

Why Agile Transformations Fail

While most of the world's largest companies are attempting an Agile transformation in one way or another, not all are succeeding. Only 4% of all respondents to a recent McKinsey&Company survey say their companies have completed an Agile transformation, though another 37% say company-wide transformations are in progress.

Given the imperative for transformation, why are some organizations so much slower and more resistant to change? Call it a lack of confidence: While 66% of enterprise executives agree or strongly agree that their organization needs to transform in response to rapidly changing markets and disruption, (either in their core offerings, business model, or both) only 15% say they feel "very confident" about making that change.

There are several structural and cultural factors likely responsible for this lack of confidence. The inherent complexity of enterprises (compared to the small, scrappy startups disrupting them) could be to blame. But global giants like Amazon seem to disprove the notion that large, complex enterprises can't thrive in our modern, global economy.

"The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic."

– Peter Drucker



The reason many organizations fail with Lean and Agile is the same reason many are successful: **Because it requires a fundamental evolution in mindset, not just practices and processes.** Leaders might preach continuous improvement but discourage using working hours to practice it. They might allow teams to self-organize but refuse to adjust funding and planning practices to allow for true autonomy. They might rely heavily on terms, roles, tools, and rules of scaling practices without a deeper understanding of the principles behind them. These companies are unlikely to see performance improvements through Agile, because they aren't actually practicing it.

If your organization is one of the many that would like to undergo an Agile transformation, then this eBook is for you. In it, we'll cover:

- **The four most common reasons why Agile transformations fail**
- **Tips for leaders undergoing an Agile transformation**
- **Winning strategies to get your Agile transformation on the right track**



Why Most Agile Transformations Fail: Four Common Culprits

We were already heading into a period of heightened volatility for leading companies, due to a complex combination of movements in technology, culture, economics, and politics around the globe... and then a pandemic happened, forcing entire industries to adapt or die, virtually overnight.

The firms who have thrived in this volatile environment are fundamentally different from the ones they've replaced – not just in the products and services they provide, but in the way they structure, operate, and scale their businesses.

We've seen that agility is an essential survival skill for the 21st century enterprise. And we've been able to learn from the shortcomings of those who have failed to master it.

In studying why Agile transformations fail, we have found four culprits that are consistently to blame:

- 1. The underlying psychology doesn't change enough to give the transformation momentum**
- 2. A lack of executive sponsorship prevents the transformation from taking root**
- 3. Traditional planning and budgeting practices cripple Agile transformation efforts**
- 4. The organization is unable to align around shared objectives**

Let's examine each of these culprits further.

"If you want something you've never had, you must be willing to do something you've never done."

– Thomas Jefferson

The Culprit: Underlying Psychology Doesn't Change

What's missing from "failing" implementations of Lean and Agile is the understanding that in order to see radically different outcomes, you must create a radically different culture and radically different organizational goals.

Traditional business structures weren't designed for the challenges of today. Hierarchical, top-down organizational structures were designed to maintain control over workers, during a time when organizations were facing two challenges:

1. Getting semi-skilled employees to perform repetitive activities competently and efficiently
2. Coordinating those efforts so that products could be produced in large quantities

However, the challenges facing businesses today are far different:

- Power has shifted from seller to buyer, demanding a deliberately customer-centric approach
- Continuous innovation is required to compete with a global economy demanding products and services to be better, cheaper, faster, smaller, more personalized, and more convenient
- Skilled knowledge workers demand more from their employers and their working environments

Changing organizational culture to reflect and support these changes is no small feat, and not something that can happen overnight. As Agile expert Steve Denning explains, "The elements of a culture fit together as a mutually reinforcing system and combine to prevent any attempt to change it. Single-fix changes at the team level thus may appear to make progress for a while, but eventually the interlocking elements of the organizational culture take over and the change is inexorably drawn back into the existing organizational culture."



Winning Strategy: Proactively Build a Lean-Agile Culture

In order to transform into a Lean-Agile culture, organizations have to openly evolve the underlying psychological concepts on which they are built – consistently and transparently putting people and progress over profits.

Organizations trying to “adopt Lean-Agile practices” without transforming the profit-first, control-focused mindset on which they are built, are missing the point entirely.

This means building a culture in which:

- Outcomes are valued over outputs
- Learning is celebrated as much as ‘winning’
- The voice of the customer guides decision making
- Healthy conflict is welcomed
- Innovation is encouraged

These cultural shifts are all rooted in one fundamental idea necessary for Agile transformation: The idea that the best business outcomes occur when everyone in the organization focuses on delivering customer value. Secondary to this is the idea that people want to do their best work and simply need the autonomy, mastery, and purpose to do so.

Although both of these ideas might seem self-evident, the way our businesses are structured, the way our leaders lead, the way we measure progress, the way we incentivize employees, the way we make strategic plans, are typically designed to make them impossible to actually practice.

Link to: [3 Key Shifts Necessary for Scaling Agile](#)

Leadership Tip: Become a Change Agent

The most successful Agile transformations have executive sponsors: People at the top who see, share, and are excited by the vision of a more Agile tomorrow. Set an example for your organization by becoming an agent of change that provides realistic, transparent, and supportive communication throughout your Agile transformation. As strategy, structure, people, processes, and technology changes and the organization undergoes growing pains, it's critical for executives to over-communicate their support and understanding of the larger vision to promote cultural and mindset change.

The Culprit: Leadership Isn't Bought In

Because Agile includes a [culture shift](#) and a mindset change, as well as funding, you need executives to truly buy into the approach.

If you've gotten approval from leadership to embark on an Agile transformation, you may be gaining momentum from Agile teams embracing new ways of working and benefits like faster delivery, better quality, and improved morale.

The only problem may be that you're getting little engagement from senior management, and they hold the keys to driving positive and enduring change in the organization.

Senior leaders are a significant driver in the success rate of an Agile transformation.

You need them on board, and fully. But how?



Winning Strategy: Get Leadership on Board

Consider these tips to get leadership behind your Agile transformation and help them fully engage:

Get leaders to see the benefit to them.	To buy into Agile, leaders need to understand what's in it for them. Start by understanding how the approach can benefit senior leaders, and focus on selling Agile to executives with benefits in mind. Their time can be spent more frequently and fully on the work that matters most in their roles — leadership and strategy – and the payoff is significant.
Give them proper training.	Agile transformation requires a different type of leadership, which prioritizes guidance over direction and mentoring over managing. Identify the functional leaders who will be willing to lead the mindset change and focus on training them through coaching.
Form an Agile leadership team.	Think about a handful of skills or functions that will be needed to make your Agile approach work, and identify a leader with each of those skills or from each of those functional areas. This team will focus on the change management part of the transformation. The Agile leadership team should meet regularly, maybe an hour a week, to talk about the change and how it's going. You can weave coaching into those discussions in a hands-on way. Work to engage them in the transformation, as they are responsible for leading the change.
Show them quick wins.	Executives are results-oriented and accountable to a Board of Directors who also may need to be convinced that Agile is the best direction. Start by finding a part of the organization that is able and willing to change quickly. Or identify a specific, critical initiative that is a pain point for the business – such as the misalignment of product teams or sales and marketing teams — and can be undertaken quickly.
Realize alignment through OKRs	Many organizations struggle to connect teams with strategy. OKRs are tools that can be used to guide teams, encouraging alignment and focusing on outcomes, rather than outputs. Leaders can use OKRs to show teams the desired outcomes and inspire them to action. Agile measurement tools like this help both leaders and teams to stay aligned and focused on outcomes, while ensuring accountability.

Read more: [Selling Agile to Executives: 8 Ways to Get Buy-In](#)

Leadership Tip: Lead by Example

An executive's biggest role in an Agile transformation is to encourage groups of people to work together and, in essence, force the conversation and change to happen. The goal isn't to force the outcome of the conversation but instead provide guidance through servant leadership. Executives and leaders cannot just accept the situation when everyone is just smiling and saying, "Great, we're going to do it." It's up to the executives to push until a difference of opinions arises, and then leaders sponsor the facilitation of conversations that actually get to the uncomfortable points of this kind of a change. Leaders should not accept the proposed path forward until those differences in opinions are discussed.

Additionally, executives must recognize an Agile transformation is a major change, and people are going to make mistakes. Modeling the behavior of allowing people to fail and not falling back to command and control when those mistakes inevitably arise, is also a behavior to model. Ultimately, you're trying to encourage your subordinate leaders to do the same thing.

Read more: [Become the Agile Leader Your Organization Needs](#)



The Culprit: Traditional Budgeting and Planning Cycles Cripple Agile Efforts

One of the hallmark benefits of Agile is being able to strategically pivot to meet the needs of your customers and the market. But if your Agile teams are still operating under annual planning and budgeting, then you can't be truly nimble – and you are preventing your organization from achieving true agility.

Traditional budgeting and planning practices have two fatal flaws when it comes to Agile transformation:

1. Work is budgeted and planned in annual cycles, a practice which is philosophically and practically at odds with the concept of business agility.
2. Work is budgeted and planned using a work breakdown structure, which is oriented around deliverables instead of value.

First, let's talk about annual budgeting cycles: It's quite hard to be Agile if everything that an organization is doing is planned up front for a year or more.

Without quarterly planning and funding decisions, Agile teams can deliver in two-week cadences, but they are delivering work, from a business perspective, that has been planned for one or two years already. This is maybe Agile software development, but it is not business agility.

Traditional portfolio management methods rely largely on a work breakdown structure, which is a deliverable-oriented way of structuring projects. Individuals are organized into projects and are often assigned to multiple projects (working on multiple teams) at a time. Since teams are measured based on their ability to deliver agreed-upon deliverables, they aren't directly incentivized to innovate. In fact, it's the opposite: They're incentivized to stick to the plan at all costs, to earn gold stars upon completion of each task. These gold stars do not necessarily equate to customer value. In fact, they often don't, since requirements for projects are often gathered far in advance of when the work is being completed.

Success, then, becomes a measure of how well teams are able to present deliverables in spite of market shifts, not how well they're able to incorporate those shifts into their plans and deliver a desirable product. The root of this problem is the way projects are funded. Project-based funding and cost accounting create an environment ripe for friction, inefficiency, and bureaucracy - and hinder a shift to a truly Agile organization.

Winning Strategy: Embrace Lean Budgeting

The key to successfully scaling Agile is to align budgeting and funding practices with the business outcomes the organization is trying to drive. Enter: Lean budgeting.

Agile transformation requires organizations to shift from measuring outputs, to measuring outcomes. Work is planned, prioritized, and executed in a continuous flow: Teams continuously collect data about the performance of their products and services, as well as the market in which their customers (both internal and external) operate.

This continuous flow of Lean budgeting and planning includes space for incorporating new data, feedback, and information, and pivoting plans accordingly. As plans are executed, more data is collected about these and other ongoing initiatives to determine priorities for the near and distant future. As conditions change, teams adjust as necessary.

Lean-Agile budgeting practices help to decrease funding overhead and friction, while maintaining financial governance, and aligning budgeting practices with Lean-Agile goals.

Learn more Lean budgeting in this [series of posts](#).

Leadership Tip: Evaluate Regularly

It's important to periodically reassess how funds are allocated across the portfolio. This process requires analysis at the portfolio and value stream/product levels. Establishing a regular cadence to assess portfolio performance, using the desired outcomes as metrics to reallocate budgets accordingly, is a critical part of Lean budgeting. This creates a regular opportunity to, across the portfolio, adjust investments in various value streams based on real-time performance metrics and customer feedback.



The Culprit: Objectives Haven't Been Established and Shared

Our final culprit for why Agile transformations fail is that organizations don't have a sustainable, shared way to visualize and track progress towards objectives.

As organizations start to evolve the way they plan, budget, and fund they also must change the way they measure the delivery of value. Successful execution of enterprise strategy in an Agile environment requires alignment across Agile teams – which starts with a shared understanding of objectives, and requires a way to measure progress toward those objectives.

Measuring progress serves two purposes for Agile organizations: It indicates if you are headed in the right direction and radiates a shared understanding of what you want to change. Without a way to establish, but also continuously align around these objectives, an Agile transformation can start to unravel.



Winning Strategy: Measure Progress with OKRs

Successful Agile organizations use [Objectives and Key Results \(OKRs\)](#) to standardize and measure progress.

Unlike KPIs and other business metrics, which measure financial performance after work has been done, OKRs offer a proactive approach to setting and achieving targets.

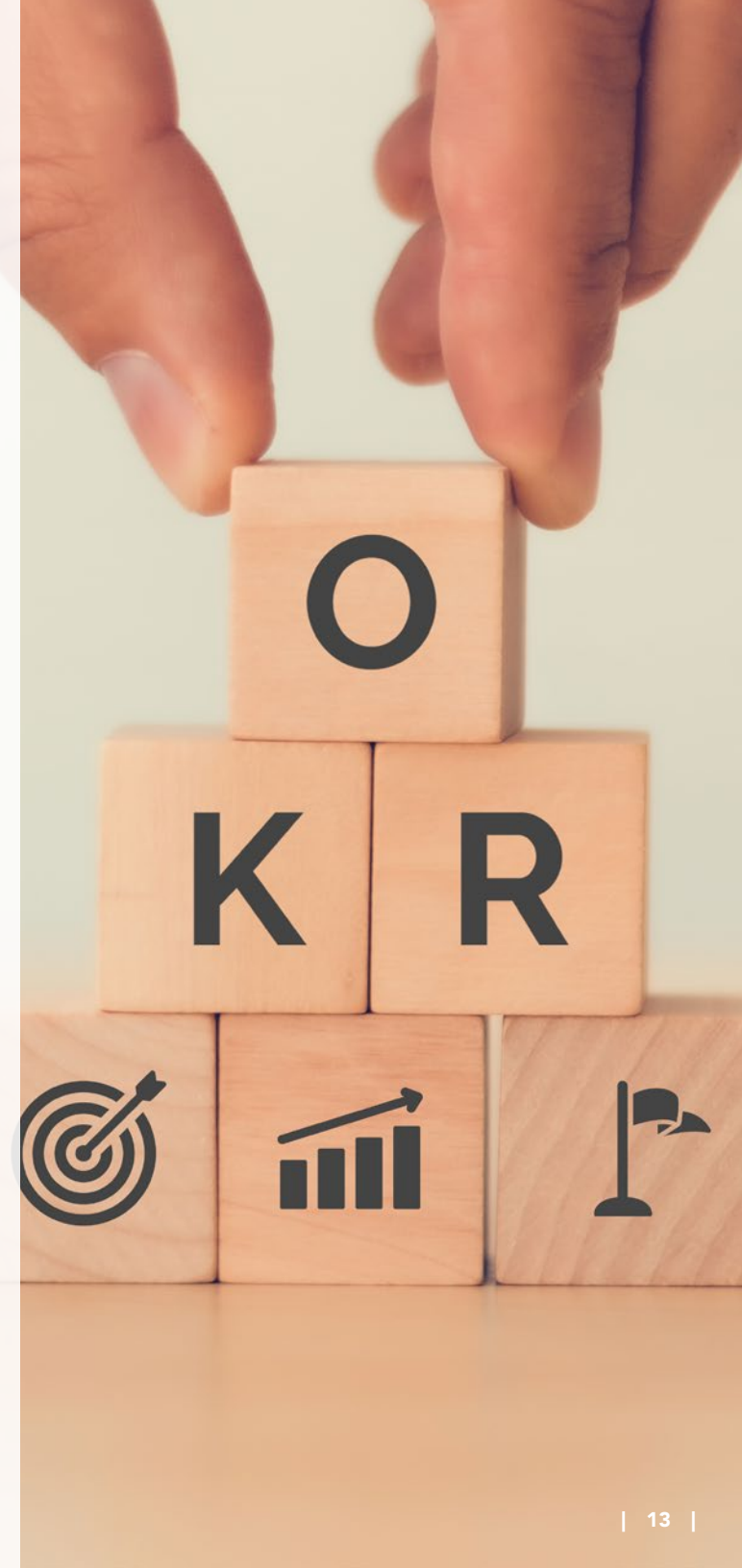
This framework can be used to align the objectives and tasks of teams, release trains, and the organization as a whole. Many of the best-known companies around the world use OKRs to align their teams' efforts around ambitious, big-picture goals. OKRs guide organizations through the process of turning big-picture dreams into real, actionable plans at every level.

The OKRs framework complements the structure, function, and goals of Lean and Agile transformations. Often, organizations get stuck when trying to evolve their traditional funding and planning practices to meet the needs of their new cross-functional Agile teams. OKRs provide an actionable way to create the transparency and accountability needed to fund and launch Agile teams, while arming teams with a better way of setting and tracking their progress toward goals.

Leadership Tip: Increase OKR Visibility

The primary reason for using any OKR solution is to have greater visibility into OKRs. What does this mean exactly? Visibility, for the modern knowledge worker, means not having to dig information out of various tools. It means providing a centralized place to create, visualize, store, and track OKRs.

The ideal solution will either work well alongside the tools your teams already use, or will be a feature included in your team's primary execution tools.



Lead Your Agile Transformation to Success

Undergoing an Agile transformation directly correlates to opportunities for better market share, position and dominance. And, this shift often increases morale throughout the organization, as people feel more connected to the work delivered.

But there's a caveat. Businesses who scale too quickly or try to scale aggressively, without a clear goal in mind, are more likely to fail. That's because there's "no one-size-fits-all approach" to Agile transformation. Not every department benefits from going all-in with Agile. At the very least, organizations need to understand Agile to its fullest and then determine the parts or pieces of Agile to implement first. It's the job of the Agile leader to recognize this when scaling Agile across the organization.

As you embark upon your Agile transformation journey, remember these winning strategies:

- Proactively build an Agile culture (and recognize that this might take time)
- Get leadership on board by helping them see the benefits of Agile firsthand
- Make the switch to Lean budgeting to align the way work is planned, funded, and executed
- Use the Objectives and Key Results framework to set ambitious goals and track progress towards them while keeping everyone aligned



Drive Agile Transformation with Planview's Enterprise Agile Planning Solution

Planview's Enterprise Agile Planning solution empowers organizations to scale Agile and drive Agile transformation by evolving the way they connect strategy to delivery – linking strategic and product portfolios, programs, and projects to Agile teams.

Learn More: [Planview's Enterprise Agile Planning solution](#)

