Unleashing the power of small, independent teams

Small, independent teams are the lifeblood of the agile organization. Top executives can unleash them by driving ambition, removing red tape, and helping managers adjust to the new norms.

by Oliver Bossert, Alena Kretzberg, and Jürgen Laartz

What does it take to set loose the independent teams that make agile organizations hum? These teams are the organizational units through which agile, project-based work gets done. The typical agile company has several such teams, most composed of a small number of people who have many or all of the skills the team needs to carry out its mission. (Amazon CEO Jeff Bezos contends that a team is too big when it needs more than two pizza pies for lunch.) This multidisciplinary way of composing teams has implications for nearly every business function. Take IT management. Instead of concentrating technology professionals in a central department, agile companies embed software designers and engineers in independent teams, where they can work continually on high-value projects.

While much depends on the actions of the individual team members, senior executives must thoughtfully create the environment in which teams and their managers can thrive. In a nutshell, senior executives must move the company—and themselves—away from outmoded command-and-control behaviors and structures that are ill-suited to today's rapid digital world. They must redouble efforts to overcome resource inertia and break down silos, because independent teams can't overcome these bureaucratic challenges on their own. They must direct teams to the best opportunities, arm them

with the best people, give them the tools they need to move fast, and oversee their work with a light but consistent touch. These ideas may sound straightforward, but they go overlooked by too many leaders who've grown up in more traditional organizations.
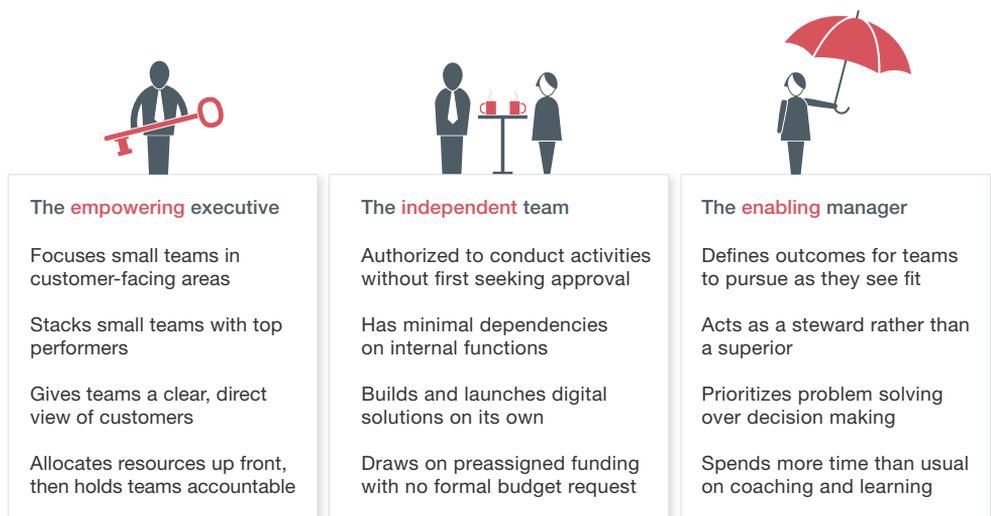
This article explores how senior leaders can unleash their companies' full potential by empowering small teams and supporting their managers, whose roles have been redefined by agile thinking (exhibit). Let's start with a glimpse of what that looks like in action.

HOW INDEPENDENT TEAMS WORK

Several years ago, financial regulators in Europe decided to let banks verify customers' identities remotely through digital video chats instead of relying solely on face-to-face appointments at bank branches. When the news reached one established bank, the team in charge of its know-your-customer (KYC) process recognized that the regulatory change could help the bank win new accounts. It quickly sprang into action to create the needed service. The very existence of this KYC team was a credit to the bank's leaders, who had previously put small, independent teams to work—improving the performance of many of the bank's functions by giving them the diverse capabilities needed to address market opportunities like this one. The bank had simultaneously made a series of complementary reforms to remove

Exhibit

The effectiveness of small teams requires change in both the corporate environment and managers' interactions with the teams.

The empowering executive	The independent team	The enabling manager
Focuses small teams in customer-facing areas	Authorized to conduct activities without first seeking approval	Defines outcomes for teams to pursue as they see fit
Stacks small teams with top performers	Has minimal dependencies on internal functions	Acts as a steward rather than a superior
Gives teams a clear, direct view of customers	Builds and launches digital solutions on its own	Prioritizes problem solving over decision making
Allocates resources up front, then holds teams accountable	Draws on preassigned funding with no formal budget request	Spends more time than usual on coaching and learning

cumbersome approval, budgeting, and governance processes. Without these institutional refinements, the KYC team's time to market would have been far less competitive.

Critically, senior executives had endowed small, focused groups like the KYC team with the authority and the resources to carry out projects without first seeking corporate approval. When it came to paying for the development of the digital KYC service, the team was spared the trouble of making a formal budget request and enduring a months-long holding period while the corporate planning committee took up the request as part of its regular planning process. Instead, the team drew on a tranche of funding that it had already been given, funding tied to the team's contribution to outcomes such as higher customer-conversion rates.

The bank also loosened or completely unhitched its product teams' dependence on internal support functions. New accommodations in the bank's HR processes, for example, allowed the KYC team to quickly line up outside contractors for help with front- and back-end development, without waiting for those contractors to be vetted. The IT function had streamlined the bank's technology systems and operations, too, building a modern architecture platform to more easily connect new customer-facing services with legacy back-end systems. The bank had also eliminated its traditional waterfall-development process, as well as a no-compromises protocol for testing new products before launch. Previously, a central IT group would have had to integrate the digital KYC service with core systems, a drawn-out process that could have stalled the KYC team for months. But now the KYC team could integrate testing with work flows, roll out new services as soon as they were viable, and make incremental improvements over multiple cycles. Together, these reforms allowed the KYC team to develop the new digital services in a matter of weeks, rather than the months it would have taken before the reorganization.

Senior company executives had an integral place in this process, despite the independence they had accorded teams like KYC. They evaluated progress and allocated resources according to whether teams deliver against well-defined measures of performance. But they only intervened in the team's ongoing work from time to time, and then only to remove roadblocks and provide support. By creating a supportive structure and managing it with a light touch, senior bank executives fostered this kind of innovative spirit in teams all across the institution.

HOW EXECUTIVES EMPOWER INDEPENDENT TEAMS

The challenge for senior executives in an agile organization is clear but difficult: empower small teams with great independence and resources while retaining accountability. As our colleagues have written,[1] an agile organization speeds up decision making by allowing teams that are closer to customers to make day-to-day, small-stakes decisions on their own, and only escalating decisions that could have significant consequences or that can only be made effectively with input and sign-off from multiple parts of the organization. Executives further empower teams by lessening their dependence on support functions such as finance, planning, and human resources. Yet executives still must ensure that teams operate with proper governance, that company resources are aligned in pursuit of strategic priorities, and that midlevel managers get the coaching they need to become better versed in agile ways of working. Our experience helping companies with the transition to agile ways of working suggests emphasizing the following actions:

Unleash independent teams in meaningful areas

We've argued that autonomy is especially beneficial to teams working on processes and capabilities that directly affect the customer experience. When executives begin to give their small teams more independence, they should look first at teams that are responsible for features that matter greatly to customers. This way, executives can demonstrate how independence helps teams generate more value. (Skeptics may challenge this approach on the grounds that a new, untested way of managing teams is too risky to try in significant customer-facing areas. In practice, independent teams create less business risk, because they make incremental changes that can be rolled back with ease if they don't work out.) It's also important that executives choose teams of people who represent different capabilities. When multiple domains of the company take part in independent teams, executives and managers can test the limits of the decision-making authority that these domains extend to teams, and demonstrate that autonomous teams can be trusted to exercise good judgment.

Put strong performers on independent teams, especially at the outset

Executives can be reluctant to place their best-performing employees on independent teams that aren't mission critical, because they would rather keep them engaged in "more important" activities. We hold the opposite

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[1] See Aaron De Smet, Gerald Lackey, and Leigh M. Weiss, "Untangling your organization's decision making," *McKinsey Quarterly*, June 2017, McKinsey.com.

view: that independent teams are too important to the company's future for top performers to be deployed elsewhere. Executives whose companies have been through agile transformations say much the same thing. In an interview with McKinsey,[2] Scott Richardson, chief data officer at Fannie Mae, said, "Creating a new team is probably the most important thing managers can do, so make sure you get it right. When we created our initial agile teams, I was personally involved with structuring them and selecting team members. It might sound crazy to get so involved in this level of detail, but it is critical that the early teams become true beacons for success." Choosing high-caliber people not only sets up the teams to be successful but also teaches managers how to build more independent teams. "By the fourth or fifth team," Richardson continued, "my direct reports knew what questions to ask and how to structure a proper team, and they could scale up on their own from that point forward."

Provide teams with a clear view of their customer

At digital-native companies and agile incumbents, an unwavering focus on improving customer experiences provides each independent team, regardless of its area of responsibility, with a consistent understanding of business priorities. Each team's job is simple: to generate small but frequent improvements in the quality of the customer's experience. Executives foster this shared sense of purpose by making sure that every team has a clear, unobstructed view of customers.

In the offices of one international retailer, real-time data on the customer experience is on display almost everywhere you go. Walk through the dining hall: oversized screens on the walls bear the latest conversion rates for each of the company's sales channels. Visit an independent team's workspace: screens are lit up with measures of customer behavior and satisfaction that relate to the team's responsibilities, such as revising the script that call centers follow or tinkering with the layout of the web storefront. At any moment during the workday, a product manager might drop by a team room to see what the team is working on, ask how customers are responding, and offer to help.

So that each independent team can track the customer experience in ways that are relevant to its work, companies might need to loosen their governance of data. A "canonical data model" that standardizes the classification of data across the entire company can cause inadvertent delays because all teams have to agree on changes to the model that are required

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[2] See "How to go agile enterprise-wide: An interview with Scott Richardson," August 2017, McKinsey.com.

to capture new kinds of data or reclassify existing data. To avoid these complications, independent teams are ideally allowed to work with and define data within their business context.

Allocate resources up front, then hold teams accountable

At most companies, teams that work on customer-facing products and services will almost always find a way to obtain the approvals, funds, information, and staff they need for new projects. Scarcity isn't the main problem—slowness is. To eliminate delays in the work of independent teams, executives should assign them all the resources they need to do their work up front: the authority to make key decisions, the ability to quickly hire new talent or secure contractors without going through standard human-resources or procurement processes, the money to cover operating expenses, and so on. These resources should include tools for building and launching whatever digital solutions might be needed to streamline customer journeys or business processes. This kind of self-service approach to application development also requires modular, lightly connected IT architectures, which allow companies to continually develop new applications in a flexible way—an approach one might call "perpetual evolution."[3]

The less dependent on other stakeholders small teams are, the more quickly they can get things done. And since teams invariably encounter unforeseen obstacles, such as a blanket policy preventing them from using public-cloud services, executives have to be there to help. Executives who sponsor the independent teams and make time to hear about their progress and understand their difficulties can push for additional reforms that will keep all independent teams on the fast track.

Once executives have given independent teams more resources and more authority, they need to make sure that those teams are consistently advancing the business's broader strategic priorities. As we'll discuss below, one role for managers in an agile organization is to help independent teams choose the outcomes they will pursue and measure their achievements in precise, meaningful terms. It's the job of top executives to hold teams accountable for delivering those outcomes—and to quickly allocate resources away from disappointing endeavors and toward successful ones. McKinsey research[4] has found that tying budgets to strategic plans is more

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[3] See Oliver Bossert and Jürgen Laartz, "Perpetual evolution—the management approach required for digital transformation," June 2017, McKinsey.com.

[4] See "The finer points of linking resource allocation to value creation," March 2017, McKinsey.com.

closely correlated with higher growth and profitability than any other budget-allocation practice that is linked to superior performance.

HOW EXECUTIVES CAN EMPOWER THE AGILE MANAGER

If the company's squads are going to operate at maximum speed, midlevel managers must learn and practice behaviors that let those units operate in a genuinely agile manner. (See the companion article, "The agile manager," on McKinsey.com.) But if these managers are going to encourage and enable team members, they themselves have to be become well versed, and comfortable, with agility. This won't be an easy task for managers accustomed to the more predictable set of tasks they performed in a command-and-control hierarchy. Senior executives must ensure that these managers learn and embrace new ways of interacting with teams. Here are three behaviors that executives should try to encourage in managers working with small teams:

Define outcomes, then let teams chart their own path toward them

Corporate leaders at agile companies put teams in charge of product features or components of their customer's journey and give them the freedom to decide the specific improvements that should be made. An effective manager in this context will determine what the business outcomes should be, based on the company's overall priorities, and will spell it out for the team using real-world measures of business performance such as conversion rates or audience engagement. Then, rather than dictating the steps a team should take toward those outcomes, the manager must allow the team to chart its own process, intervening only when the team discovers a problem or a need that it can't address on its own.

One retailer greatly increased the pace at which it enhances customer-facing services by giving more authority to a group of small, independent teams. The retailer made the desired business outcome crystal clear: improve conversion rates by 30 percent. But the specifics of how to make that happen were left to the teams. One team responsible for the company's email campaigns decided to test whether targeting smaller groups of customers with highly specialized product offers and sales announcements would lead to more conversions. The team decided to run a trial of the new campaign against a traditional one, and the results were good. That was all the proof it needed to adopt the new approach. No formal proposals or budget discussions or senior-management approvals were required—in fact, any of those steps could have slowed down or derailed the process altogether.

Step inside independent teams to enable their success

Independent teams typically hold a daily "stand-up" meeting of around 20 minutes to review their activities, plans, and difficulties. Then they spend most of their day on productive tasks, rather than administrative ones such as writing formal progress updates.

This manner of working can require major adjustments from managers. They may find their skills in areas like planning and decision making are less needed, while other capabilities, such as communication and problem solving, must be exercised more frequently. Not every manager will welcome the pressure to adapt. Some might start updating their résumés.

Top leaders should encourage these cautious managers to step inside their independent teams. They should join the daily stand-up meetings to hear what the team is doing or try to troubleshoot situations in real time over agile-friendly platforms such as Jira and Slack. Most managers who actively engage in this way come to appreciate the agile approach. An agile organization largely relieves managers of tasks like allocating staff and resources and mapping out projects. Instead, it can spend more time on higher-value activities: applying expertise to long-term matters, coaching team members and peers, and helping teams work around obstacles.

A top-performing software developer at a rather traditional company that was still engaged in the waterfall style of software development passed up several promotions that would have put him in charge of development teams. He preferred grappling with technical challenges and writing code to managing people. But after the company reorganized its customer-facing functions into independent teams, his prospects changed considerably. He continues to work as a developer, but he also leads a network of coaches who teach the company's independent teams to follow agile ways of working. The new job combines technical assignments with the responsibility to share his expertise in agile development—and has none of the traditional management tasks that he had long avoided.

Commit to retraining managers for their redefined roles

Outside the IT function, managers who understand agile ways of working can be hard to find at traditional companies. To fit in with highly independent teams, most managers will need some help to learn how to organize their thinking around products rather than processes; to direct teams with performance goals instead of work plans; and to position themselves as stewards, not superiors. Executives can, and should, make sure that their

managers have opportunities to develop these behaviors and habits of mind. They can see that managers are taught to use new tools, from collaboration software to analytics engines. They can encourage managers to rotate through assignments with various independent teams, which promotes constant learning. They should pair them with fellow managers who have more experience working with independent teams and let them see how these peers behave. And they can change the way they evaluate managers' performance, placing more emphasis on measurable outcomes and gauging their impact through 360-degree reviews.

Alfred Chandler, the renowned business historian, famously observed that structure follows strategy: companies set their strategies, then organize themselves in a way that lets them carry out their strategies to full effect. But pressure from fast-moving digital natives and digitally transformed incumbents means that traditional businesses no longer have time to rethink their strategies and reorganize themselves every few years. To promote enterprise agility, more companies are choosing to make small teams their basic organizational unit. Problems occur, however, when companies don't give their small teams enough autonomy to work at the speed required by the digital economy. Executives can change this by giving the teams the resources they need, by eliminating red tape, and by encouraging managers to learn, adopt, and enact the more flexible governance methods of agile organizational approaches. Those who do will see their small teams become more independent, and more capable of producing innovations and performance gains that keep their businesses ahead of the competition. Ⓠ

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