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Organizational agility in the public sector:
How to be agile beyond times of crisis

Public Sector May 2017

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Introduction

As the manufacturing economy of the industrial age is transformed into the digital economy of the information age, our public-sector organizations face myriad sets of new and mounting pressures. President Trump's executive order on redesigning the Federal agencies is just the latest. Today's public-sector leaders feel pressure to do more with less, to address a complex and ever-expanding range of issues, and to address them more quickly than ever before. The difficulties of achieving this mission are significant. Information circulates too slowly. Budgets become out of date even before they are completed. No single leader, no matter how senior or able, can orchestrate solutions alone. And frontline workers struggle to act on weak or incomplete signals of changing needs.

In essence, bureaucratic public-sector institutions lack the speed and nimbleness to keep pace in a rapidly changing world. The challenges—increasing volatility, uncertainty, complexity, and ambiguity—are universally apparent. They have even spawned an increasingly well-known acronym: VUCA.

Similar changes are roiling the business world. But there, many companies adapt by empowering managers to create flatter, faster-moving, more flexible organizations and by leveraging modern information technology. Some argue that public-sector institutions are too large and complex to apply these current management techniques. In fact, however, they have applied them successfully in many settings—but mainly during times of crisis. This truth explains a comment we often hear from public-sector executives: "I wish my organization could always perform as well as it does in a crisis."

This paper will examine what makes public-sector organizations agile in extremely challenging times and what mostly prevents them from remaining agile otherwise. We will also describe techniques of organizational agility that could help large agencies and departments get moving as quickly as today's fluid conditions require—and how to apply them with an understanding of the public sector's unique context and responsibilities.

> "I wish my organization could always perform as well as it does in a crisis."
>
> – Public-sector executive

Organizational agility during crises

Agility may be the last word people associate with public-sector institutions. Yet we have seen that they can indeed be agile, particularly in times of crisis, when employees actually say that *it feels better* to work for the government. Why? Because they get clear directions about how to achieve their mission and enough autonomy to make decisions at the front line; a burning platform for change replaces the cultural aversion to risk taking that's characteristic of public-sector organizations; and teams work within and across agencies to achieve rapid results.

For example, a variety of publications have shown that many people who worked in US intelligence and law-enforcement agencies during the early 2000s believe that these organizations performed best in the days, weeks,

and months after 9/11. The terrorist attacks on the World Trade Center and the Pentagon clarified both the mission and the way to achieve it. The cultural aversion to sharing information across agencies and acting in concert was replaced by an urgently felt need to collaborate. Intelligence and law-enforcement officers across the front lines received new authority to make important decisions and respond quickly to developments and threats.

Direct attacks by foreign enemies can have this effect, but crises may have purely domestic origins as well. A recent case involves the Federal Aviation Administration (FAA). By September 2015, the FAA knew that sales of unmanned aircraft were soaring. Despite the prospect that these drones might fly through the skies in the hundreds

of thousands, there was little oversight and no systematic way to reach owners when regulations changed. The agency found itself in this predicament partly because it lacked a way to assess such trends and their implications in advance, and partly because the standard government timeline for developing solutions to problems takes years, not months.

But Michael Huerta, the Administrator of the FAA, and a team of his senior leaders anticipated the coming surge in drone sales over the 2015 holiday season. They understood the potential dangers for the safety and security of the US national airspace, for property, and for Americans in general. As a result, the leadership team set an ambitious deadline to create a national drone registry: December 23, 2015, just a few months away. A cross-functional team, organized quickly to build rapid prototypes and to test and refine them with users, launched the site in advance of the deadline. By August of 2016, it had registered over 500,000 drones, with numbers rising.[1] The clear mandate and sustained support provided the catalyst to ensure that the risk of inaction was greater than the risk of action.

1 Sarah Kendzior, "The FAA said that over half a million drones have been registered in just 8 months," Quartz Media LLC Aug. 2, 2016.

Internal forces of resistance inhibit agility beyond crises

We studied the responses of several public-sector organizations in times of crisis: NASA[2] (the Challenger explosion, 1986), FEMA[3] and the Louisiana governor's office (the aftermath of Hurricane Katrina, 2005), the IRS (the rise in fraud and a $140 billion small-business tax gap, 2012), and the US Marine Corps (responding to a tsunami that hit Japan, 2011). There was a pattern—in nearly every case, agility soared immediately after a crisis but tended to dissipate over time.

Three main internal forces of resistance make it hard for public-sector organizations to become agile without a crisis and to maintain that agility after it ends: a cultural aversion to risk, functional silos, and organizational complexity.

Cultural aversion to risk. Behavioral economics shows that human beings weight risks twice as heavily as similar benefits.[4] Government officials, for example, worry about being wrong, angering superiors, and alienating other agencies more than they become excited about proposing new programs, developing faster operating models, or piloting new partnerships. Without an imperative to act (such as the profit motive in the private sector), it's rational to seek ever more information, to conduct additional analyses, to await permission, or to optimize for the

interests of the "tribe" rather than the organization as a whole. The range of stakeholders to satisfy—from citizens to states to Congress—and scrutiny from the media further diminish the willingness of public-sector executives to take risks. The result is often a lowest-common-denominator recommendation to senior leaders.

Only when organizations must respond to a crisis will people stick out their necks. At that point, inaction itself becomes a risk, and entrepreneurship and best-effort judgments are rewarded. Errors are no longer feared; they are expected, accepted—and corrected.

Functional silos. Layers of management structures and functional silos often force decisions up to higher and higher levels of management. Take the US Department of Defense (DoD). Within each of its three military services, only the secretary directly responsible (the Secretary of the Army, the Secretary of the Navy, or the Secretary of the Air Force) has the authority to integrate activities across functional, mission, and geographic lines. The only officials with the authority to integrate the activities of the three separate military services are the very highest ones: the Secretary and Deputy Secretary of Defense.

2 The National Aeronautics and Space Administration.

3 The US Federal Emergency Management Agency.

4 Daniel Kahneman, "Advances in prospect theory: Cumulative representation of uncertainty," Journal of Risk and Uncertainty, 1992, Volume 5, Issue 4, pp. 297–323.

A profusion of leadership "dashboards" that track metrics tempt top officials to intervene, which tends to slow things down tremendously. Peter W. Singer (of the Brookings Institution) observed that "although commanders are empowered as never before, the new technologies have also enabled the old trends of command interference, even taking them to new extremes of micromanagement."[5]

In a crisis, however, the urgent need to come up with solutions often breaks down typical barriers between organizations. Rapid, cross-agency, and often personal engagement replaces slow-moving, territorial communication, often through lengthy reports. Leaders develop solutions together and share credit for them. Averting a crisis is a team sport.

Organizational complexity. Public-sector organizations are among the largest, most complex in existence today.

Complexity makes getting things done harder. But isn't it part and parcel of being big? Yes and no. Research suggests that some of it is essential and adds value (for instance, the range of missions and geographies). Some comes from outside sources (federal law, for example). But what remains is largely dysfunctional, self-imposed, and worth reevaluating.[6] Federal procurement regulations, for instance, have become so complex that the Air Force may build an artificial-intelligence system to navigate the tens of thousands of pages of rules and policies.

But in times of crisis, when bureaucrats say that something can't be done quickly, other bureaucrats ask why not. Suddenly, it becomes obvious that the force behind many rules is habit, not law. Those rules are revised to provide for greater transparency and faster decision making.

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5 Peter W. Singer. "Tactical generals: Leaders, technology, and the perils," Brookings Institution, Summer 2009, brookings.edu.

6 Julian Birkinshaw and Suzanne Heywood, "Putting organizational complexity in its place," McKinsey Quarterly, May 2010, McKinsey.com.

People versus the machine— a blocking mind-set

The powerful ideas Frederick Taylor and Max Weber propounded roughly a century ago have influenced a mind-set that tends to prevail in large organizations: the idea that they should operate like well-oiled machines whose working parts fit together seamlessly to drive daily work. This mechanistic view prizes bureaucracy because it generates routine, repetitive, orderly action, with clear boundaries and an established hierarchy for oversight. When decisions require coordination, committees bring together leaders to share information and review proposals. All processes are designed in a precise, deliberate way to ensure that employees can rely on rules, handbooks, and instructions to execute tasks.

The problem today is that by the time organizations have designed this kind of structure, the world has already moved on and it's time to change again. In a 2013 McKinsey survey, more than half of the 1,200-plus private-sector executives responding said that their companies make

significant structural changes, at either the unit or the enterprise level, as often as every two or three years. The redesigns often take one or two years to complete. Unsurprisingly, the respondents deem only 23 percent of them successful. The rest failed, in part because they created solutions to problems that were already passé. The machine view has much to offer: logic, consistency, predictability. But if organizations must respond to the unpredictable, this approach generates almost constant disruption and change fatigue.

In fact, although the precise ructions facing private-sector companies differ from those roiling the public sector, here too VUCA is an apt term. Companies remain on the S&P 500 for an average of just 15 years, down from 67 in the 1920s. Professor Richard Foster of Yale University found that, on average, the index now drops a company every two weeks. He estimates that 75 percent of current S&P 500 companies will be replaced by 2027.[7]

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7 Richard Foster, "Creative destruction whips through corporate America,"Innosight, February 2012.

Lessons on agility from the private sector

Companies that survive and grow seek the attributes of agility: the power to be both dynamic and stable at the same time. This combination sounds paradoxical, and many organizations struggle with it, mistakenly thinking they need only to become faster, more flexible, and more innovative. But in reality, it is companies that manage to be both dynamic *and* stable that thrive in our increasingly VUCA world.
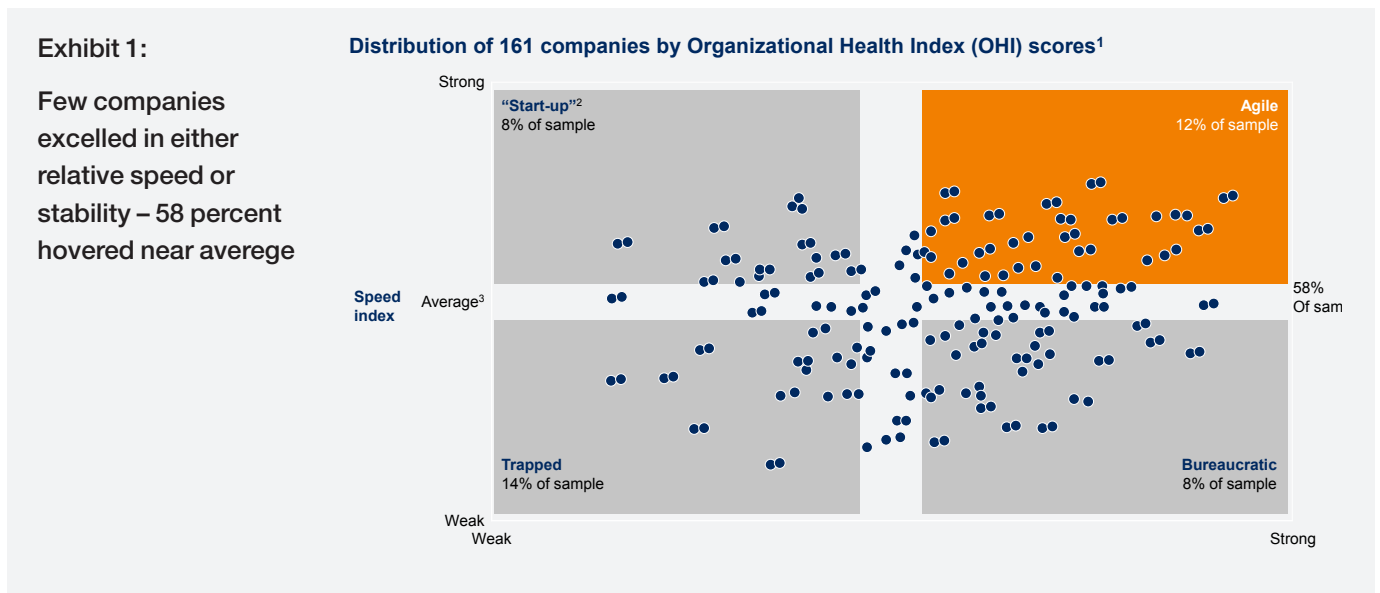
Why are dynamism and stability the hallmarks of agility? Over the past 15 years, McKinsey has developed and refined its Organizational Health Index (OHI) to assess the discrete elements of organizational effectiveness. The OHI data set includes more than 1,500 companies, agencies, and nonprofits around the world and spans every major industry.[8] The healthiest companies (those in the top quartile) deliver returns to shareholders three times higher than the rest do. Similar results are evident in the public sector during times of crisis.

When we studied speed and stability (Exhibit 1), we found that relatively few organizations stood out as being especially agile: the speed, stability, or both of 58 percent of them hovered near average. Eight percent were fast but not stable, like the now-pervasive start-ups. An additional 22 percent of organizations were slow and unstable, which we describe as trapped (14 percent), or slow and stable, which we call bureaucratic (the remaining 8 percent).[9]

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8 For more, see http://www.ohisolution.com/.

9 Michael Bazigos, Aaron De Smet, and Chris Gagnon, "Why agility pays," McKinsey Quarterly, December 2015, mckinsey.com.

Exhibit 1:

Few companies excelled in either relative speed or stability – 58 percent hovered near averege

Distribution of 161 companies by Organizational Health Index (OHI) scores[1]

1 Scores have been adjusted to remove the portion of OHI variance shared by the factors of speed and stability. to highlight the specific contribution Of each factor (speed or stability) along its axis
2 That is, companies with a mode Of operating suited to a very small start-up (not actual start-ops)
3 Mean +/- standard deviation on each axis of matrix

Just 12 percent of the organizations in our sample were agile: both quick and stable. Intriguingly, these were 70 percent more likely than the others to be in the top quartile for organizational health (Exhibit 2). Bureaucratic organizations—and most public-sector departments and agencies would probably qualify—have by far the poorest organizational health of the three nonagile types.

Exhibit 2:

Seventy percent of
agile companies rank
in the top quartile of
organizational health

% of organizations within each category, by quartile, for Organizational Health Index (OHI) scores[1] (n 161)

Top quartile   Second quartile   Third quartile   Bottom quartile

Strong

"Start-up"
100% = -13 companies
23
38
23
15

Agile
100% = -19 companies
70
15
10
5

Speed index

Average[2] (93 companies)

5
27
36
32

17
8
17
58

Trapped
100% = -25 companies

Bureaucratic
100% = -13 companies

Weak   Strong
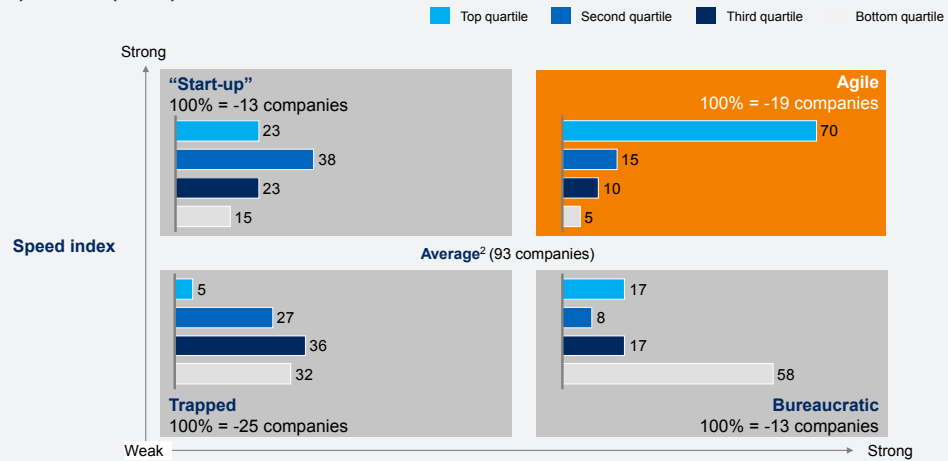
Note: Figures may not sum to 100%, because of rounding
1 Scores have been adjusted to remove the portion of OHI variance shared by the factors of speed and stability, to highlight the specific contribution of each factor (speed or stability) along its axis
2 Mean +/- 0.50 standard deviation on each axis of matrix; these 93 companies were nearly evenly spread across quartiles for organizational health

How public-sector institutions can be agile beyond times of crisis

Smartphones, which have become ubiquitous largely because of their design and functionality, exemplify the ability to be both dynamic and stable—the essence of true organizational agility. The hardware and operating system form a stable foundation. On top of it sits a dynamic application layer where users can add, update, modify, and delete apps over time as requirements change and new capabilities develop

In the same way, agile public-sector institutions can design their organizations with a backbone of stable elements—for example, a simple organizational structure or operating norms. These foundations, like a smartphone's hardware and operating system, are engineered to endure. Agile public-sector institutions typically also have dynamic elements: organizational "apps" to plug in as new opportunities arise or unexpected challenges shift the norms. In the public sector, agility can provide a stable framework that forms, nurtures, and eventually dissolves dynamic cross-functional teams. Typically these task forces, special offices, and new governance committees

exist outside the system or become a permanent part of it rather than adapting rapidly to changing needs—the agile way, which combines stability with a dynamic capability.

Let's consider an example of the differences between these two approaches. In 2012, the IRS faced a number of high-profile challenges, including a surge in identity theft, continuing scrutiny over improper payments to filers, and a small-business tax gap of more than $140 billion. The IRS had analytic capabilities, but they mainly focused on statistical reports and did not play a role in strategic decision making. Research and statistical capabilities were strong but the Commissioner saw a need to apply more targeted analytics that could address the agency's most pressing problems. The new Office of Compliance Analytics (OCA) was charged with finding rapid, analytically based test-and-learn solutions in close collaboration with its internal customers in the operating divisions. OCA was defined by a culture of speed, risk taking, managed change, strategic focus, and radical information transparency. While the stable backbone of the IRS and its workforce of about

90,000 continued to deliver services consistently every day, the OCA helped to identify and respond to key problems quickly while developing the leaders and skill sets to support a lasting agile approach throughout the agency. In addition to tackling operational issues, the IRS over this time doubled its score on the Partnership for Public Service's Best Places to Work rankings, putting itself on par with NASA.

Agile organizations excel in four core areas highlighted by our research. First, strategy gives employees a clear vision and direction. Second, organizational structure defines the distribution of people and resources. Third, processes determine how things get done. And fourth, people practices determine who does them and the culture in which they work.

Strategy. A shared vision and purpose drives agile organizations. Clarity about core strategic differentiators—"how to achieve the mission"—provides their stable backbone. Yet they are dynamic as well: fast reactions to changing circumstances help them to sense and address opportunities or societal needs, to address them quickly by allocating people and resources, and to experiment and iterate rapidly. Most important, teams see how they help to achieve the mission and have clear, fast ways to make trade-offs across the various competing sub-missions.

Structure. Agile organizations set a stable, simple structure as their backbone. The top team comprises the leaders of missions and core functions, who typically decide how to allocate the budget. The dynamic dimension comes from modular teams, which have clear missions and enough autonomy to make decisions. Such teams take end-to-end ownership of processes with clear customers or mission outcomes. Coming in many different sizes, missions, and capabilities, these teams are the organization's "apps." The US Marine Corps in particular has used this structure to great effect in the public sector.

Process. Agile organizations keep their operations stable because standardized, minimally specified core (and usually "signature") processes underpin their work. These are the essential activities they must excel at to accomplish their mission. The dynamic dimension comes from continuous improvement and fluid configurations in the way agile organizations work, employing a wide variety of linkage mechanisms, such as dotted-line reporting, integrator roles, and formalized interactions among disparate functions. These organizations also frequently review their performance on core tasks, their priorities, and the resources they allocate to meet them.

People. But ultimately it is people who accomplish the mission, no matter which structures or processes are in place. People crave stability and find it in the shared values that hold organizations together. If an organization truly embodies these values, they provide a strong common culture and purpose. But people also crave novelty, and organizations can become more dynamic by tapping into that desire. Agile organizations focus on creating a culture of self-improvement and stretch goals in an atmosphere of open, honest feedback. Smaller, more dynamic teams test and refine new ideas together.

Agile organizations focus on creating a culture of self-improvement and stretch goals in an atmosphere of open, honest feedback.

Take the first step on the journey to becoming agile: Assess where your organization is today

The first step for all public-sector executives who aspire to make their organizations agile beyond times of crisis is to identify how those organizations operate and feel today. We have developed a simple tool to help you do this. Take a moment to assess the agility of your organization, using the checklist below. Place a check mark by every word that describes how you perceive the organization to operate and how you feel about work there. Add up the number checked in each quadrant to see where your organization primarily falls. Consider whether this is where you want it to be and what would be possible if you became a more agile organization.

Exhibit 3:

Self assess: how does your organization currently operate and feel?

What it is like…
- ❑ Start-up
- ❑ Chaotic
- ❑ Creative
- ❑ Frenetic
- ❑ "Free for all"
- ❑ Ad hoc
- ❑ Re-inventing the wheel
- ❑ No boundaries
- ❑ Constantly shifting focus
- ❑ Unpredictable

Total checked

What it is like…
- ❑ Quick to mobilize
- ❑ Nimble
- ❑ Collaborative
- ❑ Easy to get things done
- ❑ Responsive
- ❑ Free flow of information
- ❑ Quick decision-making
- ❑ Empowered to act
- ❑ Resilient
- ❑ Learn from failures

Total checked

What it is like…
- ❑ Uncoordinated
- ❑ Stuck
- ❑ Empire building
- ❑ Fire-fighting
- ❑ Local tribes
- ❑ Finger pointing
- ❑ Under attack
- ❑ Rigid
- ❑ Internally political
- ❑ Protecting "turf"

Total checked

What it is like…
- ❑ Risk averse
- ❑ Efficient
- ❑ Slow
- ❑ Bureaucratic
- ❑ Standardized ways of working
- ❑ Siloed
- ❑ Decision escalation
- ❑ Reliable
- ❑ Centralized
- ❑ Established

Total checked

Dynamic capability — Strong / Weak

Start-up/Fleet | **Agile**

Trapped | **Bureaucratic**

Stability — Weak / Strong

SOURCE: Interviews, press, websites, McKinsey

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Many public-sector leaders are facing VUCA challenges today. The organizational-agility model, which blends the stable backbone of core activity with a dynamic capability for rapid insights and change, is a powerful way of taking on these challenges. Public-sector institutions have embraced this model when facing a crisis and seen strong results—evidence that speeding up decision making, breaking down silos, and empowering the front line can work. Warren Bennis, widely regarded as a pioneer in contemporary leadership studies, said it well: *Success in management requires learning as fast as the world is changing.*[10]

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10 https://paulkandavalli.wordpress.com/2014/08/03/warren-bennis-quotes-on-leadership-and-management.