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## Adhocracy for an agile age

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The agile organizational model gives primacy to action while improving the speed and quality of the decisions that matter most.

**Even as companies** from IBM to Caesars Entertainment to American Express succeed through advanced analytics and big data, a less visible side of the preoccupation with information may be having the opposite effect.

Academic studies show that information overload at the individual level leads to distractedness, confusion, and poor decision making.<sup>1</sup> These problems beleaguer organizations, too, as we have seen from working with many large companies and through many interviews and workshops with senior executives in a range of sectors and geographies. Our experience reveals frequent cases of analysis paralysis (gathering more and more information rather than making a decision), endless debate, and a bias toward rational, scientific evidence at the expense of intuition or gut feel. These pathologies can have a deleterious impact on the functioning of companies. They can lessen the quality and speed of decision making and engender a sterile operating environment in which intuitive thinking is quashed. As a result, many companies end up standing still, even as the world around them is speeding up.

<sup>1</sup> Two influential books that summarize a lot of these studies are Nicholas Carr, *The Shallows: What the Internet Is Doing to Our Brains*, New York: W.W. Norton, 2010; and Daniel Kahneman, *Thinking, Fast and Slow*, New York: Farrar, Straus and Giroux, 2011. For a management perspective on information overload, see Derek Dean and Caroline Webb, "Recovering from information overload," *McKinsey Quarterly*, January 2011, mckinsey.com.

In short, the undeniable power of information brings the risk of becoming overly reliant on or even obsessed with it. What's more, as the information age advances into an increasingly agile one, something important is changing: information is less of a scarce resource as it becomes ubiquitous and search costs plummet. In such a world, as Herbert Simon speculated more than 40 years ago, the scarce resource we have to manage is no longer information—it is attention.<sup>2</sup> We believe that large companies today are poor at managing what might be called their return on attention. Particularly at the executive level, attention is fragmented; people are distracted; and even when the data are impeccable, decisions can be unduly delayed or just plain bad.

Clearly, not everyone has fallen into this trap. At some companies, executives understand both the power and the limits of information; they know that at times, getting the right answer is imperative but that at other times, being decisive and intuitive, and acting swiftly and experimenting, can work better. As Amazon's Jeff Bezos says, "there are decisions that can be made by analysis. These are the best kinds of decisions! They're fact-based decisions. . . . Unfortunately, there's this whole other set of decisions that you can't ultimately boil down to a math problem,"<sup>3</sup> such as big bets on new businesses. Some of Bezos's bets, like the Kindle and Amazon Web Services, have paid off; others, such as Amazon's mobile phone, have not. But that hasn't dissuaded the company from continued experimentation and action.

Clearly, there's a need for balance—for a more nuanced understanding of when to dig deeper into the data, when to stimulate the kind of extended debate that can help eliminate hasty or biased decision making, and when to act fast.<sup>4</sup> In our experience, many companies are more comfortable analyzing and debating than they are acting decisively and intuitively. Their default orientation

<sup>2</sup> Herbert Simon originally offered this insight in an article, "Designing organizations for an information-rich world," in Martin Greenberger (ed.), *Computers, Communication, and the Public Interest*, Baltimore, MD: Johns Hopkins Press, 1971. See also the academic literature on managing attention—for example, William Ocasio, "Attention to attention," *Organization Science*, 2010, Volume 22, Number 5, pp. 1286–96.

<sup>3</sup> Alan Deutschman, "Inside the mind of Jeff Bezos," *Fast Company*, August 1, 2004, [fastcompany.com](http://fastcompany.com).

<sup>4</sup> For more on cognitive bias and strategic decision making, see Dan Lovallo and Olivier Sibony, "The case for behavioral strategy," *McKinsey Quarterly*, March 2010, on [mckinsey.com](http://mckinsey.com).

toward more and better information binds and restricts their ability to move surely and quickly.

The purpose of this article is to suggest a set of capabilities—about how work is organized and people think—to complement the default orientation of companies and to help them manage their return on attention in a more systematic way. These capabilities, we suggest, are part of an organizational model—adhocracy—that differs from the bureaucratic and meritocratic organizational models currently in favor. By clarifying the pros and cons of these three models, and the conditions when each should be used, we aim to provide guidance on how to get the right balance between information and attention.

## Three organizational models

The concept of adhocracy was first proposed several decades ago,<sup>5</sup> essentially as a flexible and informal alternative to bureaucracy. Here we’re intending to redefine the concept in a way that further distinguishes it not only from bureaucracy but also from the meritocracy model of organization.

Adhocracy’s defining feature is that it privileges decisive (and often intuitive) action rather than formal authority or knowledge. For example, when bureaucracies face a difficult decision, the default is to defer to a senior colleague. In a meritocracy, the default is to collect more data, to debate vigorously, or both. The default in an adhocracy is to experiment—to try a course of action, receive feedback, make changes, and review progress.

Adhocracies are also likely to use more flexible forms of governance, so they can be created and closed down very quickly, according to the nature of the opportunity. By emphasizing experimentation, motivation, and urgency, adhocracy provides a necessary complement to progress in advanced analytics and in machine learning, which automates decisions previously made through more

<sup>5</sup> The term *adhocracy* has been used by several illustrious management thinkers, notably Warren Bennis and Philip Slater, *The Temporary Society*, New York: Harper & Row, 1968; Robert H. Waterman Jr., *Adhocracy: The Power to Change*, Knoxville, TN: Whittle Direct Books, 1990; and Henry Mintzberg, *Mintzberg on Management: Inside Our Strange World of Organizations*, New York: Free Press, 1989.

## Exhibit

### The right organizing model often varies according to the business environment in which a company competes.

<b>Three organizing models</b>	Bureaucracy	Meritocracy	Adhocracy
Under which conditions is the model appropriate?	Formal, positional authority is privileged	Individual knowledge is privileged	Action is privileged
How are activities coordinated?	Relatively stable environment	High levels of technological progress	High levels of unpredictability
How are decisions made?	Rules and procedures	Mutual adjustment and the free flow of ideas	Around a problem or opportunity
How are people motivated?	Through the hierarchy	Via argument and discussion—the power of the idea	By experimentation, trial and error
	Extrinsic rewards—pay	Personal mastery, interesting work	Stretch goals and recognition for achieving them

Source: Julian Birkinshaw and Jonas Ridderstråle

bureaucratic approaches.<sup>6</sup> Specifically, we view adhocracy as an organizational model that maximizes a company's return on attention, defined as the quantity of focused action taken divided by the time and effort spent analyzing the problem.<sup>7</sup>

The exhibit summarizes the differences among bureaucracies, meritocracies, and adhocracies. The right organizational model, though, often varies according to the business environment in which a company (or a part of it) competes. Bureaucracy still has merit in highly regulated and safety-first environments. Generally speaking, meritocracy works well in, for example, professional-

<sup>6</sup> See, for example, Dorian Pyle and Cristina San José, "An executive's guide to machine learning," *McKinsey Quarterly*, June 2015, mckinsey.com.

<sup>7</sup> This definition of return on attention builds on the ideas developed during the 1950s and 1960s by James March and Herbert Simon, in which decision makers engage in problemistic search to address opportunities. For instance, see James March and Herbert Simon, *Organizations*, New York: John Wiley and Sons, 1958; and Richard Cyert and James March (eds.), *A Behavioral Theory of the Firm*, Englewood Cliffs, NJ: Prentice-Hall, 1963. Note that quality of action is omitted, since rapid experimentation is itself aimed at separating good from bad ideas.

service environments, universities, and science-based companies. Adhocracy is well aligned with the needs of start-ups and companies operating in fast-changing environments. The appropriate model also varies by function, with compliance more likely to be a bureaucracy, R&D a meritocracy, and sales an adhocracy.

That said, executives must carefully weigh their overall approach and the extent to which any of these models should hold sway. A professional-service firm, for example, might take an adhocratic approach to organizing its teams so as to exploit opportunities, even as its professional-development and strategic-planning groups use more meritocratic approaches. The selective application of all three models is a core executive task.

In the rest of this article, we describe adhocracy in more depth, explaining its key features and comparing its pros and cons with those of the bureaucratic and meritocratic models.

## **Three key features of adhocracy**

An adhocracy can be readily observed in many organizational settings. For example, if you go to a hospital's emergency room or an investment bank's trading floor, the focus on getting things done rapidly is clear. Many companies have used "skunkworks" operations: small project teams that tackle a one-off problem outside the organization's formal processes at an accelerated pace. Many small companies have adopted the lean start-up model, which emphasizes early prototyping and pivoting rapidly to new business models as circumstances change.<sup>8</sup> In all these settings, informed, decisive action matters more than formal authority or knowledge.

Three key features distinguish adhocracy from bureaucracy and meritocracy. Each helps increase a company's return on attention.

### **1. Coordinating activities around opportunities**

Bureaucracies coordinate their activities through rules, procedures, and routines; meritocracies, through adjustments based on flows

<sup>8</sup> See, for example, Eric Ries, *The Lean Startup*, New York: Crown Business, 2011; and Steve Blank, "Why the lean start-up changes everything," *Harvard Business Review*, May 2013, pp. 3–10, hbr.org.

of information. In an adhocracy, by contrast, coordination coheres around discrete opportunities. For example, many companies have experimented with decentralized business units focused on specific customers or projects. One such company is the UK-based pharmaceutical firm GlaxoSmithKline, which has broken its drug-discovery operation into about 40 units that compete with one another for funding.<sup>9</sup>

Valve, the gaming company (based in Bellevue, Washington) that's behind such best sellers as *Half-Life* and *Counter-Strike*, has developed an interesting version of adhocracy, though it doesn't use the term. Valve claims to have no managers. Employees are encouraged to initiate new projects and to choose which of them to work on. Self-selected teams emerge spontaneously where the most exciting opportunities appear to be rather than according to a strategic plan or a product-development road map.<sup>10</sup> As employee Michael Abrash noted in his blog, this approach is appropriate because "most of the value [in gaming] is now in the initial creative act. . . . What matters is being first and bootstrapping your product into a positive feedback spiral. . . . Hierarchical management doesn't help with that. . . ."<sup>11</sup> Nor, we might add, would the meritocratic model, for speed to market could be sacrificed to disputes and debates.

A key feature of this form of coordination is the disbanding of project teams once activities are complete. Opportunities are ephemeral by nature, and work in an adhocracy should reflect this. Mundipharma is a fast-growing midsize player in the pharmaceutical industry. Traditional pharmaceutical companies make long-term commitments to specific therapy areas. Mundipharma organizes its business units around specific drug opportunities. When a business unit successfully launches a new drug, that unit continues to operate, but it shuts down if the launch fails, and the employees move over to other, more promising areas. As a result, the company is quite

<sup>9</sup> The GlaxoSmithKline, Mundipharma, and Costa Coffee examples are based on personal interviews.

<sup>10</sup> SAPM: Course Blog, "Management at Valve, as seen through the Valve Employee Handbook," blog entry for course at School of Informatics, University of Edinburgh, March 24, 2014, blog.inf.ed.ac.uk/sapm.

<sup>11</sup> *Ramblings in Valve Time*, "Valve: How I got here, what it's like, and what I'm doing," blog entry by Michael Abrash, April 13, 2012, blogs.valvesoftware.com.

market focused—its model resembles that of a venture capitalist: it invests only when it sees a clear pathway toward a commercially viable drug.

In sum, adhocracy's ability to coordinate workers around tangible external opportunities keeps them closer to the action and less inclined to spend time deliberating. That, in turn, generates a higher return on attention than the traditional coordination processes of bureaucracies or meritocracies do.

## 2. Making decisions through experimentation

In a bureaucracy, decisions are made through the hierarchy: superiors tell their subordinates what to do, and so on down the line. In a meritocracy, decisions are made through argument and discussion, and everyone is entitled to weigh in with a point of view. The decision-making model in an adhocracy, in contrast, is experimental, which means consciously cutting short internal deliberations and trying things out with customers to gain rapid feedback. While this concept has been around for many years, in our experience most large companies still fall back on formal stage-gate processes and committees rather than risk releasing unproven ideas in the market.

In 2012, Costa Coffee, the world's second-largest coffee chain, developed an ambitious plan, codenamed Project Marlow, to transform its vending-machine offering by creating an entirely new self-serve coffee system that would engage all the five senses of the customer. Project Marlow was agreed on with a handshake in January 2012. The formal kick-off meeting, with 20 people, was held on April 19th. The beta version was delivered, on time and on budget, on September 20th of the same year. "The pace of work was uncomfortably high," recalled project leader Eric Achtmann, "the team was small and world-class without exception, and decisions were made on a 24-hour cycle."

One key principle of Project Marlow was to base decisions on what would move the effort forward. For example, potential partners that required a legal agreement to be in place before starting work were eschewed in favor of those prepared to get going on the basis of a handshake. Project Marlow's ground rules included rapid decision making (less than 24 hours); a relentless focus on results, not activities; and a preference for asking forgiveness, not permission.

In one instance, technical problems with a key subsystem threatened to delay the project as a whole, so Achtmann created a parallel team to find a way around them. Decisions were made by the person closest to the action, whose proximity gave the company a better-informed and more instinctive understanding of what had to be done. “On a project like this,” observed Achtmann, “people are making decisions on the fly, very aggressively. But they are informed decisions. The purpose is always just to get to the next stage as effectively as possible; and once there, the next target becomes visible.”

This approach to decision making, by nature, has a strong intuitive component. While that can entail greater risk and doesn’t work out every time, it helps companies to avoid analysis paralysis—an increasingly costly pitfall in a world with more and more information but fewer and fewer clear answers. Adhocracy is extremely well suited to help generate such intuitions.

In a meritocracy, employees gather information to persuade their peers. In a bureaucracy, they pass information upward, often in a bid to influence budget allocations. Decisions are passed down from more senior levels, often in the form of budget distributions. Adhocracy keeps decision makers more deeply immersed in the flow of a project or a business rather than more removed from it. For individuals, this place in the flow is a powerful position for inspiring useful intuitions, although such a flow can be generated by various means, including the collective activity that takes place in online communities or internal social-media platforms.<sup>12</sup>

This experimental approach to decision making has already found its way into some management processes. Agile techniques, for example, have been shown to be a better way of developing software in many settings than the traditional waterfall model.<sup>13</sup> But many other management processes—from budgeting to capital allocation to new-product development to project staffing—continue to be managed through the traditional bureaucratic or meritocratic models.

<sup>12</sup>See Arne Gast and Raul Lansink, “Digital hives: Creating a surge around change,” *McKinsey Quarterly*, April 2015, mckinsey.com.

<sup>13</sup>See, for example, Jeff Sutherland, *Scrum: A revolutionary approach to building teams, beating deadlines, and boosting productivity*, London: Random House Business Books, 2014.

As the rapid experimentation characteristic of adhocracy gains sway, a company's return on attention improves. The ratio's numerator rises with the quantity and quality of quick, experimental decisions, even as less time is spent (or even available for) disputing data or managing upward in a hierarchy.

### 3. Motivating people through achievement and recognition

Generally speaking, bureaucracies motivate people primarily through extrinsic rewards—above all, money. Meritocracies and adhocracies both motivate them through achievement and recognition. But meritocracies also emphasize giving people interesting work and enabling them to achieve personal mastery in a field of expertise. In adhocracies, motivation centers on giving people a challenge and providing the resources and freedom they need to surmount it.

Consider again Costa Coffee's Project Marlow: Eric Achtmann deliberately built an elite team and gave its members an almost impossible deadline. Of course, this doesn't mean that an adhocracy can't offer financial rewards as well; the Marlow team members all had a stake in the upside growth of the project—the sale of lots of machines—which ensured an alignment of material interests. Achtmann also spent a good deal of time working on team spirit, coupling demanding standards and grueling milestones with celebratory events every time a milestone was achieved. He also created a plaque that would be permanently mounted inside every production machine, with the names of all 38 key team members who made “an extraordinary and enduring contribution to Marlow, above and beyond the call of duty.”

Valve offers a slightly different proposition to its employees. Challenge is the starting point: the handbook for new employees says, “Valve has an incredibly unique way of doing things that will make this the greatest professional experience of your life, but it can take some getting used to.” Employees have very high levels of responsibility (“You have the power to green-light projects. You have the power to ship products.”), and the company emphasizes that hiring great colleagues is “your most important role.” There is also a significant extrinsic component to motivation at Valve—one that

**A questionnaire:** Which management model does your company prefer? Which is more appropriate?

**Part 1** Your organization likely uses elements of all three models, but one may stand out. For each question, choose the answer most typical of your function or business—it is usually more informative to answer at this level rather than for a company as a whole.

**Question 1.** A frontline employee is dealing with an unhappy customer, who feels that the service the company provided wasn't as good as expected. How does the employee typically respond?

- A.** She pushes back, explaining that the company followed its formal policies. If the customer pushes harder, the employee escalates the problem to her boss.
- B.** She seeks to understand what went wrong—to get to the bottom of the problem, so that the system can be improved in the future.
- C.** She realizes that the customer is upset and takes immediate action to placate him.

**Question 2.** How does a manager typically conduct a meeting?

- A.** She chairs decisively, often seeking the views of others but making clear she is in charge. At the end of the discussion of each item, she gives her decision.
- B.** She seeks debate, looking to get people involved. When appropriate, she puts forward her own perspective, and she allows the weight of the arguments to drive decision making.
- C.** She runs the meeting swiftly—if there is a meeting, since she brings things forward for discussion only in exceptional circumstances. Whenever possible, she tries to push decision making to a lower level.

**Question 3.** Where does the head of your function or business prefer to spend his time?

- A.** At his desk; chairing reviews and board meetings; seeking input from his direct reports.
- B.** Debating strategic issues with his colleagues, reading up on the latest thinking, in the lab, or talking to experts about developments in the industry.
- C.** Out in the field, meeting with customers and prospective customers; walking the corridors; talking with frontline employees about their work and their challenges.

**Question 4.** A subsidiary requests 5 percent more than the amount previously allocated so that it can invest in what it sees as an important new project. How does the boss at headquarters respond?

- A.** He says no—there is a well-established process for requesting funds, and the subsidiary should wait until next year.
- B.** He asks the subsidiary for more information: What is the business case? Why does this project merit special consideration? Depending on the answers, he may make an exception.
- C.** He tries to help the subsidiary by providing a small amount of money to test the idea with limited funding. He adds that if the project seems successful, the subsidiary can ask for more money later.

**Question 5.** Your company is exploring a strategic alliance with a competitor. Which approach do people support?

- A.** We have a very structured approach, are cautious about risk, and pay a lot of attention to the terms of contracts.
- B.** We spend a lot of time getting to know the other party to see if there are complementarities and how well we can work together.
- C.** We start very informally, trying out something low risk quickly and building up from there.

If your answers were mostly As, your organization's preferred management model is bureaucracy. If they were mostly Bs, it is meritocracy. If they were mostly Cs, it is adhocracy.

**Part 2** Now consider your organization's external business environment. Again, please focus on the specific function or business you work in rather than the company as a whole. Your answers will indicate which model your organization favors.

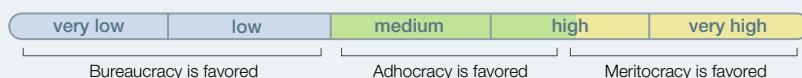
**Question 1.** What is the level of regulation and compliance imposed on your function or business by external factors?



**Question 2.** How significant are the downside risks (safety and costs) if something goes wrong?



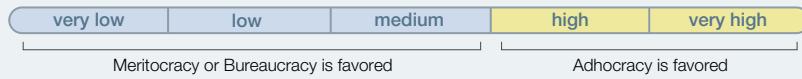
**Question 3.** What is the rate of technological or scientific change (or both) in your business area?



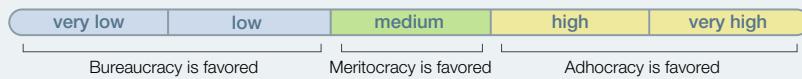
**Question 4.** To what extent do people in your function or business require advanced professional training to operate effectively?



**Question 5.** How much volatility exists on the demand side—for example, changing customer needs or emerging new segments?



**Question 6.** What is your operating environment's level of ambiguity—a lack of clarity about what course of action is required for your organization to succeed?



**Question 7.** What is the degree of malleability in your operating environment—your ability to influence and shape it in your favor?



Add up the number of times each model (bureaucracy, meritocracy, or adhocracy) is favored. Your answers probably won't be entirely consistent, so choose your model according to which is favored more often.

Source: Julian Birkinshaw and Jonas Ridderstråle

would not be out of place at GE: employees rate their peers, and a forced-ranking system gears discretionary pay toward those who contribute the most. Valve is a competitive and challenging place to work, and its founders believe that this makes it attractive to the most talented game developers.

Again, this approach to motivation helps overcome analysis paralysis and increases a company's return on attention. The heroes are the people who make something happen—for example, completing a pilot project quickly and ahead of budget—rather than those who come up with the cleverest ideas (which would be celebrated in a meritocracy) or who oversee the biggest budgets (the mark of respect in a bureaucracy).

## **Choosing the right model**

So which is the right model for your company? It is worth noting, first of all, that bureaucracy, meritocracy, and adhocracy are all about the relative emphasis on formal authority, knowledge, and action. When we ask executives which model they prefer, they typically say they want the benefits of all three: people who bring their knowledge and formal authority to bear, take decisive action, and act intuitively when necessary.

But we would argue that this is a hedge. Companies can't put equal emphasis on all three dimensions at once; they have to make it clear which one takes precedence, at least in specific business environments and units. For example, if your company aspires to be focused and action oriented but continues to operate on traditional bureaucratic principles, don't be surprised when things move more slowly than you expect. To get a better sense of your current overall organizing model—and which parts of your organization might be best suited for bureaucracy, meritocracy, or adhocracy—think about the descriptions in the exhibit and try out the simple diagnostic on page 10.



The demands of the business world often change more quickly than the organizations where we work. Many companies are still moving from the traditional bureaucratic model, which has been around for 100 years, toward a more meritocratic one built around the primacy of information and knowledge. But our analysis suggests that for many companies, this isn't enough. Meritocracy has its benefits, but we believe adhocracy will become increasingly important in the decades ahead. By understanding the benefits of all three management models, you will have a better chance of creating a style of working that positions your organization for future success. ◉

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