



THE EVOLUTION OF THE AGILE ORGANISATION

Old dogs. **Ingenious** new tricks.



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THE EVOLUTION OF THE AGILE ORGANISATION

Old dogs. **Ingenious** new tricks.

The Agile Cohort:

30%

more agile

AND
TOP 10%

financial performers



FOREWORD

The era of mass production and mass consumption, powered by Fordism and Taylorism, ushered in a brand-new way of working that saw huge gains in productivity. The trouble was, the system considered organisations as machines. Workers existed in siloes, focused on producing one component, and were unable to see the purpose and result of their labour, let alone know how customers perceived it.

Organisationally, power was concentrated in the hands of a few at the top who were unable or unwilling to devolve decision making. Size and scale made it nearly impossible to change course quickly. Even if managers wanted to do something different, massively complex systems foiled their efforts time and again.

The reality is that many organisations today are still set up to operate like those from that era. As business leaders, we've been conditioned to act as if people and profit are in conflict. We can make exceptional profit at the expense of customers and people. Or engage and empower customers and people at the expense of business performance. Old habits die hard.

As technology and societal change speeds up, the pressure is on. In the form of new competitors and technologies, radically changing consumer behaviours, speed to market requirements, and, increasingly, a workforce that prizes purpose and flexibility. Despite well-intentioned commitments to customer service or employee engagement, many leaders under pressure choose short term profit gains. Many organisations, especially large incumbents, revert to type. In our opinion, this is one of the most stubborn and prevalent risks facing business today.

At PA, we believe in a positive human future, where great organisations, paradoxically, improve the experience of their customers and people and deliver market-beating results. We believe it's possible and vital for incumbent organisations to react fast to win today and tomorrow.

Our vision is of a new kind of organisation. Where humans work in aware, alert, inclusive and responsive teams. Where we tune into and bounce off each other, attentively and rapidly responding to our customers and competition. Innovating and transforming in ever more ingenious ways. Always one step ahead.

We believe that it is possible, indeed essential, to build this sustainable agility. That means re-engineering for greater speed, becoming much faster in anticipating and responding to continual disruption, reorienting your business towards agility in its most progressive form, and building agility in end-to-end and in the core.

This isn't utopia. We have built deep practical experience at the frontline of organisational agility, working closely with clients ranging from huge global financial services firms, innovative travel sector start-ups and the government departments and agencies that serve the public.

The agile evolution – highlights

We're an innovation and transformation consultancy that works with clients in large organisations and the public sector to help them adapt and progress further, faster. We publish regular research on innovation, and this year, for our flagship research, we dived deep on agility.

We've seen first-hand how organisations can beat their numbers and deliver higher all-round performance as a result of being agile. Now we can prove through robust research that organisations who display agile characteristics are more likely to outperform their peers.

We surveyed 500 leaders from some of the largest organisations across a range of sectors, including financial services, manufacturing, FMCG/retail, life sciences, travel, energy and utility, telcoms and logistics. For each organisation, we analysed 15 agile characteristics across five dimensions and found a strong positive correlation between agile characteristics and financial performance. The top 10 per cent of businesses by financial performance are almost 30 per cent more likely to display agile characteristics, suggesting that commitment to organisational agility can make a crucial difference as a driver of success. We call this group our Agile Cohort.

And they aren't slowing down. The agile organisations we've identified are already evolving again, growing faster by the day. They've recognised that it will be essential to operate at least another 30 per cent faster across all the five dimensions. Faster in responding to customers. Faster to value with new products and services. Faster in internal

decisions and actions. And with faster systems and processes to continuously adapt. All supported by a liberated, learn-fast culture.

You might have thought that agile is a topic for the IT department or programme office. Wrong. More than 60 per cent of the organisations we surveyed already have organisation-wide programmes of work underway to build agility, systematically. And nearly half of them would describe these programmes as "very effective". Agile is evolving. Whether you're starting an agile project, using agile techniques to accelerate change in a department, or building agility right across your organisation there is a proven route to success.

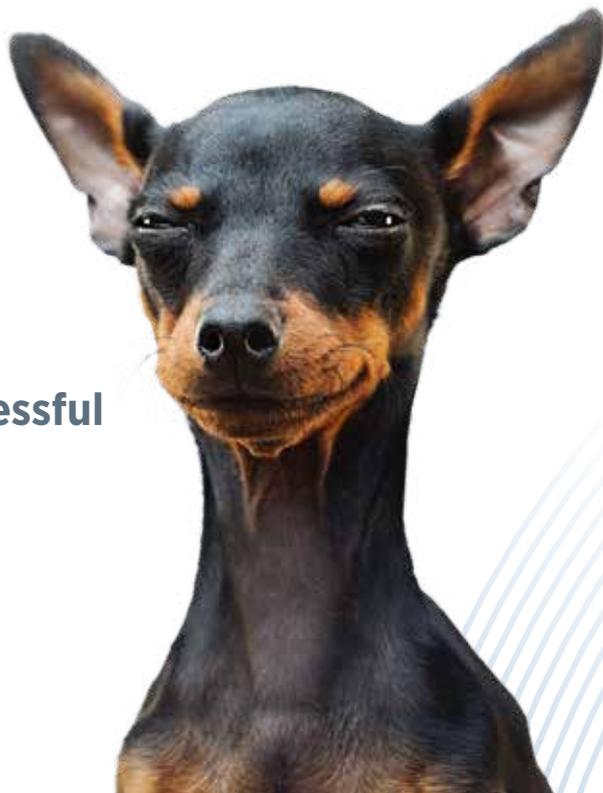
Agility is a thoroughly democratic attribute. It's not just for dynamic high-tech start-ups. Far from it, agility can transform well-established financial institutions, household names and industry stalwarts, ensuring they are fit to represent the future of the business rather than just its heritage.

So, where do you go from here? We've found five perfectly achievable steps you can take now. And some ingenious ways for leaders to take immediate personal action. They are: centre on your customer; speed up time to value; design for simplicity; build to evolve; and liberate your people.

At PA, we don't buy the people-profit paradox. We believe in the power of ingenuity to build a positive human future in a technology-driven world.

15

**characteristics across
five dimensions for successful
organisational agility**



YOUR GUIDE TO AGILE EVOLUTION

Page 9 **THE PRESSURE'S ON**

The pace of change – driven by customer and technology disruption – is accelerating. For the first time, organisations are more worried about digital natives than traditional competitors. The risks of inertia are significant.

Page 12 **INNOVATE TO THRIVE**

Business leaders are targeting 30 per cent improvements in agility. Culture is the most important task, the hardest and slowest to change, and the biggest driver of opportunities when you get it right.

Page 14 **THE AGILE EVOLUTION**

Our vision is of a new kind of organisation. Where humans work in aware, alert, inclusive and responsive teams. Where we tune into and bounce off each other, attentively and rapidly responding to our customers and competition. It's perfectly achievable. Start now across five dimensions:

- 1 Centre on your customer**
- 2 Speed up time to value**
- 3 Design for simplicity**
- 4 Build to evolve**
- 5 Liberate your people**

Page 26 **THE AGILE OPPORTUNITY**

Despite more than 60 per cent of businesses having organisation-wide programmes underway, there's still a lot of room to improve.

Page 28 **MAKE ORGANISATION-WIDE AGILITY WORK FOR YOU**

No matter your business size or type, there are a number of actions you can take to set your organisation on the path to sustained success.



We are past a
TIPPING POINT
in disruptive innovation

**The leaders of our largest corporations
are now more concerned about the
'Amazonification' of their sector than they
are about their traditional sector rivals**



INTRODUCTION

The pressure's on to adapt quickly and continuously

Global business is facing unprecedented disruption. An increase in technology-based innovation and changing customer expectations is uprooting the old, established corporate order. This acceleration propels economies forward and creates new, market-beating growth opportunities for those who are willing to seize them. Nearly three-quarters of the leaders we spoke with believe that companies' ability to respond rapidly to change will make the difference between success and failure.

In this competitive environment, the stakes are high. Business leaders predict that at least one in six companies in their sector will fail in the next five years as a result of not adapting to rapid and radical change. If this seems unlikely, consider the fates of household names such as BlackBerry Limited or Toys R Us, who failed to keep pace with the changing demands of their environments. At PA, we believe that the new maxim for business is 'design to evolve'.

As well as a significant business attrition rate over the next five years, the majority of leaders believe that the average life expectancy of companies will decline as a result of the rapid pace of change. This prognosis is supported by analysis of global business longevity trends by Credit Suisse, which reveals that the average age of a company listed on the S&P 500 fell from almost 60 years in the 1950s to about 25 in the 1980s, and now stands at less than 20.

Perhaps foreseeing their own part in this trend, a majority of business leaders interviewed in our research believe that 'radical change in the business environment means that my company's past may be brighter than its future'. This is a dire indictment of the prospects for many of our best-known global businesses, and it's a clarion call for business leaders to respond more urgently and effectively to the challenges facing them if they want to ensure a brighter future.

In an environment of changing threats and opportunities

What are the main drivers of this greater risk of corporate obsolescence? When we asked business leaders to predict significant external threats to their company by 2023, almost three-quarters pointed to rapidly changing customer needs and expectations, making this the top-ranked issue. Leaders from the fast-moving consumer goods (FMCG), retail and manufacturing sectors are particularly alert to this danger: nearly four out of five fear that their business could shut if it fails to stay relevant – condemned to a quick demise as these increasingly assertive customers vote thumbs-down with their wallets.

The need to stay ahead of rising customer expectations even relegates the much-vaunted threat of technological disruption to second place. A superficial nod to customer experience or customer centricity is no longer sufficient.

Nearly three-quarters of business leaders told us they predict disruptive innovation by technology pioneers (leading-edge technology giants, digital natives – companies that were formed with digital technologies thoroughly integrated into their business models – or younger start-ups) will be a significant threat to their business during the next five years. This finding is particularly noteworthy because it indicates that technology pioneers now rank ahead of established competitors as a perceived threat to businesses. We have passed a tipping point in disruptive innovation: the leaders of our largest corporations are now more concerned about the 'Amazonification' of their sector than they are about their traditional sector rivals.

It's time to set new speed targets for business change

Two-thirds of business leaders believe the cycle of invention and innovation is speeding up in their markets. They recognise that change is both occurring and accelerating to an almost overwhelming rate. For example, the rate of technological diffusion has increased exponentially, with recent memes highlighting that the telephone took 75 years to reach 50 million users, while TV took 13 years, the Internet four years, and Pokémon GO a mere 19 days.

On average, business leaders estimate that five years from now their companies will need to operate almost one-third faster than they do today to remain competitive. Think about the slowest function or process in your organisation.

The biggest drag on your innovation. Imagine trying to get that function to change by over 30 per cent. This is not an insignificant challenge.

Leaders have a pretty good idea of what operating almost one-third faster means to them. We found seven out of ten leaders believe it will be more important for them to achieve a faster assessment of customer needs; faster time to market for new products or services; faster adoption of technologies; and a learn faster culture to take risks and change direction quickly.

1/2

of business leaders think radical change in the business environment means 'my company's past may be brighter than its future'



Navigating the speed restrictions that slow you down

It's clear business leaders know they need to do things differently if they're to accelerate quickly and propel their organisations forward. Part of this process involves identifying and removing the biggest speed restrictions to their journey towards greater effectiveness.

Topping the list is an increasingly complex political and regulatory environment. We know that complexity is not only a result of unwieldy rules, but also the result of regulators not keeping pace with the disruptive forces faced by businesses.

Yet regulation need not be a speed bump. When we explored how regulators are evolving in the face of such disruptive trends we found strong evidence that, with the right skills and approach, regulators can play an important role in enabling business success. They can do this, in part, by adopting policies that support innovation. In fact, over the next five years, nearly three-quarters of organisations surveyed for our regulator research said they want regulators to have a role enabling or driving innovation. In short, regulators can accelerate change.

The second most common factor cited for slowing businesses' ability to evolve is the pressure leaders face to deliver short-term returns for shareholders and investors.

This pressure affects the ability to be flexible and take the kinds of risks necessary to forge a radical path forward in the face of competition. Not only are business processes stymied, but so too are workers who have leaders asking them to do more without investing the time and capital to support and empower them.

The bottom line is that in the race to secure short-term profit, businesses revert to type and employee morale can take a serious hit. Given the ever increasing war for talent, and changing work-life dynamics, any threat to employee attraction, creativity, and retention is a serious one.

1 IN 6

organisations will fail in the next five years because they can't keep pace with change



INNOVATE TO THRIVE

Why organisational agility is key to going further, faster

There are many opportunities for business leaders to stay competitive and thrive. In fact, we believe that it's possible to win today and thrive tomorrow without negatively impacting how they treat their people and customers. So, what will this new context of radical change demand from businesses over the next five years and beyond?

AWARE
ALERT
RESPONSIVE



Agility is much more than speed for speed's sake

The answer is that they must meet it with some radical change of their own. In fact, nearly two-thirds of business leaders told us that their organisation needs to fundamentally rethink its business model. It's no longer enough to tinker with piecemeal improvements in discrete corners of the business. Instead, they need a vision and journey of continuous, wholesale transformation, which renders the organisation more immediately adaptive to change. Leaders need to design their businesses for agility.

Our research uncovered a consistent positive correlation between agile characteristics and financial performance. The top 10 per cent of businesses by financial performance are almost 30 per cent more likely to display agile characteristics, suggesting that a commitment to organisational agility can make a crucial difference as a driver of success. It's this Agile Cohort who are breaking through barriers and seizing the real opportunities to transform and grow.



say their business model needs a fundamental rethink – a new business design for agility

Speed is important in as much as it allows for faster cycles of iteration be that in strategy, decision making, product variations and testing, right through to supply chain effectiveness and cash flow. So there are many times where speed is a goal in and of itself as it enables you to learn more about what works and what doesn't, and adjust and re-invest more frequently.

Yet agility is so much more than speed for speed's sake. Far from advocating for a narrow focus on faster turnaround times and maximum efficiency, driven by old-fashioned, dehumanising 'command and control' processes, we're advocating for a strong focus on culture across the entire organisation. Without it, there's a real danger that employees will view process change as a demand to work harder, breeding resentment and leaving the organisation worse off in the long run.

We asked business leaders by how much their internal culture will need to change. Their answer was revealing: 70 per cent said creating a culture that enabled people to take risks and change direction quickly will be more important than it is today. Although this target rightly recognises the pivotal role played by organisational culture in enabling transformational change, it will sound to many like a Herculean task. When guided by inexperienced or insensitive hands, culture change can happen painfully slowly or even have an unintended negative impact. Is it possible to deliver consistent, congruous culture change at pace?

The answer is yes, if the right level of leadership commitment and focus is present. This means seeing people as the most important asset, with actions that disabuse any notion of simply paying lip service to the importance of promoting a healthy culture. Leaders must recognise that good management empowers decision making at all levels of the organisation; a far cry from the 'command and control' style that's so prevalent in organisations today.

THE AGILE EVOLUTION

How the Agile Cohort gain ground and hold it

Agility completely upends the management status quo. It's a fundamentally different way of seeing the purpose of business. So, how do the Agile Cohort create a culture and build capabilities that enable them to keep pace with rapid change and stay ahead of the pack?

THE DIMENSIONS
OF AGILITY
REVEALED



FIVE DIMENSIONS OF AGILITY

1

CENTRE ON YOUR CUSTOMER

- Co-creation
- Feedback
- Prioritisation

2

SPEED UP TIME TO VALUE

- Improvements
- Mobilisation
- Investment

3

DESIGN FOR SIMPLICITY

- Decentralisation
- Integration
- De-layering

4

BUILD TO EVOLVE

- Flexibility
- Acceptance
- Competence

5

LIBERATE YOUR PEOPLE

- Empowerment
- Dynamism
- Collaboration

To find out, we examined the behaviour of the top 10 per cent of companies from each sector in our research study, defined as having the highest levels of turnover growth, profit growth and profit margin collectively. We then benchmarked these companies across some specific characteristics that define an organisation's ability to work in a consistently agile way. For more details about how we created the Agile Cohort group, please see the Research Methodology section at the end of this report.

We used a framework of five key dimensions of organisational agility to help us evaluate and model behaviours: centre on your customer; speed up time to value; design for simplicity; build to evolve; and empower your people.

Each of the five dimensions of organisational agility contains three relevant agile traits, which we asked business leaders to score themselves against in our research study. Our headline findings for each dimension – and across all dimensions – are summarised in the pages that follow. The numbers that appear in the spider diagrams represent the percentage of respondents from each of the 'Agile Cohort' and 'other companies' who agreed with the statements depicted on the diagrams.

1

CENTRE ON YOUR CUSTOMER

Businesses with the highest levels of financial performance are more likely to be customer centric through a customer-led culture, listening and empathy, co-creation processes, and continued re-prioritisation.

Total customer centricity acknowledges that product and brand differentiation (think Coke) and customer experience (think Apple) are no longer in themselves enough to entice customers to your offering. Increasingly, customers see brands and business as a means to an end. As a result, businesses have to make themselves part of their customers' lives and demonstrate clearly how they can help achieve customer outcomes.

Creating a truly customer-led culture, where the organisation places itself at the centre of its customers' universe, rather than one that focuses on the business's own interests, calls for an unusually high degree of organisational openness and receptivity. We call it a Customer 4.0 approach and our work with B2C, B2B and public service organisations tells us it's one of the more important shifts in business today.

A listening culture isn't just about finding out what customers want. It also finds ways to meet unmet needs. The reality is that most businesses don't really know their customers. They're all too often segmenting by demographics and postcodes instead of appreciating and organising around the outcomes customers need.

To understand what people are after requires that you not only listen, but pay attention to everything that's happening in their universe. We find it's highly instructive for organisations to co-create products alongside their customers. This process helps organisations to understand, in detail, why people are looking for certain things and the external factors that may be influencing those decisions. This can then inform the entire product or service design process.

Increasingly organisations are interpreting the customer experience through huge swathes of real-time data and key metrics. Feedback loops based on sales data or

other behavioural data tell business leaders whether their efforts are impacting customers as intended and leading to the desired business outcomes. Many organisations are sitting on mountains of 'dark data'. We estimate that most companies are only analysing five per cent of their data. Imagine the value in uncovering the insights in your unexplored data to drive better decisions.

Business leaders believe they need to operate 30 per cent faster to remain competitive

One aspect many organisations struggle with is how to interact with other touchpoints in the customers' universe. Firstly, how to use others to augment their offer. And secondly, how others might give them new channels to market. There are more complex integrations of strategy, data, digital and supply chains which can be attempted once customer centric choices are delivering value. Ultimately, there are great opportunities for those who win the right to integrate goods and services on behalf of the customer.

We see a growing emphasis on quicker cycles of data-rich experimentation, analysis and adaptation. Organisations must continuously re-prioritise products and services based on changing needs and demands. Inevitably, this tech-enabled approach to customer feedback will move from being an agile differentiator to an essential condition for success.

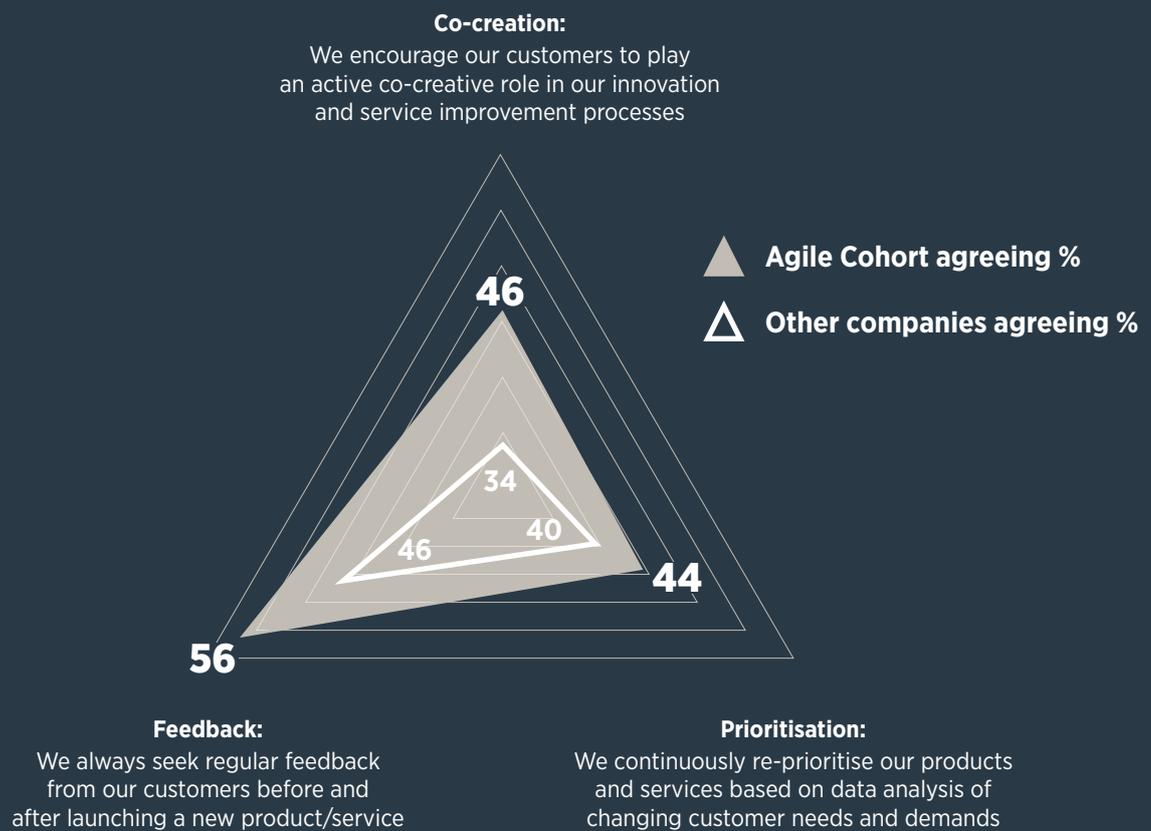


Figure 1: **Centre on your customer**



2

SPEED UP TIME TO VALUE

The highest-performing businesses in financial terms achieve a shorter time to value by continually speeding up their innovation and launch processes, making frequent rounds of incremental adjustments to products and services, and mobilising quickly in response to competitor activity.

This fast-turnaround approach involves a major shift in mindset and operations: instead of waiting to send thoroughly researched, perfectly engineered new products to market, the agile way is to develop and refine smaller batches in an almost continuous flow. Recognising that the market provides the best testing ground and learning environment. For example, hyperfast fashion companies, such as Zara and ASOS, are organised to develop and sell very small batches of stock within a couple of weeks, either to gauge new demand, plug an identified gap or match a competitor's offer.

These companies have done what anyone can. They've mapped and then continuously interrogated their value stream. From initial concept of a product or service to when an organisation directly realises value. Value stream mapping enables organisations to hone in on specific

moments in the product creation process and interrogate each for efficiency and productivity.

We've designed a unique framework for innovating that plugs into the value stream methodology. We suggest scoping the available opportunities and validating initial concepts against your purpose. Do this by examining the measures for customer outcomes, technical feasibility and commercial reality. We also advise rapid prototyping and iteration. Evaluate the resources available (e.g. people, applications and facilities) and how they're organised (e.g. structure and processes). Truly agile organisations have teams organised cross-functionally by technical expertise required to deliver customer value – where employees with different skill sets learn from, and better the outputs of, one another. This is in contrast to the traditional practice of organising by functional expertise.

If a company accelerates its product launches, earns a faster return on investment and quickly reinvests those returns in another round of innovation, its prosperity can grow exponentially.

72% of business leaders believe their company's ability to respond rapidly to change will make the difference between success and failure

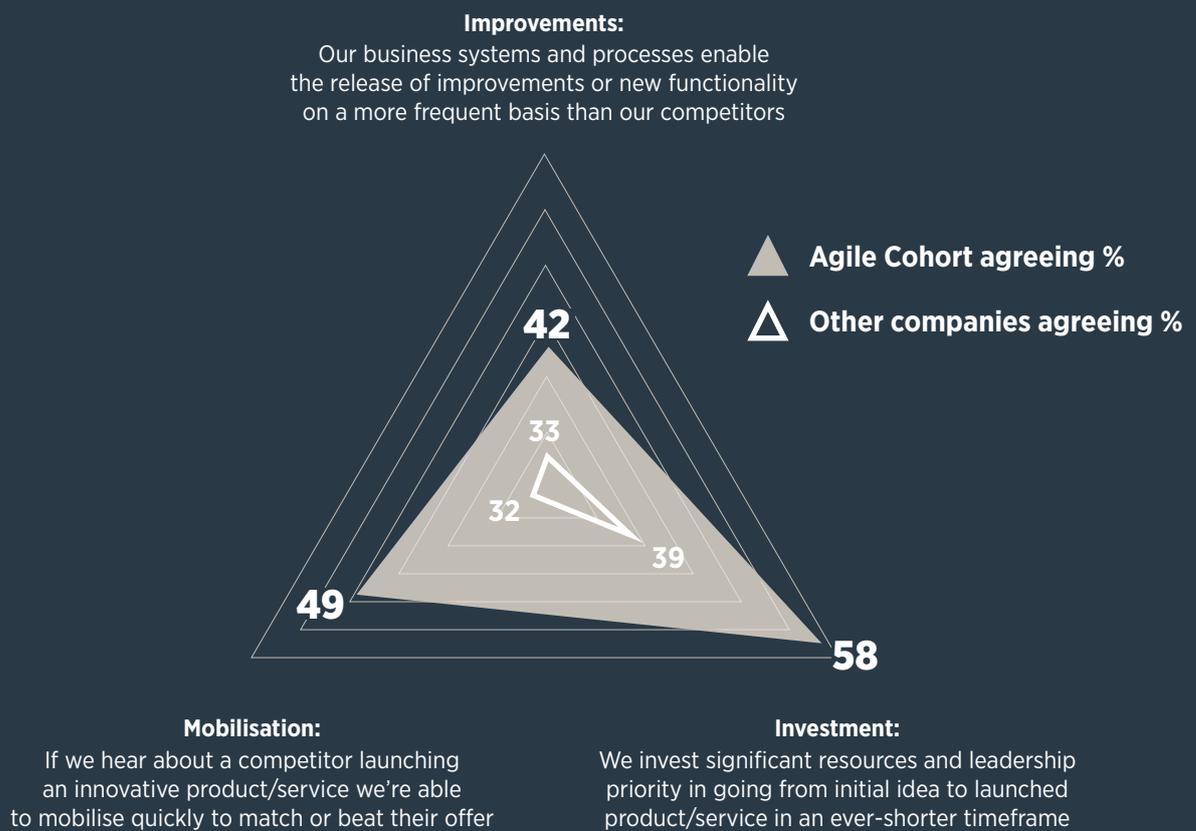


Figure 2: Speed up time to value

3

DESIGN FOR SIMPLICITY

Our Agile Cohort are investing effort in creating a simplified organisation – by flattening hierarchical layers and aligning teams around the customer’s end-to-end journey and empowering people to make decisions from lower levels of the business. This enables them to build, test, adapt, deploy, learn and repeat in a strategic, methodical way.

These principles of simplification can present greater challenges for large, established businesses as they try to overcome legacy issues that have left them complex, cumbersome and autocratic.

A shift is required, from optimising micro-level efficiencies in specialist siloes to optimising macro-level effectiveness – by integrating people into cross-functional teams that deliver better and faster value to the customer and the organisation. For example, a large UK bank is forming teams from across its business (e.g. software engineers, customer contact personnel, business analysts and proposition developers), bringing them into a shared space and the same reporting structure so they can focus on different aspects of the same specific customer experience (e.g. home buying).

We recommend approaching the simplification process with an eye to four principles:

- 1. Create market simplicity** – identify where there are redundant and duplicated products. End the duplication and migrate customers onto the existing product range by creating a simple and appealing offer.
- 2. Build simpler operations** – examine your organisation’s standard operating procedures for unnecessary complexity. Then move to looking at existing legacy technologies and how they interact with new technology solutions. In both areas, there are barriers to complexity that can be stripped out. Any new core operations areas you create should be designed end-to-end with simplicity in mind.
- 3. Simplify the way change is managed** – consider how you can simplify your existing change management programme. Setting specific, clear, yet limited, goals is a useful starting point.
- 4. Simplify the way the business is led and managed** – identify opportunities to harmonise business models across operating units without compromising customer needs. Do people understand how the work they’re doing in their individual teams and units aligns to the bigger picture?

This kind of streamlining can be a daunting undertaking. But without bold moves towards simplifying organisational structure, any other transformational initiatives will be seriously diluted or could even risk failure.

60%

of organisations cited ‘complex organisational structures with too many layers of management’ as a barrier to speeding up



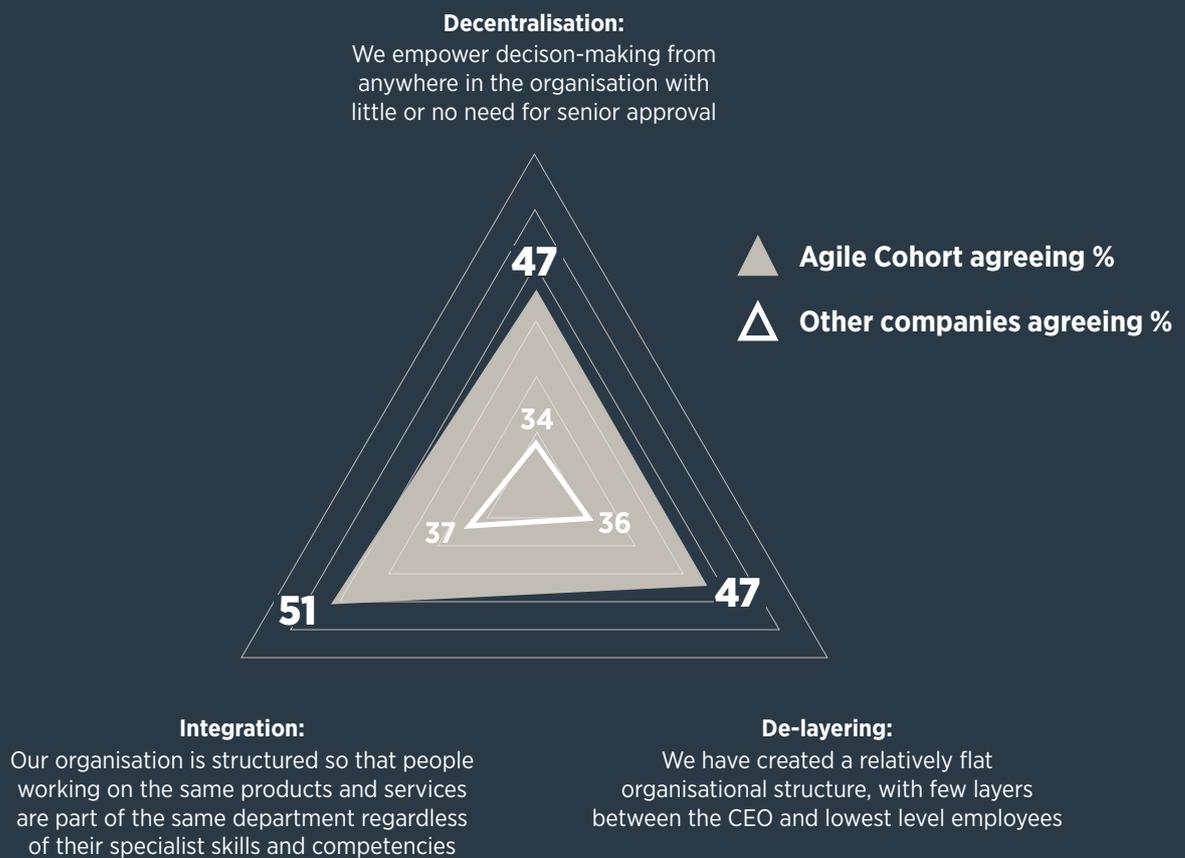


Figure 3: Design for simplicity

4 BUILD TO EVOLVE

The Agile Cohort show a higher degree of responsiveness to change in three areas: flexible systems and processes, non-linear development cycles and people's competencies.

There is clear market advantage to those who best anticipate changes and respond more flexibly. Using advanced data analytics and AI to predict market movements with greater accuracy and further in advance allows businesses more time to prepare a response to rapidly changing customer needs.

There's a risk though. In the race to bolster their technology capabilities, organisations resort to adding 'bolt on' solutions to their legacy systems. One of the risks of doing so is that systems remain unintegrated and don't speak with one another, decreasing an organisation's flexibility. Moreover, employees accustomed to seamless customer experience in their personal lives can find the lack of integration frustrating. Instead, organisations need to work out a route to a technology architecture that is highly decoupled, modular and adaptive. Taking a highly flexible Total Digital approach by creating an all-digital IT stack that works like a platform means new products and services can be easily installed, launched, managed, changed and decommissioned.

This setup allows for the real-time data discovery and data-driven decision making that underpins agility. And it allows

organisations to better adjust in non-linear ways. The real litmus test for business leaders is whether they can maintain an open-minded outlook – to be guided by the realities reported in their business analytics, and if necessary, be brave enough to pivot away from old paradigms without sentiment or nostalgia.

There's also an important future component to recognise here. It's not just about having the right systems, processes and people in place right now, but also anticipating whether they will be right in twelve to eighteen months' time. It's about building in the kind of forward-looking flexibility that allows you to continually reassess your ways of working and to reorganise at speed. And ultimately, the more businesses can join up their digital efforts on behalf of the customer – through digital value chain efforts – the more value can be captured.

None of these technology-centric steps should discount the fact that getting the cultural aspects right are fundamental to the success of the organisation. The most agile – and most successful – businesses will foster a culture that welcomes change and always looks for new ways to improve, rather than seeing change as something that's practically impossible and ideally avoidable.

63% of business leaders are concerned their company is better at delivering business as usual, rather than the radical transformation they need



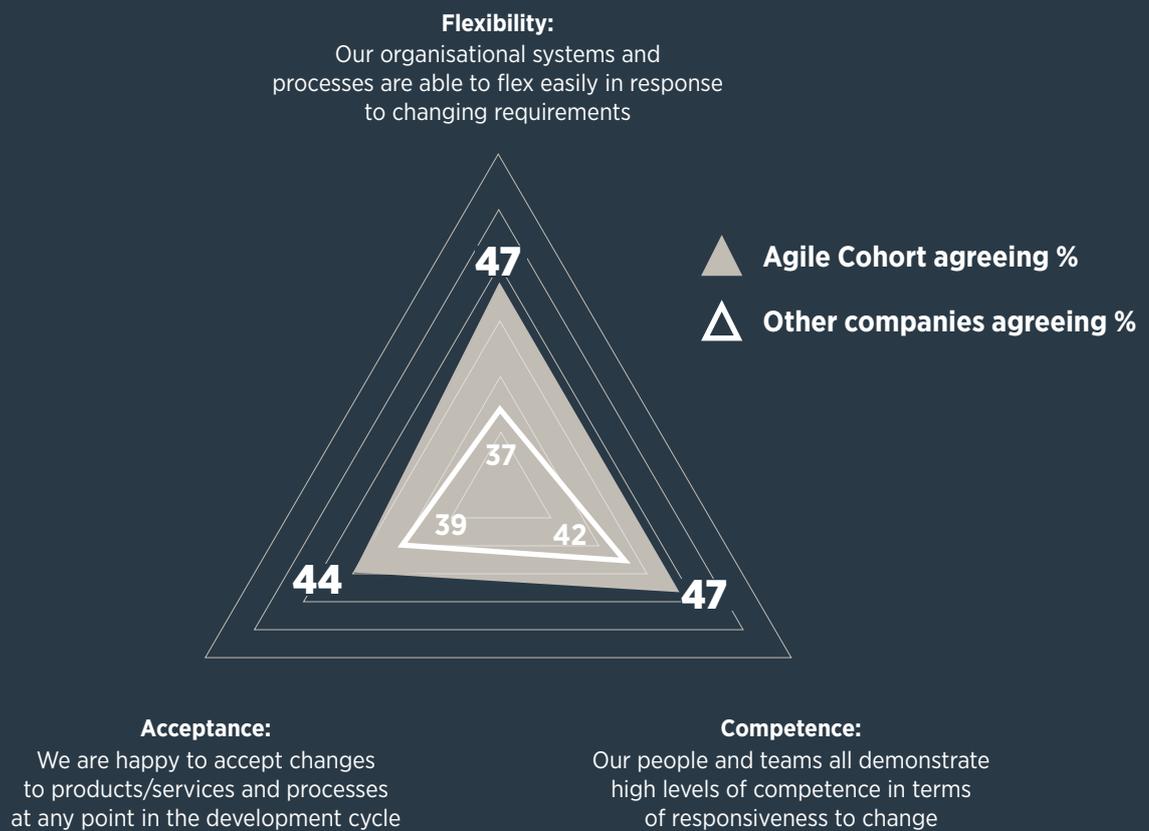


Figure 4: **Build to evolve**

5

LIBERATE YOUR PEOPLE

The top-performing organisations in financial terms have made a conscious effort to focus on their people, creating a work environment that's dynamic, encourages collaborative work practices and where employees are empowered at all levels. These sorts of organisations treat their people like their customers – they put them at the heart of what they do.

It's all too tempting to try to create an agile way of working by focusing on new tools and methods without giving enough consideration to people. The reality is, there are big changes afoot in how people view work and expect to be treated by their employer.

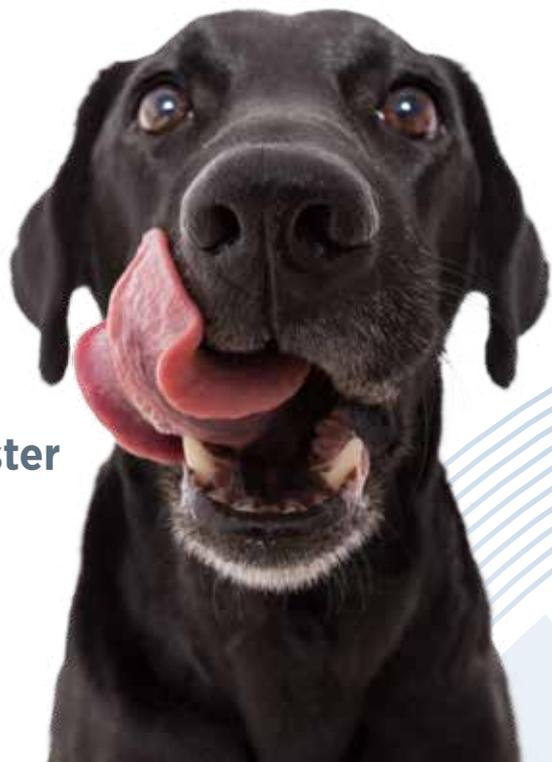
Getting the people part right is not easy, especially amongst leaders whose inherited management style tends to be directive rather than nurturing and enabling. Instead of giving people a narrowly defined job specification, agile leaders create vision and inspiration for the organisation to connect with its core purpose. Then they focus on creating an environment that encourages their teams to pursue that purpose with greater autonomy so they can accomplish the right outcomes for the business. Employees value organisations that genuinely value them and their input.

For purpose to be authentic, the organisational design needs to fundamentally reflect it. The way an organisation is set up from the configuration of its technology architecture through to the physical layout of its offices must encourage a way of working that prizes cross-functional working and experimentation. Arranging people who are working together in the same space and creating office spaces where organic interactions occur – facilitating the exchange of new ideas – are characteristics of agile organisations. Others have created units that act as an internal disrupter of other parts of their business such as the Unilever Foundry and RBS's planned digital challenger bank.

Business leaders need to appreciate the importance of creating a people-focused organisation – with commitment, energy and sensitivity – if they are to thrive as the Agile Cohort of the future.

68%

of the Agile Cohort recognises that agility is about shifting a culture, not just implementing a process. They foster a culture that welcomes change, and always look for new ways to improve



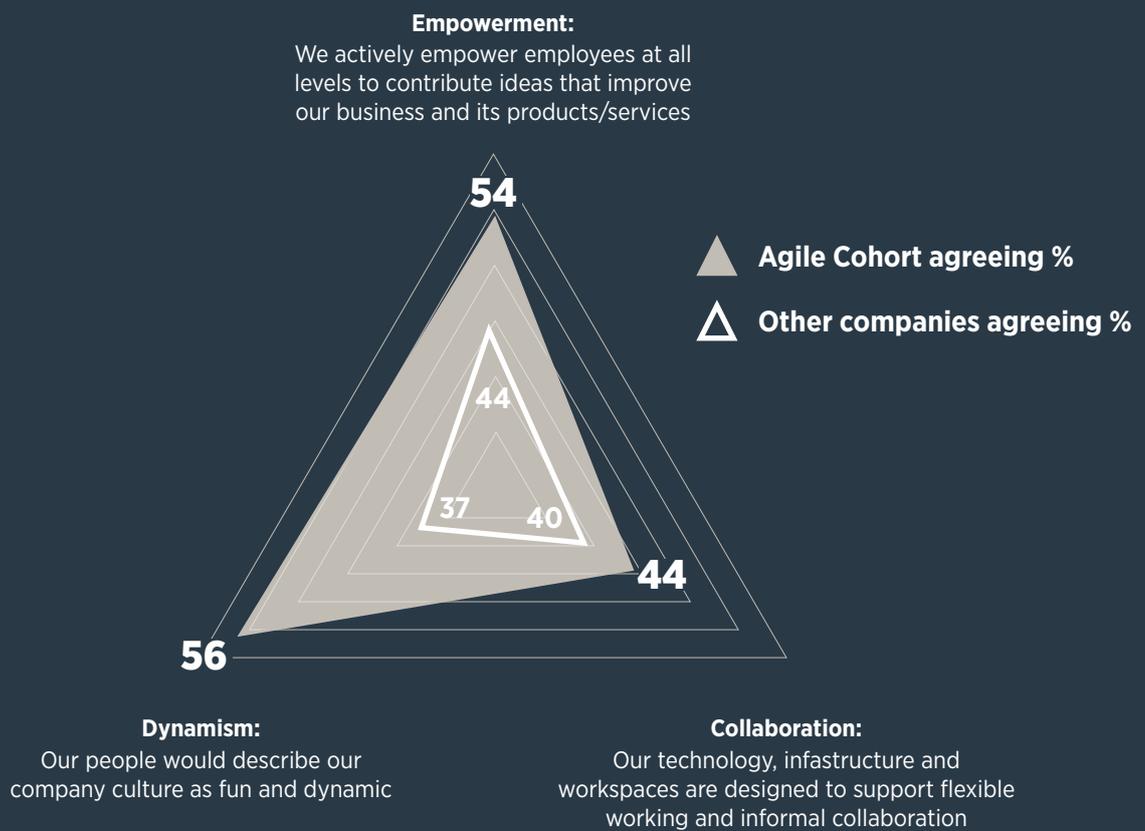


Figure 5: Liberate your people

THE AGILE OPPORTUNITY

Taking each of the five agile dimensions, we can see a gap emerging between the Agile Cohort and the chasing pack

Of the five agile dimensions, the most significant gap is in speed up time to value, followed by design for simplicity. These two dimensions show the strongest correlation between high scores and financial performance. And they reinforce our belief that speed is critical to business success, and that complex organisational structures are a serious barrier to business acceleration.



Figure 6: Design across the agile dimensions

We firmly believe however, that it's in the combination of all the dimensions that unlocks the maximum value. The precise formula for each business needs care and attention. Even when business leaders know what to change, three in five struggle to act.

One thing is for certain. Without making sure you've got the right culture and processes, any agile initiative is likely to be temporarily effective at best. We found that 60 per cent of organisations cited 'complex organisational structures with too many layers of management' as a barrier to speeding up response to this and other challenges. More than half of the organisations we surveyed said that a culture of risk-aversion – rather than one where people felt comfortable and able to respond to change – stood in the way of progress.

Focusing solely on the gaps between the Agile Cohort and the rest masks a bigger message. Stepping back, even those who seem to have the magic formula of financial performance and agility still have an enormous untapped opportunity. Once you get beyond statements of commitment to agility and ask the tough questions – in the detail of the organisation – the data shows us that even the best performing of the Agile Cohort are only half way to a truly evolved agile organisation.

Perhaps it's not surprising. It's easy to visit an agile organisation and be inspired. You'll know it's the right answer to unlocking so much value in your organisation. Making it real, continuous, embedded and owned by all is the real challenge, and a huge opportunity.



3 IN 5

business leaders say they understand the change needed, but are struggling to act

MAKE ORGANISATION-WIDE AGILITY WORK FOR YOU

Practical insights to make your organisation more agile

We've seen in earlier sections of this report that agile ways of working present big opportunities for business leaders to innovate and transform to stay ahead of the competition. We have also seen a clear link between organisational agility and financial performance, with our Agile Cohort leading the way in terms of agile traits, profitability and growth.



72%

of business leaders say that improving organisational agility is a top strategic priority

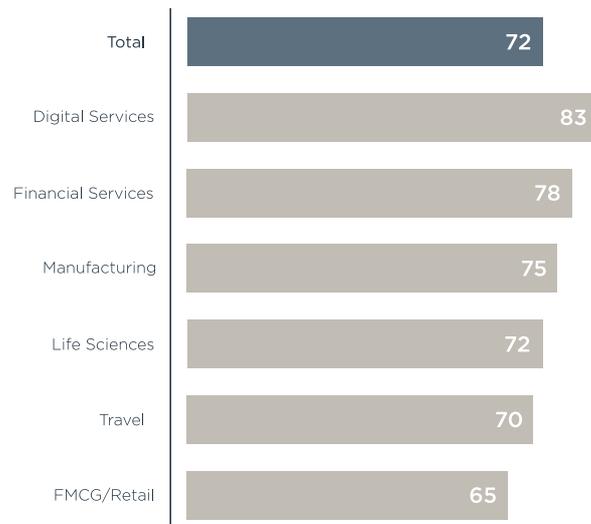


Figure 7: **Improving organisational agility is a top strategic priority for my company's Board (% agreeing)**

Almost three-quarters of business leaders now say that improving organisational agility is a top strategic priority for their company's Board. This has led many to launch a formal agile transformation initiative within their company – defined as an approach aimed at introducing or increasing levels of agility through a combination of organisational redesign, culture-focused activity, change management, training, coaching, and adaptation of day-to-day processes and tools, not just an IT programme or an experiment in a single department.

Six in ten business leaders report that they have undertaken an agile transformation initiative in the past, or currently have one underway, and almost all of the remainder plan to start such an initiative in the next twelve months (10 per cent) or say they are likely to start one in the next two to three years (28 per cent).

Of those business leaders with prior experience of an Agile Transformation initiative, around half (47 per cent) consider it to have been very effective. You might think that's not a bad record for a significant strategic venture of this kind.

29% of leaders rate their transformation initiative as very effective

But the truth is that many agile transformation initiatives obtain mediocre results because they are launched with insufficient understanding of their complexities and critical success factors.

All too often, agile advisors provide abstract theory and methodology – a one-size-fits-all framework that is either too narrow and restrictive, or too broad and unspecific to help the business in question. Other initiatives fall short because they are not properly joined up and scaled up across a company's markets and operations, or because they don't get to grips with cultural barriers to agility. And agile transformation journeys can stall without close-at-hand practical support that transfers learnings and inherent adaptability to the organisation.

Business leaders should be expecting more from their efforts to improve their business agility. How can they avoid common pitfalls and maximise their returns from this increasingly important strategic investment? Our experience suggests five responses are critical to achieving lasting success.

1. Put 80 per cent of your effort on culture

Agile transformation initiatives need to give prominence to the culture, leadership and capabilities required for real transformation, not just method and process. Two-thirds of business leaders agree that organisational agility is about shifting a culture rather than implementing a process. While this is a comfortable majority, it's concerning that one-third still think otherwise. Business leaders must recognise that agile organisations are places where the culture supports certain behaviours and ways of working.

2. Be persistent, and consistent

A classic conundrum is that, if business leaders are used to managing programmes and projects in a certain way, they will probably try to manage their agile transformation strategy in the same way. They may instruct their employees to be agile, then track their compliance and chastise them for any failures along the way. The irony is not lost on these employees: an initiative designed to empower them is being delivered as a diktat, and they, unsurprisingly, lose faith in the whole premise of organisational agility. A better approach is to think about how agile principles should be applied to the transformation project itself. Ensure the initiative has a clear vision and impetus, is user-centric, transparent, creative, integrated and empowering for all involved. When you're next handed a programme report focused on compliance and calling out failures – how will you react?

3. See measurement as an instrument of change

Agile principles recommend continuous assessment of efforts and outcomes. If the results aren't up to scratch, there's an urgent need to stop and pivot to another approach. If the results are encouraging, they can drive energy and investment for further improvements. Skill and sensitivity

are required to design effective agile metrics that reflect and encourage new ways of working, rather than reinforcing old prescriptive patterns. Fast failure is an intrinsic part of the learning cycle, and although business leaders will understandably want to measure the return on investment in organisational agility, they should be careful not to wield these metrics in a way that discourages their agile teams from experimenting and innovating. When you're reviewing your next programme business case – how will you challenge the same old metrics?

4. Devolve ownership

Implement change initiatives in a thoroughly devolved way. This doesn't mean just delegating decisions to people below the traditional leadership levels. It also means giving teams significant responsibility to deliver on things they previously hadn't been asked for their opinion on. Start small by giving your team a challenge they need to address and set a one-week deadline for them to come back with recommendations and initial prototypes. Then step away.

For trainers and coaches, it means focusing on building capability within their client's business. Their role is not to design a more agile organisation from the outside, but to jump right in and actively help that organisation to transform itself. How will you know if an agile programme on your watch is actively building capability, not just delivering the latest product or change?

5. Recognise that agility is the new normal

An 'old school' way of thinking about agile transformation is that it's a one-off project that takes a business from non-agile to agile. In reality, organisational agility is a journey without end. Businesses cannot afford to rest on their laurels, or their competitors will find ways to step up their pace and pull ahead again. The good news is that the ongoing process can be self-seeding if set up and supported in the right way. By applying new agile ways of working into different parts of the business, the success stories become exemplars. Other parts of the business begin to follow, creating a groundswell that continues to accelerate change throughout the organisation.

AT PA, WE'RE OPTIMISTIC

We know business leaders are looking for ways to get ahead of the competition and that employees' preferences are fast changing. We also know that organisations that embrace agile ways of working can ensure they're ready to evolve, quickly and continuously, delivering value for their customers and their people.

This is a future that, although full of challenges, is eminently achievable for all companies across all sectors, whether they are young digital natives or venerable incumbents. It can bring rich rewards in terms of financial gains, innovative ideas and inspired employees.

We began this study by sharing our vision of a new kind of organisation – the next evolution of the agile organisation. Where humans work in aware, alert, inclusive and responsive teams. Where we tune into and bounce off each other, attentively and rapidly responding to our customers and competition. Innovating and transforming in ever more ingenious ways. Always one step ahead.

We'd like to talk to you about your own evolution.



RESEARCH METHODOLOGY

We conducted in-depth interviews with 500 senior business leaders in the largest UK-based companies to investigate attitudes and experiences around organisational agility and its driving forces. Respondents included CEOs, Chief Operating Officers, Chief Information Officers, Chief Finance Officers and other decision-makers at C-Level or Head of Division level. The sampled companies are global in scale, with significant UK operations, annual UK turnover of at least £750 million (including some over £5 billion), and at least 1,000 UK employees (including some with more than 5,000).

Respondents represented five major business sectors:

- financial services (including retail/corporate/investment banking, insurance, asset management, FinTech, and industry regulators): sample size – 100
- manufacturing (including automotive and auto suppliers, heavy engineering, and private aerospace): sample size – 100
- fast-moving consumer goods [(FMCG)/retail]: sample size – 100
- life sciences: sample size – 50
- travel: sample size – 50.

We also included a smaller number of companies representing other key business sectors including energy and utilities, telecommunications, transport and logistics (sample size: 100). This group included a sub-sample of 23 digital natives, defined as companies formed with digital technology thoroughly integrated into their business models.

Research was designed and analysed by PA Consulting and Man Bites Dog – The Strategic Ideas Company. Fieldwork was conducted by independent market research agency Coleman Parkes in 2018.

How we created the Agile Cohort group

For each of the sectors covered in our research survey, we ranked participating companies based on a combination of three financial performance metrics: three-year average UK turnover growth; three-year average UK profit growth; and UK profit margin in the last financial year. We looked at the top 10 per cent of respondents by ranking from each sector. If there was more than one company in the bottom classification (e.g. equal-10th in a category of 100), these were included in the top 10 per cent group. This gave us the following numbers of companies in our benchmark group: financial services (10/100); FMCG/retail (11/100); manufacturing (13/100); life sciences (5/50); travel (5/50); digital natives (3/23); other sectors (12/77). We reviewed performance against the 15 agile characteristics for this benchmark group and found they are nearly 30 per cent more agile than the other companies, a strong positive correlation. We named this benchmark group the Agile Cohort.

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About PA.

An innovation and transformation consultancy, we believe in the power of ingenuity to build a positive human future in a technology-driven world.

As strategies, technologies and innovation collide, we turn complexity into opportunity.

Our diverse teams of experts combine innovative thinking and breakthrough technologies to progress further, faster. Our clients adapt and transform, and together we achieve enduring results.

We are over 2,600 specialists in consumer, defence and security, energy and utilities, financial services, government, healthcare, life sciences, manufacturing, and transport, travel and logistics. And we operate globally from offices across the Americas, Europe, the Nordics and the Gulf.

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