

# The five trademarks of agile organizations

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Agile organizations—of any size and across industries—have five key elements in common.

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*This article was written collaboratively by the McKinsey Agile Tribe, a group of over 50 global colleagues bringing expertise from the digital, operations, marketing, and organization disciplines. They integrate their deep experience and thought leadership to extract the best from McKinsey’s global experience as it helps organizations transform themselves into agile organizations.*

**Our experience and research** demonstrate that successful agile organizations consistently exhibit the five trademarks described in this article. The trademarks include a network of teams within a people-centered culture that operates in rapid learning and fast decision cycles which are enabled by technology, and a common purpose that co-creates value for all stakeholders. These trademarks complement the findings from [“How to create an agile organization.”](#)

## The old paradigm: Organizations as machines

A view of the world—a paradigm—will endure until it cannot explain new evidence. The paradigm must then shift to include that new information. We are now seeing a paradigm shift in the ways that organizations balance stability and dynamism.

First, the old paradigm. In 1910, the Ford Motor Company was one of many small automobile manufacturers. A decade later, Ford had 60 percent market share of the new automobile market worldwide. Ford reduced assembly time per vehicle from 12 hours to 90 minutes, and the price from \$850 to \$300, while also paying employees competitive rates.<sup>[1]</sup>

Ford's ideas, and those of his contemporary, Frederick Taylor, issued from scientific management, a breakthrough insight that optimized labor productivity using the scientific method; it opened an era of unprecedented effectiveness and efficiency. Taylor's ideas prefigured modern quality control, total-quality management, and—through Taylor's student Henry Gantt—project management.

Gareth Morgan describes Taylorist organizations such as Ford as hierarchical and specialized—depicting them as machines.<sup>[2]</sup> For decades, organizations that embraced this machine model and the principles of scientific management dominated their markets, outperformed other organizations, and drew the best talent. From Taylor on, 1911 to 2011 was “the management century.”

## Disruptive trends challenging the old paradigm

Now, we find the machine paradigm shifting in the face of the organizational challenges brought by the “digital revolution” that is transforming industries, economies, and societies. This is expressed in four current trends:

- *Quickly evolving environment.* All stakeholders' demand patterns are evolving rapidly: customers, partners, and regulators have pressing needs; investors are demanding growth, which results in acquisitions and restructuring; and competitors and collaborators demand action to accommodate fast-changing priorities.
- *Constant introduction of disruptive technology.* Established businesses and industries are being commoditized or replaced through digitization, bioscience advancements, the innovative use of new models, and automation. Examples include developments such as machine learning, the Internet of Things, and robotics.
- *Accelerating digitization and democratization of information.* The increased volume, transparency, and distribution of information require organizations to rapidly engage in multidirectional communication and complex collaboration with customers, partners, and colleagues.

- *The new war for talent.* As creative knowledge- and learning-based tasks become more important, organizations need a distinctive value proposition to acquire—and retain—the best talent, which is often more diverse. These “learning workers” often have more diverse origins, thoughts, composition, and experience and may have different desires (for example, millennials).

When machine organizations have tried to engage with the new environment, it has not worked out well for many. A very small number of companies have thrived over time; fewer than 10 percent of the non-financial S&P 500 companies in 1983 remained in the S&P 500 in 2013. From what we have observed, machine organizations also experience constant internal churn. According to our research with 1,900 executives, they are adapting their strategy (and their organizational structure) with greater frequency than in the past. Eighty-two percent of them went through a redesign in the last three years. However, most of these redesign efforts fail—only 23 percent were implemented successfully.<sup>[3]</sup>

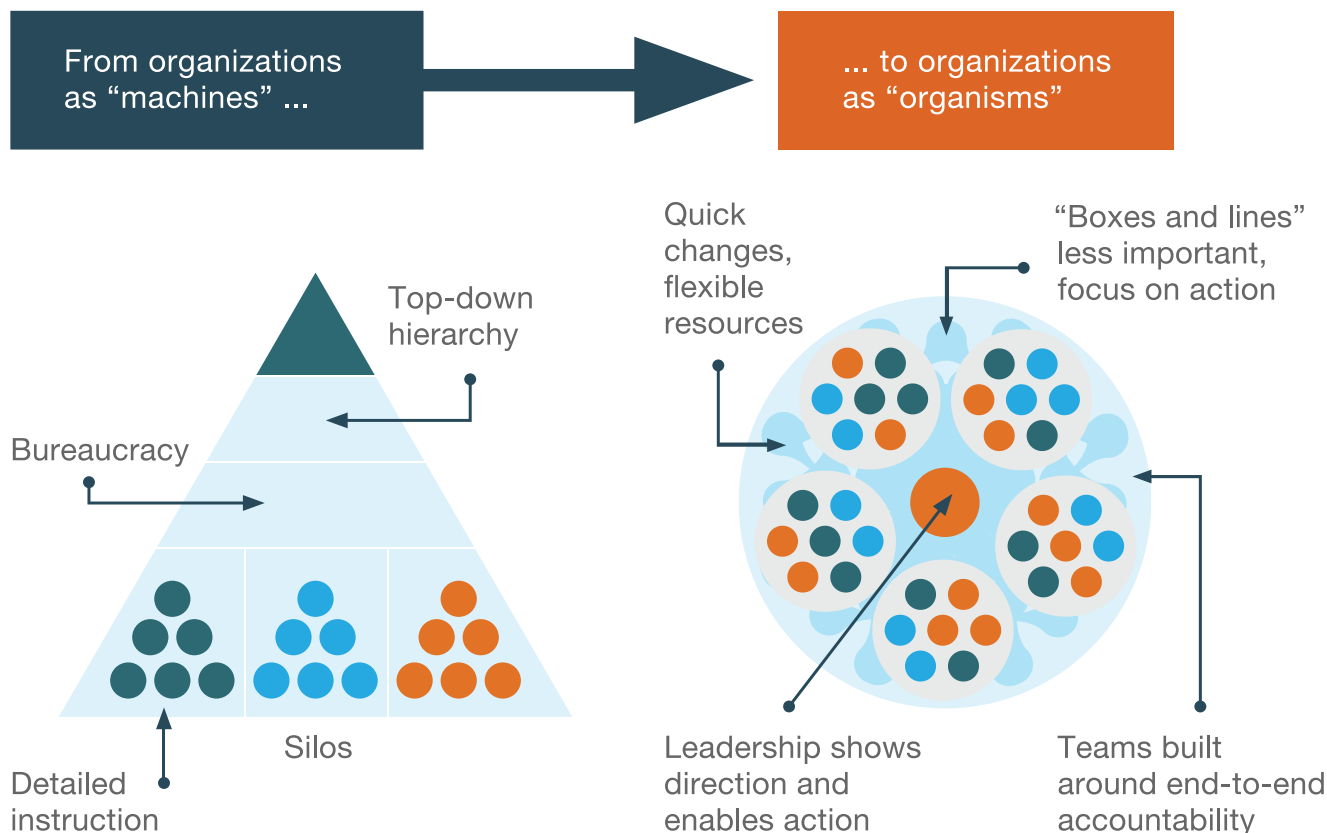
## The new paradigm: Organizations as living organisms

The trends described above are dramatically changing how organizations and employees work. What, then, will be the dominant organizational paradigm for the next 100 years? How will companies balance stability and dynamism? Moreover, which companies will dominate their market and attract the best talent?

Our article “[Agility: It rhymes with stability](#)” describes the paradigm that achieves this balance and the paradox that truly agile organizations master—they are both stable and dynamic at the same time. They design stable backbone elements that evolve slowly and support dynamic capabilities that can adapt quickly to new challenges and opportunities. A smartphone serves as a helpful analogy; the physical device acts as a stable platform for myriad dynamic applications, providing each user with a unique and useful tool. Finally, agile organizations mobilize quickly, are nimble, empowered to act, and make it easy to act. In short, they respond like a living organism (Exhibit 1).

The agile organization is dawning as the new dominant organizational paradigm.

Rather than organization as machine, the agile organization is a living organism



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When pressure is applied, the agile organization reacts by being more than just robust; performance actually improves as more pressure is exerted.<sup>[4]</sup> Research shows that agile organizations have a 70 percent chance of being in the top quartile of organizational health, the best indicator of long-term performance.<sup>[5]</sup> Moreover, such companies simultaneously achieve greater customer centricity, faster time to market, higher revenue growth, lower costs, and a more engaged workforce:

- A global electronics enterprise delivered \$250 million in EBITDA, and 20 percent share price increase over three years by adopting an agile operating model with its education-to-employment teams.
- A global bank reduced its cost base by about 30 percent while significantly improving employee engagement, customer satisfaction, and time to market.






- A basic-materials company fostered continuous improvement among manual workers, leading to a 25 percent increase in effectiveness and a 60 percent decrease in injuries.

As a result agility, while still in its early days, is catching fire. This was confirmed in a recent *McKinsey Quarterly* survey report of 2,500 business leaders.<sup>[6]</sup> According to the results, few companies have achieved organization-wide agility but many have already started pursuing it in performance units. For instance, nearly one-quarter of performance units are agile. The remaining performance units in companies lack dynamism, stability, or both.

However, while less than ten percent of respondents have completed an agility transformation at the company or performance-unit level, most companies have much higher aspirations for the future. Three-quarters of respondents say organizational agility is a top or top-three priority, and nearly 40 percent are currently conducting an organizational-agility transformation. High tech, telecom, financial services, and media and entertainment appear to be leading the pack with the greatest number of organizations undertaking agility transformations. More than half of the respondents who have not begun agile transformations say they have plans in the works to begin one. Finally, respondents in all sectors believe that more of their employees should undertake agile ways of working (on average, respondents believe 68 percent of their companies' employees should be working in agile ways, compared with the 44 percent of employees who currently do).

The rest of this article describes the five fundamental “trademarks” of agile organizations based on our recent experience and research. Companies that aspire to build an agile organization can set their sights on these trademarks as concrete markers of their progress. For each trademark, we have also identified an emerging set of “agility practices”—the practical actions we have observed organizations taking on their path to agility (Exhibit 2).

There are five trademarks of agile organizations.

	Trademark		Organizational-agility practices <sup>1</sup>
<b>Strategy</b>	North Star embodied across the organization		<ul style="list-style-type: none"> <li>• Shared purpose and vision</li> <li>• Sensing and seizing opportunities</li> <li>• Flexible resource allocation</li> <li>• Actionable strategic guidance</li> </ul>
<b>Structure</b>	Network of empowered teams		<ul style="list-style-type: none"> <li>• Clear, flat structure</li> <li>• Clear accountable roles</li> <li>• Hands-on governance</li> <li>• Robust communities of practice</li> <li>• Active partnerships and ecosystem</li> <li>• Open physical and virtual environment</li> <li>• Fit-for-purpose accountable cells</li> </ul>
<b>Process</b>	Rapid decision and learning cycles		<ul style="list-style-type: none"> <li>• Rapid iteration and experimentation</li> <li>• Standardized ways of working</li> <li>• Performance orientation</li> <li>• Information transparency</li> <li>• Continuous learning</li> <li>• Action-oriented decision making</li> </ul>
<b>People</b>	Dynamic people model that ignites passion		<ul style="list-style-type: none"> <li>• Cohesive community</li> <li>• Shared and servant leadership</li> <li>• Entrepreneurial drive</li> <li>• Role mobility</li> </ul>
<b>Technology</b>	Next-generation enabling technology		<ul style="list-style-type: none"> <li>• Evolving technology architecture, systems, and tools</li> <li>• Next-generation technology development and delivery practices</li> </ul>

<sup>1</sup>The 5 trademarks include 23 practices for organizational agility; 18 are based on survey research. Five additional practices are included that have emerged from recent experiences with large global companies transforming into agile organizations.

While each trademark has intrinsic value, our experience and research show that true agility comes only when all five are in place and working together. They describe the organic system that enables organizational agility. Linking across them, we find a set of fundamental shifts in the mind-sets of the people in these organizations. Make these shifts and, we believe, any organization can implement these trademarks in all or part of its operations, as appropriate.

# 1. North Star embodied across the organization

## Mind-set shift

**From:** *“In an environment of scarcity, we succeed by capturing value from competitors, customers, and suppliers for our shareholders.”*

**To:** *“Recognizing the abundance of opportunities and resources available to us, we succeed by co-creating value with and for all of our stakeholders.”*

Agile organizations reimagine both whom they create value for, and how they do so. They are intensely customer-focused, and seek to meet diverse needs across the entire customer life cycle. Further, they are committed to creating value with and for a wide range of stakeholders (for example, employees, investors, partners, and communities).

To meet the continually evolving needs of all their stakeholders, agile organizations design distributed, flexible approaches to creating value, frequently integrating external partners directly into the value creation system. Examples emerge across many industries, including: modular products and solutions in manufacturing; [agile supply chains](#) in distribution; distributed energy grids in power; and platform businesses like Uber, Airbnb, and Upwork. These modular, innovative business models enable both stability and unprecedented variety and customization.

To give coherence and focus to their distributed value creation models, agile organizations set a *shared purpose and vision*—the “North Star”—for the organization that helps people feel personally and emotionally invested. This North Star serves as a reference when customers choose where to buy, employees decide where to work, and partners decide where to engage. Companies like Amazon, Gore, Patagonia, and Virgin put stakeholder focus at the heart of their North Star and, in turn, at the heart of the way they create value.

Agile organizations that combine a deeply embedded North Star with a flexible, distributed approach to value creation can rapidly *sense and seize opportunities*. People across the organization individually and proactively watch for changes in customer preferences and the external environment and act upon them. They seek stakeholder feedback and input in a range of ways (for example, product reviews, crowd sourcing, and hackathons). They use tools like [customer journey maps](#) to identify new opportunities to serve customers better, and gather customer insights through both formal and informal mechanisms (for example, online forums, in-person events, and start-up incubators) that help shape, pilot, launch, and iterate on new initiatives and business models.

These companies can also allocate resources flexibly and swiftly to where they are needed most. Companies like Google, Haier, Tesla, and Whole Foods constantly scan the environment. They regularly evaluate the progress of initiatives and decide whether to ramp them up or shut them down, using standardized, fast resource-allocation processes to shift people, technology, and capital rapidly between initiatives, out of slowing businesses, and into areas of growth. These processes resemble venture capitalist models that use clear metrics to allocate resources to initiatives for specified periods and are subject to regular review.

Senior leaders of agile organizations play an integrating role across these distributed systems, bringing coherence and providing clear, *actionable, strategic guidance* around priorities and the outcomes expected at the system and team levels. They also ensure everyone is focused on delivering tangible value to customers and all other stakeholders by providing frequent feedback and coaching that enables people to work autonomously toward team outcomes.

## 2. Network of empowered teams

### Mind-set shift

**From:** *“People need to be directed and managed, otherwise they won’t know what to do—and they’ll just look out for themselves. There will be chaos.”*

**To:** *“When given clear responsibility and authority, people will be highly engaged, will take care of each other, will figure out ingenious solutions, and will deliver exceptional results.”*

Agile organizations maintain a stable top-level structure, but replace much of the remaining traditional hierarchy with a flexible, scalable network of teams. Networks are a natural way to organize efforts because they balance individual freedom with collective coordination. To build agile organizations, leaders need to



understand human networks (business and social), how to design and build them, how to collaborate across them, and how to nurture and sustain them.

An agile organization comprises a dense network of empowered teams that operate with high standards of alignment, accountability, expertise, transparency, and collaboration. The company must also have a stable ecosystem in place to ensure that these teams are able to operate effectively. Agile organizations like Gore, [ING](#), and Spotify focus on several elements:

- Implement *clear, flat structures* that reflect and support the way in which the organization creates value. For example, teams can be clustered into focused performance groups (for example, “tribes,” or a “lattice”) that share a common mission. These groups vary in size, typically with a maximum of 150 people. This number reflects both practical experience and Dunbar’s research on the number of people with whom one can maintain personal relationships and effectively collaborate.<sup>[7]</sup> The number of teams within each group can be adapted or scaled to meet changing needs.
- Ensure *clear, accountable roles* so that people can interact across the organization and focus on getting work done, rather than lose time and energy because of unclear or duplicated roles, or the need to wait for manager approvals. Here, people proactively and immediately address any lack of clarity about roles with one another, and treat roles and people as separate entities; in other words, roles can be shared and people can have multiple roles.
- Foster *hands-on governance* where cross-team performance management and decision rights are pushed to the edge of boundaries.<sup>[8]</sup> It is at this interaction point that decisions are made as close to relevant teams as possible, in highly-productive, limited-membership coordinating forums. This frees senior leaders to focus on overall system design and provide guidance and support to responsible, empowered teams that focus on day-to-day activities.
- Evolve functions to become *robust communities of knowledge and practice* as professional “homes” for people, with responsibilities for attracting and developing talent, sharing knowledge and experience, and providing stability and continuity over time as people rotate between different operating teams.
- Create *active partnerships and an ecosystem* that extends internal networks and creates meaningful relationships with an extensive external network so the organization can access the best talent and ideas, generate insights, and co-develop new products, services, and/or solutions. In agile

organizations, people work hands-on and day-to-day with customers, vendors, academics, government entities, and other partners in existing and complementary industries to co-develop new products, services, and/or solutions and bring them to market.

- Design and create *open physical and virtual environments* that empower people to do their jobs most effectively in the environment that is most conducive to them. These environments offer opportunities to foster transparency, communication, collaboration, and serendipitous encounters between teams and units across the organization.

Like the cells in an organism, the basic building blocks of agile organizations are small *fit-for-purpose performance cells*. Compared with machine models, these performance cells typically have greater autonomy and accountability, are more multidisciplinary, are more quickly assembled (and dissolved), and are more clearly focused on specific value-creating activities and performance outcomes. They can be comprised of groups of individuals working on a shared task (i.e., teams) or networks of individuals working separately, but in a coordinated way. Identifying what type of performance cells to create is like building with Lego blocks. The various types (Exhibit 3) can be combined to create multiple tailored approaches.

There are different types of agile building blocks.

Agile blocks	Description	Nature of work	Process
1. <b>Cross-functional teams</b>	<p>Coordination among product owners on priority and vision; coordination across teams on how to deliver</p> <p>Teams composed of different functional expertise and from different levels of the organization</p>	Typically team-based, connected, and integrated	Product development, product launch
2. <b>Self-managing teams</b>	<p>Stable teams define their ways of working and are jointly accountable for end-to-end performance against key performance indicators</p>	Typically team-based, stand-alone, repetitive	Customer services, sales, manufacturing
3. <b>“Flow to work” pools</b>	<p>Pool of individuals staffed to different tasks full-time, based on priority of needs; tasks can vary from hours to months</p>	Typically individual, stand-alone, repetitive	Corporate services, (HR, legal, etc)

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The three most commonly observed agile types of performance cell today include:

- *Cross-functional teams* deliver ‘products’ or projects, which ensure that the knowledge and skills to deliver desired outcomes reside within the team. These teams typically include a product or project owner to define the vision and prioritize work.
- *Self-managing teams* deliver baseload activity and are relatively stable over time. The teams define the best way to reach goals, prioritize activities, and focus their effort. Different team members will lead the group based on their competence rather than on their position.
- *Flow-to-the-work pools* of individuals are staffed to different tasks full-time based on the priority of the need. This work method can enhance efficiencies, enable people to build broader skillsets, and ensure that business priorities are adequately resourced.

However, other models are continuously emerging through experimentation and adaptation.

# 3. Rapid decision and learning cycles

## Mind-set shift

**From:** *“To deliver the right outcome, the most senior and experienced individuals must define where we’re going, the detailed plans needed to get there, and how to minimize risk along the way.”*

**To:** *“We live in a constantly evolving environment and cannot know exactly what the future holds. The best way to minimize risk and succeed is to embrace uncertainty and be the quickest and most productive in trying new things.”*

Agile organizations work in rapid cycles of thinking and doing that are closely aligned to their process of creativity and accomplishment. Whether it deploys these as design thinking, lean operations, agile development, or other forms, this integration and continual rapid iteration of thinking, doing, and learning forms the organization’s ability to innovate and operate in an agile way.

This rapid-cycle way of working can affect every level. At the team level, agile organizations radically rethink the working model, moving away from “waterfall” and “stage gate” project-management approaches. At the enterprise level, they use the rapid-cycle model to accelerate strategic thinking and execution. For example, rather than traditional annual planning, budgeting, and review, some organizations are moving to quarterly cycles, dynamic management systems like Objectives and Key Results (OKRs), and rolling 12-month budgets.

The impact of this operational model can be significant. For example, a global bank closed its project-management office and shifted its product-management organization from a traditional waterfall approach to a minimal viable product-based process. It moved from four major release cycles a year to several thousand-product changes monthly; it simultaneously increased product development, deployment, and maintenance productivity by more than 30 percent.

There are several characteristics of the rapid cycle model:

- Agile organizations focus on *rapid iteration and experimentation*. Teams produce a single primary deliverable (that is, a minimal viable product or deliverable) very quickly, often in one- or two-week “sprints.” During these short activity bursts, the team holds frequent, often daily, check-ins to share progress, solve problems, and ensure alignment. Between sprints, team members meet to review and plan, to discuss progress to date, and to set the goal for the next sprint. To accomplish this, team members must be accountable for the end-to-end outcome of their work. They are empowered to seek

direct stakeholder input to ensure the product serves all the needs of a group of customers and to manage all the steps in an operational process. Following this structured approach to innovation saves time, reduces rework, creates opportunities for creative “leapfrog” solutions, and increases the sense of ownership, accountability, and accomplishment within the team.

- Agile organizations leverage *standardized ways of working* to facilitate interaction and communication between teams, including the use of common language, processes, meeting formats, social-networking or digital technologies, and dedicated, in-person time, where teams work together for all or part of each week in the sprint. For example, under General Stanley McChrystal, the US military deployed a series of standardized ways of working between teams including joint leadership calls, daily all-hands briefings, collective online databases, and short-term deployments and co-location of people from different units. This approach enables rapid iteration, input, and creativity in a way that fragmented and segmented working does not.
- Agile organizations are *performance-oriented* by nature. They 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 are informed by performance dialogues comprised of very frequent formal and informal feedback and open discussions of performance against the target.
- Working in rapid cycles requires that agile organizations insist on full *transparency of information*, so that every team can quickly and easily access the information they need and share information with others. For example, people across the unit can access unfiltered data on its products, customers, and finances. People can easily find and collaborate with others in the organization that have relevant knowledge or similar interests, openly sharing ideas and the results of their work. This also requires team members to be open and transparent with one another; only then can the organization create an environment of psychological safety where all issues can be raised and discussed and where everyone has a voice.
- Agile organizations seek to make *continuous learning* an ongoing, constant part of their DNA. Everyone can freely learn from their own and others’ successes and failures, and build on the new knowledge and capabilities they develop in their roles. This environment fosters ongoing learning and adjustments, which help deliverables evolve rapidly. People also spend dedicated time looking for ways to improve business processes and ways of working, which continuously improves business performance.

- Agile organizations emphasize *quick, efficient, and continuous decision making*, preferring 70 percent probability now versus 100 percent certainty later. They have insight into the types of decisions they are making and who should be involved in those decisions.<sup>[9]</sup> Rather than big bets that are few and far between, they continuously make small decisions as part of rapid cycles, quickly test these in practice, and adjust them as needed for the next iteration. This also means agile organizations do not seek consensus decisions; all team members provide input (in advance if they will be absent), the perspectives of team members with the deepest topical expertise are given greater weight, and other team members, including leaders, learn to “disagree and commit” to enable the team to move forward.

## 4. Dynamic people model that ignites passion

### Mind-set shift

**From:** *“To achieve desired outcomes, leaders need to control and direct work by constantly specifying tasks and steering the work of employees.”*

**To:** *“Effective leaders empower employees to take full ownership, confident they will drive the organization toward fulfilling its purpose and vision.”*

An agile organizational culture puts people at the center, which engages and empowers everyone in the organization. They can then create value quickly, collaboratively, and effectively.

Organizations that have done this well have invested in leadership which empowers and develops its people, a strong community which supports and grows the culture, and the underlying people processes which foster the entrepreneurship and skill building needed for agility to occur.

Leadership in agile organizations serves the people in the organization, empowering and developing them.

Rather than planners, directors, and controllers, they become visionaries, architects, and coaches that empower the people with the most relevant competencies so these can lead, collaborate, and deliver exceptional results. Such leaders are catalysts that motivate people to act in team-oriented ways, and to become involved in making the strategic and organizational decisions that will affect them and their work. We call this *shared and servant leadership*.

Agile organizations create a *cohesive community* with a common culture. Cultural norms are reinforced through positive peer behavior and influence in a high-trust environment, rather than through rules, processes, or hierarchy. This extends to recruitment. Zappos, the online shoe retailer acquired by Amazon

changed its recruiting to support the selection of people that fit its culture—even paying employees \$4,000 to leave during their onboarding if they did not fit.<sup>[10]</sup>

People processes help sustain the culture, including clear accountability paired with the autonomy and freedom to pursue opportunities, and the ongoing chance to have new experiences. Employees in agile organizations exhibit *entrepreneurial drive*, taking ownership of team goals, decisions, and performance. For example, people proactively identify and pursue opportunities to develop new initiatives, knowledge, and skills in their daily work. Agile organizations attract people who are motivated by intrinsic passion for their work and who aim for excellence.

In addition, talent development in an agile model is about building new capabilities through varied experiences. Agile organizations allow and expect *role mobility*, where employees move regularly (both horizontally and vertically) between roles and teams, based on their personal-development goals. An open talent marketplace supports this by providing information on available roles, tasks, and/or projects as well as people's interests, capabilities, and development goals.

## 5. Next-generation enabling technology

### Mind-set shift

**From:** *“Technology is a supporting capability that delivers specific services, platforms, or tools to the rest of the organization as defined by priorities, resourcing, and budget.”*

**To:** *“Technology is seamlessly integrated and core to every aspect of the organization as a means to unlock value and enable quick reactions to business and stakeholder needs.”*

For many organizations, such a radical rethinking of the organizational model requires a rethinking of the technologies underlying and enabling their products and processes, as well as the technology practices needed to support speed and flexibility.

Agile organizations will need to provide products and services that can meet changing customer and competitive conditions. Traditional products and services will likely need to be digitized or digitally-enabled.

Operating processes will also have to continually and rapidly evolve, which will require *evolving technology architecture, systems, and tools*.

Organizations will need to begin by leveraging new, real-time communication and work-management tools.

Implementing modular-based software architecture enables teams to effectively use technologies that other units have developed. This minimizes handovers and interdependencies that can slow down production cycles. Technology should progressively incorporate new technical innovations like containers, micro-service architectures, and cloud-based storage and services.

In order to design, build, implement, and support these new technologies, agile organizations integrate a range of *next-generation technology development and delivery practices* into the business. Business and technology employees form cross-functional teams, accountable for developing, testing, deploying, and maintaining new products and processes. They use hackathons, crowd sourcing, and virtual collaboration spaces to understand customer needs and develop possible solutions quickly. Extensive use of automated testing and deployment enables lean, seamless, and continuous software releases to the market (for example, every two weeks vs. every six months). Within IT, different disciplines work closely together (for example, IT development and operations teams collaborate on streamlined, handover-free DevOps practices).

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In summary, today's environment is pressing organizations to become more agile; in response, a new organizational form is emerging that exhibits the five trademarks discussed above. In aggregate, these trademarks enable organizations to balance stability and dynamism and thrive in an era of unprecedented opportunity.

The next question is how to get there? In a rapidly changing commercial and social environment, some organizations are born agile, some achieve agility, and some have agility thrust upon them. To learn more about how to begin the journey towards an agile transformation, stay tuned for another paper in the dynamic Agile Organization series, "The journey to an agile organization."

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