



THE AGILE UPSIDE IN A DOWNTURN

By Benjamin Rehberg and David Ritter

REPORTS OF RECESSION HAVE so far proved premature, but after almost a decade of economic expansion, most economists and executives expect a slowdown of some kind soon. While some just wonder when, forward-looking managers are questioning whether their companies are ready. And a small but increasing number of them are turning to agile ways of working as a high-potential tool for maintaining resilience through the trough.

Ups and Downs

As our colleagues recently reported, companies historically have tended to underestimate the urgency, scale, and breadth of responses necessary to navigate an economic contraction. Those that are prepared, however, can win big. In the last four downturns, an average 14% of companies increased both sales growth (by almost 9%) and EBIT margin (by almost 3%) in the face of challenging circumstances. Downturns present opportunities, but to realize them, companies must do more than take a defensive stance.

Because of evolving macroeconomic conditions and a different business environment, the next downturn will probably be quite unlike previous ones. But one thing remains unchanged: the importance of recognizing the opportunities that arise from challenging old ways of doing things. Agile does just that, enabling an organization to reduce operating costs and drive better outcomes, while becoming nimbler and more focused on business value. Agile boosts companies' flexibility, adaptability, and ability to deal with change—qualities particularly well suited to the challenges we usually see in a downturn.

Here are four benefits (out of many more) that agile can provide in tough times.

Greater Adaptability

Downturns are times of high uncertainty, and companies must be able to adapt quickly to changes in their markets, in consumer behavior, and in the strategies of their competitors. Agile's combination of cross-functional teams, iterative sprints, and

reliance on frequent customer and marketplace feedback allows organizations to pivot and adjust much more quickly—and painlessly—than traditional corporate bureaucracies can. Agile companies have proven to be two to four times faster in responding to change than traditional companies.

More Effective Cost Control

In a downturn, cost control and cost reduction become top priorities. Companies applying agile principles at scale will achieve sustainable cost reduction throughout the organization, cutting waste and low-value, noncustomer-focused activities while protecting strategic investments and maintaining customer centricity.

Traditional cost-cutting methodology typically mandates that the heads of organizational silos reduce costs by 5% to 10%. Belts are tightened, positions are eliminated, but there is no fundamental change in how things are done or in the ways that teams of people work. Agile transformations do not focus first on cutting costs. Rather, they structurally change ways of working, with the goals of increased speed and customer centricity; almost invariably, this unlocks an average 15% to 25% cost reduction in operations. The levers include taking out handovers, removing coordinating roles (very often project managers and middle managers), and prioritizing more effectively through increased transparency. Moreover, while traditional cost cutting often results in employee anxiety and disengagement, agile transformations bring new energy and engagement.

More Engaged Employees

Thriving in a downturn requires diligence and skill. Engaged people and focused talent become even more important assets. Agile is based on the principles of employee empowerment and transparency, which lead to high rates of engagement—greater than 90% in employee surveys. In a business environment where all companies need digital, technical, and cross-functional skills, agile companies are also more attractive to people who want to have a broad

impact while developing their own capabilities—rather than being pigeon-holed in a narrowly defined or single-purpose role or position. (See “[Why Agile Works](#),” BCG article, April 2019.)

Successful PMI

Over the years, M&A has become a more important part of many companies’ strategic arsenal, especially as they seek to acquire new capabilities as well as scale and market share. High valuations have been a big hurdle, however. Downturns invariably present opportunities that did not exist or were too expensive not long ago. But as we have written many times before, more than half of all deals fail to create value, and one big reason is slow or inadequate post-merger integration. Agile as an organizational enabler can speed and facilitate the integration of two businesses, resulting in 20% efficiency gains and high levels of employee engagement. Centering the integration on an agile-aligned organization can help bridge cultural divides and focus leadership selection.

What Companies Need to Do Now

No one knows how long we have to get ready for a contraction, but smart companies are preparing now. Almost every company has at least experimented with agile pilots and gained some experience in what agile can achieve. For those that see agile’s potential in a downturn, it’s time to pick one or two business units or divisions and move to agile at scale. Companies whose businesses are vulnerable to a downturn may want to choose on the basis of need: Which business units will be hit hardest or fastest by a market slump? These are a good place to start. In large and complex companies, speeding things up means reducing reliance on hierarchies, and leveling hierarchies means increasing reliance on collaboration. For many companies, this is a big organizational and cultural change, and implementing it takes time.

Senior leaders can also prepare for the most common agile traps. One is “commit-

ting” to organizational change but not making the kind of fundamental shifts in ways of working that are the basis of agile. Another is redesigning the organization around agile ways of working while senior managers continue to do things the way they have for years. A third trap occurs when a company shifts some functions to agile while others keep operating according to the old ways of working. One more is when companies do not follow through with critical organizational enablers such as redesigned career paths and incentive programs. People adopt the new ways of working only to encounter uncertainty about the impact these novel methods will have on them individually as employees.

It’s also essential to get the leadership team onboard. A key role of agile leaders is to set and maintain strong alignment around the overall company purpose, strategy, and priorities. Leaders need to communicate their intent, explaining both the

what and the why. They also need to let go—and do so visibly—and thereby release teams to figure out how to address their assigned challenges. This is a big change and, again, it takes time for some leaders to learn. It’s also a fact that others never make the transition, and the sooner top management has the chance to recognize this and make the necessary changes, the better.

EVERY DOWNTURN PRODUCES winners and losers. Winners get stronger in the face of adversity; they use the challenge to build organizational strength and capability. In the next downturn, one route to greater strength will be through increased agility.

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