

Winning with Agility

How to transform your company
into a Digital Leader.



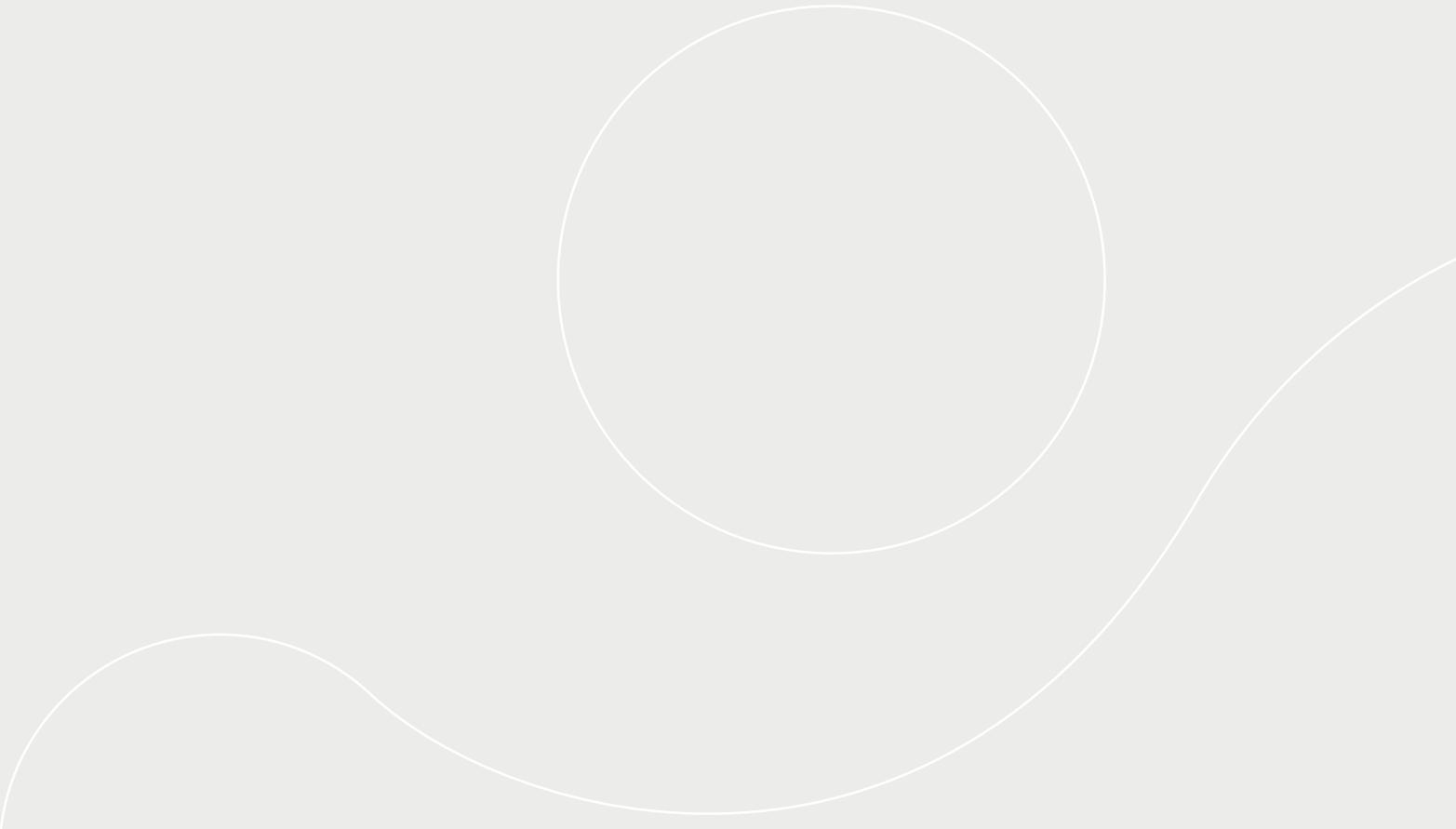
“

A little less conversation, a little more action please,
All this aggravation ain't satisfactioning me
A little more bite and a little less bark.

”

Elvis Presley

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Digital Agility drives almost 50% of firm performance.

Digital Transformation and Agility – just buzzwords?

With the growing need for digital transformation across many different organizations and industries, the idea of Organizational Agility has become a major buzzword and is often seen as the secret sauce for winning in digital. Many top leaders see Agility as a key enabler for flexibility, increased speed to market and finally as a weapon to beat aggressive startups.

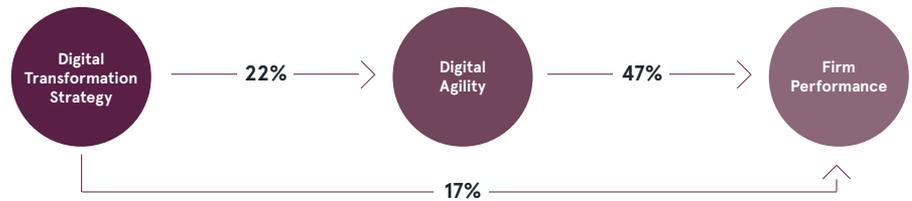
In our 2012 Digital Readiness Study we had already identified Agility as core driver for business success, explaining 47% of the success in digital transformation (see exhibit 1 – confirmed in our new study 2017). While the direct impact of having a good strategy is not too valuable (17% of success), Digital Agility really makes the difference.

Digital Agility as a key driver for firm performance

We understand Agility as “an organization’s ability to sense and respond quickly to consumers’ and market’s needs”. This capability is related to many different aspects of a company’s organization, leadership and more (see exhibit 2).

EXHIBIT 1

Digital Agility as a key driver for firm performance



Relevant Dimensions of Organizational Agility

Some, even large organizations, seem to be doing this better than others. Tesla for example, in a recent effort was able to incorporate consumer feedback directly into the car’s production line, within a timeframe of seven days.

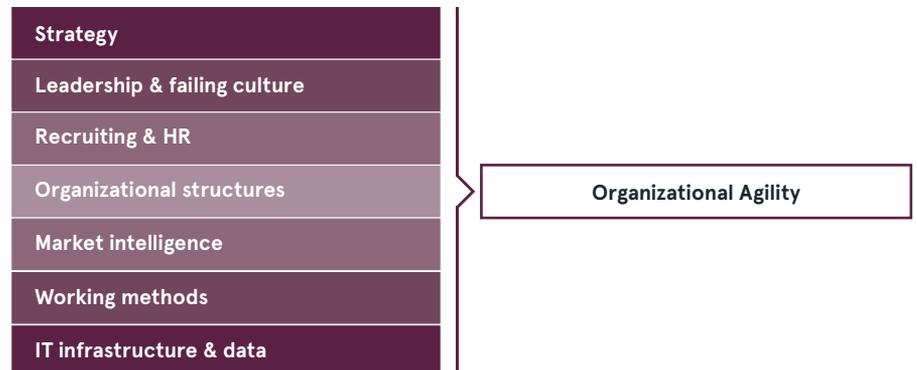
Typically, Organizational Agility is one of the capabilities that startups bring to the table based on their organizational setup, the fragile environment they live and work in (lack of resources, threat of failure, etc.). But more and more incumbents and large organizations try to copy agile work methods and tools. However, many leaders and companies lack a full picture on the implications of building an agile company for strategy, structure, culture, leadership and even recruiting and the work environment.

What does success look like in terms of “Agility”?

To answer this question, we have extended our 2012 study and built on the dimensions of Organizational Agility outlined below.

EXHIBIT 2

Relevant dimensions of Organizational Agility



Only 8% of German companies see their Digital Transformation as a success.

The objective of our 2017 study on Digital Agility was to understand in more depth what really drives business performance and success in digital and develop recommendations for transforming businesses. We used the dimensions of Organizational Agility as a starting point to derive key success factors and an understanding of tools and methods that really work.

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While 72% of German companies have a digital strategy, almost 80% fail in their Digital Transformation because of a lack of agility. Execution wins over strategy.

”

Based on the individual performance along the key indicators speed of innovation, growth and profitability of the 500 companies interviewed, we split our sample in three clusters.



Digital Laggards (34% of the total sample)

Level 1

They act like prisoners and run their business more or less with a survival strategy, rather passive, suffering from everyday inertia and having no success whatsoever in Digital Transformation. **Only 1% of the companies in this cluster would consider their Digital Transformation as a success.**



Digital Followers (43% of the total sample)

Level 2

They act like passengers and walk on pre-qualified paths only. They run the business behind a certain "fear to loose" and make first steps in Digital Transformation by observing in the Digital Transformation. They focus rather on explaining the past and are still scared of making mistakes. **Still, only 6% of the companies in this cluster consider their Digital Transformation journey a success.**



Digital Leaders (23% of the total sample)

Level 3

They behave like true players and show a high passion to win and learn. They are willing to experiment, look for opportunities, accept errors and failure if they can conclude the right learnings and are in general future-oriented. **An astounding 66% of the companies in this sample see their Digital Transformation already as a success.**

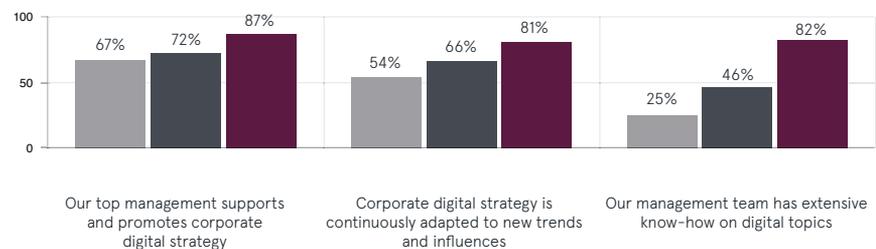
72% of all organizations in our sample have a digital strategy.

But Digital Leaders not only have a strategy: they adapt it continuously, having an agile “interpretation” of their strategy. We see a big difference between Digital Leaders and Laggards: **81% of the companies in the leading cluster continuously adapt their strategies** to market developments, trends and other impact factors (see chart below). This interpretation of strategy as a guiding principle, especially the role of a strong vision, the ability and willingness to continuously adapt strategies, is an important capacity of winning digital leaders.

EXHIBIT 3

Digitalization's impact on corporate strategy

- Digital Laggards
- Digital Followers
- Digital Leaders



Furthermore, the top management of **Digital Leaders** has substantial knowledge around the relevant digital topics: In **82% of these organizations, top management has the relevant knowledge** (vs. only 25% in the group of the Digital Prisoners).

Although we see strong differences in how Digital Leaders understand and practice strategy vs. laggards, our data has shown **no significant impact of strategy on the success factors** speed of innovation, growth and profitability. Success in Digital Transformation is not driven by strategy – strategy needs to create the burning platform, not more not less.

In contrast, other executional factors have a more important role for success.

EXHIBIT 4

Key drivers for a successful Digital Transformation



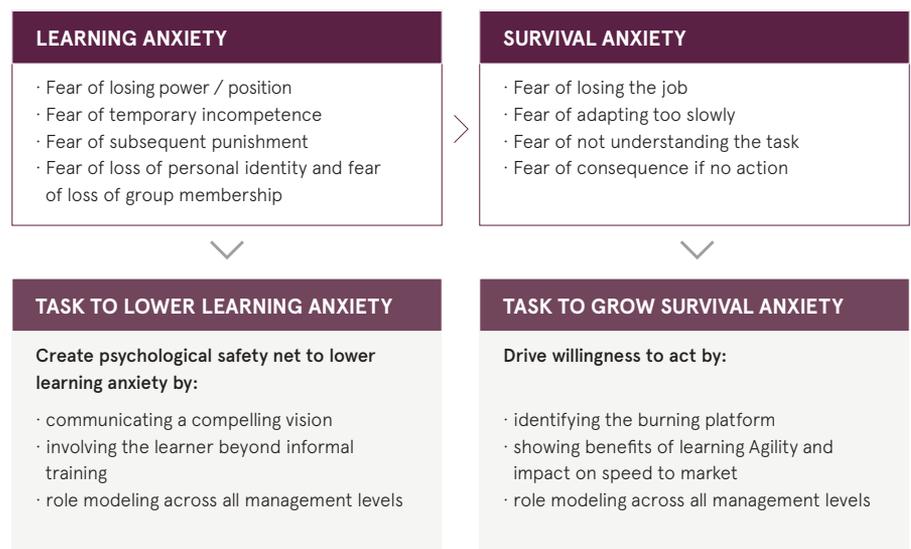
High responsiveness to consumer needs and openness to fail.

Strategy is important but **execution wins digital transformation**. After a period of heavy investments in conceptualizing new digital products and business models, we are now entering a time where **fast execution embedded in a strong cultural change, i.e. the openness to fail** are becoming key drivers of success. Too many companies have spent millions on strategic work, setting up heavy and complex accelerator models, and investing in risky startups without creating sustainable success. With many managers asking “why are we doing this”?

The Digital Leaders in our sample act differently. They have a very strong bias on execution and on embracing a culture that supports the **openness to fail and actively reduces learning and failure anxieties** (see exhibit 5).

EXHIBIT 5

Learning and survival anxieties as key barriers in digital transformation

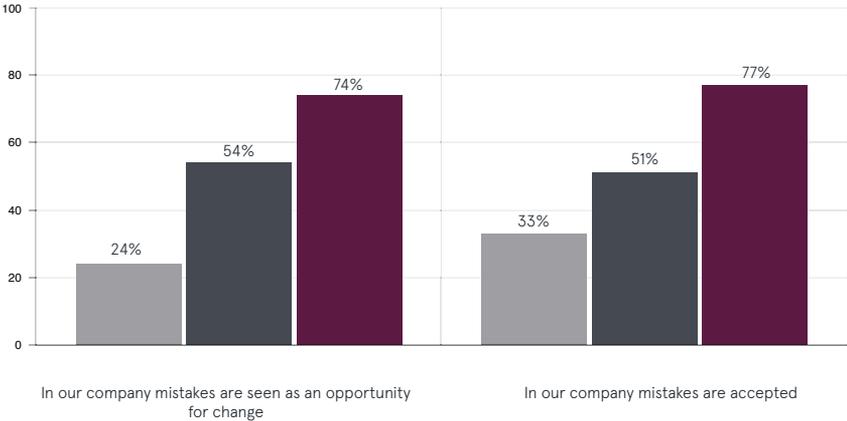


Embracing Agility requires to actively emphasize, nurture, grow, supercharge. Charge means to bill (or attack but here we want this fear to get bigger than Learning anxiety) “Survival Anxieties” and lower “Learning Anxiety”: **Within the group of Digital Leaders, 74% openly accept mistakes as an opportunity to learn and improve. That is only the case for 24% Digital Laggards** (see exhibit 6 below). Promoting a risk taking behavior, allowing mistakes, and sharing failure experience during special meetings/events (such as Failure Fridays) is essential to establish the right culture.

EXHIBIT 6

Accepting failure as an opportunity

- Digital Laggards
- Digital Followers
- Digital Leaders

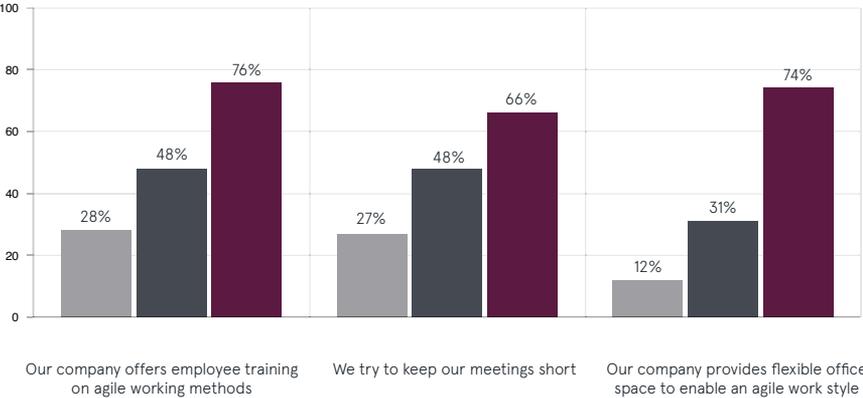


Also, Digital Leaders claim a significantly higher team spirit, empowerment and responsibility. More than two thirds of them have established agile working methods, stand-up meetings and open office spaces. Such changes seem to have a significant impact, although they are just an expression of a more open working culture.

EXHIBIT 7

Agile work methods, meeting routines and open office spaces as a success factor

- Digital Laggards
- Digital Followers
- Digital Leaders

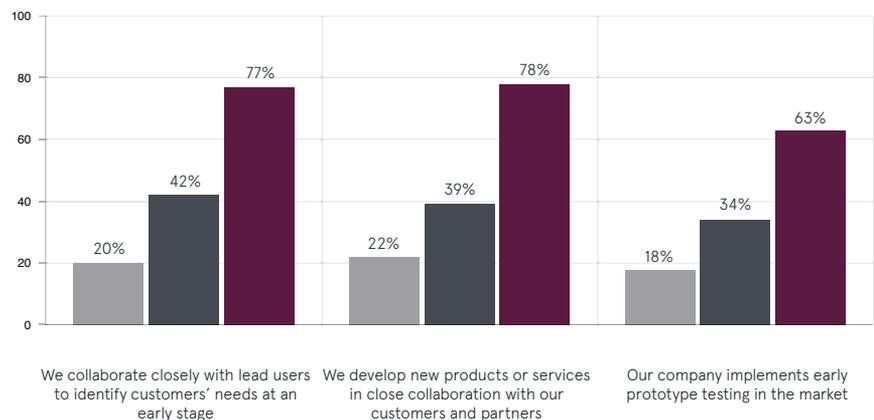
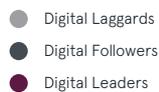


Although agile working methods seem to become the latest trend in large companies, not many of them really understand the fundamental ideas and how and when to apply them. The unreflected establishment of pure scrum methodologies lead to instability and misinterpretations. Agile is not the holy grail for large organizations!

However, Digital Leaders test prototypes (Minimum Viable Products) with customers, worrying less about the imperfections and focusing more on the insights they may gain (fail fast and fail cheap). Co-creation with customers, early testing with lead users and consumers in general and MVP testing have become key differentiators (see exhibit 8 below).

EXHIBIT 8

MVP testing and customer co-creation as a key success factor for agile execution



IMPLICATIONS:

- Communicate a clear strategic burning platform – align and share an inspirational vision as north-star to provide orientation
- Make sure top managers act as role models for desired behavior and empowerment
- Create a culture genuinely open to mistakes (lower learning anxiety)
- Inspire passion to learn, lower anxiety of temporary incompetence
 - Drive speed and achieve quick wins using MVP testing with customers and other agile testing methodologies (accepting failure to learn, optimize on the run)
 - Provide the right set of tools and trainings to run efficient meeting and project – Interpret “Scrum” so it applies to the specificities of your organization (there is no agile standard)

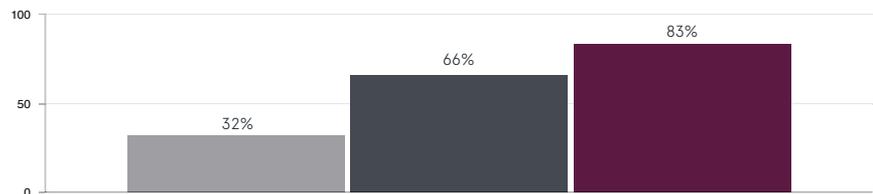
Accelerate speed of Digital Strategy Execution.

To support the agility of an organization, leadership style has to transform dramatically. 60% of Digital Leaders agree that their leadership style has changed during the Digital Transformation process, while this is only the case for 18% of Digital Laggards. The keys to success in agile leadership are predominantly independence, direct responsibilities and self-motivation of employees, i.e. of those team members working on digital projects. (see exhibit 9 below).

EXHIBIT 9

Agile leadership to support self-motivation and independence of teams

- Digital Laggards
- Digital Followers
- Digital Leaders



Consequently, leaders need to adopt the so called “Host Leadership Style” in contrast to the “old”, incumbent “Hero Leadership Style”. Host Leaders have to follow the below principles:

EXHIBIT 10

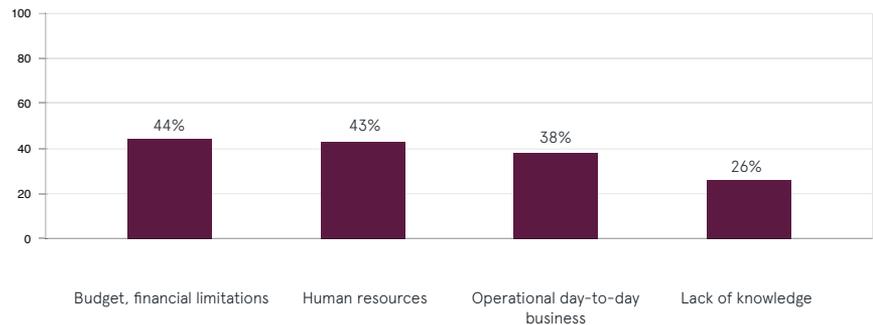
Agile leadership principles

01	Create space for people
02	Support Response-ability in the team
03	Live the principle of co-participation
04	Open gates where needed
05	Spend time frontstage and backstage

Leaders also need to make a significant change with respect to another behavior: prioritizing the operational daily business at the expense of long-term company goals (incl. resource allocation) is slowing down execution and putting agility at risk. Yet, for most of the organizations in our sample, not only budgets but also human resources are seen as a major hurdle to speed up the Digital Transformation process (see exhibit below).

EXHIBIT 11

Key barriers to Digital Transformation



Agile leaders need to set the right priorities and guide teams towards fast execution. The necessary budgets and resources to sustain digital transformation must be protected.

IMPLICATIONS:

- Specifically outline business models of future digital scenarios and allocate resources accordingly
- Empower top leadership to become host leaders who:
 - Foster and reward accountability, entrepreneurship and self-motivation
 - Provide support and remove roadblocks in all kinds of projects
 - Celebrate quick wins and milestones
- Leaders' involvement has to be perceived as engagement and alignment yet not as control
- Foster and reward accountability by providing freedom within a framework
- Clear definition and follow-through of financial incentives, and career paths (i.e. within acceleration teams, new corps, etc.)
- Leaders should impersonate business models that require investments and are critical for long term success but with limited- and mid-term returns (preemptive and grab-land strategy)

Effective internal and external innovation hubs.

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Creating an agile organizational structure that ensures flexibility and speed in key strategic projects is the third fundamental driver for a successful digital transformation, explaining 20% of the success.

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Triple Transformation

Our data shows that companies running a combination of internal innovation labs and external accelerators are more successful in their transformation. 42% of Digital Leaders run a combination of internal and external digital units. While this is only the case for 21% of Digital Lagards.

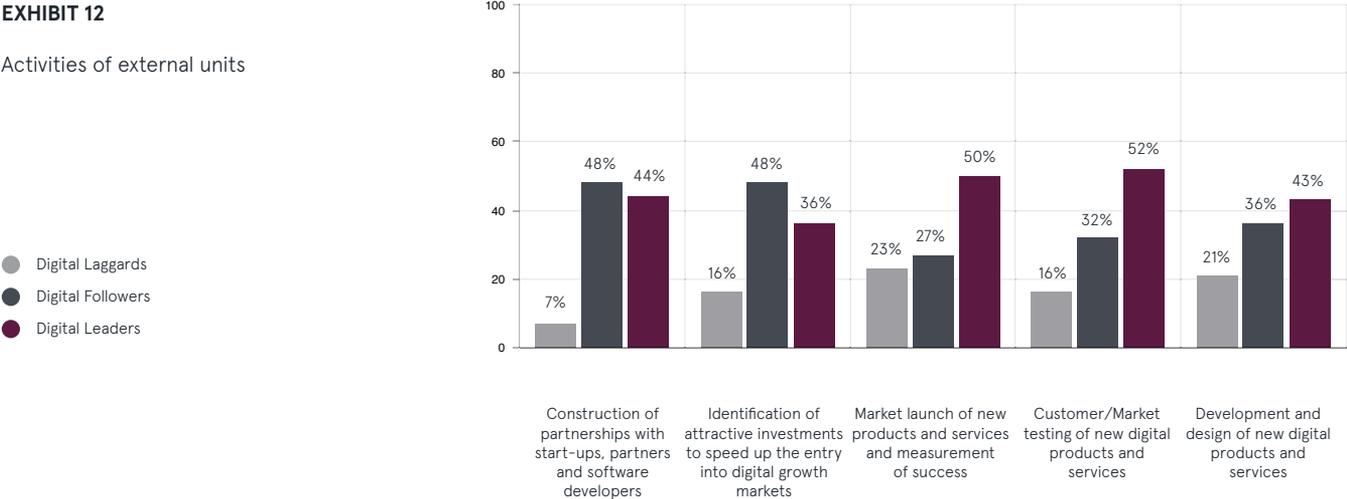
Based on our experience of over a hundred projects related to digital transformation, what we call the *triple transformation approach* best supports digital transformation by combining managerial pull (usually provided by the CEO and/or the board) with business unit push (e.g. accelerators). Triple transformation covers 1) the internal core organization, 2) partially integrated units and 3) external units. Accelerators and other organizational structures that work outside the core, i.e. on disruptive projects, are fundamental to the success in transformation:

Our data shows that overperforming Digital Leaders (10% of Digital Leaders) actually run a combination of all three transformations simultaneously. Partially integrated innovation lab for the more modest digital innovations and external unit for the disruptive.

However, there is also a difference in the role of external units. Our learnings from the numerous organizational projects we have done are now being verified by data: Digital Leaders are using external accelerators not only as a playing field for connecting with startups or spotting investment opportunities: Digital Leaders take action and build substantial new products and services. They use the external unit to develop faster, test with customers and launch new businesses in a protected and agile environment (see exhibit 12 below for details).

EXHIBIT 12

Activities of external units



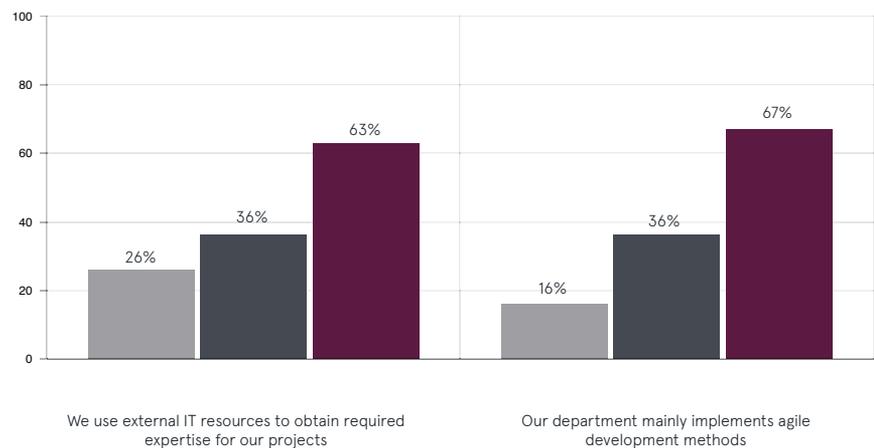
Agile external IT resources as a key enabler

Another key challenge related to internal and external innovation units is related to IT resources and innovation. Even if key digital projects are handled in separate units, many companies struggle to align IT architecture with their digital strategy. As digital strategies are often driven by the board's office or strategy departments, their lack of IT know-how leads to gaps in the architecture, scoping and budgets: Only 57% of companies consider that their digital strategy and vision can be implemented and executed by the existing IT architecture. Typically, a lack of CRM systems, marketing automation, data analytics and big data know-how are the key barriers.

This is why most of the companies today need to rely heavily on expensive yet more agile external IT resources (see following exhibit 13).

EXHIBIT 13

Need for agile, external IT resources



Winning with startup cooperations

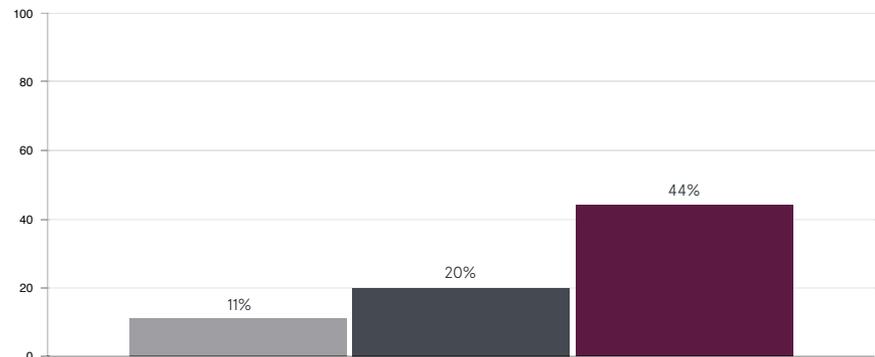
Finally, our data shows that companies having the openness to learn and collaborate with technology startups are benefitting the most. 44% of Digital Leaders are actively engaged startups, while only 11% of the organizations in the Digital Laggards cluster have such initiatives. It is important to see that in this context, the number of startups involved in the collaboration scheme seem to have an important effect on success. Within the group of Digital Leaders, working with at least 5 different startups (see exhibit 14) has become the norm. This requires the corresponding resources.

However, working with startups (regardless of equity and approach) requires the buildup of effective firewalls to protect their independence, especially during scale up stage where the culture of the start-up is undergoing mutation.

EXHIBIT 14

Cooperation with startups

- Digital Laggards
- Digital Followers
- Digital Leaders



IMPLICATIONS:

- Success in transformation depends largely on having a broad and structured setup of internal and external digital innovation hubs with clear responsibilities and governance
- Leaders have to act as human firewalls to protect freedom of innovation hubs (internal ones as much as external accelerators) and on the other hand foster cooperation with external partners
- Using external IT talents with agile development competences is a substantial driver – the lack of experience with agile know-how among followers and laggards is decisive
- Regarding startup cooperation, leaders need to ensure clear alignment of the organization concerning the independence of the start-up and their deviating objectives (growth vs. efficiencies/profitability targets)
- Embracing career moves by offering assignments at innovation hubs, but also showing clear career paths back into the core organization once the venture fails

Unleashing team performance.

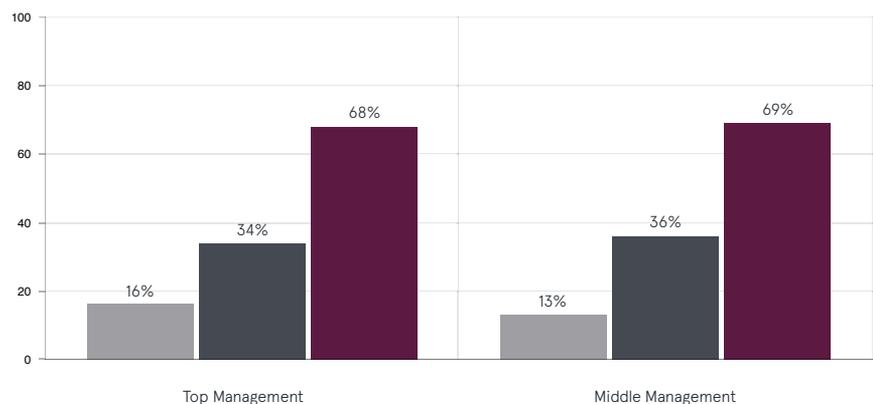
Cascading relevant training through the organization was identified as another key to drive organizations towards agility. Our data reveals the importance of running senior and especially middle management through digital training classes at a very early stage to minimize their learning anxiety.

Digital Leaders spend significantly more time on training top and middle management on agile procedures, new project management tools and other digital topics than other clusters (see exhibit 15 below). These trainings for middle management are crucial to loosen the “bed of clay” that often blocks digital innovation and potentially paralyzes entire organizations (see following exhibit for more details):

EXHIBIT 15

Role of trainings for digital on top and middle leadership level

- Digital Laggards
- Digital Followers
- Digital Leaders

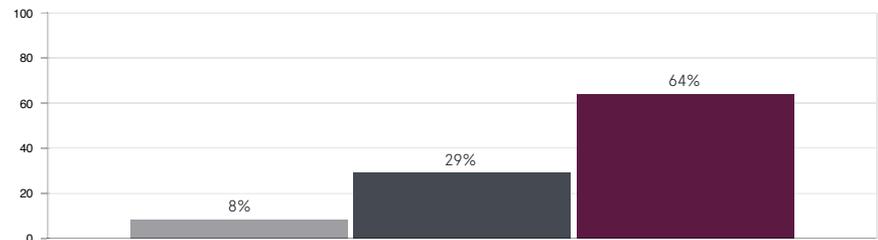


To win in digital transformation, building up competencies in the management teams is not enough. It is also important to develop employees at all levels, i.e. particularly the ones playing key roles in digital projects and new business building. Therefore, it is crucial to identify digital experts or digital natives and to support them to become digital ambassadors. We see a significant difference between Digital Leaders, where 64% of the organization have specific processes to identify digital talents and entrepreneurs digital experts and intrapreneurs, compared to only 8% of Digital Laggards (see also exhibit 16).

EXHIBIT 16

Formats for identification of digital experts and natives

- Digital Laggards
- Digital Followers
- Digital Leaders

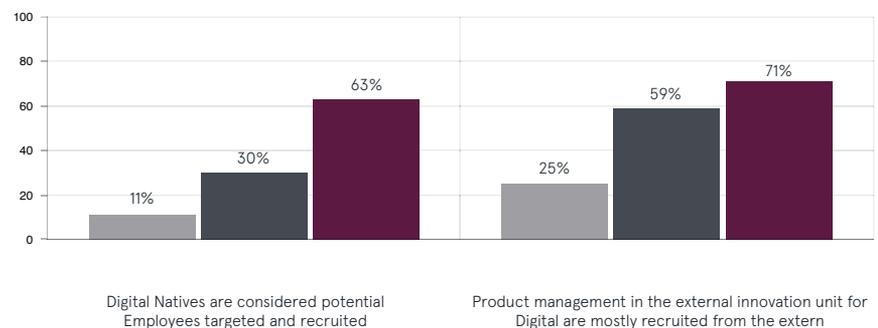


Recruiting digital natives to accelerate change is another fuel to Agility. Hence, having recruiting formats specified to digital natives is a major differentiator between Digital Leaders and Digital Laggards (63% of the Leaders vs. 11% of the Laggards). The benefits of recruiting digital natives lie in the diversity they infuse into the organizational culture. Especially for the role of product owners for new digital businesses (i.e. in innovation hubs) it becomes crucial to recruit from the outside (see exhibit 17) - too many organizations have tried to fill those positions from the inside without success. The right combination of internal know-how and agility of external product owners seems to be the best recipe for success.

EXHIBIT 17

Recruiting digital experts from extern

- Digital Laggards
- Digital Followers
- Digital Leaders



IMPLICATIONS:

- Provide trainings on agile and host leadership for top and middle management – use formats that allow for new and challenging learnings (like hackathons etc.) but also for anonymous learning (e.g. reverse mentoring)
- Promote constant learning to ensure progress across all levels - recruit trainers and coaches from within (and experts from outside) to maximize learning impact
- Clear briefing and tracking of HR, referring recruitment of diverse teams
- Integration of digital natives into existing organizations as meaningful completion of existing talent pool, i.e. for product owner positions
- Run capability assessment to monitor progress – leaders to champion “involvement & agility” matrix and focus on learning by leading.



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