McKinsey & Company

Brexit: the bigger picture

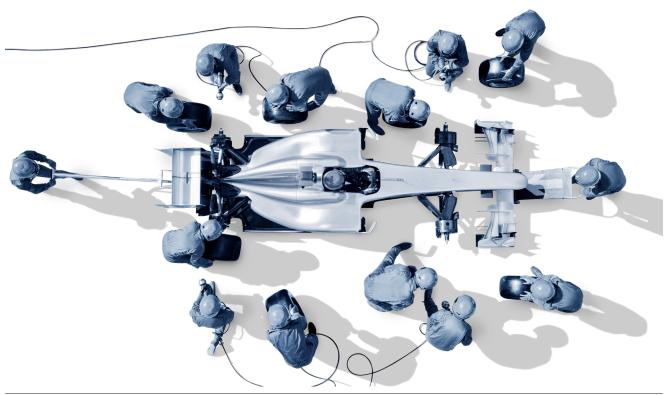# Embracing agility in a volatile world

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Embracing agility in a volatile world

Businesses in the United Kingdom, like their peers the world over, must adapt their strategies and organisations to an environment of volatility, uncertainty and rapid change. The constant advance of technology is disrupting entire industries and ushering in new forms of competition – and empowering both customers and talent to demand more from companies.

– by Tera Allas, Christopher Handscomb and Hamza Khan

Brexit-related uncertainty brings additional pressures for UK firms and heightens their need to stay flexible – a fact underscored in interviews we conducted with executives at about 50 firms across the United Kingdom. As previous articles in this series highlight, the Brexit process has created additional uncertainty in the talent approaches, supply chains and export strategies of UK companies.[1]

In this challenging context, pioneering firms are embarking on bold transformations to build agility into their organisations – and thus create competitive advantage in a volatile world. They are moving away from traditional organisational models based on static, siloed hierarchies to an agile operating model. In this new paradigm, companies define a powerful common purpose and put in place enabling

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[1] *Brexit: The bigger picture - Rethinking talent for the long term,* McKinsey & Company, November 2019; *Brexit: The bigger picture - Rethinking supply chains in a time of uncertainty,* McKinsey & Company, May 2019; *Brexit: The bigger picture - Revitalizing UK exports in the new world of trade,* McKinsey & Company, March 2019.

technology that allows networks of teams to innovate rapidly and co-create new value. The objective is simple: to deliver better outcomes to customers at a faster pace and at lower cost.
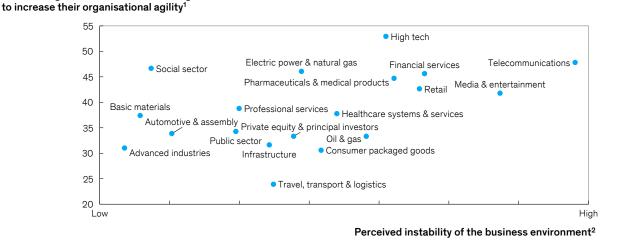
These agile teams are already creating significantly greater financial returns than traditional business units, along with much higher customer engagement and employee satisfaction.[2] That said, agile operating models are still in their early days, and most companies have only begun to experiment with them – if at all. If UK firms are to unlock the full promise of agility, they will need to take several bold steps. These include fostering shared purpose to seize new value-creation opportunities, ramping up the speed of innovation and learning, and investing in next-generation technology.

The urgency of agility – and its rich promise

The greater the volatility and rate of change in a company's operating environment, the more important it is for that firm to embrace agility. In a 2017 McKinsey global executive survey, respondents in sectors facing rapid change were much more likely to have begun agile transformations (Exhibit 1). For example, companies in the high-tech, telecommunications, financial services and media sectors all reported a high degree of instability in their business environments, and many of them said they had already begun large-scale efforts to increase organisational agility.[3] In the same survey, two out of three UK companies polled already had agile transformations under way or planned in specific performance units, and three out of five had such transformations under way or planned across their entire enterprises. But only a handful of companies had completed the shift to agility. While the number has no doubt risen since then, our own conversations with UK business leaders suggest that most companies are still struggling to translate their aspirations for agility into reality. The additional uncertainty and changes to the business environment precipitated by Brexit arguably make agile transformations all the more urgent.

Exhibit 1

The more volatile and uncertain the business environment, the more leaders emphasise organisational agility

Share of organisations that started large-scale efforts to increase their organisational agility[1]

Perceived instability of the business environment[2]

1 Includes respondents who indicated that their organisations are currently undergoing or have finalised an agile organisational transformation.

2 Considers competitiveness, the regulatory environment, fluctuation in customer demand, and technological change.

SOURCE: McKinsey Global Survey: How to Create an Agile Organization, October 2017

2   *The five trademarks of agile organizations*, McKinsey & Company, January 2018.
3   Ibid. *The five trademarks of agile organizations*, January 2018.

"The agile organisation is more than just resilient to pressure and volatility; its performance actually improves in situations of uncertainty."

So, what does agility look like in practice? Unlike the hierarchical, siloed 'machine organisations' of the past century, the agile organisation is more like a living organism: leadership shows direction and provides incentives and resources but teams are empowered to take the initiative, collaborate across silos and quickly create and implement new value-creating solutions. As a result, the agile organisation is more than just resilient to pressure and volatility; its performance actually improves in situations of uncertainty. Indeed, agile organisations have a 70 percent chance of being in the top quartile of organisational health, a powerful indicator of long-term performance.[4]

The design of agile operating models continues to evolve, as do approaches to bring them to scale. But there is already clear evidence of the business value of agility. A global McKinsey executive survey found that 81 percent of respondents in agile units reported a moderate or significant increase in overall performance since embarking on agile transformations. On average, respondents in agile units were 1.5 times more likely than others to report financial outperformance relative to peers, and 1.7 times more likely to report outperforming their peers on non-financial measures such as employee engagement and responsiveness to customer needs.[5]

All in all, companies that adopt agile operational models simultaneously achieve greater customer-centricity, faster time to market, higher revenue growth, lower costs and a more engaged workforce.

Although the focus of this article is on the private sector, we should note that agile principles are equally applicable in the public sector. The British Army is one standout example: its embrace of agile approaches and rapid planning and decision-making provides lessons not only for other public-sector organisations but also for large corporations.[6]

4   Michael Bazigos, Aaron De Smet, and Chris Gagnon, "Why agility pays", The McKinsey Quarterly, December 2015.
5   How to create an agile organization, McKinsey & Company, October 2017.
6   Justin Maciejewski and Rob Theunissen, "How the British Army's operations went agile", The McKinsey Quarterly, October 2019.

Agility in action: how pioneering firms are delighting customers, engaging employees and driving results

McKinsey's recent research and experience points to five fundamental 'trademarks' of agile organisations: strategy guided by a 'North Star' vision embodied across the organisation; a structure built on a network of empowered teams; processes characterised by rapid decision and learning cycles; a dynamic people model that ignites passion; and next-generation technology to enable agility. For each trademark, we have also identified an emerging set of 'agility practices' – the practical actions we have observed organisations taking on their path to agility (Exhibit 2).

Consider two examples of companies that have embraced these trademarks of agility to achieve significant turnarounds in business performance. The first is a UK cinema chain that for years had suffered underinvestment, underperformance and high employee turnover. When a new CEO took the helm, he found a despondent attitude among his team, characterised by the view that 'we only make money when it rains'. To catalyse a turnaround, he introduced a clear 'North Star' vision and purpose: to surprise and delight customers, and care for the company's people. The company flattened its structure to empower local teams, and rejuvenated its people model and talent proposition to draw on its employees' passion for film and to celebrate their diversity.

The cinema chain also unveiled participative processes and simple technologies to encourage employees to dream up, test and implement ideas that would delight customers.

One such idea was for every customer-facing employee to include their favourite movie on their name tag, which prompted warm engagement from customers across the chain. The result of such innovations was a sharp rise in movie attendance, which gave the company the financial headroom to increase salaries, expand its footprint and invest in a new luxury-cinema proposition.

The second example is a global technology company whose UK business was facing fierce competition and seeing its performance come under strain. The company embarked on a far-reaching transformation guided by a vivid 'North Star' vision: rebuilding brand competitiveness, improving customer experience and returning to market-share growth in the United Kingdom. To enable the transformation, the company set the ambition of scaling up an agile operating model across the organisation within two to three years.

Exhibit 2

There are five trademarks of agile organisations

	Trademark	Organisational agility practices	
Strategy	North Star embodied across the organisation	• Shared purpose and vision • Laser focus on customer needs • Sensing and seizing of opportunities	• Flexible resource allocation • Actionable strategic guidance
Structure	Network of empowered teams	• Clear, flat structure • Clear accountable roles • Hands-on governance • Robust communities of practice	• Active partnerships and ecosystem • Open physical and virtual environment • Fit-for-purpose accountable cells
Process	Rapid decision and learning cycles	• Rapid iteration and experimentation • Standardised ways of working • Performance orientation	• Information transparency • Continuous learning • Action-oriented decision making
People	Dynamic people model that ignites passion	• Cohesive community • Shared and servant leadership	• Entrepreneurial drive • Role mobility
Technology	Next-generation-enabling technology	• Evolving technology architecture, systems, and tools	• Next-generation technology development and delivery practices

SOURCE: "How to create an agile organization", McKinsey & Company, October 2017

1.7x

likelihood of agile units outperforming peers on employee engagement and customer responsiveness.

The technology firm reimagined core aspects of its business as part of the move to agility, including bringing together cross-functional teams and enabling them with next-generation technology. These agile teams helped the company take a completely new digital-only youth proposition from concept to launch in six months; this resulted in a significant increase in its share of the youth market.

Agile teams also delivered a new online 'shop' in record time, ensuring seamless integration between online and physical stores. In addition, the company created dedicated agile teams for digital marketing and personalisation of customer offers.[7] They delivered a dramatic increase in the range of tailored offers and experiences to both new and existing customers – an achievement enabled by investment in a robust, stable technology platform to manage the increased traffic volumes. In the first three months of this effort, the company more than doubled online traffic and drove a double-digit increase in conversion rates.

Although this company's agile transformation is still under way, there is already solid evidence that the change is driving improvements in long-term organisational health. Through its agile teams, the company has significantly improved employee satisfaction and productivity – both by encouraging experimentation and by breaking through silos to strengthen collaboration. The company is also much more externally and customer-focused than before, and it is delivering new products and services at a much faster pace.

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7   For a discussion on the value of personalisation in digital marketing, see *Perspectives on personalization at scale,* McKinsey & Company, July 2018.

"Agile teams helped a tech company take a completely new digital-only youth proposition from concept to launch in six months."

Three priorities for UK companies to accelerate agile transformations

How can UK companies embrace the trademarks of agile and deliver a step-change improvement in adaptability, customer and employee engagement and business performance?

They can start by building on their strengths. McKinsey's global survey on agile transformations shows that the typical UK firm has some distinct advantages to build on. One is a high degree of *entrepreneurial drive* – characterised by clear accountability paired with the autonomy and freedom to pursue opportunities. This gives UK firms an advantage in attracting people who are motivated by intrinsic passion for their work.

UK companies are also relatively strong in two key practices that underpin an agile organisational culture – creating a *cohesive community* governed by trust rather than rules, and establishing an *open physical and virtual environment.* What is more, a clear majority of UK firms report strengths in *shared and servant leadership:* their senior managers strive to act not as controllers but as visionaries and coaches who empower people to collaborate and deliver exceptional results.

But UK firms will also need to close several significant gaps. They lag behind their global peers in seizing new opportunities for value creation, driving rapid innovation and adopting the technology needed to enable agility (Exhibit 3). That points to three priorities that should underpin any UK firm's efforts to shape an agile operating model:

1. Foster shared purpose to seize new value-creation opportunities

2. Ramp up the speed of innovation and learning
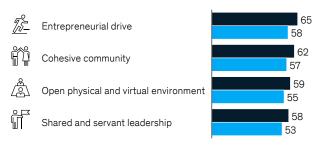
3. Invest in next-generation technology to enable agility

Exhibit 3

UK companies have distinct strengths, but lag behind their global peers in technology, innovation and performance management

Percentage of respondents whose performance units follow given practice

■ UK ■ All other

Where the UK leads

Practice	UK	All other
Entrepreneurial drive	65	58
Cohesive community	62	57
Open physical and virtual environment	59	55
Shared and servant leadership	58	53

Where the UK lags behind

Practice	UK	All other
Performance orientation	44	47
Flexible resource allocation	44	47
Sensing and seizing opportunities	41	44
Continuous learning	40	43
Rapid iteration and experimentation	37	42
Technology, systems and tools	23	28

SOURCE: McKinsey Global Survey: How to Create an Agile Organization, October 2017 – UK findings

Foster shared purpose and seize new opportunities to create value

Brexit-related shifts in UK companies' operating environment can serve as a prompt to reimagine how firms create value for their customers, employees, investors and partners. To empower both employees and external partners to seek out those opportunities, companies need to define a shared purpose and vision – the 'North Star' described above – that helps people feel personally and emotionally invested.

In addition, companies will need to strengthen their practices in two key areas where UK firms lag behind their global peers.

To start with, companies need to enhance their capacity to sense and seize opportunities rapidly – an area where only two in five UK companies currently say they are performing well. That means empowering people across the organisation to watch for, and quickly act upon, changes in market opportunities, customer preferences and the external environment. Companies can redesign key customer journeys from the ground up, identifying new opportunities to serve customers better and deliver 'wow' moments. They can gather customer insights through both formal and informal mechanisms such as online forums and in-person events and by being active participants in the broader start-up ecosystem. Drawing on those insights, companies can move quickly to help shape, pilot, launch and iterate new initiatives and business models.[8] This has the added advantage of creating a motivating environment for employees.

UK companies can also do more to ensure flexible resource allocation and so allow funding and skills to flow swiftly to where they are needed most. That is particularly important in the light of Brexit-related uncertainty in trade, which could persist for years. Leading agile organisations use standardised resource-allocation processes to shift people, technology and capital rapidly between initiatives – out of slowing businesses and into areas of growth. McKinsey research shows that companies that reallocate more than 60 percent of their capital over ten years create 50 percent more value than their counterparts.[9]

Ramp up the speed of innovation and learning

While UK firms have relative strengths in culture-related practices, they trail their global peers in adopting rapid decision and learning cycles, which will be essential to drive innovation and high performance in an increasingly competitive global market-place.

A further key priority for UK firms is therefore to embrace rapid-cycle ways of working, which every level of the organisation can embrace. At the team level, organisations can radically rethink their working model, moving away from 'waterfall' and 'stage gate' project-management approaches. At the enterprise level, they can use the rapid-cycle model to accelerate strategic thinking and execution. For example, rather than traditional annual planning, budgeting and review, some organisations are moving to quarterly cycles, dynamic management systems like Objectives and Key Results (OKRs) and rolling 12-month budgets.

UK companies lag behind their global peers in several key characteristics of the rapid-cycle model and have opportunities to improve in all of them.

Firstly, companies can ramp up their use of rapid iteration and experimentation. They can empower their teams to produce a minimal viable product or deliverable very quickly, often in two- or three-week 'sprints'. During these short activity bursts, the team holds frequent check-ins to share progress, solve problems, and ensure alignment. Between sprints, team members meet to review progress to date and set the goal for the next sprint.

Secondly, UK companies can strengthen their performance orientation – a hallmark of agile organisations. They can explore new performance- and consequence-management approaches based on shared goals across the end-to-end work of a specific process or service, and measure business impact rather than activity. These processes will need to be informed by performance dialogues comprising very frequent formal and informal feedback and open discussions of performance against the target.

Thirdly, companies can seek to make continuous learning an ongoing, constant part of their DNA. That means ensuring that every employee can freely learn from their own and others' successes and failures, and build on the new knowledge and capabilities they develop in their roles. It might also mean taking a more proactive approach to up-skilling and reskilling employees as the nature of their work evolves.

23%

of UK executives surveyed said their organisations had adopted the technology needed to drive agility.

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8 This recommendation, and those that follow, draw heavily on our previous article *The five trademarks of agile organizations*, McKinsey & Company, January 2018.
9 Chris Bradley, Martin Hirt, and Sven Smit, *Strategy beyond the hockey stick: People, probabilities, and big moves to beat the odds,* Wiley, 2018.

Invest in next-generation technology to enable agility

For many UK companies, a radical rethinking of their organisational model will require a rethinking of the technologies underlying and enabling their products and processes, as well as the technology practices needed to support speed and flexibility. Many companies will need to ensure that their traditional products and services are digitised or digitally-enabled. And they will need to evolve their operating processes continually and rapidly, which in turn will require them to evolve technology architecture, systems and tools.
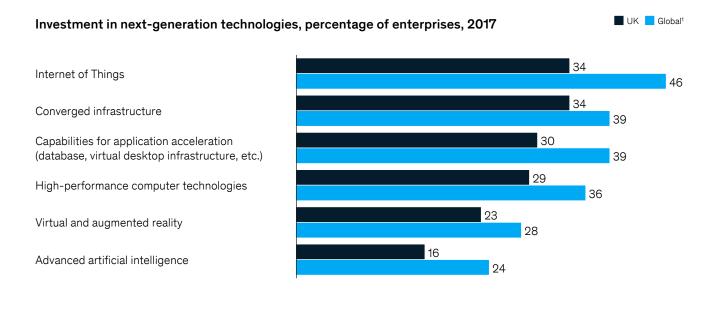
Unfortunately, this is an area where UK companies trail their global peers – pointing to a potential Achilles heel

in their future competitiveness. Only 23 percent of the UK executives we surveyed said their organisations had adopted the technology needed to drive agility.

These findings accord with McKinsey research on UK productivity (Exhibit 4). This showed that UK firms face gaps in the digitisation of core business processes such as customer-relationship management and supply-chain management, and in investment in next-generation technologies like the Internet of Things, advanced artificial intelligence and robotics adoption. These aspects of digitisation are important for improving both agility and productivity: they involve redesigning and transforming processes or entire businesses and are likely to

result in significant performance improvements.[10]

To close these gaps, UK companies will need to begin by harnessing new, real-time communication and work-management tools. Implementing modular-based software architecture will enable teams to effectively use technologies that other units have developed. The technology that companies adopt should progressively incorporate new technical innovations like containers, micro-service architectures, and cloud-based storage and services. Above all, companies will need to put in place processes that enable their functional experts to work together to deliver new systems so that, by the time those systems are implemented, they correspond to business needs.

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[10] *Solving the United Kingdom's productivity puzzle in a digital age,* McKinsey & Company, September 2018.

Exhibit 4

The United Kingdom has gaps in value-chain integration of digital technologies and lags behind in terms of investment in several next-generation technologies

Investment in next-generation technologies, percentage of enterprises, 2017

■ UK ■ Global[1]

Technology	UK	Global
Internet of Things	34	46
Converged infrastructure	34	39
Capabilities for application acceleration (database, virtual desktop infrastructure, etc.)	30	39
High-performance computer technologies	29	36
Virtual and augmented reality	23	28
Advanced artificial intelligence	16	24

Conclusion

The uncertainty and flux embodied in Brexit means that UK companies need to be even more prepared than their peers in other countries to embrace agility, strengthen their customer focus and look for new opportunities for value creation. As things stand, most companies are still a long way off from building agility into their organisations.

Worryingly, there is evidence that UK companies are behind firms in the rest of the world on key aspects of agility, including rapid innovation and technology adoption. That threatens to hamper the competitiveness of UK firms in world markets. Yet pioneering UK companies in several sectors are successfully adopting agility – and turbo-charging it in key parts of the business. While Brexit might be an additional spur for such companies, their agile transformations are rooted in a broader commitment to speed, adaptability and greater competitiveness. That points to exciting opportunities for firms across the United Kingdom to embrace agile practices and to inspire employees, delight customers, and deliver better results now and in the future.

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