The Trusted Advisor

THE TRUSTED ADVISOR is our firm's regular publication, featuring not only articles and insights derived from our project work but also guest posts and interviews with leading business figures.
They offer food-for-thought and practical advice on a variety of key topics in the leadership, ownership advisory, governance and strategy domains.

TTA 01-2019 | AGILITY IN LEADERSHIP

- Agile: When the Squad is in charge
- It's all in the blend
- The CEO as "Social Architect"
- AvS News

Agile: When the Squad is in charge

Core concepts and practical examples of agile management

by Dr. Christian Bühring-Uhle

Agile management has developed into a buzzword in recent years, but there is no generally accepted understanding of what “agile” actually means. The term originates from software development, where it is often associated with “Scrum”, a term originally used in rugby, referring to gradual progress achieved in small steps, frequently interspersed with minor setbacks. In software development, the “agile” approach consists of breaking down a complex development task into a multitude of individual tasks and entrusting these tasks to small teams working in parallel, with relative autonomy, resolving their task “from A to Z”. These teams are often called “squads” and are led by a “product owner”. Instead of attempting a complete and comprehensive resolution through a classical, hierarchical structure with close coordination and top-down monitoring, the teams are given the freedom to proceed in “sprints”, i.e. to experiment with partial solutions in quick succession, to learn from experience. The aim is also to obtain a maximum degree of feedback and to systematically focus on the end users.

“Chapters” operate across squads, like in a matrix: colleagues from similar functional backgrounds exchange information, for example, on new technical trends. The ability to act autonomously stimulates action orientation and creativity – resulting in faster and more pragmatic decisions. Interdependencies between the subprojects are clarified in frequent, short coordination rounds between the teams. Processes become faster and comfort zones are eliminated (a change that may not be savoured by all employees alike). When a subtask is completed, the team is disbanded, and the members move on to new teams specifically composed for the next subtask.

At first glance, this iterative approach, which deliberately dispenses with a thoroughly planned approach and leaves room for learning from mistakes and regressions, may seem inefficient. In certain scenarios, however, it has proven to be very effective and efficient due to its greater flexibility, since wrong turns are recognised as such more quickly and with less waste of resources. Another advantage is the interdisciplinary work, because developers, designers and programmers work together directly in a team and approach the problem to be solved from different points of view. The increased autonomy of the teams enables self-organisation and orientation towards factual rather than hierarchical aspects. Everyone learns from each other and from the task.

Even far away from the agile practices in software development, companies of all sizes, histories and industries are now trying to jump on the bandwagon and make their companies “agile”. This does not always succeed, because with the advantages also come challenges. In addition to responsibilities and organisational models, this applies above all to the topic of leadership. But how exactly must leadership change – or not – if a company is to function as an “agile” organization?

Agility first and foremost requires (self) discipline, motivation and cohesion. In many agile companies, ideas are developed jointly, continuously and spontaneously – and eternal meetings and "PowerPoint battles" are dispensed with. This can work well, but only with a very high degree of discipline. This may at first seem surprising: the additional freedom and flexibility is "acquired" through (because it is conditional on) additional discipline. Otherwise you face the threat of chaos. Accordingly, the role of the manager must also change: In future, managers should work less via control and delegation – and rather take on a "transformational leadership role" (or, in the words of Pascal Houdayer: to see oneself as a "social architect" – read the following interview). This philosophy of "servant leadership", founded by Robert Greenleaf, is characterised by a kind of mentoring function: The manager as a role model who coaches employees, transfers responsibility, promotes independence as well as personal development and, last but not least, inspires a sense of purpose.

In the context of agile transformations, distinctions have to be made according to the history and developmental stages of a company. The Swedish music streaming service Spotify, for example, is an "agile native", i.e. Spotify has been organised in an agile manner since its inception. The company is a popular success story and has grown to have 4,000 employees, 217 million users (100 million of which pay for a subscription in the framework of Spotify's freemium business model), EUR 5.5 billion turnover and EUR 22 billion market capitalisation. Organised from the outset into squads and tribes, and orchestrated by a young but very disciplined top management, Spotify has mastered the transition from a hip start-up to a large listed company without sacrificing agility and efficiency.

Freitag, a medium-sized manufacturer of carrier bags made from recycled truck tarpaulins, is an example of a company that first grew as a classical hierarchical organisation and later initiated an agile transformation. The Zurich-based company, founded by the designers Markus and Daniel Freitag in 1993 and still owned by the two brothers, had developed from a start-up into a classically organised, "stratified" company with over 200 employees at its headquarters and various production sites abroad. With rapid growth came a leadership crisis; the CEO was changed several times. The brothers no longer felt "at home" and decided on a radical change. With the help of external consultants, a "holocracy" was established and documented in a "constitution". They abolished the position of CEO and then the entire top management level. The founders/owners no longer have an office on the top floor – the executive suite was abolished – but they are located "in the middle of things" again. Traditional hierarchical levels and departmental structures were replaced by "circles" that organise themselves without a "boss". Instead of a marketing department there is, for example, a "Commercial" circle. These are not specified from above but are decided jointly in the circle (in the biweekly "Governance Meeting") and adapted if necessary. If a topic concerns only part of the circle, a sub-circle is formed, e.g. for "viral marketing". The sub-circle acts autonomously, i.e. the upper circle can formulate suggestions to the sub-circle but cannot give instructions. The day-to-day business is discussed in the weekly "Tactical Meeting" in a strictly defined process facilitated and overseen by a moderator. (Only) those who have put an item on the agenda or are affected by their role participate. During a check-in round, everyone briefly reports on where their project stands, and the degree of completion is documented in a checklist by the moderator who also helps to clarify questions and any differences. Questions may be asked, but lengthy discussions are not allowed in the Tactical Meeting. Any course corrections or modifications in the individual projects are decided autonomously by the member of the circle entrusted with the respective role. Action orientation and flexibility take precedence over consensus and perfection. The occurrence of mistakes is accepted, and they are corrected autonomously. The tactical meeting lasts about an hour, and the results are documented immediately and made available online to all those affected. Transparency is of critical importance. All employees have access to practically all figures in the company. Apparently, this works – the autonomous style of working is reported to produce an increased degree of accuracy and accountability. It has to be noted, however, that this did not come about overnight, as a result of a resolution by the owners, but it had to be implemented in a gradual process involving all employees in the company, and it has not reached all areas yet. Especially in production, which is highly susceptible to errors, the company is still in a transitional stage.

Perhaps Spotify, which has been agile from the very beginning, and Freitag, a comparatively young and small company that has always had a rather unconventional culture, are not entirely representative of all other companies, especially larger ones. So, how do you introduce an agile system into a "traditional large company"? A frequently cited example of the transformation of such a company is the international insurance group ING. Here, agile management methods were introduced across the board in order to adapt the company to digitisation with its changing (and increasing!) consumer requirements and the associated ever-increasing intensity of competition. In a large-scale "complete transformation", the teams were reduced in size and the organisation was made more flexible. Each employee had to officially re-apply for a job in the new organisation. Around 30% of managers had problems finding their way into the new structure – and left the company. As part of the transformation, the company was divided into squads. Managers were no longer responsible for specific organisational units and the achievement of pre-assigned goals but had to motivate squads within the framework of the new agile management model, and help them to consistently focus on satisfying customer needs and to derive the overarching goals and priorities from these needs.

The pharmaceutical company Novartis with its 100,000 employees has also committed to agile ways in order to promote personal responsibility and innovation, and thus increase adaptability and performance. Vas Narasimhan, the new Group Chairman, propagated the "Unboss" concept when he took office in February 2018. The idea was not to abolish all bosses but to initiate a rethink and to transform the behaviour of Board members, general managers (360 people!) and the 15,000 middle managers. They all undergo an "Unbossed Leadership Experience" with training, 360° feedback and personal coaching. 60,000 employees have assessed their bosses, and the willingness to change vs. resistance are monitored using specially developed indicators.

The path to agility can be rocky and is not always successful. The example of Zappos, an online shoe retailer from the USA, is a good illustration, as they were struggling in the context of the agile transformation. In 2013, all executive positions were abolished with the aim that employees should focus radically on the end customer in a stringent "bottom-up" model and organise themselves completely autonomously. At first, this led to chaos, as no one really felt responsible, processes came to a standstill and employee satisfaction dropped precipitously. The profound change towards an agile organisation had been introduced too abruptly, and the resulting shock to established processes and structures was underestimated. In the end, Zappos was able to recover and is now regarded as a pioneer and model for a culture of consumer "obsession". Zappos even founded a consulting branch and now accompanies other consumer goods companies on their path to "holocracy".

Agile working does not suit every company or every corporate function, but in times of constantly accelerating change, no company can avoid dealing with it. In our second article, Felix Waldeier explains where agile working makes sense and what you should bear in mind during the introduction. We learn a very personal perspective on agile management techniques in the subsequent interview with Pascal Houdayer, who has promoted innovative leadership practices in a variety of companies.

It’s all in the blend

Why “Agile” isn’t always good and “Hierarchy” isn’t always bad

by Felix B. Waldeier

“Agile” or an agile transformation can lead to great success but also to failure and chaos, as various practical examples in the previous article (“Agile: When the Squad is in charge”) by Christian Bühring-Uhle show. It will therefore come as little surprise that “Agile” is not a panacea. At the same time, we are convinced that no one can afford to ignore the new ideas and approaches. Why it that so?

We believe there is no way around agile management methods for certain tasks. It all depends on the significance and adequate handling of mistakes. There are tasks where creativity and innovation are key, especially in discovering new solutions. Here, mistakes are an important source of knowledge and one simply cannot make progress if one does not try anything new, risks mistakes and learns systematically from faults and setbacks. In these situations, the iterative “trial and error” approach of agile techniques is not only helpful, but indispensable.

However, there are also contexts where the primary goal must be to avoid errors, e.g. flight control systems, nuclear reactor safety, technical surveillance authorities. And in every organisation, there are functional areas where errors are harmful, period. In functions such as accounting, occupational safety, product safety or compliance, management must strive to eliminate or at least minimise errors. This distinction is relevant even for IT because innovative software development has to follow other laws than the operation of an IT infrastructure where service levels are measured and have to be complied with. The latter type of task, which is about avoiding / minimising errors, requires a high degree of monitoring and “linear” management structures – and is therefore simply not suitable for “trial and error” (which does not mean that one should not learn from errors once they occur).

We therefore believe that in the vast majority of organisations, agile and traditional management processes and structures will have to coexist. Agile, however, is becoming increasingly important given the ever-increasing pace of change faced by virtually all companies. This means that practically no company can afford not to learn agile techniques. Those who do not drive change themselves will be overtaken by it.

The challenge therefore is to reconcile two management methods – and cultures. Few companies are “agile natives” like Spotify – or as manageable and shaped by the spirit of unconventional founders such as Freitag (see also our previous article). In most cases, this means establishing a new modus operandi. Since the majority of companies are still organised in hierarchies, a change to Agile will not work by simply imposing new ways of working on an existing organisation.

Rather, there are three points to consider:

1. Agile must be "lived". It can only work if top management takes up the cause of Agile and visibly promotes this change.

2. Employees must be involved. Only if they are convinced of the advantages to be derived from flexibility and customer orientation, and only if they are left to choose their own agile working methods, will they fully support the new ways and "live" Agile.

3. It takes time... also because Agile transforms the corporate culture – in many cases radically. To avoid frustration, it is important to highlight the benefits of agile work and to take into account how it affects cooperation, values, principles and moods.

Top management must therefore consider: In which context is it adequate and necessary to be and work in an agile way? And where do you deliberately not want to be agile? This distinction and the ability to act both in a conventional and in an agile fashion must be exemplified by top management. The leadership has to show the way and expand its repertoire with agile techniques. This is undoubtedly a challenge for two reasons: First, rarely will it be agile working methods that propelled these people into top management positions. And second, after 20 years of "hierarchy", many senior executives and Board members won't have the courage to switch to a model in which they have less control, in which power and influence dwindle, in which they have to give their colleagues and employees more responsibility and freedom – and where, in return, they themselves are under increased scrutiny from below. But if Agile is to work, business leaders must be prepared to leave the beaten track, "unlearn" established habits, be open to feedback, develop a higher degree of trust and accept that not everything is predictable/plannable. Similarly, collaboration with colleagues and employees must be strengthened, decision-making powers must be delegated, and personal concerns (or those of a department) must become secondary to the wellbeing and objectives of the organisation as a whole. Agile will only prevail if the entire organisation can clearly see that top management is leading the way, with concrete actions. As a result, disciplined, self-reliant work becomes more important – and has to be continuously learned and strengthened at all levels of the organisation. In addition, there is a need for increased clarity in structures and processes, as well as for improved coordination.

There are pitfalls on the path to agile transformation – and discipline can become a particular stumbling block. If monitoring is reduced and you have to organise yourself, give yourself feedback, etc., you need more discipline. It also requires a higher level of motivation and initiative. There are, of course, people who are good at taking orders and working step-by-step, always in need of someone who sets the pace, assigns tasks and controls. Where this kind of attitude prevails, agile work becomes difficult, if not impossible. Agile transformation initiatives therefore have to pay attention to the concrete context, not only with regard to different sub-cultures associated with corporate functions, but also to geography: agile, self-determined working methods will be easier to adopt in a society that highly values individuality and personal freedom than in traditionally collective and hierarchically structured societies.

So, what about top management? When employees organise themselves in teams and work more independently and autonomously do you even need a "C-level"? We believe, yes – not just because of the cases where the abolition of senior management has led to major complications. But as shown above, even in a "digital future" practically every company will continue to need some hierarchical functions that are characterised by top-down control. And there is also the issue of overall responsibility: the "buck" has to stop somewhere. Someone (an individual or a small team of individuals) has to answer to the owners and other stakeholders (including employees, business partners, society as a whole) of a company. This ultimate responsibility cannot be dissolved – or transferred to a collective of team leaders. Also, taking an overall perspective and exercising overall responsibility is typically a “full-time job” – at least in organisations that aren’t very small-scale. And even a top management team, the C-level of a company, needs to be managed and led in some way: every executive team member may have his or her own area of responsibility but even when there is a commitment to modern leadership techniques, teamwork and “servant leadership” (see following interview with Pascal Houdayer), we believe that in the end someone has to take responsibility for the team and the organisation as a whole.

The CEO as "Social Architect"

An Interview with Pascal Houdayer, CEO of NAOS

by Carolyn Lutz and Nick Harris

Pascal Houdayer began his career at Procter & Gamble, taking on increasingly senior marketing and general management roles over an 18-year tenure. He moved to Henkel in 2011 and spent 6 years with the group, latterly as EVP Beauty Care & Executive Committee Member. Since 2018, he serves as CEO of NAOS, a globally active family business founded by Jean-Noël Thorel that develops highly innovative skin care and personal care products under the Bioderma, Institut Esthederm and Etat Pur brands.

AvS – International Trusted Advisors: You have worked in 3 very different companies – the US publicly-listed multinational P&G, the established German family business Henkel, and now the first-generation French company NAOS. How would you characterise the differences in terms of management style?

Pascal Houdayer: P&G is very structured, it places a premium on IQ, and innovation is bottom-up because it is consumer-driven. Henkel is a family business, also highly structured; there are clear delegations of authority and strategy is rather top-down. NAOS is very entrepreneurial, the organisation gives a lot of freedom to individuals to be themselves, and the way we do things is more important than what we do; decision we make are driven both by the brain and the heart.

Established brands are losing share to more nimble 'upstarts'. Is the scale of a group like P&G now a disadvantage, a barrier to growth and innovation?

Scale still retains some advantages: it gives investment power for innovation, enables you to go global easily, and helps search & reapply in ways that small companies have more difficulties to reach. But the scale of a large group also holds some clear disadvantages in terms of a lack of agility and speed, as we see today a lot of smaller, more nimble and digital business models that act faster than larger physical ones. Smaller companies have faster decision-making because there is no need to navigate up the chain of command, from local to regional, and regional to corporate HQ, and back down again. In my experience, P&L management can be very complex in big companies, thus you might lose personal ownership because of complex matrix structures.

How has your own management style evolved? What was the biggest change that you had to make and what triggered it?

The biggest change in my management style was to move from IQ to EQ, then EQ to AQ. My initial focus was on IQ, as the P&G school places a premium on it with emphasis on analytical and strategic thinking. Then my first learning was to extend IQ to Emotional Intelligence (EQ), leveraging more human emotions and empathy, driven by the need to manage and lead bigger teams. I then observed that in today's VUCA world, IQ and EQ are not enough anymore, and that you need now an Adaptability Quotient (AQ): the capacity to constantly learn – to absorb all the signals from consumers, retailers, insights, trends – and adapt. The shift to AQ started when I first travelled to places like Palo Alto and saw digital start-ups. It wasn't always the smartest entrepreneurs who were the most successful, but the ones who could adapt and be fast. The world now is a village, new ideas come from everywhere and there is no single recipe for success. We have to open our minds to lifelong learning and try to anticipate what comes next.

'Agile Leadership' can mean different things to different people. What does it mean for you?

I define Agile Leadership as having no mental patterns, no pre-conceived ideas on what should be. Having an agile and open way of looking at things, recognising what you don't know, accepting that you have to constantly learn, and adapt to change – or ideally lead it!

What role should the CEO play in terms of Agile Leadership? Does the CEO have to lead from the front, or 'let go' and devolve power?

The CEO has to be a role model, he/she has to display agility in action not just in speech. The role of a CEO is not anymore the one of 'a boss': I see myself as a 'social architect', putting focus on nurturing the culture, the environment, taking care of the people, the organisation design so that we can create together the future of the company. This is very different from the traditional CEO mainly focused on next month turnover, finance, reviewing past results, planning, the 90-day cycle… I believe today's CEO has to genuinely be in touch with all the employees, all the markets, all the functions, immersing in the communities he/she serves. For instance, I spend a lot of time in the market with dermatologists, doctors and pharmacists discussing how they see the evolution of healthcare; also with consumers trying to understand their decision-making process, and thereby map the future moving from products to services to experiences. As a CEO, I believe you should spend more time in the homes of consumers than in meeting rooms at headquarters!

Can Agile Leadership really be practised in big companies that are beyond a certain size? What does it imply for how companies are structured?

I believe so. NAOS is in 100 countries and 75% of our sales are outside of our home country France, so size does affect things, but the principles are the same. The most inspirational leaders I have known, even in big multinationals, spent their time on planes, meeting people, being in touch – and thereby making the right decisions. Structure does have a lot to do with it. At NAOS, we don't believe in hierarchy. The organisation we have designed is flat, our leadership team org chart looks almost like a flower with over-lapping petals. Therefore, the speed of decisions comes from the overlaps and the seamless way we operate.

Are there any in-built advantages that Family Businesses have over other types of company in terms of Agile Leadership?

There are some advantages that FBs have, particularly in taking a long-term view – the idea that they exist for the generations to come, that the harder right is more important than the easier wrong. This is a very different way versus only looking at the next quarter or only looking at TSR (Total Shareholder Return). Secondly, there can be a huge attraction for talent – executives can find meaning in their work, feel they have a purpose and that they can leave a legacy.

What do you see as the implications of Agile Leadership for talent attraction & development?

There are drastic differences in the way we select talent. In the past, it was done in a very functional way, and companies were mainly looking for analytical thinking, creativity, collaboration… Today, at NAOS, we look for a balance between functional expertise and their capacity to give meaning to what they do. We want people with a 'holy fire' inside them. And, as I said earlier, the talents themselves are looking for meaning in what they do. People come to NAOS because of this – we give them more freedom, faster decision-making, they can combine performance and purpose: we call it our 'raison d'être'.

NAOS describes itself as "a purpose-driven company with a mission, inspired by a claimed humanist utopia". That language is very distinctive and sounds more like the mission statement of an NGO than a business! How does NAOS balance humanism and idealism with commercial reality?

The utopian credo comes from our Founder, Jean-Noël Thorel. NAOS is a movement not just a company. Companies have now the power to change society for the better, which became difficult even for governments. For example, in NAOS we see the skin as an ecosystem, that lives in a human ecosystem, which itself lives in a planet ecosystem. We focus on Human Care and acknowledge that we can't have healthy people if we live on a sick planet. We are challenging this status quo through ecobiology to move from Skin Care to Health Care to Human Care. The factual proof of our approach was given last year by Jean-Noël Thorel, who did an incredible act of faith and donated 100% of his company share ownership to a non-profit shareholder Foundation, which is in France pretty visionary.

Have you had to make any hard choices between values and sales?

Yes. An example would be in the sun product category. There are many ingredients which could be included in sun care products, which are used by many of our competitors and which would have boosted sales for us too. However, some of those ingredients penetrate the skin and the body's ecosystem, so we decided we would not use them and stopped some SKUs. For instance, Esthederm is the only brand whose sun products are not showing any SPF (Sun Protection Factor) because we believe light is the source of life and that we should live harmoniously with it. We have a different philosophy than the big beauty industry, and we see our 'raison d'être' as a fight against what we do not accept, not as a fight vs. competitors.

NAOS proudly states that "for 40 years, we have launched disruptive innovations and registered more than 60 patents". How can a company create a real (and sustainable) innovation culture?

Innovation is in the DNA of our Founder and our company. Our people want to make a difference, to challenge the status quo on products, services or experiences. And externally, we partner with people who also believe in this "4th way" of doing things.

Since you became CEO of NAOS, what leadership messages have you conveyed to the executive team, and what have you learned from them?

I have learned a lot from the NAOS people – they have re-wired my software, evidencing a different meaning: the goal is not to sell more but to improve lives! Towards them, I have tried to share and role model the concept of servant leadership and of the leader as a social architect.

As a final question, if you could go back in time and give your younger, 21-year old self a piece of leadership advice, what would it be? What do you know now that you wish you'd known then?

That the secret of happiness is to constantly learn and be a sponge. Must confess I have done this much more at NAOS and look forward to continue.

Pascal, thank you very much for sharing those insights!

AvS News

Recent news and developments at AvS – International Trusted Advisors

The past months were marked not only by interesting client projects, but also by exciting developments within our firm that we are delighted to share with you in this edition of THE TRUSTED ADVISOR.

New Consultants in Frankfurt

As of June 2019, Philipp Fleischmann joins the German consulting team of AvS – International Trusted Advisors. Philipp started his career as a journalist with daily newspapers (DIE WELT, Handelsblatt, etc.) and TV stations (ZDF, n-tv) before he held management positions in the publishing industry for many years, most recently as Managing Director for the international activities of the Handelsblatt Media Group. He has gained comprehensive executive search experience at the Berlin offices of two international consulting firms, including several years at Egon Zehnder. At AvS – International Trusted Advisors, Philipp will focus on advising the owners of media houses and consumer companies as well as start-up firms, particularly in Berlin. Please click here for further information.

Christian Bühring-Uhle has shifted his main focus back to Europe, returning to the Frankfurt office at the beginning of the year. Christian advises entrepreneurs, equity investors and family businesses on leadership matters (evaluation, recruitment and succession management), as well as the development of shareholder strategies and other complex issues in the area of family governance.

News from our Latin American practice

In March Christian Bühring-Uhle, who continues to be responsible for the development of our Latin American practice, participated in the “Catedra Europa Conference” at the Universidad del Norte in Barranquilla / Colombia, where he gave a presentation about recent developments and the strategic direction of the Port of his hometown Hamburg.

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