Why agility pays

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New research shows that the trick for
companies is to combine speed with stability.

Over the past decade, we've studied the impact of a wide range
of management practices on different dimensions of organizational
health.[1] This analysis, based on surveys of more than two million
respondents at over 1,000 companies, has become a stable baseline
for understanding the incremental contributions of specific
organizational and leadership characteristics to the health, positive
and negative, of the companies in our sample.

We've long inquired into the processes and structures that reinforce
organizational stability. But from November 2013 to October 2014,
we added questions, for the first time, on speed and flexibility. Our
goal was 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 two sets of questions, old and new, provided
the foundation for a simple matrix, comprising a speed axis and
a stability axis. The matrix turns out to be a surprisingly strong
predictor of organizational health and, ultimately, of performance.
We describe companies that combine speed and stability as agile
(see sidebar, "A word on methodology," on page 7).

No one would expect sluggish companies to thrive. It's equally
reasonable to assume that success achieved through breakneck
speed, without stabilizing processes and structures underfoot, will
be hard to sustain over the long term. Yet some executives might
not only reasonably maintain that speed and stability pull in opposite
directions but also hypothesize that they may be negatively correlated.
Our latest research, however, confirms that the opposite is true.

[1] We define health as an organization's ability to align, execute, and renew itself faster than
the competition does and thus to sustain exceptional performance over time.

It's significant that all 37 of the management practices we scrutinize, when combined with speed and stability, generated better outcomes in their respective dimensions of health, as well as better overall health. In 4 of the 37—financial management, financial incentives, capturing external ideas, and involving employees in shaping a company's vision—speed and stability had a particularly striking impact.

Exhibit 1

Few companies excelled in either relative speed or stability— 58 percent hovered near average.

Distribution of 161 companies by Organizational Health Index (OHI) scores[1]
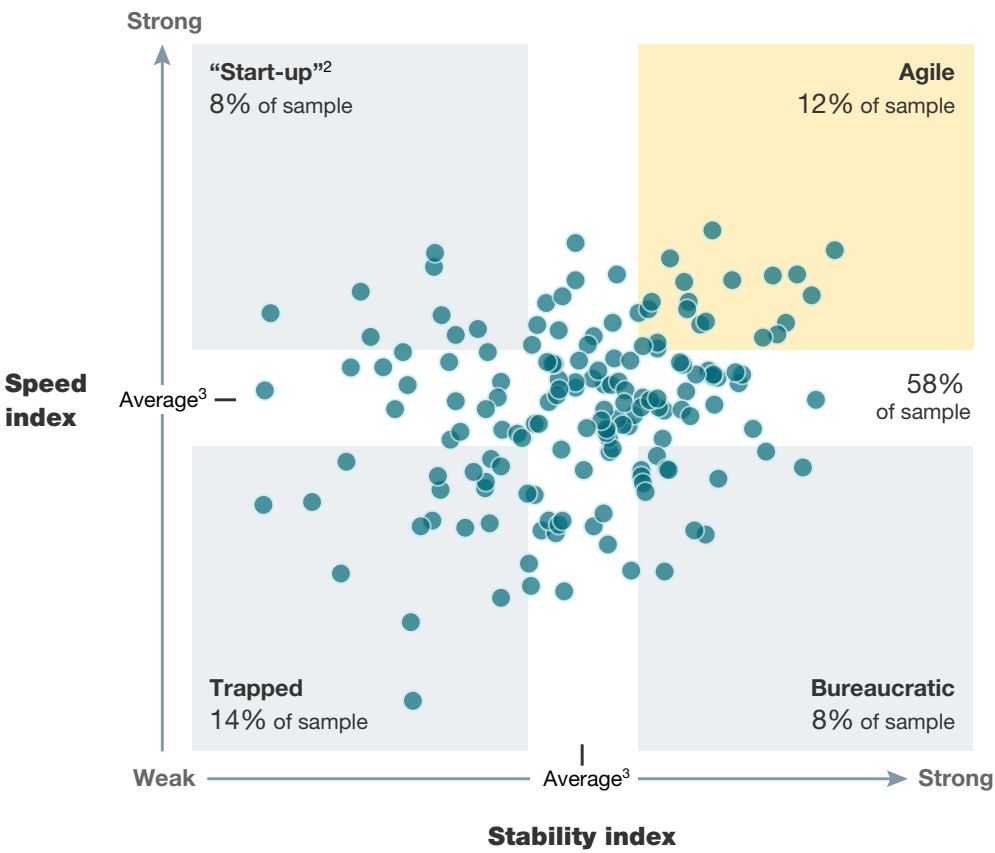
[1]Scores have been adjusted to remove the portion of OHI variance shared by the factors of speed and stability, to highlight the specific contribution of each factor (speed or stability) along its axis.
[2]That is, companies with a mode of operating suited to a very small start-up (not actual start-ups).
[3]Mean +/− 0.50 standard deviation on each axis of matrix.

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When we divided the companies in our sample[2] among different groups based on their relative stability and speed scores,[3] things got even more interesting (Exhibit 1):

• Relatively few companies stood out as being especially agile: 58 percent of them had speed scores, stability scores, or both that hovered near average.

• An additional 22 percent of companies in our sample were slow—either slow and unstable, a group we describe as trapped (14 percent), or slow and stable, which we call bureaucratic (the remaining 8 percent). These slow companies generally have poor organizational health: in fact, they had the lowest percentage of companies with top-quartile organizational-health scores in our sample: only 5 percent for trapped companies and 17 percent for bureaucratic ones.

• Twenty percent of the companies in our sample were fast. Eight percent were fast, pure and simple—a group we describe as "start-up." (These companies were not start-ups, but resembled start-ups in their speed, irrespective of size.) The rest (12 percent), which we call agile, combined speed with stability. All of these fast companies had better organizational-health scores than the other 80 percent did. Agile companies, however, enjoyed a far greater premium: the odds that one of them would rank in the top quartile for organizational health were 70 percent (Exhibit 2). Fewer "start-ups" enjoyed top-quartile performance, but this quadrant was our only nonagile category in which a majority of the companies (52 percent) had health scores above the median.

Given the striking outperformance of the agile companies, we conducted additional analyses to better understand the characteristics and benefits of agility. For example, we identified the ten management practices that differentiated our sample's most agile companies from the least agile ones (Exhibit 3). This analysis showed the following:

[2] These observations rest on a global study of 161 different companies around the world. In this effort, we used our Organizational Health Index (OHI), including the new matrix, to survey more than 365,000 individual employees.
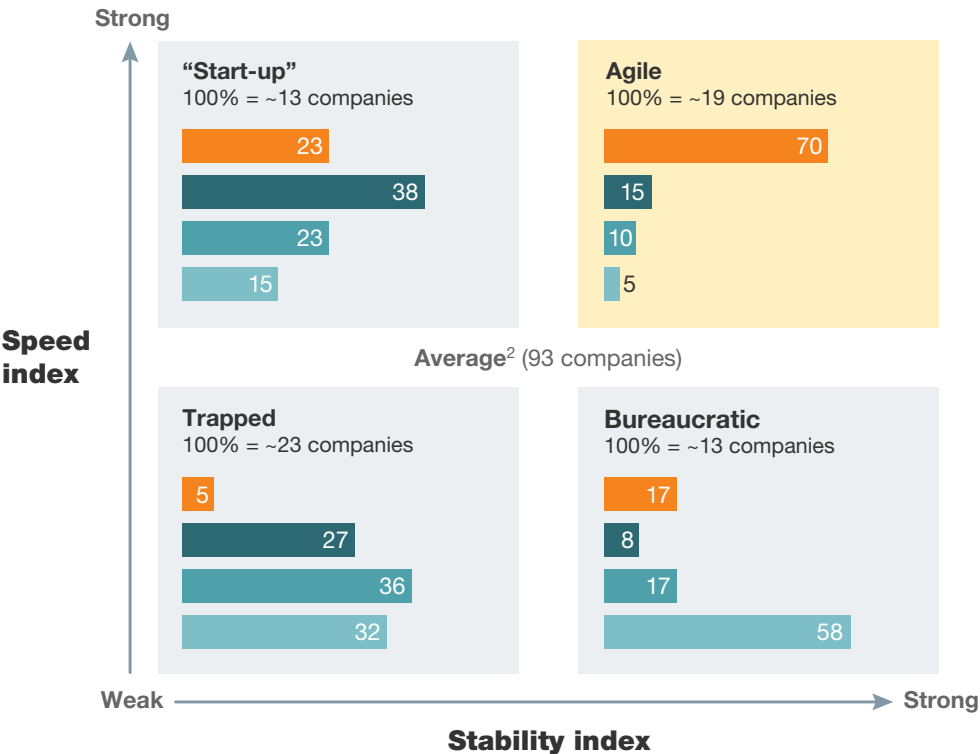
[3] Relative scores are the difference between index scores and those expected by the OHI score.

Exhibit 2

Seventy percent of agile companies rank in the top quartile of organizational health.

% of organizations within each category, by quartile, for Organizational
Health Index (OHI) scores[1] (n = 161)

■ Top quartile　　■ Second quartile　　■ Third quartile　　■ Bottom quartile

Strong

Speed index

"Start-up"
100% = ~13 companies

23	
38	
23	
15	

Agile
100% = ~19 companies

70	
15	
10	
5	

Average[2] (93 companies)

Trapped
100% = ~23 companies

5	
27	
36	
32	

Bureaucratic
100% = ~13 companies

17	
8	
17	
58	

Weak ⟶ **Strong**

Stability index

Note: Figures may not sum to 100%, because of rounding.

[1]Scores have been adjusted to remove the portion of OHI variance shared by the factors of speed and stability, to highlight the specific contribution of each factor (speed or stability) along its axis.
[2]Mean +/– 0.50 standard deviation on each axis of matrix; these 93 companies were nearly evenly spread across quartiles for organizational health.

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- Both role clarity and operational discipline are highly ranked practices among agile organizations (those in the top quartile of the Agility Index) but not among the least agile ones (the bottom quartile). This is powerful evidence that part of what makes agile companies special is their ability to balance fast action and rapid

Exhibit 3

Ten management practices differentiated the most from the least agile companies.

Ranking of 161 companies based on OHI scores[1]

Practice	Rank for most agile	Rank for least agile	Difference in rank	Associated outcome
Role clarity	1	35	34	Accountability
Top-down innovation	2	37	35	Innovation and learning
Capturing external ideas	3	27	24	Innovation and learning
Process-based capabilities	4	19	15	Capabilities
Operationally disciplined	5	33	28	Culture and climate
Internally competitive	6	29	23	Culture and climate
Meaningful values	7	31	24	Motivation
Knowledge sharing	8	21	13	Innovation and learning
Inspirational leaders	9	32	23	Motivation
People-performance review	10	20	10	Coordination and control

[1]OHI = Organizational Health Index.

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change, on the one hand, with organizational clarity, stability, and structure, on the other.[4]

- Agile organizations appear to be powerful machines for innovation and learning. Their performance stands out in three of the four management practices—top-down innovation, capturing external ideas, and knowledge sharing—associated with that outcome.

[4] For more on how to establish this balance, see Wouter Aghina, Aaron De Smet, and Kirsten Weerda, "Agility: It rhymes with stability," *McKinsey Quarterly*, December 2015, mckinsey.com.

- Agile companies seem to be strong at motivation. Five practices on the Organizational Health Index promote it, and these companies particularly excel at two of them: meaningful values and inspirational leadership.

The achievements of one of the most agile organizations we studied, a business-process-outsourcing company, emphasize the importance of balancing speed and stability. Financially successful and growing, it has captured market share by rapidly entering new geographical markets. But it is equally adept at exiting markets that contract. In 2014, the company extricated itself from them so effectively that it offset declining revenues by capturing new operational efficiencies in the most profitable markets. In this way, it continued to increase earnings before interest, taxes, depreciation, and amortization (EBITDA).

By way of contrast, let's look at a bureaucratic organization and at a "start-up" organization we know. The former is a leading professional-services firm specializing in audit, tax, and advisory services. Its processes and structure are stable to a fault. Of course, the industry is highly regulated by many government and judicial entities. But while the firm's competitors have found ways to act quickly, this one is dogged by an obsession with compliance and a blind determination to minimize litigation risk.

For example, it deliberately avoids storing assessments of its employees—an unusual choice, since most other companies have elaborate talent-management databases. (The compliance officer's rationale is that a dissatisfied client might start discovery proceedings in a future lawsuit and find out that the firm knew about a relevant issue concerning the person at the center of such a case.) A board composed entirely of senior partners, many of them CEO aspirants, exacerbates the firm's cumbersome decision making. Not surprisingly, it has been trailing its competitors in major performance categories each year.

The "start-up" organization was a joint venture between the divisions of two large technology companies, one North American and one from continental Europe, responsible for a similar range of consumer offerings. The joint venture's main product line was

A word on methodology

We measured speed by asking survey respondents how often they observed their leaders (and, separately, managers) making important decisions quickly and their organizations adjusting rapidly to new ways of doing things. We measured stability by asking respondents how often they observed their organizations implementing clear operating goals and metrics, setting clear standards and objectives for work, establishing structures that promote accountability, designing jobs with clear objectives, and devising processes to document knowledge and ideas.

The percentage of respondents who answered "often" or "almost always" compared to all respondents was calculated for all companies, resulting in the Agility Index.

communications equipment. It celebrated an early win, producing an award-winning product that generated high demand. That device was designed by just one person in record time, an achievement showing exemplary speed and flexibility. But this person's three functional titles—all at the senior level—were far from optimal for the next stage of the joint venture's development. With little thought given to designing replicable innovation processes, the joint venture found it impossible to develop another winning product. The speed that had been its hallmark began to wane as management focused on the constant renegotiations between the two parties. These unhealthy levels of internal competition caused leaders to lose sight of external threats. The joint venture ended as a one-hit wonder.

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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.[5] Our new analyses suggest that speed and stability are significant catalysts for organizational health and performance. ○

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