuizen emphasized the importance of the QBR process to align the company’s recovery

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strategy across all business units and allocate the resources properly to what mattered most.

Last, among the most successful agile companies we reviewed, an outcome-based, digital, and automated tracking system gave them daily transparency on their performance. An agile leader of a telco operator described knowing, for example, exactly what the impact was going to be in product delays if it was shifting people around, since everything was so transparent on a priority level. Similarly, companies that didn't implement an enterprise-wide performance-tracking system highlighted that as a missed opportunity. The transformation lead of a European bank mentioned that it was almost blind about performance during the pandemic. Automated dashboards, the lead said, would have helped the bank identify the key issues and focus on what mattered most during the crisis.

Executives often highlighted that the combination of different team- and enterprise-level elements made the real difference. For instance, to be fully productive, agile teams must be cross-functional, truly empowered, and adhere to agile ceremonies. Similarly, efficient goals and resource reprioritization required outcome-based performance tracking and full transparency.

Inflection point: Reopening an organization after the pandemic

Agile ways of working helped even nonagile companies cope with the COVID-19 pandemic. As economies open up, previously nonagile companies must decide whether to double back or double down on agile ways of working. Many of them have adopted agile ways of working out of necessity—and often in a quite unsustainable way. As the

adrenaline runs out, they will need to return to a steady state that is sustainable for all employees and that allows them to cope effectively with change in an uncertain future. For instance, the business model of a European machine-building company has significantly shifted during the pandemic, with customers increasingly focusing on digital solutions. To react to that demand, the company implemented its first agile practices during the crisis and is now weighing how much change it can sustainably manage in the first few months after reopening.

With the speed of change expected to continue, the need has never been greater for an operating model that can keep up. To use this momentum and fully embrace an operating-model shift, organizations need to engage actively now, following three steps for the next normal:

1. **Reflect.** Companies need to reflect systematically on what they have learned, assess what practices worked and what didn't work during the pandemic, and decide which of those they want to embed sustainably. For instance, they could ask what differentiated the teams that coped well with the shock from the teams that struggled the most and what practices they can sustainably manage in their operating models. At the same time, they should also look toward more agile organizations to get inspiration from their broader recipes. It's key to not only look at what actually worked but also identify the gaps and engage actively in a discussion on how to close those gaps.
2. **Decide and commit.** Leadership teams, after reflection, should make conscious decisions on where to start, how to start, and which elements of their operating model need

structural shifts. There is a wide spectrum of elements to pick and choose. Some may start with an effort to simplify decision making across the board. Others may opt for a fundamental reorganization while focusing on one area or unit to learn from. There is no one right answer. The road to a new operating model starts by experimenting with new behaviors and practices and learning from them before scaling them across the organization. Successful companies have thoroughly measured the impact of initial efforts to identify what works and what doesn't. The toughest part is then the decision to move to the next step of scaling the practice across the organization. A flattening learning curve is therefore often a good marker that you should move to the next step.

3. **Embed and scale.** The next steps are to transition and scale the selected practice across the company and to go deeper into each of the levers of the operating-model transformation, including structural capability building, people-modeling changes, and enterprise-process changes. A critical success factor for scaling an agile operating model is that the whole organization, agile or nonagile, is optimizing for the same objectives and spinning in the same direction.

We believe the changes that some companies have already been making during the pandemic can give them a leg up in honing their agile practices for an uncertain future. Now they should reflect on what helped them and sustainably embed those practices for the long term.

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