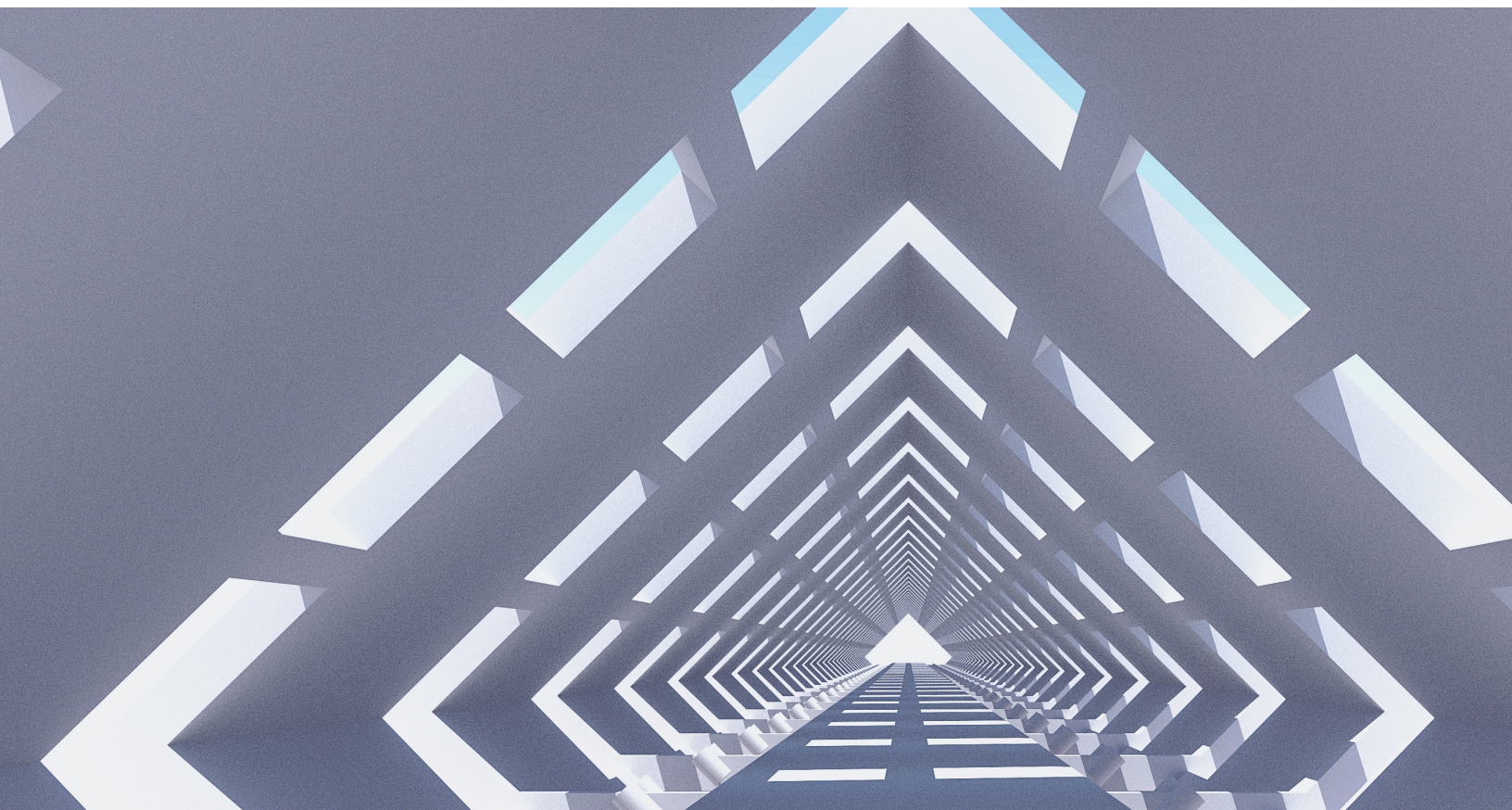


Organization Practice

# How companies can help midlevel managers navigate agile transformations

Agile organization models have less hierarchy and fewer conventional managers. Here's how executives making the move to agile can keep their valuable former managers engaged and motivated.

*by Aaron De Smet, Chris Smith, and Daidree Tofano*



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**Transforming companies to increase** their agility so that they can quickly reorient themselves toward valuable opportunities helps them achieve superior performance.<sup>1</sup> An agile transformation involves restructuring a company's workforce as a relatively flat network of cross-functional, flexible teams empowered to direct their own activities and make day-to-day decisions. As a result, most of the conventional manager's responsibilities—such as planning projects, assigning tasks, documenting progress, and evaluating employees—get absorbed by other roles. When a company's agile transformation is complete, it will have more opportunities for individual contributors and leaders, but few if any positions for managers.

That shift can put considerable pressure on senior executives. Understandably, longtime midlevel managers can become apprehensive once they recognize that their main duties will be redistributed and their job titles erased from the organizational chart. Many will have legitimate questions about what will become of them as the agile transformation progresses. Where will they fit into the new organization? What will they spend their time doing? How will their pay and opportunities for advancement change? Some who feel threatened could resist the transformation or leave the company. Others may struggle to master agile ways of working.

Helping midlevel managers make the transition to agile can take a lot of effort, but the payoff is worthwhile. Companies have long sought ways of enabling midlevel managers to add more value.<sup>2</sup> Since many midlevel managers possess a wealth of experience, knowledge, and skill, redeploying them as hands-on individual contributors is one way to let them accomplish more than they do in managerial roles. Another way is to give midlevel managers the support and training they need to become leaders, with more responsibility for inspiring teams and providing them with the assistance and resources they need to be effective. In this article, we'll explore how conventional organizations can turn midlevel

managers into champions of enterprise agility by explaining what the transformation involves, explicitly communicating their expectations and the options available to managers, and enabling managers as they choose new roles and learn to work in agile settings.

## **Introducing managers to enterprise agility**

At many companies we know, midlevel management includes some of the most capable, knowledgeable, and influential employees. Typical midlevel managers begin their careers as strong individual contributors and win a series of promotions that shift their responsibilities away from making individual contributions and toward directing the work of others. During this progression, these managers acquire influence they can use to shape the company's character.

Because midlevel managers have so much to offer, senior executives would do well to win their support for the agile transformation. The first step is to ease their concerns about what the transformation could mean for their roles and career prospects. In particular, senior executives should address the two big questions below.

### **Where do former midlevel managers fit in at an agile company?**

When conventional organizations promote individual contributors to midlevel management roles, these new managers become responsible overnight for making business decisions, directing people, and overseeing the career development of their direct reports. Managers plan what project teams will do and how they should do it. They monitor teams closely, even on a day-to-day basis, to make sure teams follow project plans. Managers also check teams' work in detail for compliance with project requirements and with organizational standards. This big shift in responsibilities means that some strong individual contributors are well qualified to perform new roles as midlevel managers, while others are not.

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<sup>1</sup> In a McKinsey survey, 81 percent of respondents in agile performance units (functional teams, cross-functional teams, and business units) reported a moderate or significant increase in overall performance since their agile transformations began. On average, respondents in agile units are 1.5 times more likely than others to report financial outperformance relative to peers and 1.7 times more likely to report outperforming their peers on nonfinancial measures. For more, see "How to create an agile organization," October 2017, McKinsey.com.

<sup>2</sup> Aaron De Smet, Monica McGurk, and Marc Vinson, "Unlocking the potential of frontline managers," August 2009, McKinsey.com.

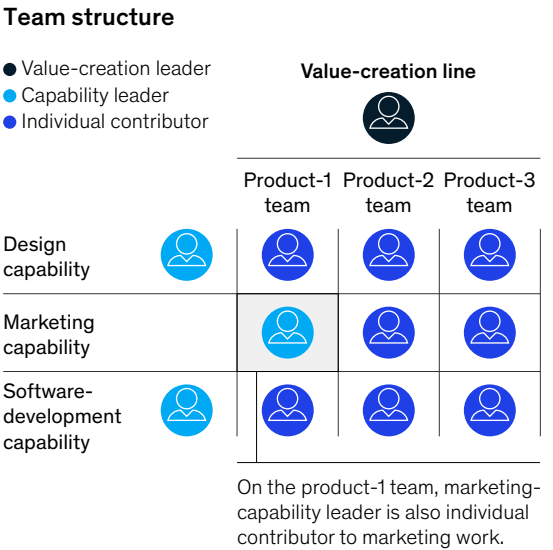
Agile enterprises, on the other hand, don't assign midlevel managers to direct teams. That's because they empower small teams to set their own priorities, divide work among their members, and keep themselves on track. In agile organizations that consist mainly of self-managing teams, it becomes critically important to position people in leadership roles, which entail opportunities and responsibilities that conventional businesses ordinarily reserve for senior executives. Agile enterprises, in particular, ask leaders to act in four capacities: visionary (expresses a compelling organizational purpose that provides people with inspiration), architect (redesigns the organization's strategy and operating model according to agile principles), coach (guides and develops teams and individuals to excel), and catalyst (engages people in setting the organization's priorities and pursuing performance improvements).

To fill agile leadership roles, executives must elevate employees who demonstrate the competencies associated with effective leadership: supportiveness, a strong orientation toward results, a willingness to seek different perspectives, and skillful problem solving.<sup>3</sup> Executives grant such employees a measure of leadership responsibility to determine whether they fulfill it. Then they tap high performers for agile leadership roles that differ greatly from conventional management jobs.

The placement of leaders within the business can vary from one agile company to the next because agile companies don't all have the same structure. In one possible structure, leadership roles are aligned to either the capability dimension or the value-creation dimension (Exhibit 1). The capability dimension represents a particular function, such as customer experience, design, marketing, or software development. Capability leaders ensure that a given capability properly supports the business—a responsibility that extends to coaching and developing people associated with the capability. These leaders may also help to staff teams. However, they rarely, if ever, oversee the

Exhibit 1

**In one model for an agile organization, different leaders oversee capabilities and value-creation work, and they occasionally join product teams.**



Source: McKinsey analysis

product work of the team members associated with the capabilities they lead.

Instead, product work is the responsibility of the leaders of the second primary dimension of an agile enterprise: value creation. This part of the business focuses on generating revenues and profits, much as business units, product lines, or service lines at conventional companies do. Value-creation leaders hold profit-and-loss responsibility, which they meet by developing strategies, setting priorities, defining product goals, and otherwise ensuring that teams charged with delivering work products have adequate resources and support.

<sup>3</sup> Claudio Feser, Fernanda Mayol, and Ramesh Srinivasan, "Decoding leadership: What really matters," *McKinsey Quarterly*, January 2015, McKinsey.com.

In this agile organization model, both capability leaders and value-creation leaders undertake some of the functions of conventional midlevel managers. Their responsibilities are more focused, however, and neither role involves managing people. Since large companies that go through agile transformations, regardless of organizational model, typically have fewer openings for leaders than they had for conventional midlevel managers, a certain number of midlevel managers won't end up in agile leadership roles. Some former midlevel managers will greet this change with enthusiasm—if they can still earn manager-size salaries and bonuses in nonleadership positions. The good news, as we explain below, is that agile companies offer handsome rewards to exceptional performers.<sup>4</sup>

#### How do former managers' pay and career prospects change during an agile transformation?

Many large, hierarchical companies we know pay

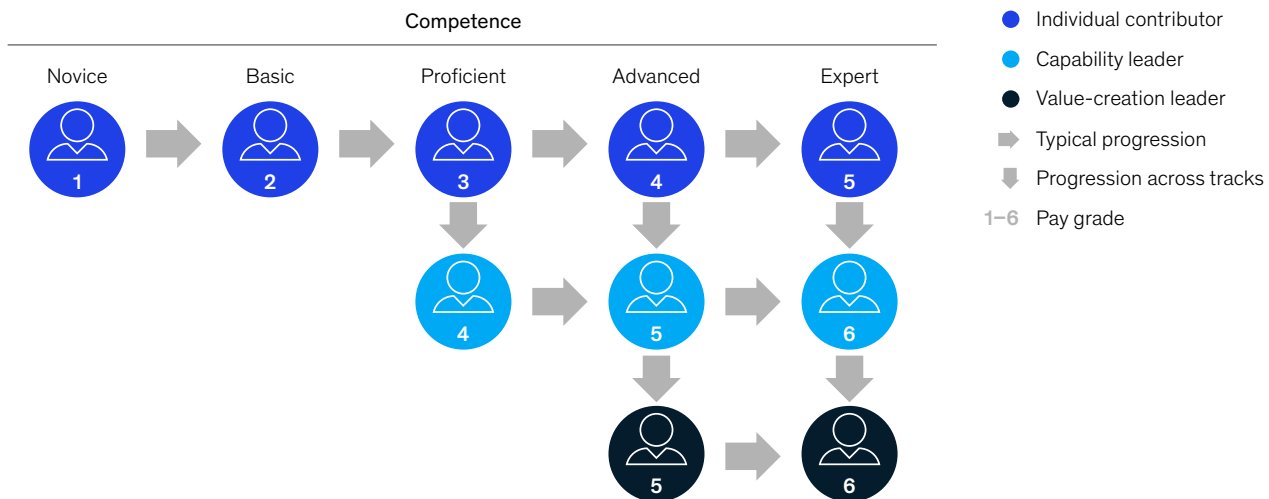
midlevel managers according to the number of people they oversee and the size of the budgets they control. Agile organizations, though, cannot take the measure of their employees' value in the same way. Before an agile transformation starts, senior executives have to show midlevel managers that surrendering their traditional status markers needn't mean sacrificing rewards and advancement opportunities, so long as they perform well in their new roles.

The trick is to make career paths and compensation scales clear, simple, transparent—and fair. A midlevel manager who emerges as a top-performing individual contributor (whether a design expert or marketing savant or software-engineering wizard) should have the opportunity to earn as much money as a leader whose time is mostly spent coordinating the activities of other people (Exhibit 2). Analogous divisions of responsibilities and rewards can be found outside agile companies. In the film business, for example, the executive producer, the director,

Exhibit 2

### At agile enterprises, high-performing individual contributors can earn as much as leaders do.

#### Career-path progression<sup>1</sup>



<sup>1</sup>Based on an organizational model that aligns leaders to capability and value-creation dimensions.  
Source: McKinsey analysis

<sup>4</sup>For more on the types of roles that managers typically assume during agile transformations, see Aaron De Smet, "The agile manager," *McKinsey Quarterly*, September 2018, McKinsey.com.

# Senior executives should abide by core agile principles when they guide midlevel managers into new agile roles.

and the lead actor make different contributions to a movie. Yet each of them stands to be compensated well and to win acclaim and recognition for what he or she added to the production.

Think of a star data scientist at a hierarchical company who accepted a managerial job because it was the only way to get onto an upward career path. She might embrace the opportunity to step back onto a technical track and focus on the data-science work she most enjoys. Opportunities such as these can be essential to winning support from midlevel managers and preventing them from leaving an agile company for a more conventional one.

## **Easing managers' transition to agile**

Just as senior executives should abide by core agile principles when they introduce midlevel managers to an agile transformation, they should apply the same principles to guide midlevel managers into new agile roles. An effective approach will enable midlevel managers to understand and consider their options thoroughly and then to make a smooth transition. Here are five moves we have found important for helping midlevel managers to navigate through an agile transformation and succeed in an agile company.

### **Co-create the company's agile future to secure managers' buy-in**

In our experience supporting agile transformations, midlevel managers adjust to agile roles and

structures more readily when they are allowed to help determine their own future within the organization. Although executives might be reluctant to share their decision-making authority with former managers, they should also recognize that midlevel managers have detailed knowledge of how the business functions on a day-to-day basis. That knowledge is essential to understanding the current state of the company and invaluable for creating a vision for the future state of the organization.

By involving midlevel managers in discussions of how the agile company will be structured and run, and how midlevel managers will help to bring about this future state, executives can make sure that they tap into their knowledge. Just as important, executives can help midlevel managers to see that they will have a new measure of influence over the shape of the organization and their roles within it. For many midlevel managers, this will be a stimulating shift, and one that turns them into allies of the transformation to come.

### **Define the organization's agile roles**

At the outset of an agile transformation, an organization should define the specific number and combination of positions it needs to operate effectively. This leadership roster, initially determined by the number of working teams and functional capabilities, will have to be adjusted over time—perhaps even during the transformation. One thing is certain, however: although an agile

organization will have many fewer (if any) positions for midlevel managers, it will also offer people many more leadership opportunities and a wider variety of individual-contributor roles.

It's important for senior executives to be specific about which abilities and personal qualities they seek in candidates for these roles, which expectations they have for the people who fill them, and how these requirements and expectations differ from those associated with more familiar roles. For example, in companies organized by capability and value-creation dimensions, as described above, senior executives would want to emphasize that finance-capability leaders focus on deploying specialists to teams and on coaching finance specialists about their career development. That set of duties is different from those of a conventional finance manager, who directs a group of financial analysts and helps the group fine-tune

its methods (value creation), while also guiding each analyst's development (capability building).

### Develop a well-rounded view of former managers and counsel them on pursuing agile roles

The way agile organizations apportion responsibilities among roles gives former midlevel managers an opportunity to take on duties quite different from those of a conventional manager. In some cases—for example, at a large financial-services company—the result can be a better alignment between an employee's skills and interests and the day-to-day requirements of the job (Exhibit 3).

In our experience, midlevel managers are more likely to end up in agile roles that suit them well if they receive career counseling. Companies going through agile transformations should also be prepared to help former midlevel managers

Exhibit 3

**During a financial-services company's agile transformation, some former midlevel managers with the right skills and interests secured agile roles that had responsibilities different from those of their old jobs.**

Pre-transformation role	Crossover skills and interests	Post-transformation role
<b>IT project manager</b> <ul style="list-style-type: none"> <li>Manages IT project budgets and deliverables</li> </ul>	<ul style="list-style-type: none"> <li>Servant leader with coaching mind-set</li> <li>Passion for developing people and strengthening teams</li> <li>Deep knowledge of software-development life cycle</li> <li>Resilient and adaptable</li> <li>Collaborative</li> <li>Enthusiasm for learning</li> </ul>	<b>Agile coach</b> <ul style="list-style-type: none"> <li>Coaches teams in agile ways of working so they deliver value and maintain efficiency</li> </ul>
<b>Business analyst</b> <ul style="list-style-type: none"> <li>Writes business requirements for IT department</li> <li>Ensures developed product meets specifications during user-acceptance testing</li> </ul>	<ul style="list-style-type: none"> <li>Strong knowledge of product and market trends, as well as customer needs</li> <li>Confident decision maker</li> <li>Collaborative</li> <li>Structured thinker</li> <li>Orientation toward outcomes</li> </ul>	<b>Agile product owner</b> <ul style="list-style-type: none"> <li>Works with development team to establish product vision and priorities</li> <li>Represents voice of customer and other stakeholders</li> <li>Makes final decisions about product priorities</li> </ul>
<b>IT manager</b> <ul style="list-style-type: none"> <li>Manages teams of software developers</li> </ul>	<ul style="list-style-type: none"> <li>Technology expertise</li> <li>Orientation toward people</li> <li>Champions and develops talent</li> <li>Desire to develop code rather than managing development</li> </ul>	<b>Senior developer</b> <ul style="list-style-type: none"> <li>Highly productive individual contributor of software code on scrum team</li> <li>Mentors and shares knowledge with junior colleagues</li> </ul>

Source: McKinsey analysis

# The way agile organizations apportion responsibilities among roles gives former midlevel managers an opportunity to take on duties quite different from those of a conventional manager.

who aren't interested in the new roles available to them. Amazon, for example, sometimes offers buyout payments to employees as an alternative to following the company's plans for how they can improve their performance.

Besides helping midlevel managers figure out their paths to new agile roles, a company must also conduct its own evaluations and make sure that candidates meet its hiring needs. When ING Netherlands embarked on an agile transformation of its IT-infrastructure function, the function's leaders made a point of interviewing all employees at least twice: first to gauge their technical abilities and second to assess their mind-sets and willingness to adopt agile ways of working. These employees also sat for a software-programming test.<sup>5</sup>

## **Introduce agile approaches to performance assessment and career progression**

In traditional hierarchical organizations, all senior executives customarily review the performance of the managers who report to them. A high-performing manager will be rewarded with a

pay raise, if not a promotion involving increased responsibilities—typically, a bigger budget and more employees to oversee. Each manager, in turn, reviews the employees who report to her or him and looks after their professional development.

At agile organizations, though, the tasks of overseeing projects and rating an employee's performance are handled differently. A capability leader, for example, deploys employees to teams but doesn't direct them. A team is led instead by one of its members, who mostly does value-creating work. To assess each employee, the capability leader solicits feedback from all team leaders an employee worked with during the review period and sometimes from other team members. The capability leader aggregates the feedback and uses predetermined criteria to rate the employee's overall performance, which informs decisions about pay raises and promotions. Since this process differs from the one that many former managers have experienced, capability leaders and senior executives should take care to prepare former managers for it.

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<sup>5</sup>"Bringing agile to IT infrastructure: ING Netherlands' agile transformation," June 2018, McKinsey.com.

### **Build former managers' leadership abilities through focused training**

When capability leaders advise former managers about their opportunities for career progression, those leaders must pay extra attention to what such employees want to achieve and what they must do to achieve it. Former managers with outstanding expertise in a given area and a willingness to learn might be encouraged to advance along a technical track by deepening their skills. Those with evident leadership qualities might be groomed for new leadership roles. Still others might seek to combine hands-on work with a measure of leadership responsibility.

Conventional management training usually isn't enough to qualify former managers as team leaders in an agile company. In many cases, they will need training in functional or technical topics other than their own areas of concentration so they can better coach colleagues who specialize in those topics to coordinate the work of cross-functional teams.

Former midlevel managers who don't have experience with agile ways of working should also receive training through formal workshops, online learning, on-the-job training with experienced

practitioners, coaching, and incentive-reinforced peer-to-peer learning and coaching. Agile enterprises should identify the core skills needed for each agile leadership role and equip their former midlevel managers with these skills.

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A characteristic outcome of agile transformations is an increased proportion of the workforce that performs value-creating work, which results in part because they shrink the middle levels of the management hierarchy and redeploy midlevel managers to new roles. This can be difficult for a conventional organization to achieve: few if any midlevel managers will welcome the news that their job titles are being eliminated. Yet companies can gain a great deal by retaining the skill, experience, and institutional knowledge of their midlevel managers. Conventional organizations undergoing agile transformations would therefore do well to keep their midlevel managers engaged and satisfied. The keys to realizing that goal are communicating forthrightly about the changes to come, giving managers ample support as they select and transition into new roles, and encouraging them to pursue the novel opportunities that enterprise agility can create.

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