

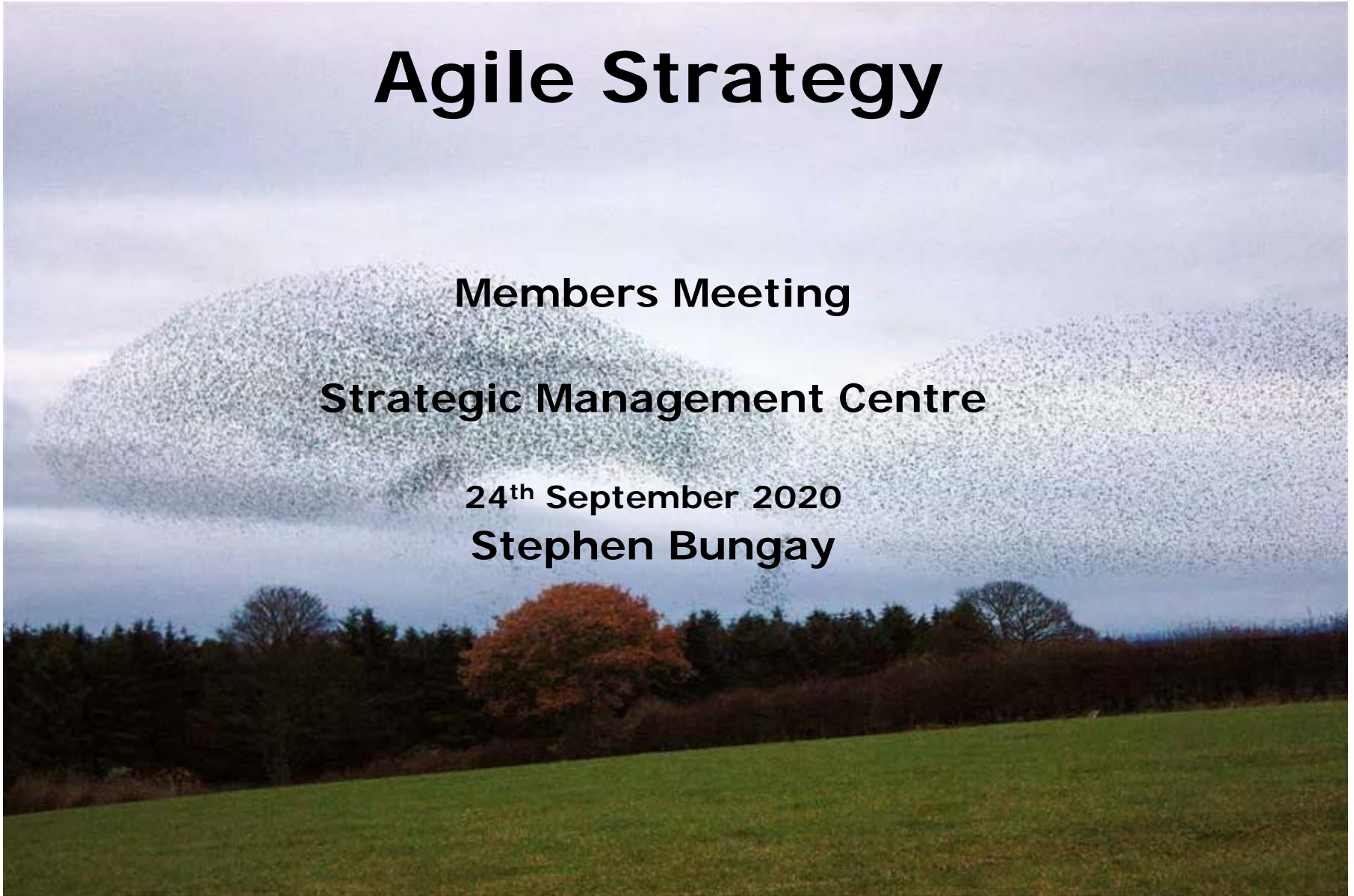
Agile Strategy

Members Meeting

Strategic Management Centre

24th September 2020

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Why agile?

What does 'agile' mean?

1. agile *adjective* (PHYSICALLY)

able to move your body quickly and easily:

Monkeys are very agile climbers.

You need to have agile fingers to do this kind of work.

2. agile *adjective* (MENTALLY)

able to think quickly and clearly:

For a man of 80, he has a remarkably agile mind.

3. agile *adjective* (MANAGEMENT)

used for describing ways of planning and doing work in which it is understood that making changes as they are needed is an important part of the job

The origins of agile practices

- Given the poor record of software development, some developers experimented with new 'lightweight' methods in the 1990's
 - Small, independent cross functional teams
 - Close interaction with users
 - Lean methods to minimise WIP
 - Continuous improvement from Kanban
 - Rapid releases and iteration
- Traditional 'waterfall' is predictive and based on 'plan and execute'
- Agile is adaptive and based on 'test and learn'
- Adopted a new vocabulary for organisation (squads') and processes ('sprints')

The Agile Manifesto, 2001

- Twelve principles:
 - Early and continuous delivery of software
 - Harness change for the customer's competitive advantage
 - Deliver working software frequently
 - Business people and developers work together
 - Give motivated individuals the environment and support they need, and trust them to get the job done
 - Convey information through face-to-face conversations
 - Working software is the primary measure of progress
 - Promote sustainable development that can maintain a constant pace indefinitely
 - Pay attention to technical excellence
 - Simplicity – the art of maximising the amount of work not done – is essential
 - The best designs emerge from self-organising teams
 - Teams should periodically reflect on how to become more effective

Agile spreads to management practices

- Spotify founded 2006 as a digital native committed to adopting agile principles for all product development
- Spotify also introduces management practices based on agile
 - Structure: tribes, chapters, squads
 - Processes: DIBBS,
- In 2011 Eric Reis publishes 'Lean Startup'
 - Recommends agile approach to managing a startup
 - Popularises term 'minimal viable product'
 - Introduces idea of a 'pivot' - a change in direction – as a critical strategic decision

2010-2020: agile and smart working spread across the business community

- Thousands of agile consulting practices and coaches
- McKinsey, Bain and BCG all have agile practices
- Many corporates are trying to adopt agile working practices

Does it work?: 2019/20 'Status Quo Agile Survey'

2019 survey of 650 companies (vs 300 in 2012) across a wide range of industries: 26% <250 employees, 26% 250-2,500, 45% >2,500

75% of users deploy agile selectively

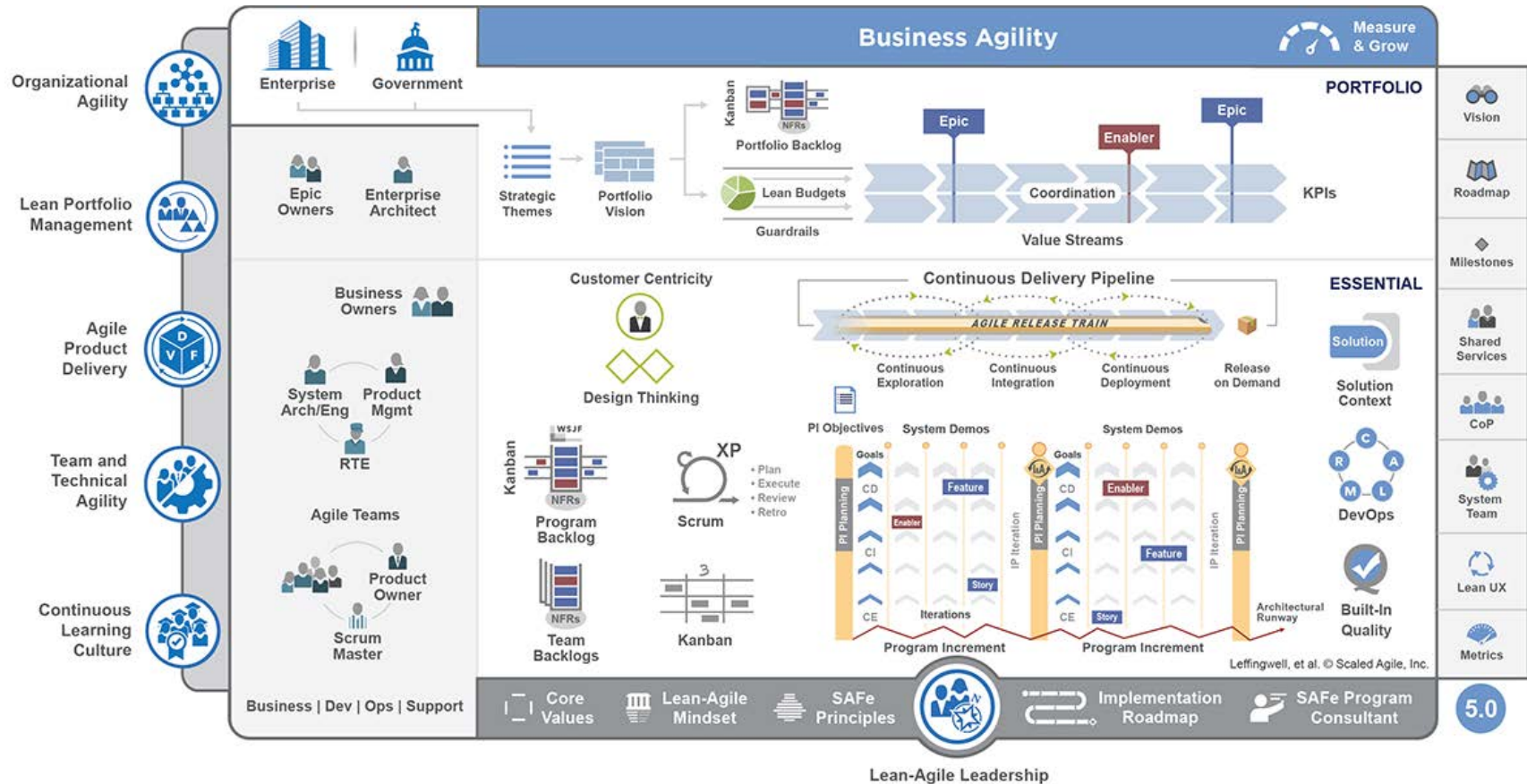
75% deploy agile in software development, 52% in IT, 58% in non-IT areas

Main motivations are increasing speed to market (56%), improving quality (39%) and reducing risk (38%)

85% report improvements in efficiency and results vs classic approaches

34% use scaling techniques and 74% of those report improvements

A methodology for scaling agility: SAFe 5.0



Claims to have coaches at 70% of Fortune 500 companies
Most commonly used scaling approach in Status Quo survey (54%)

Coronavirus has now put 'agility' firmly onto the C-suite agenda

'Agile, smart working will become part of normal life'

'Using SAFe (Scaled Agile Framework) agile methods 5.0, remote has proven very effective'

'Specifics cannot be foreseen and adaptability in the moment are critical'

'This has shown we do not need all the signatures that we normally insist on.'

'We are focussing on the transition from smart working to smart leadership'

Quotes from CEO's: ADLPRISM Special Report
'Leading Businesses Through the COVID-19 Crisis', April 2020

McKinsey identify greater speed as the most pressing reason for change in the post-Covid era

In a survey of 853 companies the most common reasons for change were cited as:

1. speed
2. productivity
3. cost reduction

Companies of above average speed (self-assessed) outperform others in terms of innovation, growth and financial performance

Biggest barriers to speed are judged to be:

1. silos (61%)
2. slow decision-making (42%)
3. lack of strategic clarity (31%)
4. rigid policies (25%)
5. formal hierarchy (24%)

'The Need for Speed in the Post-Covid 19 Era, and How to Achieve It'
in McKinsey Quarterly September 2020

The potential value of agile operations

- Greater speed to market
- Operational gains in productivity
- Ability to adapt and respond without disruption

Question:

could agility be valuable at the level of strategy?

What could an agile strategy be?

Should strategy be agile?

- Is 'agile strategy' an oxymoron?
 - Strategy is about the fundamentals of competition
 - Fundamentals do not change often
 - Many successful strategies are followed for years
 - Maintenance of the aim is a principle of strategy
- However, calls for 'agile strategy' are growing louder
 - Agility and speed are no use without direction
 - The strategic environment can change quickly
 - In a VUCA environment even corporates may need to 'pivot'
 - Strategy should not be a hostage to internal processes
 - Senior executives want to be able to re-position their businesses at speed

Some corporates are deploying agile at scale and encountering challenges

- Most choose a hybrid or selective model because
 - Of the framework conditions – 74%
 - Radical change would be overwhelming for management – 41%
 - Otherwise changes would be unenforceable – 37%
 - We need an intermediate step – 28%
- The most important challenges are
 - Internal processes – 62%
 - Top management – 59%
 - Team – 54%
 - Middle management – 54%
 - Internal environment (other departments etc.) – 50%

Objectives and Key Results (OKR's) are becoming a popular tool for creating alignment

OKR's try to give people problems to solve

- A move away from giving them things to do
- Intended to define outcomes to achieve

Are ideally introduced at every level

- And should connect higher and lower level goals
- All of which ought to be driven by the strategy

'Objectives' are defined as 'what we want to do' vs 'what we want to achieve' – actions vs outcomes

'Key Results' are a mix of measures and milestones

Some criticisms of OKR's from practitioners

No method for deciding which objectives matter

They turn into a to-do list

They proliferate and so lack focus

They involve a lot of effort for not much traction

They create stress

Emphasis is on 'control' not 'command'

They do not encourage learning

Scaling agile does not result in agile strategy

The many tools and methodologies originate in software development processes, not strategy

Agile coaches understand processes but not strategy

Most parts of the organisation using agile methods are innovation processes, often in software and IT, and depend on having a user or customer – unlike strategy

Benefits are mainly speed to market, quality, and employee motivation, not the quality of the strategy

Despite talk of agile leadership, senior managers do not know what it is

Not many people – including the consulting firms - understand what strategy is

Spotify is a digital native espousing agility at the level of strategy



- Set of company beliefs is written down and subject to annual review
- Beliefs drive 'North Star Goals'
- North Star Goals are translated into 2-year goals
- Achievement of 2-year goals is realised by placing 10-12 project 'bets' - product (now) solution exploration (next) and problem exploration (later)
- Bets are 'stacked' according to priority reviewed every quarter
- Failure of bets can lead to review of 2-year goals which can lead to review of North Star Goals and finally Company Beliefs

Company beliefs are questioned and can change


- Examples of company beliefs:
 - 'It's a marathon, not a sprint'
 - 'Whoever learns fastest wins'
 - 'Go big or go home'
- One company belief since 2008 was 'Music streaming will be dominated by one winner'
 - Implied a scaling imperative, translated into 'driving number of users' as a 'North Star Goal'
- Changed in 2018: 'Music streaming will be dominated by two to three players'
 - Translates into North Star Goals around segmentation and bets around specialised apps

Specific beliefs are developed bottom-up using the DIBBs model

DIBBs - Definition

Data Insights Beliefs Bets (DIBB)

Data: Qualitative or quantitative information that informs a perspective. This should not be interpretation. 

Insights: What is your interpretation of the data? What have you learned? 

Metric: What does success look like? 

Beliefs: Based on that interpretation, which beliefs have you formed about the problem space you are working in? 

Bets: Based on your beliefs, what are the bets you believe we should make? 

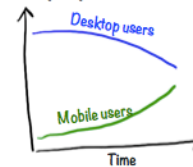
DIBBs - Example

DIBB – an argument framework

Example:
(Something like this happened a few years ago)

Data ⇒ **Insight** ⇒ **Belief** ⇒ **Bet**

How people listen to music



Mobile is overtaking desktop as primary music gadget!

WTF we're optimized for the wrong thing!

Hire a bunch of mobile devs

We have very few mobile devs compared to desktop

For long term survival, we need to become mobile-first

Train a bunch of our desktop devs into mobile devs

How we're staffed

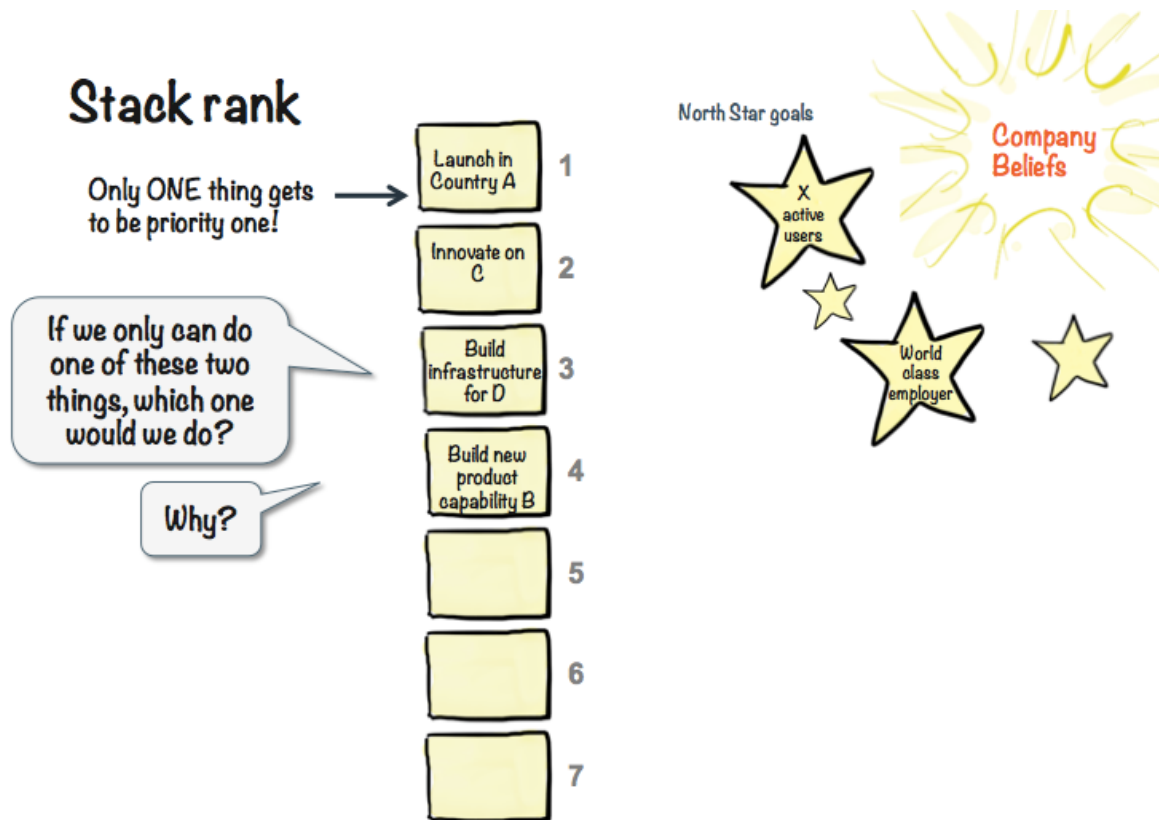


Build infrastructure for iterating fast on mobile

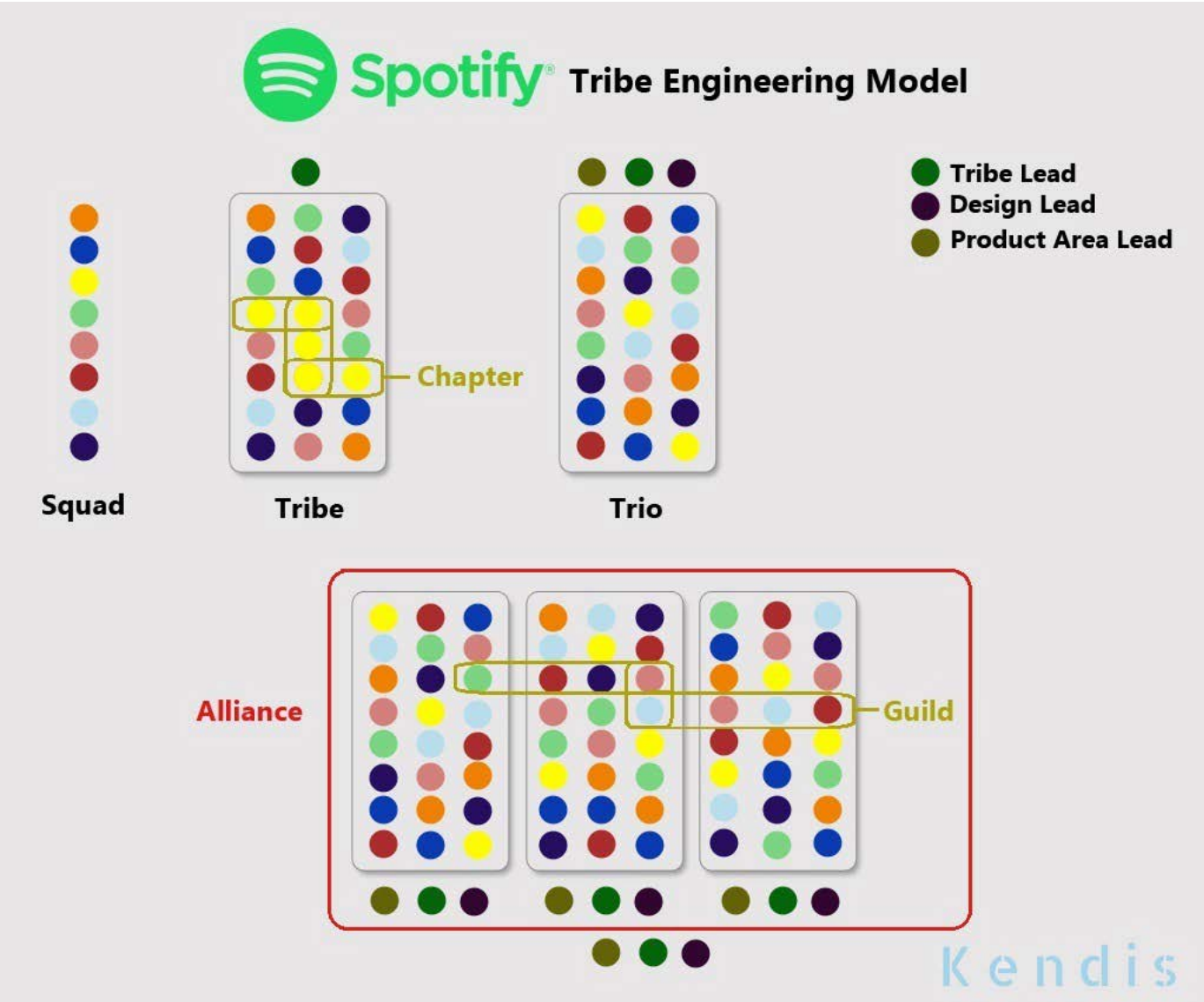
Feedback loop



North Star goals based on Company Beliefs drive stack ranking



Spotify's organisation structure



The bottles are new – how old is the wine?

- Squads = small cross functional teams
- Tribes = task forces (teams of teams with common goals)
- Chapters = functions or practice groups
- Guilds = communities of practice
- Trio = task force covering design, product and task force leader
- Alliance = three trios

Factors other than structure allow Spotify to quickly and easily adapt to a new state

- Critical factors are
 - Mindset and skills (culture)
 - Widespread use of agile coaches as change agents
 - Goal setting process
 - Ability to think strategically whilst acting operationally
 - Ability to conceptualise the organisation as an organism not a machine
 - Ability to achieve high alignment and high autonomy

The potential value of agile strategy?

- Rapid, non-disruptive response to changes in the competitive environment
- Ability to change focus rapidly without disruption
- Maintaining alignment through changes in direction

Requirements of an agile strategy

Agile thinking

- Conceiving of strategy as a nested set of heuristics to guide decisions
- Execution as a sequence of decisions informed by the heuristics
- Each decision designed to optimise action based on the current situation
- Strategy development and execution become a distinction without a difference – just a question of level

Agile operations

- Distributed decisions rights and clear accountabilities
- Strategy conceived of as a set of decision-making frameworks nested in each other enabling rapid decision-making
- Adapting actions at a low level is routine to maintain a steady course
- Changing direction should be unusual but not disruptive - by changing the high-level decision making framework

Agile thinking is useless unless the organisation can respond
Agile operations are of limited value unless strategy can adapt to change fast

Question

- Are you currently adopting agile practices?
- If so, what benefits are you experiencing?
- If not, would making your strategy more agile be of value?

Strategy: Agile thinking

Developing a strategic framework to enable agile decision making: principles

- 1. Set direction as a compass heading based on sets of testable beliefs about fundamentals**
- 2. Formulate strategy as a multi-level set of decision-making frameworks nested in each other**
- 3. In deciding on specific actions, optimise decisions for robustness**
- 4. Make course adjustments and changes in stance according to an appropriate operating rhythm**

Example of a set of beliefs defining the compass heading (sanitised excerpts)

Context

We are living in times of great uncertainty and financial cycles have become deeper. In this environment, we must work to make the company robust enough to withstand any financial shocks

Intent

- **To revitalise the practices of sound business practice and customer service**
- **in order to strengthen our ability to create long term value.**

The direction in which we intend to head is based on the following beliefs:

Trust in corporations has eroded

Therefore

- We will put ethics before profit
- And not push products which will cause problems for our customers

/cont.

In the current environment revenue from standard transactions will decline

Therefore

- We will seek to build long-term relationships with existing customers and grow with their needs
- And not compromise our risk profile or pursue rapid growth in customer segments of which we have no experience

We need to continually build our brand and reputation among all stakeholders

Therefore

- We will ensure consistent messaging about our aims, strategy and policy both inside and outside the organisation
- And not change our communication of them unless and until we change our aims or strategy

We intend to remain an independent company

Therefore

- We will try to attract shareholders who seek long term value creation
- And not the ones who trade for immediate gains

A set of decision-making frameworks nested in each other: example of boiler manufacturer

Company level

Optimise service to the installer
in order to
Achieve market leadership within 5 years

Marketing Department

Improve product literature
in order to
Optimise service to the installer

R&D Department

Ensure new range of condenser
boilers is easy to maintain
in order to
Optimise service to the installer

Marketing Assistant

Commission industrial designer
in order to
Improve product literature

Engineering Design

Position inspection panel in
new range of boilers
in order to
Facilitate boiler maintenance

Optimise decisions for robustness

When probabilities are known, maximise expected utility

When probabilities are unknown, satisfice expected utility and ask:

- 1. 'What will be a good enough outcome?'**
- 2. 'Of all the options that will produce a satisfactory outcome, which one does so under the widest range of possible futures?'**
- 3. 'Where are we vulnerable?' and 'what can we do to avoid the vulnerability being exposed?'**

Avoid what could kill you by asking 'where are we vulnerable?'



'I'm a functional paranoid – I have the unhappy life of having to spend 98% of my time worried about the 2% worst contingencies.'

Lloyd Blankfein, CEO, Goldman Sachs, *Business Insider*
June 11 2014

Goldman vulnerability analysis, December 2006

1. What are our fundamental objectives?

Provide investment banking services

2. What are the critical capabilities we need to achieve those objectives?

Risk management, underwriting, investment

3. What are the requirements of those capabilities?

Strong balance sheet, reputation for expertise

4. How could those requirements be disrupted?

Over-exposure to a single asset class regardless of risk profile

5. What could expose that vulnerability?

Subprime market getting hit hard

6. How can we protect against exposure?

Hedge, move inventory, lay-off positions

Review your stance through the operating rhythm



The analytical approach

The apprehensive crouch

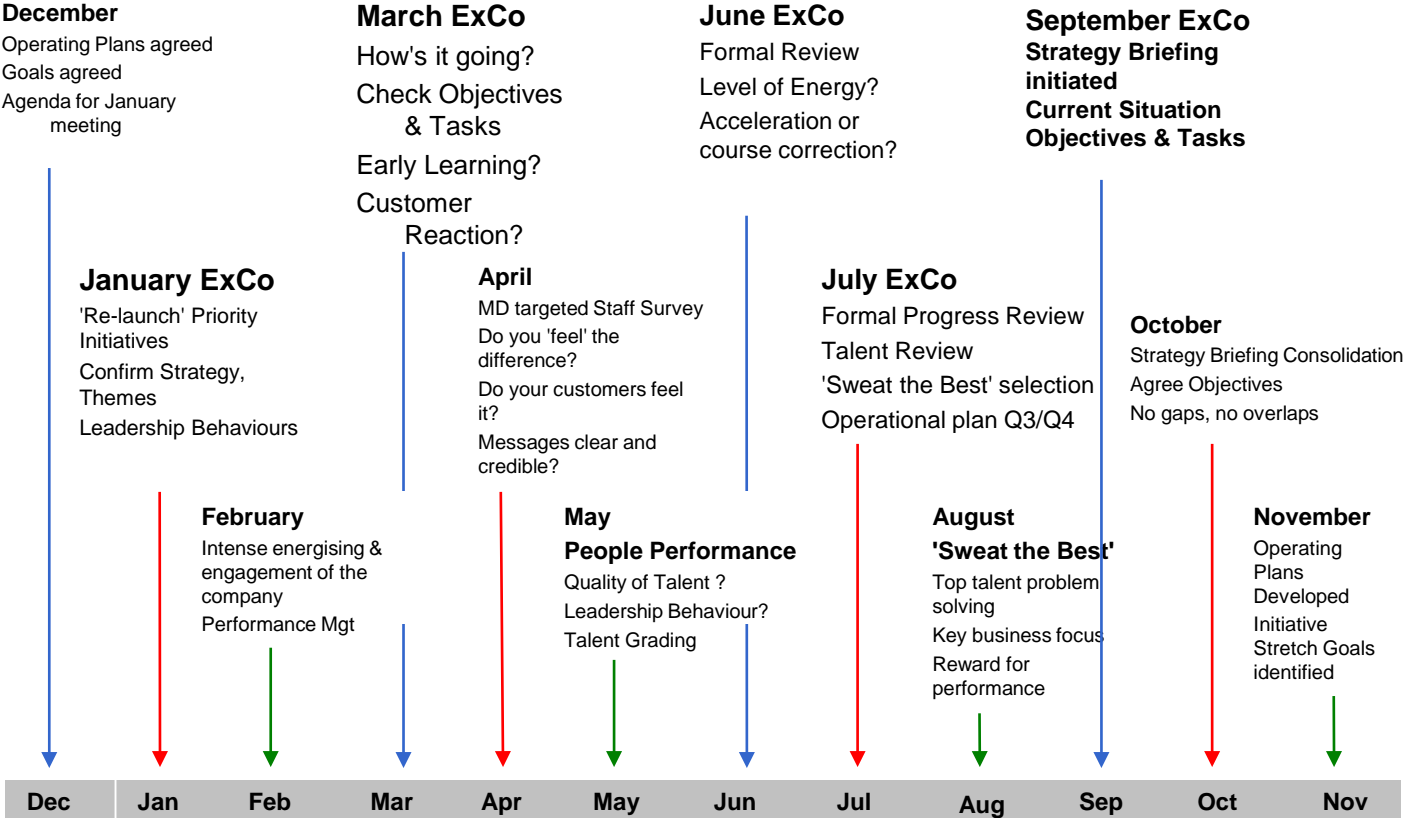
The crouching tiger

The bold shaper

The experimenter

The committed player

Operating rhythm: Key question is 'has the situation changed?'

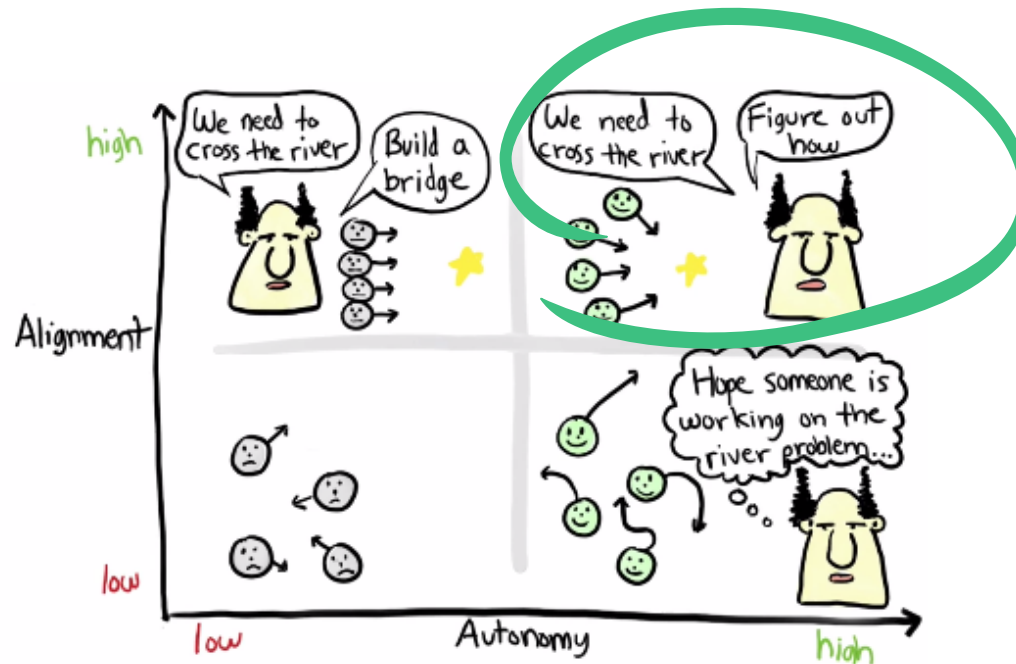


Acting: agile operations

Agile operations demand high alignment and high autonomy

'Command and control' leadership; teams not empowered to decide how to solve problems

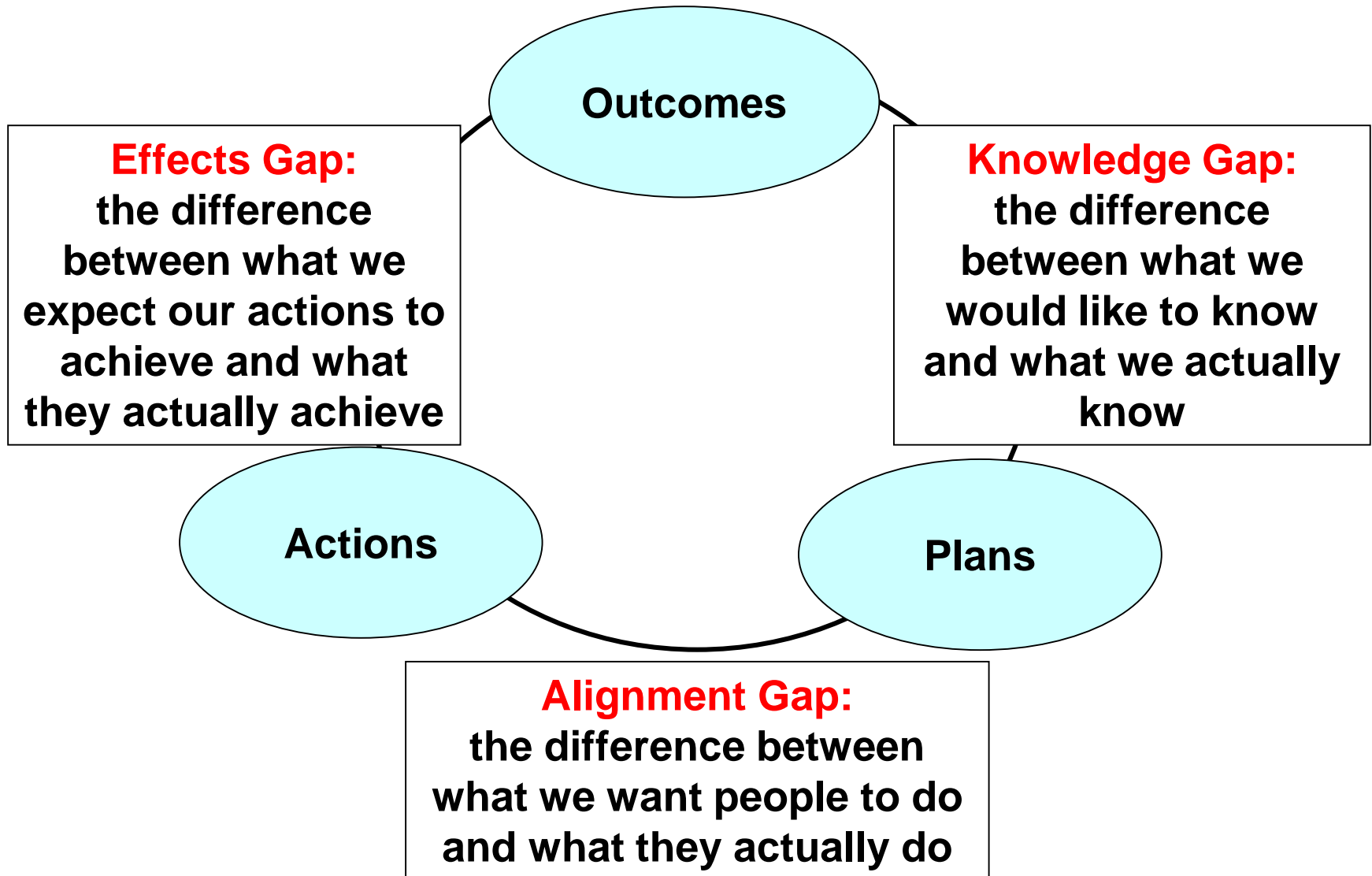
Leadership does not provide consistent direction or empower teams to solve problems



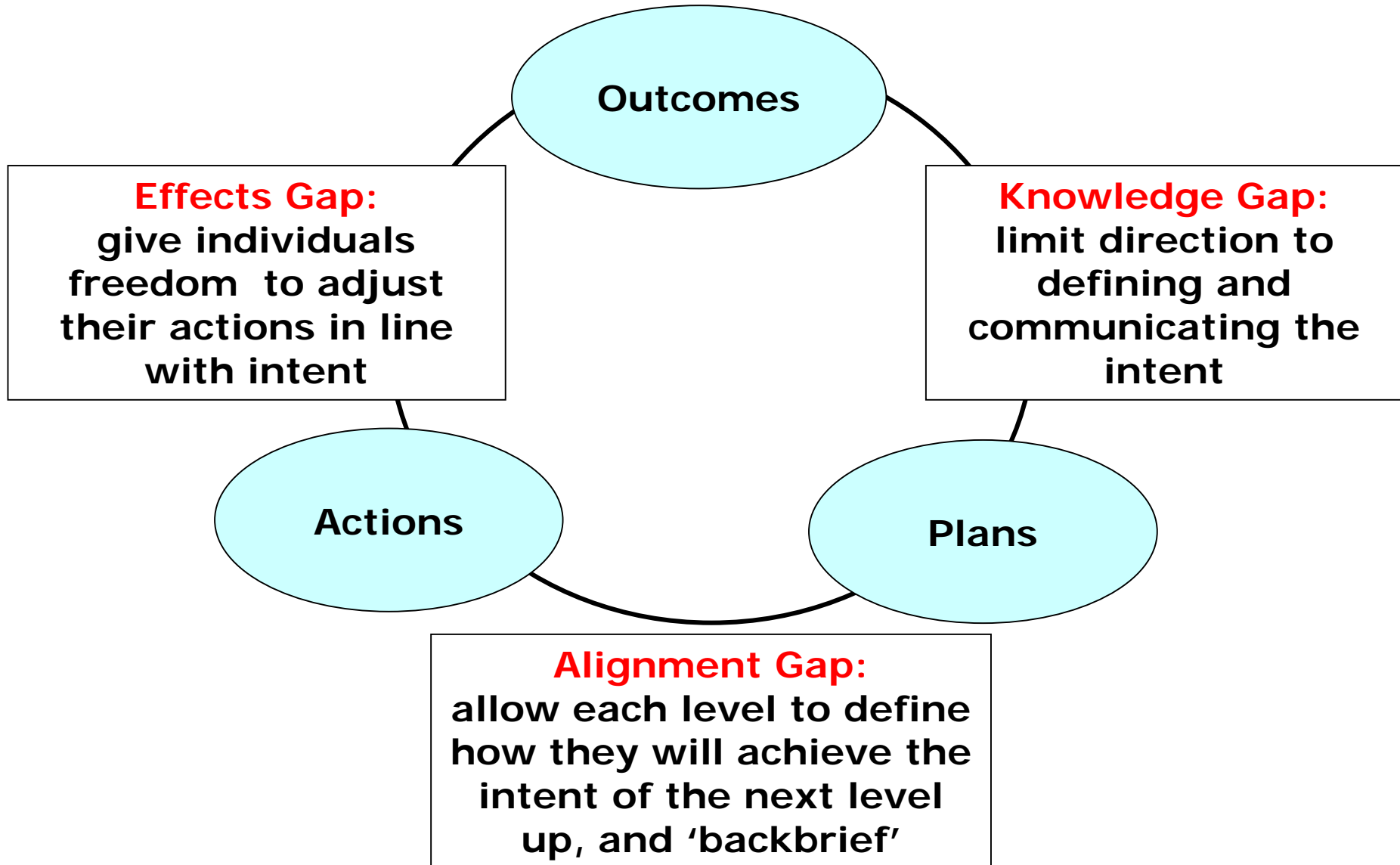
Leadership defines purpose and sets goals; empowers teams to decide how best to achieve them

Leadership empowers teams, but gives inadequate direction for teams to achieve goals

Translating strategy into operations implies addressing three critical gaps



The system of solutions: leading through intent



Strategy briefing is the foundation of alignment

1. The context

- internal
- external

2. Higher intent

- one and two levels above

3. My intent – our part in the plan

- what and why
- measures

4. Implied tasks

- responsibilities to assign to realise my intent
- main effort

5. Defining the boundaries

- freedoms and constraints

Create common shared understanding through briefing and backbriefing

- This is what I have heard
 - Is that correct?
- This is what I intend to do as a result
 - Is that OK?
- Here are some questions I have
 - I need you to clarify these before I get going
- These are my interdependencies and this is the support I will need

Cultural norms

Lead through directives

Think two levels up, task one level down

Take a decision that is about right - now

Always support your colleagues

Always act in line with intent

Sins of omission are worse than errors in the choice of means

Culture

‘Independent thinking obedience’

Intent = task + purpose

Intent + situation = decision

Results

Working on common shared understanding creates high alignment across functions as well as up and down

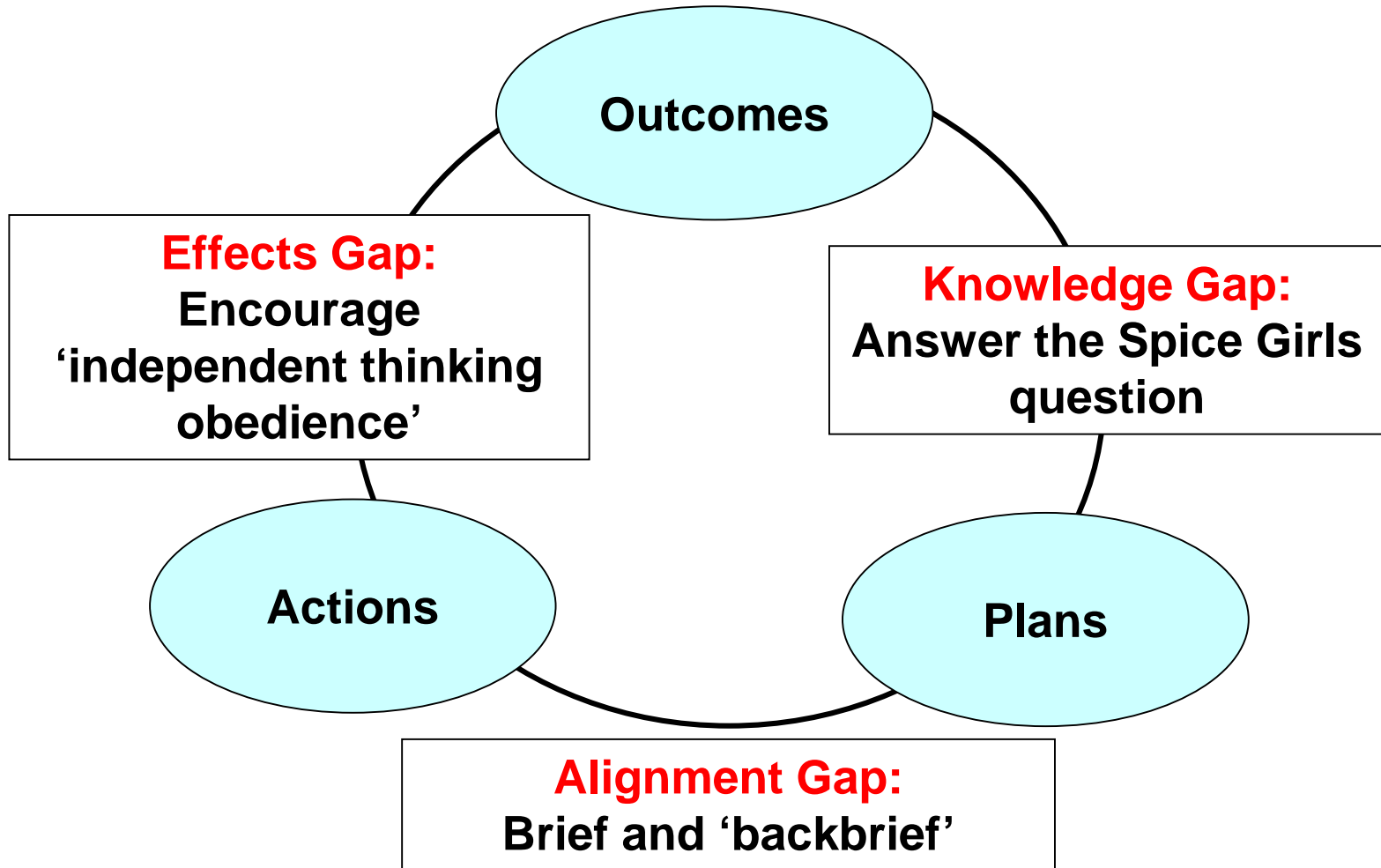
Decision making speeds up

Coherence and focus increase

Innovation is facilitated

Course adjustments can be carried out without creating a new plan

Leading through intent



Final 'round the (virtual) table' comments

- Does this describe what an 'agile' strategy could be?
- Can you imagine adopting some or all of the practices?
- What are the biggest barriers to doing so?