Public sector organizational agility

NACO BUSINESS OF COUNTIES FORUM

Discussion document | September 2018
Industrial Economy

Detroit 1967

Silicon Valley 1967
Digital Economy

Detroit 2017

Silicon Valley 2017

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“VUCA” challenges the way public sector institutions are organized

<table>
<thead>
<tr>
<th>Definition</th>
<th>Public sector challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>V</strong>&lt;br&gt;Volatility. The nature and speed of change</td>
<td>▪ Hierarchy is too slow to share information  &lt;br&gt;▪ Need to change ways of working faster than every 2-3 years</td>
</tr>
<tr>
<td><strong>U</strong>&lt;br&gt;Uncertainty. Lack of predictability</td>
<td>▪ Budgets become out of date even before completed</td>
</tr>
<tr>
<td><strong>C</strong>&lt;br&gt;Complexity. Situations have multiple interconnected parts and variables, linear solutions fail</td>
<td>▪ No “single leader” at the top can orchestrate the solutions</td>
</tr>
<tr>
<td><strong>A</strong>&lt;br&gt;Ambiguity. Haziness of reality, lack of valuable information</td>
<td>▪ Sensing weak signals and acting on them in the frontline becomes crucial</td>
</tr>
</tbody>
</table>
Agile public sector organizations balance the conflicting objectives of simplicity, stability, and effectiveness, and flexibility and quick reaction time.

**Simplicity, stability & effectiveness**
- Central coordination and standardization
- Long term aspiration and strategy
- Stability to allow people to focus on mission
- Strong leadership and steering to ensure alignment

**Flexibility and quick reaction time**
- Local responsiveness and flexibility
- Rapid reactions to emerging changes
- Constant change to keep at pace with the dynamic external environment
- Autonomy to ensure engagement and motivation
Agile organizations manage to crack the paradox – being both Stable and Dynamic at the same time.
An Agile Organization: A living, evolving “organism”

FROM
Organizations as “machines”

TO
Organizations as “organisms”

Network of empowered teams that work to achieve a common North Star and can be quickly redeployed

Leadership playing the role of an enabler that helps teams achieve their missions
Agile organizations exhibit 5 trademarks, underpinned by 18 stable and dynamic practices

<table>
<thead>
<tr>
<th>Stable practices</th>
<th>Dynamic practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared purpose and vision</td>
<td>1</td>
</tr>
<tr>
<td>Actionable strategic guidance</td>
<td>2</td>
</tr>
<tr>
<td>Action-oriented decision architecture</td>
<td>5</td>
</tr>
<tr>
<td>Fit-for-purpose accountable cells</td>
<td>6</td>
</tr>
<tr>
<td>Standardized ways of working</td>
<td>9</td>
</tr>
<tr>
<td>Performance orientation</td>
<td>10</td>
</tr>
<tr>
<td>Shared and servant leadership</td>
<td>14</td>
</tr>
<tr>
<td>Cohesive community</td>
<td>15</td>
</tr>
<tr>
<td>Entrepreneurial drive</td>
<td>16</td>
</tr>
</tbody>
</table>

SOURCE: McKinsey Global Survey: How to Create an Agile Organization, October 2017
Network of autonomous teams

**Key characteristics**

- Clear, flat structure
- Fit-for-purpose accountable cells
- Hands-on governance
- Distinct accountable roles
- Robust communities of practice
- Active partnerships and eco-system
- Open physical and virtual environment

**Example**

![ING logo](image)
ING created a network of 300 autonomous teams that are grouped into 13 tribes.

<table>
<thead>
<tr>
<th>Experience Tribes – “to the shop”</th>
<th>Service Tribes – “in the shop”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail banking</td>
<td>Daily banking</td>
</tr>
<tr>
<td>Advice and affluent</td>
<td>Payments</td>
</tr>
<tr>
<td>Business banking</td>
<td>Mortgages</td>
</tr>
<tr>
<td>Securities and private banking</td>
<td>Business lending</td>
</tr>
</tbody>
</table>

**Enabling tribes**
- One analytics
- Omni channel experience
- Omni channel building blocks
- Client information management
- Fraud and cybersecurity

**Centers of expertise**
- Communication
- Pricing, etc.
Operating in rapid and iterative learning cycles

**Key characteristics**
- Rapid iteration and experimentation
- Standardized ways of working
- Performance orientation
- Information transparency
- Continuous learning
- Action-oriented decision making

**Example**

ZARA
Early and frequent testing with “customers” enables incremental development.

**Traditional model**
Non-iterative and non-incremental development

<table>
<thead>
<tr>
<th>Time</th>
<th>How functionality is provided to “customers”</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
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<td>2</td>
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<td>4</td>
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<td>5</td>
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</tbody>
</table>

**Agile model**
Iterative and incremental development

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<td>5</td>
<td></td>
</tr>
</tbody>
</table>

*Constant feedback and visible progress*
Co-create value with and for all stakeholders

Key characteristics
- Stakeholder and customer centric
- Shared purpose and vision
- Sensing and seizing opportunities
- Flexible resource allocation
- Actionable strategic guidance
- Business model innovation

Example

Haier
How Internal Revenue Service shows agility in response to a crisis...

**Stable backbone**

**Process**
- Process design and decisions
  - Operating units have extremely consistent and well-codified standard ways of completing the lifecycle of tax activities - over 200 million US citizens and millions of businesses rely on this process for rapid and accurate tax returns and refunds

**Systems and technology**
- IRS-wide adoption of new analytics, business intelligence and data management software such as software as a service (SAS) established ongoing access to core computing and analytics competencies

**Governance**
- Strong decision making team at the top, with Operating Unit directors empowered to make decisions about fraud cases to pursue, helping direct the work of 90,000+ employees
- Standing meetings of the IRS senior leadership team across all operating divisions enable ongoing reviews, decision making
- Roles and responsibilities
  - The Office of Research and Statistics continues to develop and deliver overall performance reports and annual forecasts on IRS core activities

**Structure**
- People
  - Talent and skills
    - Awareness of OCA and analytics as a key competency of the agency is built into onboarding and training programs
    - Executive sponsorship helps secure cooperation from target functions within the agency and was sustained by targeting strategically important agency challenges or opportunities

**Dynamic capability**

**Process design and decisions**
- Leaders and teams embrace a problem-solving approach based on issue trees and hypothesis testing to how it made decisions

**Performance Management**
- Daily, weekly and monthly reviews are "radically transparent" and focus on real-time assessments of results

**Linkages**
- Partners with Operating and IT divisions to jointly identify projects where advanced analytics capabilities could have impact
- Develops connections with other functions by recruiting leaders to be detailed to OCA

**Boxes and lines**
- Extensive use of “dotted lines" to connect with other divisions; nimbly build project teams

**Governance**
- Core decision-making team comprised of a project director, initiative director, program manager, analysts (and external consultants)

**Roles and responsibilities**
- Program managers lead the work with a consistent set of client relationships, facilitated by weekly meetings with executives in other divisions to understand the data analytics needs

**Talent and skills**
- Periodic rotation of core and middle layers of staff (detailed from within and outside IRS)

**Opportunistic case study sessions** facilitated by OCA “alumni” in IRS increased learning and knowledge sharing

**Existing IT contractors boosted work capacity**

**Culture**
- Non-hierarchical culture based on honesty

**Agility**
- In the pilot year, 2014, it identified more than 10,000 identity theft cases and more than 300,000 potentially fraudulent returns that were missed by the old system (totaled more than $43 million.
- IRS succeeded in closing the nearly $140 billion tax gap in small business tax filing
- It was also able to increase fraud detection and reduce rework from creating new
- The OCA was able to drive agility across the agency through serving other functions within the IRS and became a premier rotation program and professional development opportunity, considered a “talent factory” within government

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*SOURCE: “IRS Implements Analytics for Compliance, Fraud Detection and Workforce Management,” Data-Informed.com September 19, 2012; IRS agency website, press releases, interviews*
How New York Governor’s Office shows agility in response to a crisis...

**Stable backbone**

**Process**
- **Process design and Decisions**
  - The Storm Recovery team adopted a standardized approach to assessing claims:
    - Getting damage claims applications from into system
    - Determining eligibility and the value of claims
    - Conducting fraud checks
    - Maintaining relationships with the home owners throughout contract and rebuilding phases
  - Used standard operations methodologies: Distinguishing between simple and complex activities and having different people work on these distinct types of activities
  - Holding phone conversations to assess the progression of claims and to keep owners, contractors and other third parties updates
  - Sending teams to the field to apply learned insights

**Structure**
- **Boxes and lines**
  - Clear chain of command for the recovery team reporting to the Governor’s Chief of Staff enabled issues to be
- **Governance**
  - Top team met regularly with clear agendas to improve speed of decision-making

**People**
- **Talent and Skills**
  - Team included State-level Senior Executive Service; though extremely busy tackling other crises, demonstrated energy and a desire for stretching professional experiences.

**Dynamic capability**

**Performance management**
- Investing time upfront in discussions to standardize terminologies for determining and managing the overall long-term recovery process and enable systematic data entry.
- **Performance management**
  - Team used a single standardized dashboard, from which valuable insights could be drawn and to which updates could be made (rather than the creation of individualized dashboards with references to varying terminologies).

**Systems and Technology**
- By analyzing electrical black-out data and flood-images the team was able to predict sources of new claims and speed up applications for funding
- **Boxes and lines**
  - Within the Governor’s Office of Storm Recovery, a small cross-functional team comprised of heads of offices and some of their deputies, the finance and legal departments as well as contractors
- **Governance**
  - The cross-functional team was setup to understand what decisions needed to be made, and agree on an operating model for the recovery process.

**Agility**
- The cross-functional team setup by the governor’s office delivered aid to those in need in the wake of Hurricane Sandy faster than the State would have been able to do it before the team was chartered
  - Thousands of people were able to get their claims processed in a timely manner
  - Funding has aided the recovery efforts of 13,000 property owners and more than 1,000 small businesses over the past four years
  - 1,100 destroyed or vulnerable properties purchased for $430 Million and converted to natural, open spaces or auctioned for redevelopment
  - Infrastructure investments will include new barriers to block floodwater

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**SOURCE:** New York State website, press releases, interviews
How US Marine Corps shows agility in response to a crisis...

<table>
<thead>
<tr>
<th>Stable backbone</th>
<th>Dynamic capability</th>
<th>Agility</th>
</tr>
</thead>
</table>
| **Process**     | **Process design and decisions** | • Immediately during and after the Tsunami that hit Japan in 2011, the Marine Corps deployed:  
  – Successful emergency efforts, through use of high-tech instruments in a low tech way  
  – Greater coordination of rescue missions and efficient use of resources  
  – The success of this response was based on:  
    • Adaptive planning that accommodated constantly changing circumstances  
    • A culture of contingency planning in advance of crisis  
    • Leadership trust in the "invisible structure" of support (comprising relationships with outside experts, other military elements and capabilities within the organization)  
  • Agility commitments  
    • Requires that leaders articulate and role-model the necessity for continuous improvement  
    • Long-term improvements to decision-making by collecting data, synthesizing the data into useful information, that leads to actionable decision options |
| **Structure**    | **Dynamic capability** | |  
  • Process design and decisions  
    • The official Marine Corps Planning Process allows for resource and manning requirements for each mission to be filled in a tailored and dynamic fashion.  
    • Constant process of innovation to adapt and improve, with rapid test and learning mindset  
    • Iterative in-depth planning with a Task team divided into two parts: the Red group to identify various constraints and Blue group to develop multiple related contingencies plans  
  • Linkages  
    • Leadership cultivated strong connections with other military elements in the region and outside experts.  
  • Boxes and lines  
    • "Task organized" teams are flexible and empowered to adapt to mission needs with small mobile units that can be combined into distinct formations  
  • Governance:  
    • Decentralization of control - junior staff retain full autonomy regarding "how to do it"  
    • Small teams with clear decision-authorities that can operate autonomously in a crisis  
| **People**       | **Governance:** | |  
  • **Culture:**  
    • Mission-minded focus  
    • Avoidance of micro-management  
    • Acceptance of mistakes that lead to learning and prevent repetition  
  • **Talent and Skills:**  
    • Training in individual leadership capabilities  
| **Process**      | **Talent and Skills** | |  
  • **Process design and decisions:**  
    • Standard decision-making processes, centered around "mission-type orders"  
    • Clear decision framework with entire task team required to understand and co-develop task, purpose, desired end-state and to assess risks  
    • High-stakes decisions are built around a "confirmation brief" - iterative team debriefs in which the person responsible for certain tasks can also weigh in with a preferred course of action  
    • Diverse channels for strategic communication to build trust across the agency and manage messages to shareholders  
  • **Boxes and lines:**  
    • Clear primary functional axis to train, equip, and deploy Marines, with secondary axis of "task-organized" teams that deploy against missions  
  • **Governance:**  
    • Stable command structure that enables the standup and stand down of "task organized" teams to meet mission objectives  
| **People**       | **Process design and decisions** | |  
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**Organization overview**  
• The US Marine Corps, part of the US Department of Defense, seeks to provide combat capability and build relationships with friendly nations: its forces in Japan account for 25% of the total Marine Corps forces around the world.

**Crisis description**  
• In March 2011, the Marine Corps aided the disaster relief efforts after the Western Pacific Tsunami off the coast of Japan that damaged the Fukushima Daiichi Nuclear Power plant.  
• The crisis posed an immediate and expanding risk of radioactive exposure to the environment and civilians.  
• Relief efforts also involved the Japanese military and civilians.  
• This effort represented an exception for the Marine Corps' traditional mandate focused on combat to one focused on the preservation of life.

**Crisis response highlights**  
• Following Po residential consent, the US deployed a carrier group (19 naval vessels, 140 aircraft and 18,000 personnel, including a nuclear-powered aircraft carrier) off the coast of Miyagi prefecture.  
• Operation Tomodachi was structured around the task and was constituted by all elements of the Marine Corps: Ground and Logistics, led by the Air-wing Commanding General.
The greatest barriers to adopting organization agility are cultural – overinvest in change management

### Top 5 challenges during an agile transformation

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transforming the culture and ways of working</td>
<td>76</td>
</tr>
<tr>
<td>Lack of leadership and talent</td>
<td>42</td>
</tr>
<tr>
<td>Establishing a clear vision and implementation plan</td>
<td>34</td>
</tr>
<tr>
<td>Insufficient resources</td>
<td>28</td>
</tr>
<tr>
<td>Overcoming technological bottlenecks</td>
<td>28</td>
</tr>
</tbody>
</table>

*Selected by participants (top 3 selection possible); N=1,411*

Culture is perhaps the most important element of this sort of change effort. We have spent an enormous amount of energy and leadership time trying to role model the sort of behavior—ownership, empowerment, customer centricity—that is appropriate in an agile culture.

— Bart Schlatmann, previously Chief Operating Officer, ING Netherlands

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1 Misalignment of agile ways of working with requirements of day-to-day activities, lack of collaboration across levels and/or units, employee resistance to changes, entrenched employee behaviors and mindsets.

SOURCE: McKinsey Global Survey: How to Create an Agile Organization, October 2017
...and it takes a different type of leader

<table>
<thead>
<tr>
<th>North Star</th>
<th>Visionaries aligning the organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network of cross functional teams</td>
<td>Architects that build the organizational framework</td>
</tr>
<tr>
<td>Rapid learning cycles</td>
<td>Catalysts that remove obstacles</td>
</tr>
<tr>
<td>Dynamic people model</td>
<td>Coaches that inspire and role model</td>
</tr>
<tr>
<td>Next generation technology</td>
<td>Architects of the toolkit used by all teams</td>
</tr>
</tbody>
</table>