How the pandemic highlights the path to agility

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For years, big organisations have struggled with a quest for 'agility' and a 'growth mindset'. The challenges of covid have shown that there are tangible ways to achieve these.

Yesterday's big businesses were built for scale and inertia. They overwhelmed their target markets with innate momentum and monolithic product solutions. They had a command-and-control hierarchy (like industrial machines). Covid has shown that the organisations of tomorrow must be far more malleable. They must be more like complex living organisms.[1]

This year, we have seen the most forward-thinking companies look beyond the initial hurdle of covid-19 to view 2020 as an opportunity to codify positive leaps forward that were too difficult beforehand. In other words, the current crisis can serve as a catalyst for sustained (not just momentary) improvement in business performance, that is if companies embrace the necessary change.

How have the best companies responded in 2020? The top ten identifiable traits

1. *An obvious adoption and embracing of technology* – This should be evident to everyone who had to pivot to work-from-home, communicate via phone or video, and strategise about how to replace in-person gatherings with digital interactions. But companies have also accelerated salesforce, procurement, and supply chain automation (in part to achieve social distancing), invested in e-commerce (to follow the customer/consumer), and enhanced their use of big data (in an attempt to maximise their understanding of a rapidly changing landscape). The potential capabilities to be unleashed by such investments are just beginning to be discovered.

2. *A rapid flattening of culture and eradication of pretense* – Alongside leaps in communication and information flow enabled by technology, companies have dropped their historical guards in terms of entitled hierarchies and dress-codes. Gone are platitudes elevating theoretical respect for "work-life balance" and into their place has seeped an implicit acceptance of a kind of "work-life integration" before not envisioned. The aim is to complete the job. How it is done is less relevant.

3. *A prioritisation of networked teams over top-down/siloed functions* – As cultural hierarchies have broken down, so too have implicit organisational hierarchies. In responding to the crisis, many organisations (whether formally or informally) assembled cross-functional, rapid-response teams, accountable for managing a key aspect of the crisis, or indeed for coordinating crisis management across all such teams. Often, such responses took shape outside of, or in parallel to, the traditional organisational structure. Effectively,

[1] See https://www.mckinsey.com/business-functions/organization/our-insights/the-five-trademarks-of-agile-organizations

this became a network of focused, functional teams that replaced traditional departmental functions and lines of command.[2]

4. *An embracing of openness and a diversity of perspective in problem-solving* – As such teams have come together, the value of open dialogue and a vibrant marketplace of diverse ideas has been revealed and encouraged within top-performing organisations.[3] Teams are more consistently effective and team output more robust when it is the product of vigorous debate that is well-coordinated by a team leader.

5. *A blurring/expansion of traditional roles and responsibilities* – With new teams created and employees newly empowered to contribute to solutions, many organisations have rejuvenated morale. A spirit of shared purpose has blurred traditional role definitions and provided many employees with expanded responsibilities not easily achieved under normal conditions.

6. *A speeding-up of decision-making, with increased delegation* – Given newly empowered employees and high-functioning teams, there has been a natural tendency for decisions to be made more quickly, and closer to the question at hand rather than via traditional deference to approval from the top. With speed critical, management teams have welcomed if not actively empowered such decision-making.

7. *A greater willingness to accept mistakes (assuming they are learned from quickly)* – Out of the same need for speed has come an implicit increase in the tolerance for teams and individuals to take intelligent, calculated risks, even if they result in error. Mistakes made in such endeavours (assuming that their size and cost are limited, and that they are identified quickly) become viewed as learning experiences, rather than something to avoid at all costs.

8. *A desire for local versus global solutions* – The move to team-based solution structures has also migrated the centre of decision-making closer to the actual problem. Even when such individual team outputs are aggregated into larger solutions, the resulting output often contains built-in flexibility compared with what might have been the case in a monolithic, more homogenised top-down solution.

9. *A willingness also to "look outside" and partner strategically* – In seeking the answers to difficult questions, many organisations have recognised the need to look externally for new strategic partners. This may be for supplemental productions and distribution, technology and data insight, marketing, research, or otherwise. This willingness to shun historical "build-it-here" biases facilitates quicker solutions and, in many cases, unlocks solutions that might not be available through internal company needs alone.

10. *A focus on executional excellence against what really drives value (consumer/customer/supplier needs), and an implicit eradication of "waste"* – Implicit in all of the above is a laser-like focus on what truly matters, with impatience for distraction and wasted effort. Mistakes will be made, but they will also be learned from and reversed quickly. As a result, the organisation can take a bottom-up approach to idea generation and iterative learning, rather than be hostage to a top-down mandate. This may appear "uncontrolled" but such organisational execution is inherently innovative and likely to emerge more productive and profitable without the traditional bureaucratic layers.

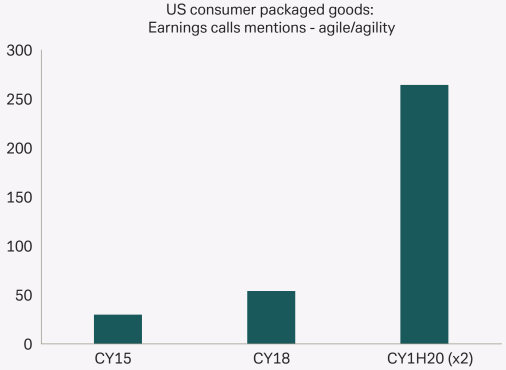
The result of all this is that, this year, many companies have unintentionally discovered the value of "agility". They have become flatter, faster organisations made up of networked teams and empowered individuals. Even though they are working remotely, the best companies are now working together better than they were before. Now that they are empowered and closer to the problems and solutions, they now have a "growth mindset" a concept consultants and academics have been preaching (and many organisations chasing) for years.[4]

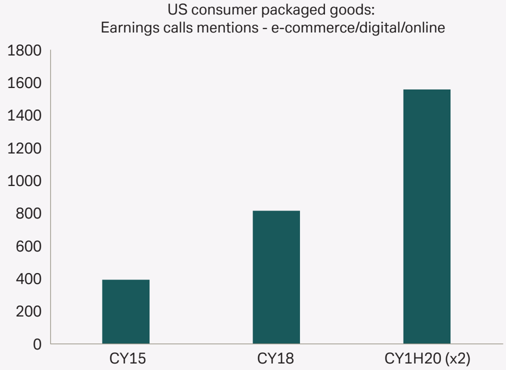
[2] See also https://www.mckinsey.com/business-functions/organization/our-insights/to-weather-a-crisis-build-a-network-of-teams

[3] Increased appreciation for deep-rooted societal injustices and systematic racism (and business leaders'/employees' desire and determination to be part of the solution) has likely only put a further spotlight on this imperative.

[4] See also https://www.mckinsey.com/business-functions/organization/our-insights/the-organization-blog/unleashing-sustainable-speed-in-a-post-covid-world-rethink-ways-of-working, https://www.mckinsey.com/business-functions/organization/our-insights/the-organization-blog/unleashing-sustainable-speed-in-a-post-covid-world-reimagine-structure, https://www.mckinsey.com/business-functions/organization/our-insights/the-organization-blog/unleashing-sustainable-speed-in-a-post-covid-world-reshape-talent

Over the last several years (and especially in 2020 YTD), we have seen themes of speed and agility (as well as, relatedly, digital commerce and technology) rapidly increase in importance on company conference calls





Note: Includes CHD, CL, CLX, CPB, EL, ENR, GIS, HSY, K, KHC, KMB, KO, MDLZ, MKC, NWL, PEP, PG, SJM, SPB
Source: Deutsche Bank analysis

There are other factors that have contributed to the need for speed and agility. These include a more efficient flow of capital to new, disruptive entrepreneurs. All place newfound demands on speed, and view an organisation as a complex adaptive system (rather than a fixed machine).

In my specialist sector of US Consumer Packaged Goods, we have already seen certain companies take great strides with their responsiveness this year. Perhaps the best example is Procter & Gamble (P&G), a company with roots dating back nearly 180 years. Within P&G, the change that many have only realised during the pandemic, was already underway before. In fact over the past decade, it has taken steps to simplify its organisation, deploy resources closer to its customers, and improve overall efficiency and effectiveness. It has also increased its presence in digital and e-commerce and incorporated real-time data. Perhaps most importantly, the company began to place higher value on localised "autonomy, accountability, agility and speed."

In 2018, for example, P&G changed its evaluation metrics to focus more on the performance of local teams. It also put more compensation at risk by widening the payout range to deliver greater upside or downside associated with over or underperformance. At the same time, the company began making a more concerted effort to supplement internal talent and capabilities with external hiring and outside partnerships. The goal was to create an organisation and culture that offered employees "bigger jobs" and a greater impact on the rewards that can come with it.

The results in subsequent years have been remarkable. Over the last nine quarters, P&G's organic growth has averaged around six per cent and the company has consistently gained market share. That compares with organic growth of around two per cent and net market share losses over the preceding five years. Meanwhile, gross and operating margins have each improved over 150 basis points.

This performance does not guarantee future success but we remain encouraged by the company's mantra that it must lead "constructive disruption." In other words, rather than becoming victimised by the rapid change taking place, P&G has embraced, if not led, such change into the future. The classic line of change being an opportunity not a threat has been realised. To us, there is no clearer articulation of a "growth mindset" within the Consumer Packaged Goods market.[5]

[5] In arriving at its current structure and organisational priorities, P&G spent time studying the cultural imperatives of many Silicon Valley companies—understanding their more iterative R&D processes, their ability to rapidly scale new ideas across the organisation, and their willingness to elevate behaviours and ideas, arguably so as to overcome "The Innovator's Dilemma," as originally identified by Clayton Christensen in 1997.

Notably, P&G's experiences have also directly informed recent organisational and cultural changes at another large consumer company: Coca-Cola. This company's vocabulary is somewhat different than P&G's, yet its purpose and priorities are similar. As with P&G, Coca-Cola had been taking steps coming into 2020 to transition itself from a geographically-centric firm, one with a "20th century" siloed hierarchy. It aimed to adopt a flatter, "networked" and team-based model empowered by technology, data, and evolving consumer insights.

Over the last two years, undercurrents of change were evident. For example, the company revamped its corporate dress code (ties no longer required). It decreased its reliance on tried and true products and adopted a greater willingness to experiment. This meant learning how to "fail fast, fail cheap" and eliminate non-productive "zombie" offerings in the portfolio.

Covid acted as a full catalyst. This year, the company has accelerated its move to what it has called a "faster future" which culminated in a full restructuring. Ultimately, while there are risks in any restructuring reorganisation, Coca Cola has a strong ability to exit the current pandemic as a stronger company.

Cementing the muscle memory

The experience of Coca Cola is not unique this year. In large part on the back of the ten strategic imperatives outlined above, covid has forced many organisations to accelerate the process of knocking down historical boundaries. These boundaries might be cultural, organisational, or geographic and by breaking through traditional silos they have streamlined internal decision-making and improved information-flow and business processes.

The key lesson has been the importance of enduring flexibility – the need to continually adjust. There is no one finite "structure" or end-state in this "agile" paradigm. However, only those organisations that institutionalise recent learnings and experiences will truly realise lasting benefits.

The change experienced this year may well have been spurred by outsized forces but they prove what is possible. The fact that some companies have been able to undergo such fundamental change out of necessity should embolden others to follow suit. There is no better time than now for businesses to embrace this challenge, and see it through.

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