Strategic Management Center

Virtual Members Meeting

24th September 2020

Minutes of Meeting

In attendance:

Glen Browse	Talbot
Tom Ford	Rolls Royce
Gavin Jackson	Babcock
Nick Lawson	BP
Philip Meyers	ABF
Stein Rasmussen	SBM Offshore
Patrick Scherrer	Helvetica
Ben Slater	BP
Paul Titcombe	Atkins

From the Strategic Management Center:

Stephen Bungay
Jo Whitehead

Stephen Bungay: Agile Strategy

The theme of agility is now on the agenda of many companies, but it is far from clear what 'agility' means, particularly at the level of strategy. The purpose of this meeting was to explore what an agile strategy could be, and to offer a way of understanding it in terms of the work ASMC has done on strategy execution and uncertainty.

The dictionary definition of 'agile' distinguishes two things:

1. Moving quickly and easily
2. Thinking quickly and clearly

These two meanings offer a way of structuring an approach to agile strategy which was developed in the course of the discussion.

Stephen briefly reviewed the history of agile practices. They go back to the 1990's and have their origins in software development, as a test and learn approach drawing on processes from lean and kanban. The practitioners introduced a new vocabulary of 'sprints' and 'scrums'. There are different methodologies, but all aspire to realise the principles of the Agile Manifesto which was made public in 2001.

Over the next decade, an agile movement began to form, and agile principles began to be applied outside software development. Eric Ries' influential book *Lean Startup* of 2011 applied some of them to a startup company as a whole. It popularised the idea of a strategic 'pivot' resulting from experimental testing of an original 'minimal viable product'. This was the first real articulation of the idea that a whole company developing something new should be able to change direction quickly and easily.

Since 2010 interest has grown rapidly, with the formation of hundreds of small consulting practices offering 'agile coaching' services. Today, all the major consulting firms also have agile practice groups and many corporates are trying to introduce agile practices, most of them to selected processes.

The movement has also become the object of regular academic study. The latest *'Status Quo Agile Survey'* produced by this year by the Hochschule Koblenz shows that the main motivations for introducing agile practices are to improve speed to market, raise quality, and reduce risk, in that order. The objective of being able to change direction quickly and easily does not seem to be a priority.

As corporates have got interested, so the challenges of achieving agile at scale have received attention. There are specific methodologies for doing this, the best known of which is called SAFe (Scaled Agile Framework), now in version 5.0.

A recent study by McKinsey (summarized in *McKinsey Quarterly*, September 2020) also identified a desire for greater speed as the most common reason given by corporates for introducing agile practices, followed by increasing productivity and cost reduction. Agile practices challenge traditional ones, so it is no surprise that the biggest barriers cited were things that agile is designed to overcome: silos, slow decision making, rigid policies, and formal hierarchy. Interestingly, a third of respondents also cited lack of strategic clarity. Agile practices will not in themselves bring clarity to strategy – they just are a new way of running processes, mainly ones connected with innovation. However, it is not surprising that lack of strategic clarity will prevent the full benefits of agile practices from being realized, as this would be the case with any operational improvements.

At this point, Stephen asked the group what experiences they had had with agile practices:

1. One member commented that they had used techniques such as "sprints" in the development of the strategy. They involved up to 30 people, which was a lot more than usual. Diverse groups were given tasks to work on

with a time limit of 1-2 hours and the results were judged by a jury. It went pretty well. The results were more creative, which was helped by the time limit, and the process was more fun. Similar techniques are used across the company.

2. Agile became a real point of focus at another member company about 18 months ago. They have hundreds of trained agile coaches. 100 people were trained up in one event using a Lego game. Using agile has become one of their corporate values. They have a digital start up and it has been used not only by IT people, but by their heavy engineering teams. They tried using agile methods in their strategy team for business development with a coach from the digital team. This was a mixed success. The past momentum has now died off a bit. They have struggled to make scrums different from a normal workshop.

3. Another member company has used sprints and hackathons to drive to conclusions in quick time. It works when there is a specific problem, sometimes involving clients.

Another company had also used the "Lego Serious Play" methodology to develop a new purpose for the company, using 20 groups in workshop. The outcome was mixed, but it was an agile approach.

The question is whether agility can have value at the level of strategy. Stephen introduced this by asking: 'What could an agile strategy be?'

Should strategy be agile at all? After all, strategy is about the fundamentals of a business, and the fundamentals do not change often. Changing strategy all the time could be nothing more than vacillation, undermining confidence and preventing the organization from building the capabilities needed to exploit opportunities.

However, with the experience of Covid-19, calls for 'strategic agility' are growing louder. Executives found themselves confronted with an unexpected, sudden and radical change in the environment. In the face of that, many needed to re-position their businesses at speed, and were held back by established processes. Some needed to 'pivot', but found the experience painful. And even those using agile practices discovered that speed and adaptability are no use without direction.

According to the *'Status Quo Agile Survey',* Corporates deploying agile at scale are finding the biggest sources of challenge to be from internal processes (62%), senior management (59%), middle management (54%) and the internal environment (50%). This suggests that being able to act in an agile way is dependent on being able to think in an agile way.

The Dutch bank ING is often cited as a case of a large, established corporation that is modelling what agile could be at the level of strategy. ING introduced hundreds of agile teams at the corporate centre in 2015, primarily in order to digitise and simplify processes. There was a lot of process standardisation, the product range was cut by 30-50% and the number of people doing routine tasks was halved. This improved motivation but created potential rather than actual agility. Introducing agile practices on this scale was disruptive. There was a loss of momentum for 6 months and alignment was a serious problem.

One technique for achieving alignment that has become widespread within the agile community is the use of Objectives and Key Results or OKR's. Intel and Google have promoted these and as a result they have become popular. The idea is to give people problems to solve rather than things to do, to focus on outcomes rather than just a set of actions, and connect higher and lower level goals.

However, objectives are defined as "what we want to do" rather than "what we want to achieve" – so they are in fact not outcomes but actions. Stephen has spoken to a number of practitioners who have tried to put OKR's in place, and criticism seems to outweigh the praise. There tends to be a lack of focus and direction with long to-do lists. They involve a lot of effort with limited traction.

The alignment issue remains. OKR's may be a way of articulating goals, but they do not help people to set good goals or to develop a robust strategy.

Simply scaling agile practices by using large numbers of agile teams does not result in agile strategy either. Strategy lacks some core elements of the processes to which agile practices are applied. Agile works by delivering a product to a customer rapidly and then re-iterating, based on their feedback. But strategy is not a product and has no customer. Simply introducing agile practices at scale is not going to make strategy agile. An agile strategy could be one based on an iterative, 'test and learn' approach rather than the traditional 'plan-implement' approach, but that would mean adopting agile *principles* rather than agile *practices.*

The most cited example of a digital native built on agile principles is the Swedish music streaming company Spotify. They have popularised a new organizational language. Their smallest operating units are called 'squads', which are grouped together to form 'tribes' and 'chapters' and so on. Stephen is of the opinion that however new these bottles are, the wine in them is old: squads are small cross-functional teams, tribes are product departments and chapters are functional practice groups. McKinsey and BCG have been doing this since the 1980's. Indeed, not even the bottles are really new – only the labels.

The really novel thing about Spotify is not the way they organise, but their approach to strategy development and execution. It has nothing to do with scrums and sprints, but about developing and testing beliefs, which converge in a top-down and bottom-up process which it calls the Spotify Rhythm:

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

At the highest level, company beliefs (such as 'it's a marathon not a sprint', or 'whoever learns fastest wins') generate a set of 'North Star' goals which are then translated into 2-year goals and turned into action by placing a set of 10-12 'bets', which are projects. Potential 'bets' are generated bottom-up in a process called DIBBs, in which 'data' (usually derived from experience at the user interface) yields 'insights', which inform 'beliefs' that then result in bets. Bets are ranked in a 'stack' which is itself informed by the North Star goals and resource allocation decisions are made.

An example of the DIBB process might be:

Data – the number of mobile users is growing as desktop usage declines

Insight – mobile will overtake desktop as a source of music

Belief – for long-term survival we need to become mobile-first

Bet – hire mobile developers, re-train desktop developers

This results in what might be called an agile strategy because it allows Spotify to rapidly change resource allocation at the level of 'bets', and to change high-level decision-making frameworks, without descending into dithering and vacillation. The reason it can do so it because their strategy is articulated in a series of steps which are at different levels. The hurdle for changing direction gets higher at each level. Bets change frequently, but at the highest level, company beliefs rarely change. However, when they do, they can have a big impact. Until a few years ago, one company belief was there would only be one winner in the music streaming business. Based on constant observation of developments and interrogation of their assumptions Spotify's senior executives came to believe that their industry's end-game would in fact involve 2-3 leading players. This changed the company's operational focus from building overall scale to developing specific playlists for particular applications and occasions, with the aim of achieving leadership in distinct segments rather than being the biggest overall.

Stephen asked whether members are developing what they would regard as an agile strategy:

- One member company is having to flex and adapt quite radically. They have publicly announced a major change in direction, and to make that happen they are applying some agile principles in developing and implementing strategy. Only six months ago new ideas were being resisted, but that has changed and they are adapting very fast now. Some people are being culled and recruitment is focusing on finding people who can drive the changes. The cultural aspect is critical and they are aiming at something which is not far off Spotify. Stephen witnessed this company go through some major cultural changes in the early 1990's when some similar principles were applied. People were the focus then, and the results were very impressive.

- Another member observed that not all businesses are in VUCA worlds. His company has a wide portfolio of businesses, and for some of them the need for operational agility is part of the business and COVID is just adding to the need. Others operate in a very stable, predictable environment and for them, none of this stuff is relevant. Other businesses have a stable environment where the strategy is set but agile techniques can be used to unblock problems that are preventing certain actions being taken. Stephen commented that the general excitement about the idea of agility can indeed mislead people into applying agile approaches indiscriminately. Our thinking about uncertainty takes as its starting point the categorisation of the uncertainties in the environment into the familiar and the unfamiliar and assessing their potential impact. Some are not new and some have little impact, so sudden changes in direction could actually be damaging.

Stephen then moved on to our own thinking on agility, which has some history.

In 2011, not long after he had published *The Art of Action*, Stephen was invited to give a keynote speech at the Lean Kanban Central Europe conference. It was attended mainly by software developers working at small consulting firms or start-ups. He did not know why they wanted to hear about his approach to strategy execution, which is derived from a model used by the military, but gave the talk anyway. To his surprise, it excited great interest.

He got to know several of the participants and their organisations, and was invited to speak at several more 'Lean Kanban' conferences. In 2016 he met Simon Marcus, then VP of operations at Spotify, who told him the company had been strongly influenced by his idea that high alignment enables high autonomy. As Spotify's squads were supposed to behave like autonomous mini-start-ups, it is not surprising that alignment was an issue for them. Without alignment, high autonomy leads to chaos and waste. Hence the interest in creating high alignment in order to allow high autonomy, which is the problem the Spotify Rhythm, with its system of beliefs and bets, is designed to solve.

The agile movement in general achieve high alignment and high autonomy in product development by dividing a single complex task into elements and assigning each of the elements to small, semi-autonomous cross functional teams, which can the operate semi-autonomously, and use sprints, scrums and customer feedback to deliver high quality at high speed.

In leading through intent (the approach laid out in *The Art of Action)*, the principles are realised through distributed decision-rights, a clear intent at each level of a set of nested decision-making frameworks, the development of a common shared understanding of the intent and its implications by using the technique of briefing and backbriefing, and an operating rhythm of reviews to constantly adjust situational awareness at each level.

The differences are that the purpose of agile teams is to deliver software, the output is a product and the source of feedback is customers; whereas the purpose of leading through intent is to set direction, the output is the execution of a strategy and the source of feedback is the effects achieved by actions in the environment.

Leading through intent results in agile *operations* because everyone uses the freedom of action which they are granted to adjust how they realise the intent as the situation changes. If the situation changes a lot, the intent on a lower level may change, and if it changes radically the higher levels of intent might change. This is rare, but built in to the system so that if it is necessary, then, as with Spotify, it can be done without disruption.

However, to enable *strategy itself* to be agile it must also be formulated in such a way as to allow agile operations. Agile *operations* must be complemented by agile *thinking*. The principles which need to be applied here are those behind our thinking about strategy under high uncertainty.

Like Spotify, the company strategy should set direction in terms of a compass heading expressed as a set of beliefs. They often take the form of testable hypotheses about the fundamental drivers of success. The overall intent over any given period should be formulated at multiple levels so that each is nested in the one above. Decisions should be optimised for robustness, so that the results are acceptable under any plausible future, avoid killers and open up the possibility of exploiting kickers. And course adjustments and changes in stance should be made according to an operating rhythm which reflects the heartbeat of the business. This will provide a firm set of principles to guide decision-making but also leaving space for spontaneous decisions at the operational level.

Stephen then asked members to comment – for example on the extent to which they did these things, and what got in the way:

One member company is pushing more agile ways of working in things like bringing products to market in a more cost effective way. When it comes to the strategy, they take a long-term view. Given COVID, they are taking time out, looking at scenarios and updating their strategy. The approach and direction are being refined rather than changed, but market volatility is higher and cycles are coming faster, so there needs to be some level of agility.

Stephen asked what the benefits of this approach have been. It has enabled them to identify four or five themes that are important right now e.g., preservation of cash, reduction of the cost base, building a more flexible organization, and shifting to renewables. Agile doesn't mean you throw things out, but that you have the ability to adjust and retune your approach as the market changes, which is going to be more and more going forward. They need more agility whilst retaining control.

Another member has an unusually wide range of portfolio companies and can see that whilst agility may have value in some, it would have little or no value in others. In some the environment is predictable, in other unpredictable. In some the ways of working are effective, in others the need to be adaptive. This implies a matrix of situations. It would be valuable to think this through, and try out these ideas in some of the portfolio companies.

In another member company agile has been a high priority agenda item, but has now gone off the boil, just when in many companies it is riding higher on the agenda. Stephen asked why this was. The answer was that at the strategic level it was hard to answer the question of who the customer is. There were also people doing bits of agile and then traditional work, which meant people still had their regular stuff to do. In IT and digital you just do agile work as a specialist. Switching is difficult. Finally, the enormous pressure on the company over recent months has disrupted the strategy process. Overall, they just dipped their toe in, with too much emphasis on the process rather than the outcome. You probably need to make several attempts. Stephen commented that those were useful, and probably generalisable learnings.

Future meetings

The next Members' Meeting will be held from 14.00 – 16.30 on 26th November 2020. The subject will be the double transformation of DSM and will be led by our guest speaker, Hein Schreuder, the former strategy director of DSM, who guided the whole process.