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Why agility pays

Agility is one of three building blocks for the organization of the future. New research shows that speed and stability, the hallmarks of agility, contribute to better performance.

by Michael Bazigos, Aaron De Smet, and Chris Gagnon

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Over the past decade, we've studied the impact of a wide range of management practices on organizational health.[1] This analysis, based on surveys of more than two million respondents at over 1,000 companies, provides a stable baseline for understanding the incremental contributions of specific organizational and leadership characteristics to the health, positive and negative, of the companies in our sample.

But from November 2013 to October 2014, we added questions, for the first time, on speed and flexibility. Taken together, these two sets of questions, old and new, provided the foundation for a simple matrix, comprising a speed axis and a stability axis. The matrix turns out to be a surprisingly strong predictor of organizational health and, ultimately, of performance.

When we divided the companies in our sample[2] among different groups based on their stability and speed scores,[3] we found the following (Exhibit 1):

- Relatively few companies stood out as being especially agile: 58 percent of them had speed scores, stability scores, or both that hovered near average.
- An additional 22 percent of companies in our sample were slow—either slow and unstable, a group we describe as trapped (14 percent), or slow and stable, which we call bureaucratic (the remaining 8 percent). These slow companies generally have poor organizational health: in fact, they had the lowest percentage of companies with top-quartile organizational-health scores in our sample: only 5 percent for trapped companies and 17 percent for bureaucratic ones.

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1 We define health as an organization's ability to align, execute, and renew itself faster than the competition does and thus to sustain exceptional performance over time.

2 These observations rest on a study of 161 different companies around the world. In this effort, we used our Organizational Health Index (OHI), including the new matrix, to survey more than 365,000 individual employees.

3 Relative scores are the difference between the index scores and those expected by the OHI score.

Exhibit 1

Few companies excelled in either relative speed or stability—58 percent hovered near average.

Distribution of 161 companies by Organizational Health Index (OHI) scores[1]

[1]Scores have been adjusted to remove the portion of OHI variance shared by the factors of speed and stability, to highlight the specific contribution of each factor (speed or stability) along its axis.
[2]That is, companies with a mode of operating suited to a very small start-up (not actual start-ups).
[3]Mean +/– 0.50 standard deviation on each axis of matrix.

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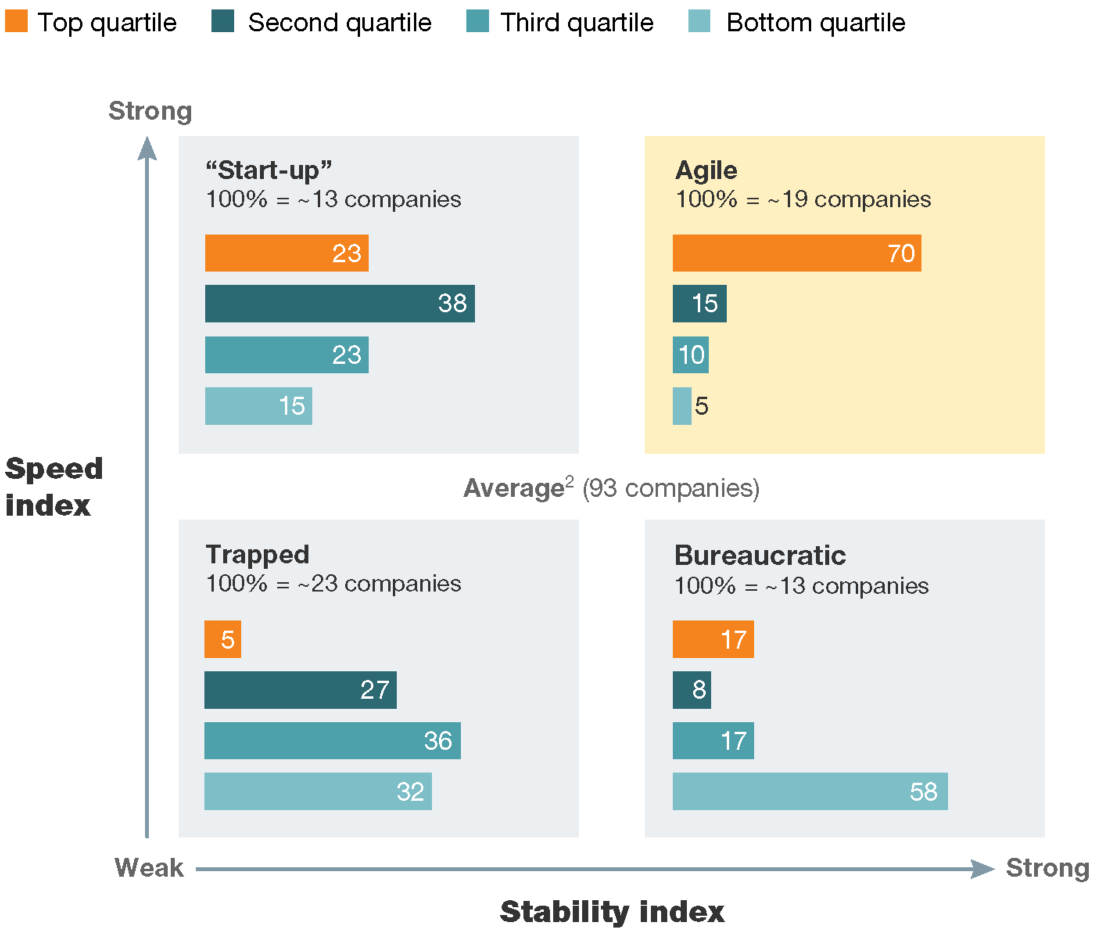
- Twenty percent of the companies in our sample were fast. Eight percent were fast, pure and simple—a group we describe as "start-up." (These companies were not necessarily start-ups, but resembled start-ups in their speed, irrespective of size.) The rest (12 percent), which we call agile, combined speed with stability. The odds that an agile company would rank in the top quartile for organizational health were 70 percent (Exhibit 2). Fewer "start-ups" enjoyed top-quartile performance, but this quadrant was the only other category in which a majority of the companies (52 percent) had health scores above the median.

Exhibit 2

Seventy percent of agile companies rank in the top quartile of organizational health.

% of organizations within each category, by quartile, for Organizational Health Index (OHI) scores[1] (n = 161)



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

[1]Scores have been adjusted to remove the portion of OHI variance shared by the factors of speed and stability, to highlight the specific contribution of each factor (speed or stability) along its axis.
[2]Mean +/– 0.50 standard deviation on each axis of matrix; these 93 companies were nearly evenly spread across quartiles for organizational health.

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Given the striking outperformance of the agile companies, we conducted additional analyses to better understand the characteristics and benefits of agility. We found the following:

- Both role clarity and operational discipline are highly ranked practices among the most agile organizations, but not among the least agile ones. This is powerful evidence that agility depends on a balance of fast action and rapid change, on the one hand, with organizational clarity, stability, and structure, on the other.[4]

- Agile organizations appear to be powerful machines for innovation and learning. Their performance stands out in three of the four management practices—top-down innovation, capturing external ideas, and knowledge sharing—associated with that outcome.
- Agile companies seem to be strong at motivation. Our research has shown that five practices promote it, and these companies particularly excel at two of them: meaningful values and inspirational leadership.

The achievements of one of the most agile organizations we studied, a business-process-outsourcing company, emphasize the importance of balancing speed and stability. Financially successful and growing, it has captured market share by rapidly entering new geographical markets. But it is equally adept at exiting markets that contract. In 2014, the company extricated itself from them so effectively that it offset declining revenues by capturing new operational efficiencies in the most profitable markets. In this way, it continued to increase earnings before interest, taxes, depreciation, and amortization (EBITDA).

By way of contrast, let's look at a bureaucratic organization and at a start-up organization we know. The former is a leading professional-services firm specializing in audit, tax, and advisory services. Its processes and structure are stable to a fault. Of course, the industry is highly regulated by many government and judicial entities. But while the firm's competitors have found ways to act quickly, this one is dogged by an obsession with compliance and a blind determination to minimize litigation risk.

For example, it deliberately avoids storing assessments of its employees—an unusual choice, since most other companies have elaborate talent-management databases. (The compliance officer's rationale is that a dissatisfied client might start discovery proceedings in a future lawsuit and find out that the firm knew about a relevant issue concerning the person at the center of such a case.) A board composed entirely of senior partners, many of them CEO aspirants, exacerbates the firm's cumbersome decision making. Not surprisingly, it has been trailing its competitors in major performance categories each year.

The start-up organization was a joint venture between the divisions of two large technology companies with a similar range of consumer offerings. The joint venture's main product line was communications equipment. It celebrated an early win, producing an award-winning product that generated high demand. That device was designed by just one person in record time, an achievement showing exemplary speed and flexibility. But this person's three functional titles—all at the senior level—were far from optimal for the next stage of the joint venture's development. With little thought given to designing replicable innovation processes, the joint venture found it impossible to develop another winning product, and ended as a one-hit wonder.

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[4] For more on how to establish this balance, see Wouter Aghina, Aaron De Smet, and Kirsten Weerda, "Agility: It rhymes with stability," *McKinsey Quarterly,* December 2015, mckinsey.com.

Our earlier research consistently showed a strong relationship between organizational health and the creation of value: the healthiest companies far outpace those with moderate or low health in long-term total returns to shareholders. Our new analyses suggest that speed and stability are significant catalysts for organizational health and performance.■

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