

JULY 2015

# McKinsey Quarterly

## Why agility pays

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The best-performing companies both act quickly and make good decisions.

A new McKinsey analysis suggests that the healthiest and most profitable organizations are the most agile ones and have the most decisive leaders. This conclusion may not sound surprising; no one would expect sluggish companies with weak “deciders” to thrive, after all. But the importance of these two attributes is so great that they elevate some priorities for companies and their leaders: establishing processes for rapid decision making, setting up dynamic governance forums to ensure decision quality, and vigorously reinforcing new operating approaches.

These observations rest on a global study of 165 different companies, where we used our Organizational Health Index (OHI) to survey more than 365,000 individual employees. McKinsey has long been monitoring the health of companies through a proprietary approach that tests nine dimensions of organizational performance and 37 distinct management practices. Between November 2013 and October 2014, we added questions on agility seeking to discover how often leaders and managers moved quickly when challenged and how rapidly organizations adjusted to changes and to new ways of doing things. Taken together, these new questions provide

the foundation for an Agility Index<sup>1</sup> that turns out to be a surprisingly strong predictor of organizational health and, ultimately, performance.

In a first analysis, we looked at how respondents ranked the frequency of 25 separate kinds of leadership behavior in their companies and found that agility ranked significantly higher among the healthier companies (tied for 4th place) than less healthy ones (tied for 23rd place).

### Agility as a catalyst

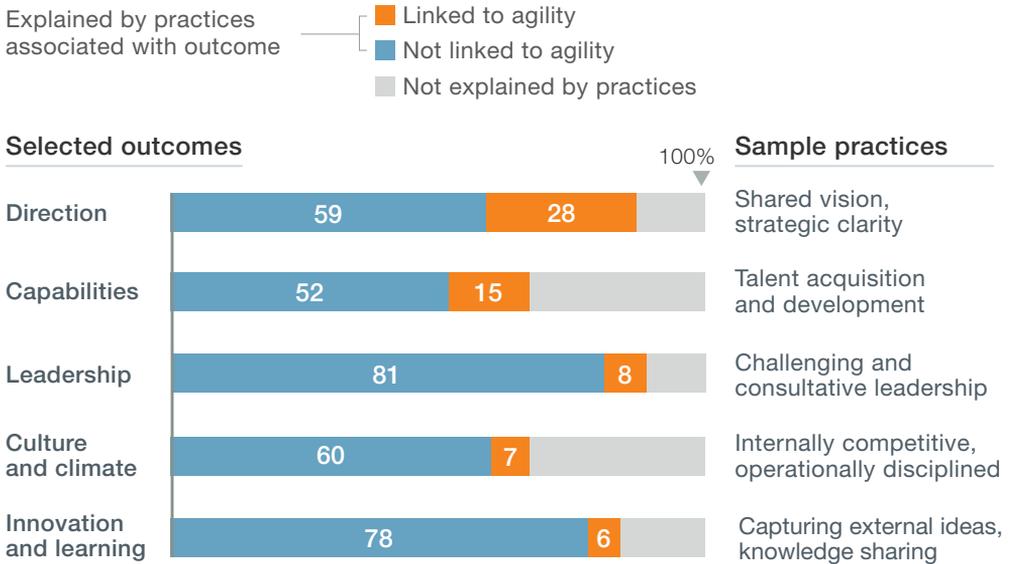
This analysis highlighted the relationship between agility and organizational health. But we were surprised when a second analysis showed that agility adds significant power to the management practices associated with each of the nine organizational outcomes in the OHI score. A comprehensive regression analysis demonstrated that when combined with agility, each practice had a stronger linkage to its relevant outcome (Exhibit 1). So did the relationship of all 37 practices with *overall* organizational health.

Diving more deeply into the relationship between agility and the 37 individual management practices that underlie the OHI, we performed another set of

Exhibit 1

## Agility amplifies the power of management practices, particularly for some outcomes.

% of variation in Organizational Health Index (OHI)<sup>1</sup> score



<sup>1</sup>The Organizational Health Index assesses 9 dimensions of organizational health and 37 distinct management practices.

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statistical analyses. These showed that when combined with agility, the contribution to organizational health of five practices—role clarity, knowledge sharing, career opportunities, capturing external ideas, and an internally competitive climate and culture—multiplies.

Our earlier research consistently showed a strong relationship between organizational health and the creation of value: the healthiest companies far outpace those with moderate or low health in long-term total returns to shareholders.<sup>2</sup> Our new analyses

suggest that agility is a significant catalyst for organizational health and performance.

### Stimulating innovation ... and stability

In a final analysis, we identified the ten management practices that differentiate our sample's most agile companies from the least agile ones (Exhibit 2).<sup>3</sup> This exercise showed clearly that agile organizations are particularly powerful innovation machines, especially in three of the four innovation and learning

practices—top-down innovation, knowledge sharing, and capturing external ideas—as well as being powerful motivators. They excel at three of the five OHI practices that drive motivation: meaningful values, career opportunities, and inspirational leadership.

and structure. For instance, both role clarity and operational discipline are highly ranked practices among agile organizations (defined as those in the top quartile on the Agility Index) but not among the least agile (the bottom quartile).

These latest findings also support our belief that in addition to moving fast and changing rapidly, agile companies provide organizational clarity, stability,

The achievements of the most agile organization of the 165 we studied makes that point. Financially successful and growing, it is a business-process-

Exhibit 2

Ten management practices distinguish the **most agile** organizations from the least.

Practices	Rank among		Difference in rank	Associated outcome
	most agile	least agile		
Role clarity	1	34	33	Accountability
Top-down innovation	2	37	35	Innovation and learning
Meaningful values	3	31	28	Motivation
Knowledge sharing	4	21	17	Innovation and learning
Career opportunities	5	16	11	Motivation
Capturing external ideas	6	33	27	Innovation and learning
Internally competitive	7	32	25	Culture and climate
Inspirational leadership	8	30	22	Motivation
Operationally disciplined	9	26	17	Culture and climate
Risk management	10	29	19	Coordination and control

outsourcing company that has captured market share by rapidly entering new geographical markets. The company is equally adept at exiting markets that contract—and did so in such an effective way in 2014 that it offset declining revenues by capturing new operational efficiencies in its most profitable markets. In this way, it continued to increase its earnings before interest, taxes, depreciation, and amortization (EBITDA).

### Management implications

Our latest findings are in line with those of leading external studies in this field. One of the most cited journal articles in the academic literature on organizational agility found a direct link to financial performance,<sup>4</sup> an effect that was even more pronounced in turbulent business environments. Another study, published by *Harvard Business Review*, found that the leaders rated as most effective by their peers made decisions that were both fast and good.<sup>5</sup> This conclusion is in line with our finding that the quality of decision making does not necessarily suffer as a result of speed.

Instilling “agile” behavior in slow-moving organizations is a formidable challenge for executives, but our research suggests that companies can make a start by refining some of their management processes. Here are examples:

- **Have a more regular top-management dialogue to speed up decision making.** Our colleagues in McKinsey’s Strategy

Practice have suggested that the quality of engagement generally improves when members of the top team meet weekly or at least every two weeks.<sup>6</sup> Less-agile companies, in our experience, spend too much time on presentations, and they share information rather than take concrete action.

- **Learn to live with “good enough” decisions.** Decision making is not a onetime event. It is a process that includes many smaller decisions along the way, significant staff work to pull together the right information and facts, and, perhaps most important, alignment among leaders not only on the decisions themselves but also on how to translate them into action. Leaders must be willing to live in a world of ambiguity where they have a lot of influence and accountability but lack full control. That may mean getting “good enough” facts and then having a debate among the right people before making the call. Fear of being wrong will slow things down and can even lead to “analysis paralysis.” Indeed, executives who wait until analysis provides what is certain to be the right answer and all stakeholders are 100 percent aligned with it have probably waited too long. An agile company does not give all its executives the right to halt or delay decisions they aren’t fully comfortable with.
- **Build in process safeguards to improve the quality of decision making.** In a

recent *Quarterly* article, McKinsey alumnus Olivier Sibony suggested a checklist for recognizing when the decision-making process breeds overconfidence and isn't giving enough consideration to different points of view.<sup>7</sup>

- **Use all tools at the organization's disposal to embrace new ideas.** Sometimes that could mean using psychology to understand and motivate employees, or finding creative ways to use cutting-edge social technologies.<sup>8</sup>

There's no certain way to achieve organizational health. But of all the ideas we've explored in recent years, the link with agility is by far the strongest. We hope these findings will underscore the importance of rapid organizational responses and high-quality decision making and help executives set priorities for improving the health of their management processes and thereby the health of their companies. ○

<sup>1</sup> We include the extent to which organizations are sufficiently stable, including appropriate structures and processes, in the way we think about organizational agility. While the current index does not include this dimension, we intend to add it in the future.

<sup>2</sup> See Aaron De Smet, Bill Schaninger, and Matthew Smith, "The hidden value of organizational health—and how to capture it," *McKinsey Quarterly*, April 2014, mckinsey.com.

<sup>3</sup> This comparison comes from segmenting companies by score on our Agility Index and comparing the top and bottom quartiles.

<sup>4</sup> Paul P. Tallon and Alain Pinsonneault, "Competing perspectives on the link between strategic information technology alignment and organizational agility: Insights from a mediation model," *MIS Quarterly*, 2011, Volume 35, Number 2, pp. 463–86, misq.org.

<sup>5</sup> Jack Zenger and Joseph Folkman, "You have to be fast to be seen as a great leader," *Harvard Business Review*, February, 26, 2015, hbr.org.

<sup>6</sup> For more, see Chris Bradley, Lowell Bryan, and Sven Smit, "Managing the strategy journey," *McKinsey Quarterly*, July 2012, mckinsey.com.

<sup>7</sup> See Philip Meissner, Olivier Sibony, and Torsten Wulf, "Are you ready to decide?," *McKinsey Quarterly*, April 2015, mckinsey.com.

<sup>8</sup> For more, see Emily Lawson and Colin Price, "The psychology of change management," *McKinsey Quarterly*, June 2003; and Arne Gast and Raul Lansink, "Digital hives: Creating a surge around change," *McKinsey Quarterly*, April 2015, both available on mckinsey.com.

*The authors wish to thank McKinsey's Wouter Aghina, Lili Duan, Claudio Feser, Bill Schaninger, Rob Theunissen, Kirsten Weerda, Abby Wurts, and Cynthia Zhang for their contributions to this article.*

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