

# Leading large corporations towards enterprise agility

*An executive's view*

Compiled by the members of the DACH30 working group „Transition to Agile“



## About the authors

The authors are the members of the DACH30 working group „Transition to Agile“, a group of change agents, agile transitions managers and agile coaches of large companies in the DACH region.

Contributions from named sources are the opinion of the respective authors and do not necessarily reflect the opinion of the named companies

Co-author	Company	Position
Elisabeth Schattenhofer	Allianz Deutschland AG	Leitung Change Agile@Scale
Kerstin Juston	BASF Business Services	Transformation Manager
Constanze Rieß	borisgloger consulting GmbH	Management Consultant
Alexander Kempkens	Continental	Head of Agile Transition
Heiko Büttner	DB Regio AG	Vorsitzender der Geschäftsleitung S-Bahn München
Matthias Glaub	DB Regio AG	Geschäftsleiter Personal S-Bahn München
Jörg Kiesewalter	DB Systel GmbH	Head of HR Management
Daniel Dubbel	DB Systel GmbH	Agility Master: Einheit House Of Mobile
Bernd Spelthahn	Deutsche Bank AG	Director Agile Delivery Model
Andrea Maier	Deutsche Telekom AG	Senior Change Manager / Agile Coach
Lutz Ehrlich	EnBW Energie Baden-Württemberg AG	Lead Agile Coach
Christoph Mathis	improuv GmbH	Managing Director
Holger Neumann	Infineon Technologies AG	Director Agile Center of Excellence
Sabrina Büsching	Otto GmbH & Co KG	Agile Coach im Agile Center der Otto Group
Hartmuth Geldanowski	Post CH AG	Innovations- und Agile Coach
Jens Maser	REWE Digital GmbH	Head of Delivery
Karin Tresp	REWE-ZENTRALFINANZ eG	Leitung Datenschutz Management REWE Group
Roswitha Beleiu	Robert Bosch GmbH	Senior Consultant
Burkhard Tolks	Siemens AG	Senior Consultant

## Preface

Most people in the corporate world agree that flexibility and agility are essential capabilities in today's more dynamic and less predictable business environment. Digitalization is accelerating the need for organizational structures and processes that are capable of responding fast to changes.

Modern business approaches leverage the knowledge pool of Agile, Lean and Systems Thinking to achieve business agility. Agile organizations are profoundly different in comparison to traditional organizations – not only regarding the development of customer solutions but also in regards to corporate management and internal workflows.

Well established companies are often afraid to update their operating systems for increased agility in the face of abandoning the key practices and thinking that supported their growth in the past. This seems to be especially challenging for large scale corporations.

Obviously, there will not be any universal “Lean-Agile operating system” that runs on all “enterprise hardware systems”. The operating system needs to be developed specifically in the context of each company. But some patterns can be observed which appear to make a successful implementation of agility more likely.

Large enterprises face specific challenges to integrate agile principles into their processes, governance systems and company culture. Leveraging Lean-Agile transition experiences of large corporations by forming regular exchange networks on both executive and expert level will be an important driver for such successful implementations. Based on this idea the network “Transition to Agile” was founded in order to facilitate the exchange of corporate agile transition experts from many of the top 50 companies in the DACH region. And this paper was created to share some of these insights from the network “Transition to Agile”.

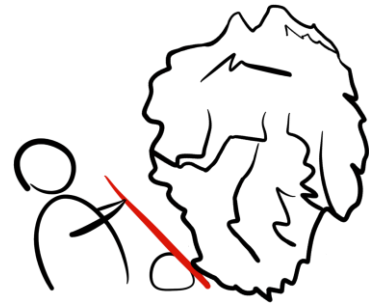
## Table of contents

About the authors.....	2
Preface .....	3
Introduction .....	5
Why agility becomes a core ability .....	6
How an agile organization may look like.....	7
Why is it hard to develop true business agility .....	9
The way to an agile organization.....	12
Critical dimensions of a Lean-Agile transition .....	13
Strategy.....	14
Structure.....	15
Processes .....	17
Work environment .....	18
Measurement and performance management systems .....	20
People .....	22
Leadership .....	24
Success factors to start your journey to become a more responsive organization .....	26
Final thoughts .....	29

## Introduction

*“Agility is a key success factor for established companies in the digital and connected age.”*

*(Volkmar Denner, Robert Bosch GmbH, CEO)*



The first agile project at Volkswagen started off as a “normal” project following the traditional waterfall approach: a new software for production control had been specified in detail and ordered from a third-party company. Meeting the requirements turned out to be difficult for the external company. Despite a lot of effort, resources and many meetings with the experts at Volkswagen it was not possible to deliver a functional piece of software for more than a year. That put the entire production start of a new car at risk. And that would have certainly been a financial disaster for Volkswagen.

Something substantially had to be changed regarding the approach. The responsible departments at Volkswagen jointly decided, supported by the management board, to switch to an agile project management approach. A cross-functional team with all required expertise was pulled together and co-located in one office area. Direct communication and daily standup meetings accelerated information flow and improved collaboration significantly. An agile coach helped the team to better understand and adapt agile principles and practices to their advantage.

Within a short time the team succeeded in bringing the project back on track. Within a few months the software was delivered – two weeks before the forecasted new release date.

SAP started a Lean-Agile transformation on a far larger scale; on an enterprise level in 2008. Coinciding with the financial crisis the company was suffering from stagnating revenues and wanted to leverage gains in productivity. SAP had to catch up with the speed of competing startup companies. Top management had identified Agile as the means to improve value delivery, productivity and quality.

Today SAP is growing again in revenues (+100%) and size (+60% employees). Closer customer collaboration, much shorter cycle times for new product development and smaller team sizes are notable signs of this new way of working.

These are just two examples from large corporations and their experience of leveraging the power of Lean and Agile principles and practices. The list goes on and on.

However, there is also another list of less successful or failed attempts. That list is just as important as what we usually celebrate as success stories. By analyzing the failed attempts we learn a lot about our own company system and can adapt the next attempt accordingly. An agile transformation is not an aim and fire initiative. It rather is a continuous improvement and learning process.

## Why agility becomes a core ability

*"What is going to make us successful is adaptability"*

*(Joe Kaeser, Siemens, CEO)*



The digital revolution sweeps over the corporate world all around the globe. Its business impact is accelerated by changes in the social and political value systems. Almost any industry is affected by a dramatic change of market expectations, competitor landscape and business models.

Energy companies like EnBW and Siemens need to make the transition from central fossil fuel and nuclear energy generation to decentralized renewable energy. Automotive companies such as Daimler, Volkswagen and Bosch need to catch up with new competitors and business models for e-mobility, autonomous driving, connected cars, and car sharing. It is still unclear what Automotive 2.0 will look like, let alone how to earn money from it.

No industry branch appears to remain untouched by disruptions. As a consequence all companies need to refine their way of running the business in order to cope with

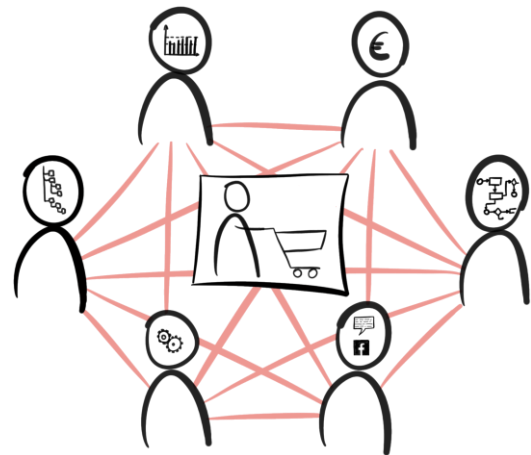
- increasingly volatile and unpredictable markets
- new markets and new competitors
- much shorter development cycles
- steadily increasing complexity

These are the main challenges identified by all large corporations participating in our network. All organizations need to find ways allowing them to nimbly adjust to change and to take advantage of emerging opportunities, rather than seeing it as a threat to well established structures and processes.

## How an agile organization may look like

*“Instead of cumbersome structures that emphasise hierarchies, EnBW favours an agile organisation that can respond rapidly to customer wishes in the service business.”*

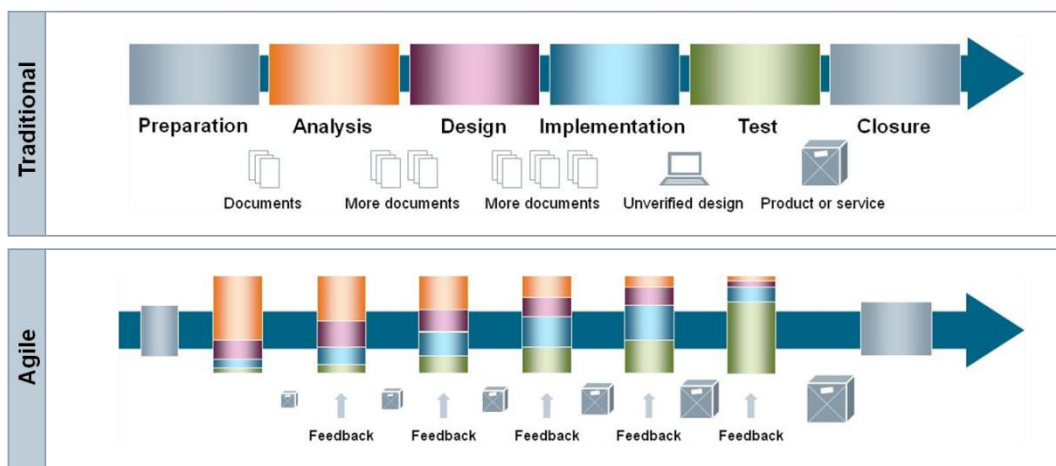
*(EnBW Press release 17.06.2013)*



Many argue that only the fastest will survive. But speed in today’s business environment translates into responsiveness and flexibility rather than just doing things faster and more efficiently. It is an organizational capability that needs to be developed and maintained.

The second pillar of business agility is the organizational capability to innovate. It becomes increasingly difficult to predict which ideas will meet customer needs and which will not. Three out of four startups fail because their products do not have customers. The success rate of new ideas in the corporate world is expected to be at a similar magnitude. The more ideas we can create and validate with customers, the more likely we are to find the few ideas that will turn into real innovations. Therefore, the company that can in-expensively prototype and validate the most ideas in a short timeframe has the highest probability to get ahead of the race.

Agile companies consistently focus on the creation of customer value. For Swisscom the answer to an unpredictable environment is to always put the customer experience first. It is one top strategic objective of the company and starts with understanding the customer’s needs thoroughly. Then the solution evolves through a series of prototypes until a minimal viable product can be delivered.



Many companies have developed their own, appropriate models of agile organizations. Although the models are unique and tailored to the specifics of the organization some characteristics are common to most of them:

- Continuous delivery of customer value in small increments along the whole value stream (no silos!)
- Continuous improvement and learning through short feedback loops; horizontally and vertically
- Continuous knowledge creation through experiments and knowledge sharing
- Emergent backlogs (requirements), planning, architectures and design
- Systematic prioritization by value
- Cross-functional teams with greater autonomy
- Shared ownership of business outcomes
- Catalytic leadership style
- Governance based on long-term business value
- Attention to technical excellence
- More enjoyable and humane work environment
- Trust, openness and transparency

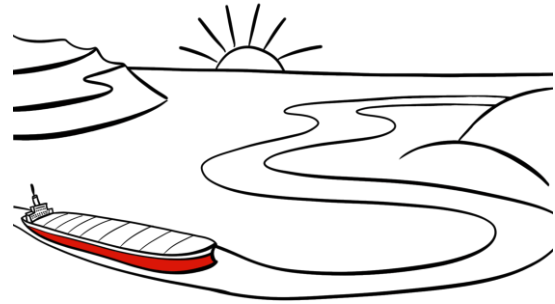
To embed agile characteristics into the company's operating system, enterprises leverage different combinations of Lean-Agile frameworks and models such as Lean Management, Agile Software Development, Scrum, XP, Kanban, Lean Innovation, Scaled Agile Framework, Systems Thinking just to name a few.

SAP used Design Thinking and Scrum as a baseline to implement Lean development. Deutsche Telekom leverages Scrum, Kanban, Lean Startup and Design Thinking for product development. Scrum did also prove to be helpful in supporting transition and change initiatives at Volkswagen.



## Why is it hard to develop true business agility

*“If you look at the history of corporate culture, you see that it’s about improving efficiency, increasing margins, and eliminating risk. But none of this works in the world of the Internet, where things change so incredibly fast.”*

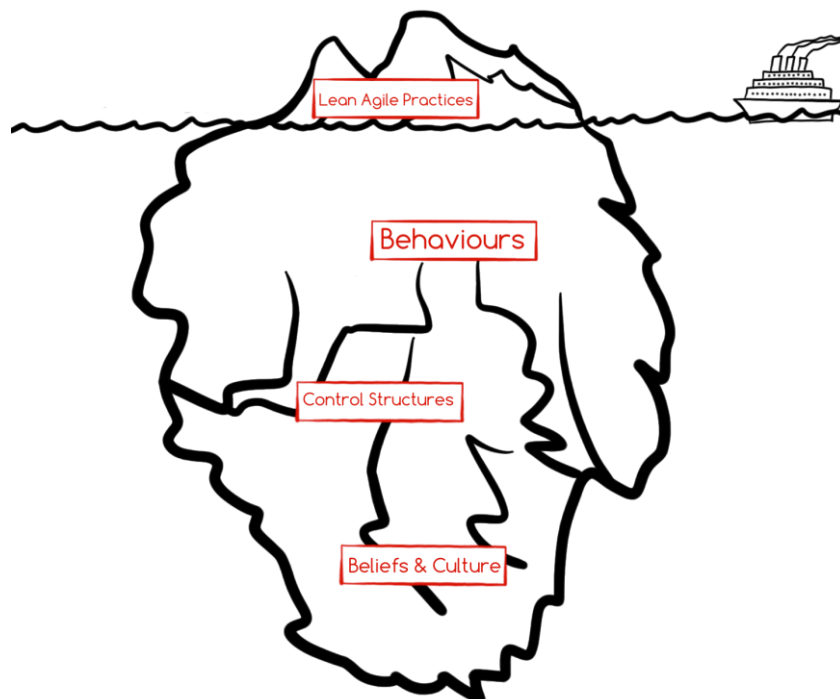


*(Richard Gingras, Google Inc., Senior Director of News and Social Products)*

All major corporations in the DACH region have started their journey towards agility. But it is not an easy ride. Why do so many established companies struggle in their transition?

Agility requires a true **paradigm and culture shift** of an organization. Some of the prevailing management paradigms are inadequate to the problems of uncertainty and continuous innovation. The current management system and its underlying beliefs successfully helped to power our economic progress over more than a century.

But the approach was primarily introduced and improved to get semiskilled employees to perform repetitive activities in order to produce large quantities of goods in a complicated environment. Hierarchical leadership structure, work performed in functional units, maximum risk mitigation, precise definition of roles, rules and processes, detailed plans and budgets, and individual goals and rewards are tools of certainty and predictability.



*“It is not enough to change strategies, structures, and systems, unless the thinking that produced those strategies, structures, and systems also changes.”  
(Peter Senge, *The Dance of Change*)*

New paradigms such as main focus on innovation and responsiveness, incremental and iterative approaches, knowledge creation through rapid experimentation, embracing of risk, distributed leadership structures, information transparency and focus on flow across the entire value stream can help to update the company’s operating system. Unfortunately, some of the new paradigms appear to be counterintuitive to what used to be common sense in the past and hence met with resistance.

Interestingly, back in the nineties, manufacturing was at a similar tipping point like enterprises are today with regard to prevailing management paradigms. Faced with the challenge of small, strongly customer-driven markets and a shortage of resources, Toyota developed the *Lean Manufacturing System* with its new paradigms

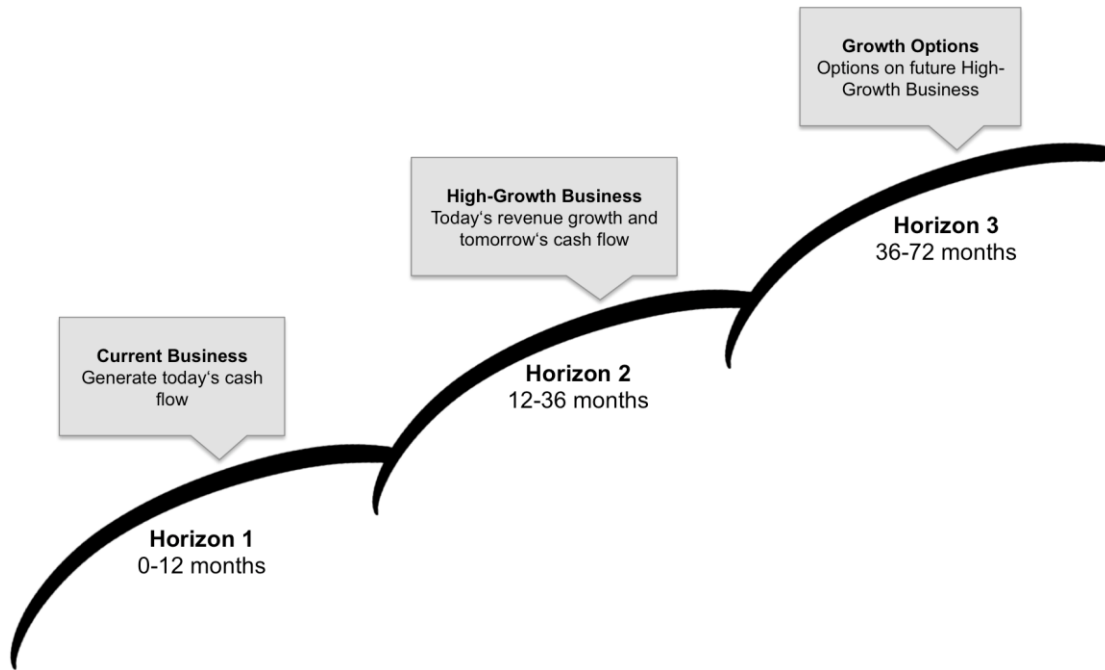
- from extensive planning and central control to pull and adaption,
- from focus on cost and utilization to flow and continuous improvement,
- from command and control to mentoring

Many people in other companies found Lean counterintuitive and lacked a deep motivation to change long established habits. It took many years, but today, Lean is the most common management model in manufacturing.

Purpose and main principles of an agile transition must be shared between all executives of the organization. Also expectations have to be aligned in advance: it will be a longer journey, there is no smooth and direct road to it and it requires continuous management engagement and support.

The second challenge for an agile transition of a large corporation is the need to **develop innovation and flexibility in coexistence with the capabilities of efficiency and stability**. The first capability is essential from new business whereas the second capability is of equal importance for the existing business. Both require different strategies and tactics. First learnings exist and further will emerge. Information exchange between companies can accelerate the learning process to the mutual benefit.

Some companies adopt the three horizons model to adapt structures and governance to the needs of different aspects of their business.



The typical distinction of the focus points in the three horizons could be described as follows:

	Horizon 1	Horizon 2	Horizon 3
Goals	Maximize profit	Maximize outcome, Start contributing revenues	Create new opportunities
True North	Optimize, maximize flow	Continuous improvement	Disruptive ideas
Key metrics	Revenue vs. plan, market share, profitability	Rate of sales, target accounts	Brand recognition
Tools	Lean, Kanban	Scrum, Scaled Agile Framework	Design Thinking, Lean Startup

A third challenge arises from the need to develop new capabilities and skills. It forces companies to focus on driving constantly system changes and amplified learning to keep up with the complexity and the rapid development in the business environment.



## The way to an agile organization

*Willingness to change is a strength even if it means plunging part of the company into total confusion for a while.*

*(Jack Welch, former CEO of General Electric)*



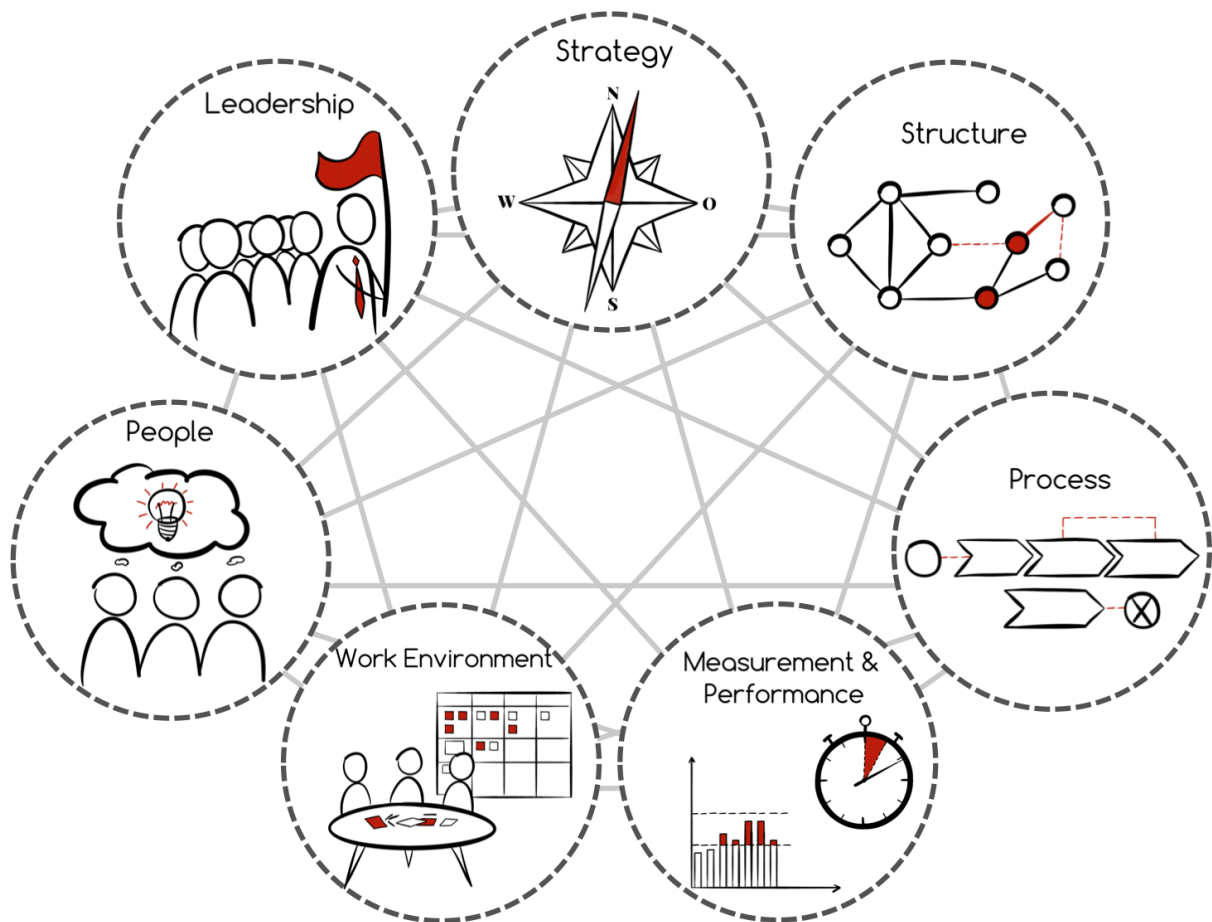
Agile at Deutsche Telekom started with small groups of people in the IT development departments who were convinced that the new business challenges cannot be fully met with the established way of working. Teams experimented with the Scrum framework and noticed the potential of agile approaches. But quickly people were confronted with limits of the system they were embedded in and they got stuck. In 2010 the managing board of the business unit “Products and Innovations” embraced the potential of agile methods and decided to drive the transformation into an agile organization. With clear management commitment, an Agile Transition Team was established with managers and experts from all key functions. That included key players from product management, R&D, product development and IT, process and project management, and finance. This approach enabled the organization to successfully address many of the impediments by adapting the system.

One business unit at Siemens followed a similar road. First experience with Scrum in software development was available as well as extensive knowhow in Lean Manufacturing. The new CEO included a Lean-Agile transition in the strategy of the business unit. A transition team with thought leaders from all functions was assembled, six strategic projects were turned into lean pilot projects and a lean office for extensive support was established.

We see similar patterns in other large corporations. Single experiments and pilots in teams first, more holistic approaches on organizational level with top management support later. Lean-Agile transitions need to be both a top-down and bottom-up initiative. And it needs to address all critical dimensions of a transition; not just the new methods.

## Critical dimensions of a Lean-Agile transition

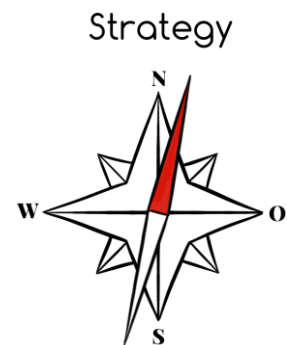
The following dimensions are considered to be critical for a successful transition:



All seven dimensions require attention and will be briefly described.

## Strategy

*Agility is a strategy – Lean-Agile is a tactic.*



There have to be compelling, clearly communicated reasons for an organization to take on the strain of a Lean-Agile transition. Considering the current business environment and the disruptive changes in technology and society the need for more agility, responsiveness and customer-centricity appears to be obvious. Change will be the new normality and agility the associated core capability of an organization. Companies like SAP, Swisscom, Daimler and Bosch explicitly included agility and striving for an agile organization to their overall strategic goals already.

While adding agility to the strategic objectives, compliance with other strategic goals needs to be ensured. Obviously, competing goals such as 20% cost cutting and 50 % shorter product release cycle at the same time do hardly support each other.

Once agility is a strategic goal it has to be made more tangible for employees and communicated comprehensively. Toyota always communicated its vision of a Lean company with the three principles: *Single piece flow, 100% value adding activities, zero defects*. Everyone is aware that this can never be achieved fully but it provides perfect direction and guidance for decisions. Another example is a Siemens business unit with its new principles: *focus on value, build quality in, deliver fast, optimize the whole, create knowledge, decide at the right time, respect people and keep improving*. If in doubt people can use the principles in decision making to prioritize these values over others.

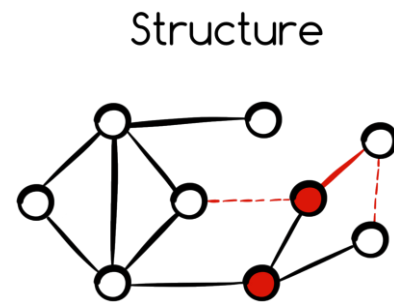
A transition to agility will be and has to be inseparably linked to a fundamental shift in the culture of the organization. It requires increased levels of openness, trust, risk-taking and experimentation.

Another important step is to connect the strategic goals of agility to derived tactics used to implement the strategy (e.g. processes, structures, practices) alongside leading indicators of improvement on all levels of the organization. Lean management provides proven tools for strategy deployment, widely known as Hoshin Kanri or X-Matrix. From the long-term vision, through strategy, to tactics and day-to-day actions, each level is a hypothesis that requires experimentation. Learning from the experiments feeds back to adapt the direction. Basically, an organizational transition is approached in the same way as the development of a new customer solution to accommodate for complexity and dynamics in the system – hypothesis driven incremental, iterative development with continuous experimentation and adaptation.

## Structure

*“Whereas firms with a vertical mindset like IBM, are struggling with declining revenues and bloody cost-cutting reorganizations, firms in the horizontal world of Agile, like Apple and Google, are busy growing and inventing the future.”*

*(Steve Denning, Management thinker and author)*



Structure follows the strategic intent of an organization. Consequently, if agility becomes a strategic goal the structure needs to be revisited accordingly.

Traditional hierarchies and work in functional groups does neither accelerate the development of innovative solutions and business models nor allows for a fast response and adjustment to new information. Network-structured, interdisciplinary end-to-end teams organized around an idea, a product or a customer segment seem to be more successful in today's business world. Most startups and some larger companies are organized as networks.

These interdisciplinary groups reduce the unnecessary friction and information loss that is inherent when work passes from one department to the other. Team members should be dedicated to one team to the extent possible. Maintaining stable teams over a longer period of time increases the productivity of the team.

Innovation requires risk and people from different backgrounds willing to think outside their boxes. More and more companies understand the need to integrate new approaches such as innovation labs system (e.g. Deutsche Bank Innovation Labs).

In July 2016 Daimler CEO Dieter Zetsche announced that the company is implementing swarm organization structures in a couple of emerging critical areas such as digitalization, mobility services and e-mobility. One driver is the perceived need for speed and flexibility in the decision process. Today the company has up to six levels of decision making which is going to be reduced to two levels by 2020. Another driver is the need for stronger interdisciplinary collaboration along the value chain and team empowerment.

It is very likely that the operational structure will become more important than organizational structures of a company. Network structures can supplement hierarchical structures but not dismantle them completely in the corporate world.

One core element of networks in agile organizations are Communities of Practice. These are informal groups of experts and enthusiasts established for knowledge-sharing and exploration across teams (e.g. Scrum Masters, Architecture, Continuous Delivery, and Agile Leadership). The groups usually form and disband based on current needs. They can be managed or unmanaged. Often a facilitator is a success factor for effective learning and experience exchange in the group.

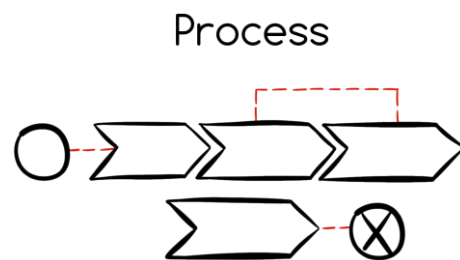
But creating networks and seamless collaboration between employees in a traditional hierarchy is far from easy. Why? Actually, it is in sharp contrast to common practices of many large corporations in the previous years. Functional departments are organized as cost or profit centers. Silo thinking and local optimization are the consequence on the expense of overall customer and business value. New structures need to address that dysfunction.



## Processes

*A great process isn't designed; it is evolved. So, the important thing isn't your process; the important thing is your process for improving your process.*

*(Henrik Kniberg, Agile & Lean coach, working mostly with Spotify & Lego)*



If you aim for agility the main drivers for your process design have to be customer value, adaptability and responsiveness.

Real agility can only be established if the traditional sequential phase-gate process model is replaced with an incremental and iterative process model. Lean-Agile means creating a constant flow of value to the customer or delivering at least much more frequently in small increments in order to create plenty of learning opportunities through feedback.

An agile organization usually has a broad vision on what, and ideas on how, to achieve it. Then people focus on the next small increment. You need a process to rapidly test ideas early and validate impact with data. The approach of having a plan for one year and then following it is not a valid concept anymore in a digital world.

Basically, the core process in an agile company can be summarized as a continuous loop of discovery and delivery activities

1. Sense external signals or patterns
2. Come up with a problem statement (as opposed to a list of requirements)
3. Come up with a hypothesis (as opposed to a detailed plan and estimates)
4. Run multiple experiments (as opposed to working off your feature list)
5. Analyze and draw conclusions
6. Start again

Lean-Agile processes are adaptable processes with room for individual process tailoring. Furthermore, these processes should encourage workers at all levels to participate and empower them to execute process improvements.

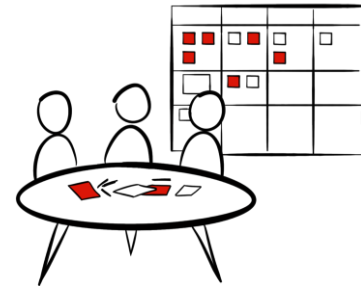
Support processes like budget planning and controlling processes need to be revised too. Traditional yearly budgeting, with fixed budget allocated to projects does not support agility. Incremental budgeting for the next minimally viable product will become more common. Depending on the market feedback, after the launch of the minimal viable product, future funding will be allocated or not.

## Work environment

*“Innovation comes from people who take joy in their work.”*

*(W. Edwards Deming, professor, author, lecturer, and management consultant)*

## Work Environment



A suitable work environment has a fundamental impact on creativity and productivity of knowledge workers. It needs to facilitate collaboration and seamless information exchange.

Despite the advances in collaboration tools co-located teams are still far more productive than geographically distributed teams. Many companies started to provide joint office space for the end-to-end teams. They give teams some freedom to arrange the work environment according to their specific context and needs.

The brain gym of Swisscom in the center of Bern is a good example how office buildings of agile teams may look like in the future. The different areas of the building are specifically configured to the needs of the teams. They facilitate communication but also provide space for focused work in silence. The large entry hall is an attractive meeting place. It is even open to the public. Employees can easily invite potential users from the shopping area outside of the building, show them a prototype of the latest idea and gather feedback.



Another example for a modern work environment is the InnovationCampus of EnBW. A bright, loft-like building with different styles of tables and chairs, a couch, soccer table and colored post-its on the walls.



Making invisible work visible by means of visualization is a powerful Lean and innovation tool used by many companies. As opposed to the physical goods in manufacturing, it is difficult to see the flow of knowledge work and where it gets stuck. Without seeing it, teams find it hard to manage and improve the workflow. Work environments should support visualization. Physical boards in the team area are always the preferred approach; at least at the beginning of the transition. For distributed teams software tools with virtual boards are required.

At Siemens visualization is one core practice of many Lean-Agile transformations. In one business unit Kanban boards sprung up all over the place shortly after the first pilot teams started off. Everyone embraced the benefits of visualization: e.g. the project teams, the transition team, the community of practices, product lifecycle management, support functions and many more. Additionally, top management encouraged the setup of a dedicated room (*Obeya room*) with boards for high level visualization of the business unit portfolio including new opportunities, ongoing key projects, transition activities and improvement initiatives. That gave all teams the chance to highlight impediments which they cannot resolve within their own area of influence. Every Monday the management team met with team representatives and other interested stakeholders in the room to collaborate on these impediments and agree on next steps. <sup>1</sup>

**Focus Projects**



**PLM Kanban**



**Core problems**



**R&D Projectboard**



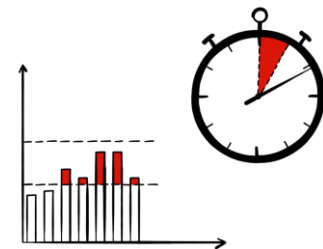
<sup>1</sup> <http://lanyrd.com/2015/a42connect/sdtqht/>

## Measurement and performance management systems

“... we continue to develop our remuneration system to reflect the increased demand for personal initiative, cross-divisional collaboration, and entrepreneurship. We therefore changed our worldwide remuneration system for specialists and executives at the beginning of 2016. The new variable salary component, the Bosch Performance Bonus, is now based entirely on divisional and company performance. ... In this way, we give greater weight to work across divisional boundaries...”

(Bosch, Annual Report 2015)

### Measurement & Performance

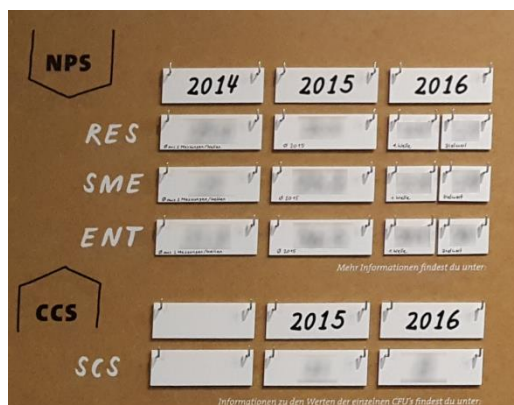


To achieve business agility companies also need to review and refine performance measurement systems. First, companies need to measure and manage progresses in the direction of the new goal. Secondly, actions and behaviors of all people in the organization have to be aligned towards the overall goal. An agile transition is doomed if the measurements are not adapted.

Established indicators for final business outcomes (e.g. revenue, income, profitability) remain unchanged. But in a complex system of an organization these are lagging indicators not capable of providing insides into what inputs or changes lead to improvement or degradation of the system respectively. Additionally, leading indicators are required.

Leading indicators need to show how successful an organization is in developing the target capabilities such as flexibility, responsiveness, innovation and customer-centricity. The overall indicators for executives to manage the organization should focus on what finally matters to customers (external) and on value streams rather than functions in isolation (internal).

Swisscom consequently focuses on customer-centricity. In addition to proven metrics such as *Customer Satisfaction* and *Net Promoter Score (NPS)*, the organization also measures internal capability building by applying a *Customer Centricity Score (CCS)*. The score is based on self-assessment by the Swisscom employees who assess a couple of critical factors such as knowledge about the customer, customer integration, cross-functional collaboration, prioritization, and learning.



Other recommended metrics in an agile organization are customer value delivered, cycle time (across entire value stream), defect rate or cycle time for resolving blocking issues. Monitoring innovation needs special attention making sure that the most-promising ideas are identified and accelerated, and the least-promising ideas are abandoned.

Some traditional metrics do not work in this new context. Sometimes these metrics are even actively harmful to the improvement effort. Resource utilization is an example that is still used in several organizations. While increasing resource utilization rate, the number of items waiting to be processed increases exponentially. High utilization correlates with long cycle times and delays which in turn lead to constant interventions to expedite some requests over others.

*[performance measurement is] the most powerful inhibitor to quality and productivity in the Western world.*  
(W. Edwards Deming)

Delivery of customer value is a team activity and the collaboration between all value stream partners is usually more important than the individual performance. Individual bonuses will almost always causes people to withhold collaboration, withhold information and try to optimize the area upon which the bonus is paid.

An increasing number of companies are modifying their performance management systems to evaluate and reward performance across the entire value stream of a division or product line. Infineon abolished individual bonuses in 2010 <sup>2</sup>, Bosch in 2015 <sup>3</sup> and Daimler in 2016 <sup>4</sup>. Other companies like SAP experiment with alternative approaches to traditional annual employee ratings. Rewarding behavior and not only outcomes is another consideration in many companies to better support ongoing changes. New ways for employee evaluation and motivation are likely to emerge.

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<sup>2</sup> <http://www.compbenmagazin.de/der-relaunch-des-bonus/>

<sup>3</sup> <http://www.faz.net/aktuell/wirtschaft/bosch-chef-volkmar-denner-schafft-boni-ab-13812475.html>

<sup>4</sup> <http://www.stuttgarter-zeitung.de/inhalt.daimler-personalchef-porth-bonus-soll-sich-staerker-am-unternehmenserfolg-orientieren.1fb4d476-52ad-438e-9a50-88823918ff4b.html>



## People

*“... one of the biggest wastes these days, I think, is waste of talent, that a lot of people in the organization are capable of being far more innovative than they’re ever being asked to do.”*

*(Darrell Rigby, Bain & Company, Partner)*



Inspired and energized employees are crucial for continuous delivery of innovative customer solution and organizational improvements. Teams are most productive if they can contribute to a meaningful purpose, have a high level of autonomy in their work and see a chance to get better at something that matters to them (i.e. the three motivators Purpose, Autonomy and Mastery according to Dan Pink). Greater freedom often results in greater responsibility. People do not need someone telling them what to do. They rather strive when they are part of a collaborative team and challenged with a problem and some constraints.

New technologies, new responsibilities and the paradigm shift in the motivation model require new skills and competences for team members. Traditional class-room training is often not the most efficient way to acquire the hard and soft skills needed. People learn far better by practicing in the own work environment. This is especially true for Lean-Agile values, principles and practices. They may appear appealing and obvious in the training room. But once people get back to work, de-motivation sets in easily due to system impediments and process-related and behavioral obstacles. Consequently, initial enablement training should always be accompanied by subsequent coaching.

Many companies have built up own coaching capacities while starting an agile transition. SAP recommends one coach per 50 people plus a central agile core team on global scale. The coaches help new teams to understand and enact agile principles and practices. They train and coach the team members on-the-job. Coaches help agile teams to continuously improve their collaboration. Additionally, coaches work with management and other stakeholders to create a system where agility can thrive. And they usually support work of communities of practice inside and outside the organization.

Early integration of all important stakeholders is another success factor of a Lean-Agile transition. One particular important stakeholder in Germany is the workers council. Some agile-related changes in the way of working are subject to co-determination. Examples are the shift from assigned work to self-organized work, assignments to cross-functional teams and the risk of individual performance monitoring through work item cards on the Kanban boards.

One unit of Deutsche Telekom was one of the first large organizations that concluded on a company agreement with the workers council covering agile approaches. The workers council had been involved from the very beginning when the first pilot teams started. The benefits of the new agile approach to both, company and employees became apparent soon.

Some of the workers council members were even part of an agile team as Scrum Masters and could provide very valuable feedback. Representatives from the Agile Transition Team, Human Resources and Workers Council formed a group to work out an agreement. They did it an “agile way” by aiming for a short and concise agreement of the crucial aspects, using an annex for content that is more likely to change and using feedback and learning loops to adapt. They even included the “Agile Manifesto” as a value base for this agreement in the preamble of the contract.

## Leadership

*“Workers are responsible for only 15 percent of the problems, the system for the other 85 percent. The system is the responsibility of management.”*

*(W. Edwards Deming, professor, author, lecturer, and management consultant)*



Main responsibility of executives is to ensure that customer and business value are continuously generated. The performance is determined by the operating system of the company. Changes in performance and behavior require changes in the system by management who owns the system.

One crucial task of management is to continuously adjust the system within everyone operates. First, that means helping teams to build better systems. Secondly, leaders ensure that dysfunctions and demotivating policies and rules get eliminated. Leaders create a safe environment for learning and mutual influence.

More than ever, in a modern digital company it is all about people because talent and knowledge of engaged people is the most valuable asset. Many studies and own experience indicate that most companies have quite some potential to unlock the intrinsic motivation of people to truly reach their highest potential. The Gallup Employee Engagement survey found out that “87% of employees worldwide are not engaged at work. Companies with highly engaged workforces outperform their peers 147% in earnings per share.”

Important attributes of leaders in agile organizations in the digital age are the ability to

- Provide and communicate direction (compelling vision and purpose, strategy)
- Take a systemic view and remove systemic impediments
- Truly engage, empower and develop individuals and teams.
- Encourage people to steer their own development and to solve their problems.
- Role model the new behavior and change you want to see in the organization

Continuous learning and improvement as well as fast, decentralized decision making is only possible when leadership is more distributed to all levels of the organization. Teams and team members need that sense of empowerment to feel encouraged to come up with improvement and good decisions. Leaders trust people to solve their problems themselves.

An agile organization is based on a modified system and according values leading to a new company culture. The values include increased levels of trust, openness, transparency, feedback, courage, experimentation and proactive knowledge sharing. Obviously, a new culture cannot be announced and implemented. It can only evolve through a change in the system and the behavior. And one of the most important tasks of managers and leaders in digital companies is to be a role model in the behavior they want to see.



The *leadership principles* of Deutsche Telekom reflect this clearly and, if consequently applied in daily leadership work, support the transition to an agile organization:

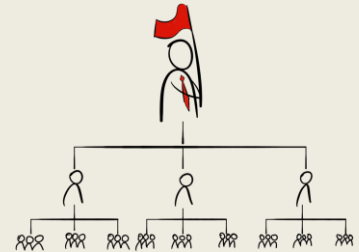
- "Innovate"
- "Collaborate"
- "Empower to Perform"

## Success factors to start your journey to become a more responsive organization

The following steps are designed to start your journey to further increase the organizational capability to respond faster.

### ➤ Start top-down

Active participation of the leadership team is essential. Organizational ability to deliver value quickly and to respond to change is mainly determined by the management system in which people do their work. Advances in the system can only be initiated by the leadership team. Factors you will have to consider are governance, organization design, employee capabilities and communication. To cover those you need to support the vertical and horizontal agile transformation along value chains and government structures. This requires substantial management support and can't be achieved by the teams alone.



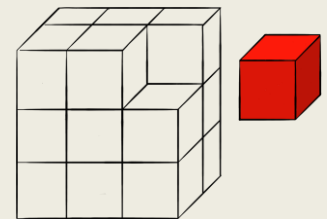
### ➤ Identify significantly smaller product increments with high business value

*"Often reducing batch size is all it takes to bring a system back into control."*

*(Eli Goldratt, Management expert and author)*

Screen your project portfolio and look for projects where business would benefit most from significantly reduced time-to-market. Then define the scope for a Minimal Viable Product. Often a minimal set of features can be much smaller than what people usually can imagine in the first place.

Tipp: You may encourage people to define a Minimal Viable Product by intentionally cutting back available development time by a factor of two or three.



### ➤ Form dedicated team(s) along the value stream

Don't change structures right away. Let dedicated people from all required parts of the value stream organize around the Minimal Viable Product. Train and coach the team members to collaborate and self-organize. Provide them the environment to become more productive. Part of this is a dedicated product owner with empowerment to decide on behalf of the business.



Another important lever is allowing people to work towards

aligned goals that focus on team success rather than on individual accomplishment. Emphasize completing work vs. starting work to keep the work-in-progress within capacity of the team.

Don't underestimate the change effort for people who are used to communicate via documentation and handoffs. Suddenly they are asked to continuously collaborate. Output will drop during the initial learning phase. Experience shows that performance increases significantly later on.

➤ **Conduct a successful pilot and improve continuously**

Start with a pilot and then expand from there. Use the pilot as a learning opportunity to see what works in the current context of your organization. Keep a consistent focus on improvements to make sure that practices are effective and evolving.

Unearth organizational impediments and address the most critical ones first. Use incremental change and fail-safe experiments to find solutions that work in your organization. Retrospectives both in the team and with the organization are a powerful tool to adopt a learning mindset.



➤ **Make all work visible**

Most of the work in an organization is knowledge work and of a more intangible nature. In order to manage the work and improve the way of working the people collaborating in the value stream need to make their work visible to each other.

For making work visible, a culture shift for people to feel comfortable with transparency of work is required. In many organizations transparency was a request from management and closely related to getting into trouble when problems became transparent.



➤ **Focus on identifying and reducing delays**

Delays are the most significant source of waste in knowledge work. Pay attention to queues and handovers. Limiting work-in-progress is a proven way to reduce delays across any value stream.



➤ **Provide training and coaching**

*“... the most powerful form of learning is not accessing what other people already know. It’s driving new knowledge creation through practice in the workplace itself, rather than in a training room.”*

*John Hagel, Deloitte, Co-chairman of the Center for the Edge*



High-quality training is a first important step. But that is not enough. People and leaders need advice and coaching to embrace the new values, principles and practices and adapt them to their specific context. Start to build internal coaching capabilities. Many organizations find it beneficial to pair internal coaches with experienced external coaches in the first phase of the transition. Keep in mind: revolutionary change needs to go hand in hand with evolutionary and emergent practices that might be working differently for each company. We are talking pioneer work here and not adoption of good practices.

## **Final thoughts**

Business Agility is essential for an organization in order to survive and succeed in this digital age. We believe that achieving holistic business agility will be one of the key survival factors for large scale enterprises in the coming future. The ultimate goal of becoming an agile enterprise is not only anymore a matter of achieving financial results at the end of the quarter but the ability to withstand the increasing disruptions on the market, society and ecology and to use them as future business and learning opportunities.

Although there is no universal off-the-shelf guideline on how to implement agility many of the “ingredients” are well known. In the beginning you will not have a comprehensive master plan. Rather provide a meaningful vision, start small and use short build-test-learn cycles. Use the experience many other companies have been collecting on their journey to an agile organization without copying them.

For this purpose, the authors of this paper have formed the “Transition to Agile” network, a unique and comprehensive network of agile transition managers and coaches of the big global players in the DACH region. Participants periodically meet for work sessions to exchange experience and develop recommendations around issues that are specific to agile transitions of large corporations.

We suggest a similar network for C-level executives of our companies to learn from peers. “Transition to Agile” would welcome the chance to facilitate the executive meetings and offer our services as a sparring partner for reflections on large-size agile transitions.

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