The role of the C-suite in Agile transformation: the case of Amazon

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As the pace and complexity of change in the marketplace has increasingly required organizations to become nimbler and more innovative, the concepts and mindset of "Agile software development" have been morphing into "business agility" and "strategic agility."

Recent surveys by Deloitte researchers and others show that more than 90 percent of senior executives now give high priority to being agile.[2] These results reflect findings published by McKinsey & Company, that firms and units implementing Agile do better financially than those that don’t.[3] Yet success in implementing business agility is modest: less than 10 percent of executives currently see their organization as "highly agile," according to the Deloitte research.[4]

McKinsey defines "organizational agility" as “the ability of an organization to renew itself, adapt, change quickly and succeed in a rapidly changing, ambiguous, turbulent environment,” or even more broadly as “the ability to quickly reconfigure strategy, structure, processes, people and technology toward value-creating and value-protecting opportunities”. [5] (See box “What is Agile?”)

The role of the C-suite

Given these developments, the role of the C-Suite has become central. A recent report from the Business Agility Institute (BAI) indicates that the maturity – or success – in achieving business agility correlates positively with the executive level at which the journey is being led.[6] The higher the level of the leaders, the greater the progress towards business agility (see Exhibit 1 and Appendix 1).

What a highly agile CEO actually does

We can learn much about how a CEO can generate and sustain business agility from examining the role of Jeff Bezos, the CEO of Amazon—arguably the world’s most-agile large organization.[7] Amazon is the largest Internet retailer in the world as measured by revenue and market capitalization, and second largest after Alibaba Group in terms of total sales. Headquartered in Seattle, Washington, its operations are now global. It has a market capitalization of more than $1 trillion and has over 550,000 employees. There are seven key dimensions to Bezos’ success:

1. A customer-first mindset.
2. A focus on the road-map for the future.
3. Continuous creation of new businesses.
4. Creating multiple paths to yes.
5. Acting as “chief slowdown officer” for big bets.
6. A willingness to take risks and acquire new institutional skills.
7. Turning institutional skills into new businesses.

1. A customer-first mindset

Ever since Amazon’s launch as a public company in 1997, Bezos has stressed customer value as Amazon’s primary goal. Long-term shareholder value, said Bezos in his letter to shareholders in 1997 “will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity and correspondingly stronger returns on invested capital.” At Amazon, shareholder value is the result, not the operational goal. At Amazon the customer comes first, ahead of “short-term profitability considerations or short-term Wall Street reactions”.[8]

While Bezos obsesses over customers as his primary concern, by contrast, other big company CEOs don’t, according to a recent Harvard Business Review survey. The study by Harvard professor Michael E. Porter, and Nitin Nohria, dean of Harvard Business School, describes in detail how a group of 27 CEOs in mainly public firms averaging $13 billion in revenues, allot their time. [9] These CEOs spend only 3 percent of their time on customers. In fact, “most of the CEOs were dismayed to discover how little time they spent with their customers … The scant time devoted to customers is partly a function of the huge scope of internal responsibilities.” In effect, customers are a long way from being the center of these CEOs’ attention.

2. A focus on the road map for the future

For Bezos, the medium-term road map for the future is “pretty much all that he works on, delegating the day-to-day business operations to others.” His job is all about long-term
thinking. “I very rarely get pulled into the today,” he says. “I get to work two or three years into the future, and most of my leadership team has the same setup.” The current quarter’s results are the consequence of what was done three years ago. “I’m working [right now],” says Bezos, “on a quarter that’ll happen in 2021.”

Thus, while most firms talk about delegation, Amazon makes it a reality through its mastery of operational agility. Instead of scaling up the organization to handle complex problems, Amazon descales big complex problems into tiny pieces that can be handled by what are called “two-pizza teams.” Employees are “organized into autonomous groups of fewer than ten people—small enough that, when working late, the team members could be fed with two pizza pies. These teams are independently set loose on Amazon’s biggest problems. They . . . compete with one another for resources and sometimes duplicate their efforts, replicating the Darwinian realities of surviving in nature. Freed from the constraints of intracompany communication, . . . these loosely coupled teams . . . move faster and get features to customers quicker.” Each team has its own “fitness function”—a linear equation . . . to measure its own impact without ambiguity.”[10] Because each team has its own fitness function, and can measure its own results, the C-suite doesn’t need to be as involved in day-to-day decision-making as the top of a steep hierarchical bureaucracy.

Thus whereas the future road map of innovation is practically all that Amazon’s CEO works on, in stark contrast, the term, “innovation,” is not used even once in the HBR survey of what CEOs do. Instead, according to the survey, these CEOs are preoccupied with administering the current business operation. The CEO’s role has “vast, encompassing functional agendas, business unit agendas, multiple organizational levels and myriad external issues. It also involves a wide array of constituencies—shareholders, customers, employees, the board, the media, government, community organizations and more. Unlike any other executive, the CEO has to engage with them all . . . CEOs remain accountable for all the work of their organizations.” The road map for the future isn’t central: it’s just one of a huge number of things that these CEOs have to attend to.

3. Continuous creation of new businesses

A constant Bezos maxim is that “we’re still at ‘day one’ of the internet.” In effect, “Amazon is just getting started,” even though it is now valued at more than $1 trillion. Amazon demonstrates mastery of strategic agility by having successfully shifted Amazon into a whole series of new businesses on a massive scale. Thus Amazon started in on-line retailing of books and went on to retailing everything, then to Amazon delivery for other retailers, then to cloud services, then to hardware devices for books, then to music, to video, now on to health care, movie making, consumer electronics and advertising.

A very different picture emerges of the role of CEOs as described in the HBR survey. These CEOs seem to be living in a pre-Agile world, with no indication of any interest in or capability to accomplish the rapid creation of new businesses.

4. Multiple paths to yes

For Jeff Bezos, “the most important word at Amazon is yes . . . Bezos explains [that] in a traditional corporate hierarchy . . . a junior executive comes up with a new idea that they want
to try. They have to convince their boss, their boss’s boss, their boss’s boss’s boss and so on—any ‘no’ in that chain can kill the whole idea.”

Bezos has structured Amazon around “multiple paths to yes,” particularly . . . incremental improvements that can be reversed if they prove unwise. Hundreds of executives can green-light an idea, which employees can shop around internally.” According to Jeff Wilke, the longtime Bezos lieutenant who runs Amazon’s consumer and retail operations, “There is a culture of experimentation and a recognition that there will be failures. Those we sort of celebrate. In fact, we want them to occur all over the place. Jeff doesn’t need to review those. I don’t need to review those.”

Here again, a radically different picture emerges from the HBR CEO survey. In it most CEOs are portrayed as decision-makers presiding over steep hierarchies, with an emphasis on putting in place control mechanisms aimed at ensuring alignment and preventing mistakes rather than creating new business opportunities.

5. The “chief slowdown officer” for big bets

In Amazon, there are many paths to “Yes” for small improvements. But when addressing larger ideas that change the direction of the whole company, Bezos sees himself as acting as “chief slowdown officer.” He has three check points in his innovation playbook:

- First, originality. “We have to have a differentiated idea. It can’t be a ‘me too’ offering,” he says.

- Second, scale. “We’re gifted with some very large businesses we’ve built over time, and we can’t afford to put our energies into something that if it works, it’s still going to be small.”

- And, finally, a Silicon Valley-worthy ROI. “Even at substantial scale, it has to have good returns on capital.”

(For a similar innovation playbook at SRI International, see “SRI’s turnaround: how four principles guided high-value, market-creating innovation”: S&L Vol. 45 No. 4).

Here again, a very different picture of CEO behavior emerges from the HBR CEO survey. There is no hint of any business-creation playbook for major changes in the firm’s direction. Instead, the CEOs seem so busy administering the existing business they have little time to think about any major change in direction.

6. Willingness to take risks and acquire new institutional skills

Since 1997, Bezos has shown a willingness to take risks, acquire new skills and learn from failure. For instance, Amazon’s first foray into hardware, back in 2007, was the Kindle. At the time, members of the Amazon board objected that the planned delivery date was unrealistic, that the yields would be too low and that Amazon was a software firm that lacked the skills to do hardware. Bezos conceded those points but insisted on pressing ahead anyway. That’s because he saw that becoming proficient in hardware was part of Amazon’s long-term future. In fact, both Bezos and his critics were proved right. The Kindle underperformed, and the Fire

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smartphone was a commercial disaster. But in the process, Amazon acquired skills that paved the way for the game-changing Echo. “We have a lot of hardware experience today, but back then we didn’t have those skills,” says Bezos. “You have to be patient.”

Here again, a distinctly different picture emerges of the CEOs in the HBR survey. There is no hint of any preoccupation with big risk-taking or the patience to build institutional skills for the medium term.

7. Turning institutional skills into new businesses

As Amazon acquires new skills, it doesn’t just become more proficient in its own business: it turns these into newly-created capabilities into new businesses. Thus “as Amazon solved current issues, it wasn’t just viewing those skills merely as accretive to the core business” Bezos saw them as potential “businesses unto themselves.” For example:

- Experience with crowdsourcing led to gig marketplaces for part-time developers: Mechanical Turk.
- Development of high-performance delivery infrastructure led to delivery for others: Fulfillment by Amazon.
- Development of a capability to store its own data in the cloud led to Amazon Web Services (AWS) with $17.5 billion in revenue in 2017.

By contrast, the CEOs in the HBR survey are focused on issues related to the existing business and the concerns of the current executives. They give no sign of systematically using problem-solving to achieve mastery that can be turned into opportunities to grow new businesses.

Entrepreneurs vs. administrators

The picture that emerges is thus one of stark contrasts. Bezos is the quintessential entrepreneur with a founder’s mentality.[12] The CEOs in the HBR survey are portrayed as cautious administrators, overseeing and tending the existing business and preoccupied with satisfying the multiple constituencies that seek their approval and time.

This may in part reflect the fact that Porter and Nohria themselves approach the role of the CEO as that of an administrator. They don’t appear to have asked questions about strategic agility. As a result, both questions and answers reflect a kind of pre-Agile mindset. It is possible that if questions more explicitly related to strategic agility had been asked, at least some pockets of strategic leadership might have been identified.

Porter and Nohria state that their “study of what the CEOs of large, complex organizations actually do—as manifest in how they spend their time—opens a new window into what leadership is all about and into its many components and dimensions.”

The problem is that the leadership on which the survey provides a window is that of the 20th Century, pre-Agile management. It is a world where the way the business is today is assumed to be pretty much the way it will be tomorrow, with minor adjustments here and there. The CEOs’ job is done if they can administer the issues of the day and satisfy the
multiple constituencies clamoring for their attention. The prospect that tomorrow may be radically different from today doesn’t enter the picture.

Because firms like Amazon that have mastered both operational and strategic agility can act and respond faster than their competitors, they are taking over the world. They are connecting everyone and everything, everywhere, all the time. They are able to deliver instant, intimate, frictionless value on a large scale. They are creating a world in which people, insights and money interact quickly, easily and cheaply. By contrast the steep hierarchies headed by administrators continue to miss game-changing transformations in industry after industry. For these big old hierarchies, the choice is stark: change or die.

What Is Agile?

1. The law of the customer

Agile practitioners are obsessed with delivering value to customers. In the Agile organization, “customer focus” means that everyone in the organization has a clear line of sight to the ultimate customer and can see how their work is adding value to that customer—or not. If it isn’t, then an immediate question arises as to why the work is being done at all. The firm adjusts everything – goals, values, principles, processes, systems, practices, data structures, incentives – to generate continuous new value for customers and ruthlessly eliminates anything that doesn’t contribute.

2. The law of the small team

In Agile organizations, there is a presumption that big complex problems should be descaled into small pieces that can be handled by small autonomous cross-functional teams working in short cycles on relatively small tasks that deliver value to customers and get continuous feedback from the ultimate customers or end users.

3. The law of the network

Agile practitioners view the organization as a fluid, interactive and transparent network of players that are collaborating towards a common goal of delighting customers. They recognize that competence resides throughout the organization and that innovation can come from anywhere. In effect, the whole organization shares a common mindset and operates as a network of high-performance teams.

Operational Agility is mainly concerned with improving existing products and services for existing customers. Strategic Agility involves generating market-creating innovation with new products and services that bring in new customers and generally requires an innovation playbook.

Appendix 1: The BAI survey

In the BAI survey of 394 participants in firms of all sizes and all parts of the world, leadership is perceived as the top implementation challenge for business agility (Exhibit 2). This is hardly surprising if business agility is considered as “reconfiguring strategy, structure, processes, people and technology toward value-creating and value-protecting opportunities.” The participants were managers at all levels of the organization and their opinions did not significantly differ according to organizational level.

The survey used a rating scale from 1 to 10. (Exhibit 3)
Exhibit 2  Leadership is the key implementation challenge

Leadership Is Perceived As Top Implementation Challenge

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>23%</td>
</tr>
<tr>
<td>Lack of Buy-In</td>
<td>17%</td>
</tr>
<tr>
<td>Inappropriate Organization Design</td>
<td>11%</td>
</tr>
<tr>
<td>Skills &amp; Capability</td>
<td>7%</td>
</tr>
<tr>
<td>The Transformation</td>
<td>7%</td>
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<tr>
<td>Mindset</td>
<td>6%</td>
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<tr>
<td>Cultural Change</td>
<td>6%</td>
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<tr>
<td>Insufficient (or Unassigned) Capacity</td>
<td>5%</td>
</tr>
<tr>
<td>Existing Processes</td>
<td>5%</td>
</tr>
<tr>
<td>Unsupportive Measures, Metrics, &amp; KPIs</td>
<td>4%</td>
</tr>
<tr>
<td>Funding &amp; Procurement Processes</td>
<td>4%</td>
</tr>
<tr>
<td>IT-centric Journey</td>
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<tr>
<td>Customer Alignment</td>
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Source: The business agility report, 1st edition 2018, creative commons 4.0 international license

Exhibit 3  Rating scale used Business Agility Report

Agility Maturity Was Rated On A Scale of 1-10

- **Pre-Crawl (1-2)** - the organization mostly follows traditional processes. E.g. Our focus is primarily on achieving a specific output and we do not effectively track the realization of benefits once a project is complete.

- **Crawl (3-4)** - the organization is just getting started with business agility. E.g. Our project business cases define expected business outcomes which are tracked at project completion.

- **Walk (5-6)** - the business agility basics are in place and more advanced methods are being explored. E.g. We are aligning teams and their associated KPIs and measures against product goals rather than project goals.

- **Run (7-8)** - the organization has made significant strides towards business agility. E.g. We are outcome focused and start with the desired behavioral change in our target customer in mind rather than a specific output.

- **Fly (9-10)** - the organization is a global business agility leader. E.g. Teams are funded by “why.” The question “how much does it cost?” is no longer asked, instead, “what is it worth?”

Source: The business agility report, 1st edition 2018, creative commons 4.0 international license


5. ibid


