



Building an Agile Organization

Three trends to exploring new organization models
- a guest article from Olaf Bach

Many companies that are facing disruptive competition and new, often digitalized business models are reassessing their organizational structure, but not by reshuffling the org chart and moving lines and boxes; rather, organizations are seeking to build the capacity for continuous change into their very setup.

We are experiencing a renaissance of organizational design as a management discipline. Organizations large and small are engaging in organizational experiments. New models are emerging, and being refined and adopted – be they self-management models like Holacracy, the responsive org movement, network organizations, or tribes and squads. The motivation to experiment with new forms is driven by insight that the classic step-change model of reorganization – i.e. where a new overall structure is defined from the top down and implemented through a protracted process, and then repeated – is too slow and inconsequential for many incumbent players in challenged markets.

Take German carmaker Daimler AG. A technological leader in its field, the company is now challenged by at least three major shifts in the car market: 1) digitalization and platform-based disruptions (UBER); 2) automation and driverless cars (Google and Apple); and 3) electrification (Tesla). In the future, fleets may consist of self-driving, electric vehicles and, as such, Daimler AG may only be a fraction of the size it is today – challenging key dimensions of its as-yet superior value proposition. Daimler AG's CEO, Dieter Zetsche, [directly quotes such developments](#) when justifying one of the biggest transformation efforts in the organization's history – which will see a move toward a network organization, simplified decision-making and more flexible budgeting approaches.

While not all new organization models are radically new, three trends stand out for managers exploring a new approach: 1) a new understanding of hierarchy; 2) a new balance of centralization vs decentralization; and 3) a transformation toward a new setup.

- **A new understanding of hierarchy**

The speed of change in the market is drastically reducing the half-life of experience and competence, calling for new models of leadership. Many new approaches challenge traditional organizational hierarchies, and propose shared and shifting leadership and the distribution of classical leadership roles.

In discarding hard-coded hierarchies, new models throw out one of the oldest coordination mechanisms of large-scale organizations: the fact that bosses used to be put in place based on their superior qualification (experience and competence) and their ability to coordinate work across units and functions. In today's insecure, rapidly changing context, such superior qualification is hard to obtain. Consider a senior manager in a company heavily affected by digitalization saying, in private, that his organization's executive board frequently has to make decisions that it barely understands the implications of.

As such, new forms of organization change the role of leadership. The classic org chart (even the two-dimensional matrix version of it) calls for a fully integrated leader-manager role that acts as the connection between units, functions and layers. Prime examples of agile organization take this integrated role apart – Holacracy differentiates between the rep link, lead link, facilitator and secretary; and Spotify's tribes and squads have the task owner, chapter lead, tribe lead and agile coach – each of which has distinct remits and accountabilities. The differentiation of leadership roles, if set up in the right way, allows teams to self-direct their focus on value creation, without being slowed down by constant alignment with higher levels of the hierarchy.

- **A new balance of centralization vs decentralization**

Digital transformation can put paradoxical demands on your organization design agenda. Faced with digitalization, large incumbent companies are often forced to centralize and decentralize at the same time.

Org design and novel forms of decentralized setups generally involve integration, common platforms and shared frameworks. This applies to management systems, support functions, policies and regulatory non-negotiables.

The build-up of digital capabilities may involve building a global business platform; it will also require market-based innovation activities, especially if the nature of the products implies market- or segment-specific customization. The organization pushes simultaneously for centralization and decentralization. Building common platforms and data models is a topic of centralization; the question is how should platforms be integrated at the point of cross-functional teams? Teams may share features of the joint platform and data model, enabling them to leverage central development work and standards while achieving customer-centric innovation. A case in point is a sales force: in a non-digital model, it would focus on selling a pre-defined product; it now needs to bring customer relationships and insights to product innovation workshops.

New forms of organization are about striking this balance: building scale through shared centralized frameworks while leveraging assets adaptably through dispersed development or delivery teams.

- **A transformation toward a new setup**

The objectives of agile organization are widely shared, but the nature and context of value creation are important. There is a huge difference between giving task autonomy to the smallest unit at an assembly line, busting organizational silos for task-focused collaboration in what Stanley McChrystal calls a "team of teams", and integrating digital capabilities with business functions. Such factors can be used to explore parallel logic to identify common denominators.



Creating an agile setup across an organization requires building a model that fits the unique market conditions, strategic challenges and context of an organization. Existing models are important sources of inspiration and learning; no dominant new paradigm has yet emerged.

Learning new forms of organization can be supported by running experiments within select teams and divisions – not switching suddenly to a new ‘all in’ model.

Such experiments should conform to four conditions:

- They should leverage the self-selection of individual leaders willing to spearhead efforts in their teams.
- They should manage interfaces with the rest of the organization, avoiding culture clashes, and frictions in information flow and decision-making.
- They should ensure structured attendance and support to capture learnings and scale best practices.
- They should benefit from substantial top management support, based on a shared understanding of the organization’s purpose and value creation.

You can find more information on how to approach the transformation toward an agile organization [here](#).

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