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Interview
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ING's agile transformation

Two senior executives from the global bank describe their recent journey.

Established businesses around the world and across a range of sectors are striving to emulate the speed, dynamism, and customer centricity of digital players. In the summer of 2015, the Dutch banking group ING embarked on such a journey, shifting its traditional organization to an "agile" model inspired by companies such as Google, Netflix, and Spotify. Comprising about 350 nine-person "squads" in 13 so-called tribes, the new approach at ING has already improved time to market, boosted employee engagement, and increased productivity. In this interview with McKinsey's Deepak Mahadevan, ING Netherlands chief information officer Peter Jacobs and Bart Schlatmann, who, until recently, was the chief operating officer of ING Netherlands, explain why the bank needed to change, how it manages without the old reporting lines, and how it measures the impact of its efforts.

The *Quarterly*: What prompted ING to introduce this new way of working?

Bart Schlatmann: We have been on a transformation journey for around ten years now, but there can be no let up. Transformation is not just moving an organization from A to B, because once you hit B, you need to move to C, and when you arrive at C, you probably have to start thinking about D.

In our case, when we introduced an agile way of working in June 2015, there was no particular financial imperative, since the company was performing well, and interest rates were still at a decent level. Customer behavior, however, was rapidly changing in response to new digital distribution channels, and customer expectations were being shaped by digital leaders in other industries, not just banking. We needed to stop thinking traditionally about product marketing and start understanding customer

journeys in this new omnichannel environment. It's imperative for us to provide a seamless and consistently high-quality service so that customers can start their journey through one channel and continue it through another—for example, going to a branch in person for investment advice and then calling or going online to make an actual investment. An agile way of working was the necessary means to deliver that strategy.

The *Quarterly*: How do you define agility?

Bart Schlatmann: Agility is about flexibility and the ability of an organization to rapidly adapt and steer itself in a new direction. It's about minimizing handovers and bureaucracy, and empowering people. The aim is to build stronger, more rounded professionals out of all our people. Being agile is not just about changing the IT department or any other function on its own. The key has been adhering to the "end-to-end principle" and working in multidisciplinary teams, or squads, that comprise a mix of marketing specialists, product and commercial specialists, user-experience designers, data analysts, and IT engineers—all focused on solving the client's needs and united by a common definition of success. This model [see exhibit] was inspired by what we saw at various technology companies, which we then adapted to our own business.

Exhibit

ING's new agile organizational model has no fixed structure— it constantly evolves.

P Product owner
★ Chapter lead
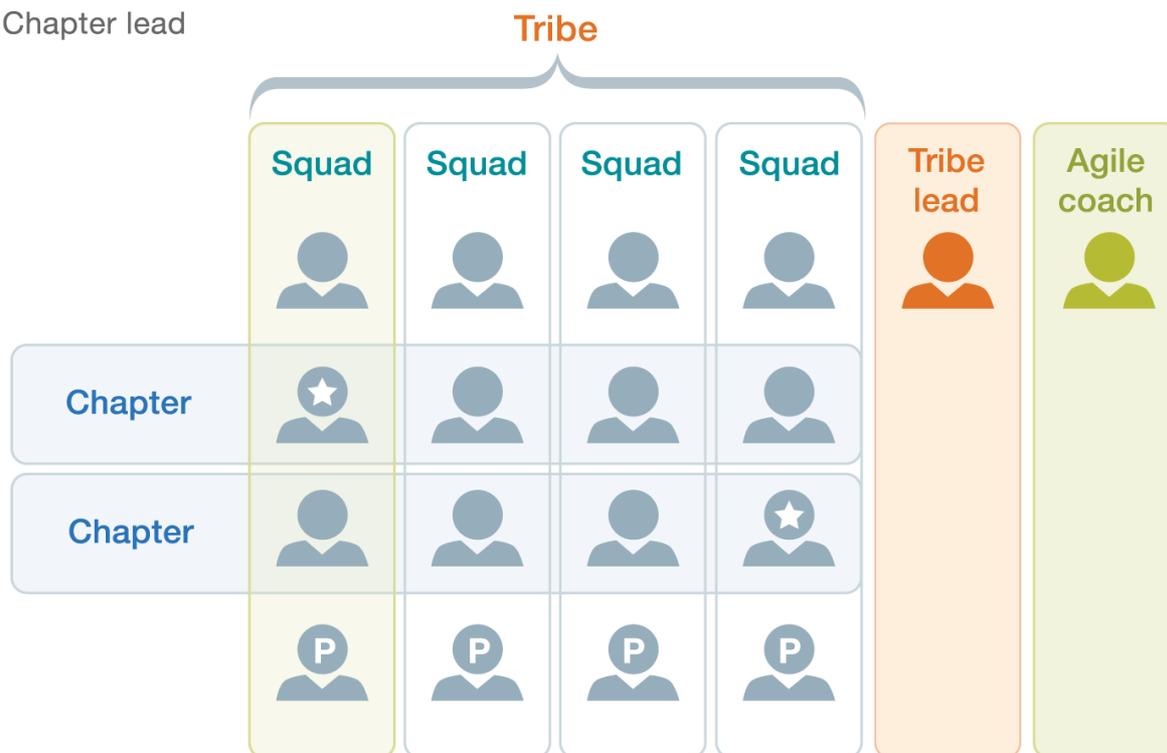
Tribe
(collection of squads with interconnected missions)

- includes on average 150 people
- empowers tribe lead to establish priorities, allocate budgets, and form interface with other tribes to ensure knowledge/insights are shared

Agile coach
- coaches individuals and squads to create high-performing teams

Squad
(basis of new agile organization)

- includes no more than 9 people; is self-steering and autonomous
- comprises representatives of different functions working in single location
- has end-to-end responsibility for achieving client-related objective
- can change functional composition as mission evolves
- is dismantled as soon as mission is executed

Product owner
(squad member, not its leader)

Chapter
(develops expertise and knowledge across squads)

Chapter lead
- is responsible for one chapter
- represents hierarchy for squad members (re: personal development, coaching, staffing, and performance management)

- is responsible for coordinating
  squad activities
- manages backlog, to-do lists,
  and priority setting

McKinsey&Company　｜　Source: ING

The *Quarterly*: What were the most important elements of the transformation?

Peter Jacobs: Looking back, I think there were four big pillars. Number one was the agile way of working itself. Today, our IT and commercial colleagues sit together in the same buildings, divided into squads, constantly testing what they might offer our customers, in an environment where there are no managers controlling the handovers and slowing down collaboration.

Number two is having the appropriate organizational structure and clarity around the new roles and governance. As long as you continue to have different departments, steering committees, project managers, and project directors, you will continue to have silos—and that hinders agility.

The third big component is our approach to DevOps[1] and continuous delivery in IT. Our aspiration is to go live with new software releases on a much more frequent basis —every two weeks rather than having five to six "big launches" a year as we did in the past. The integration of product development and IT operations has enabled us to develop innovative new product features and position ourselves as the number-one mobile bank in the Netherlands.

Finally, there is our new people model. In the old organization, a manager's status and salary were based on the size of the projects he or she was responsible for and on the number of employees on his or her team. In an agile performance-management model, there are no projects as such; what matters is how people deal with knowledge. A big part of the transformation has been about ensuring there is a good mix between different layers of knowledge and expertise.

The *Quarterly*: What was the scope of this transformation? Where did you start, and how long did it take?

Bart Schlatmann: Our initial focus was on the 3,500 staff members at group headquarters. We started with these teams—comprising previous departments such as marketing, product management, channel management, and IT development—because we believed we had to start at the core and that this would set a good example for the rest of the organization.

We originally left out the support functions—such as HR, finance, and risk—the branches, the call centers, operations, and IT infrastructure when shifting to tribes and squads. But it doesn't mean they are not agile; they adopt agility in a different way. For example, we introduced self-steering teams in operations and call centers based on what we saw working at the shoe-retailer Zappos. These teams take more responsibility than they used to and have less oversight from management than previously. Meanwhile, we have been encouraging the sales force and branch network to embrace agility through daily team stand-ups and other tactics. Functions such as legal, finance, and operational risk are not part of a squad per se, as they need to be independent, but a squad can call on them to help out and give objective advice.

It took about eight or nine months from the moment we had written the strategy and vision, in late 2014, to the point where the new organization and way of working had been implemented across the entire headquarters. It started with painting the vision and getting inspiration from different tech leaders. We spent two months and five board off-sites developing the target organization with its new "nervous system." In parallel, we set up five or six pilot squads and used the lessons to adapt the setup, working environment, and overall design. After that, we were able to concentrate on implementation—selecting and getting the right people on board and revamping the offices, for example.

The *Quarterly*: Was agility within IT a prerequisite for broader organizational change?

Peter Jacobs: Agility within IT is not a prerequisite for a broader transformation, but it certainly helps. At ING, we introduced a more agile way of working within IT a few years ago, but it was not organization-wide agility as we understand it today, because it did not involve the business. You can certainly start in IT and gradually move to the business side, the advantage of this being that the IT teams can test and develop the concept before the company rolls it out more widely. But I think you could equally start with one value stream, let's say mortgages, and roll it out simultaneously in the business and in IT. Either model can work.

What you can't do—and that is what I see many people do in other companies—is start to cherry pick from the different building blocks. For example, some people formally embrace the agile way of working but do not let go of their existing organizational structure and governance. That defeats the whole purpose and only creates more frustration.

The *Quarterly*: How important was it to try to change the ING culture as part of this transformation?

Bart Schlatmann: Culture is perhaps the most important element of this sort of change effort. It is not something, though, that can be addressed in a program on its own. We have spent an enormous amount of energy and leadership time trying to role model the sort of behavior—ownership, empowerment, customer centricity—that is appropriate in an agile culture. Culture needs to be reflected and rooted in anything and everything that we undertake as an organization and as individuals.

For instance, one important initiative has been a new three-week onboarding program, also inspired by Zappos, that involves every employee spending at least one full week at the new Customer Loyalty Team operations call center taking customer calls. As they move around the key areas of the bank, new employees quickly establish their own informal networks and gain a deeper understanding of the business.

We have also adopted the peer-to-peer hiring approach used by Google. For example, my colleagues on the board selected the 14 people who report to me. All I have is a right of veto if they choose someone I really can't cope with. After thousands of hires made by teams using this approach at every level in the organization, I have never heard of a single veto being exercised—a sure sign that the system is working well. It's interesting to note, too, that teams are now better diversified by gender, character, and skill set than they were previously. We definitely have a more balanced organization.

A lot is also down to the new way we communicate and to the new office configuration: we invested in tearing down walls in buildings to create more open spaces and to allow more informal interaction between employees. We have a very small number of formal meetings; most are informal. The whole atmosphere of the organization is much more that of a tech campus than an old-style traditional bank where people were locked away behind closed doors.

The *Quarterly*: Was a traditional IT culture an impediment to the transformation?

Peter Jacobs: In IT, one of the big changes was to bring back an engineering culture, so there's now the sense that it's good to be an engineer and to make code. Somehow over the years, success in IT had become a question of being a good manager and orchestrating others to write code. When we visited a Google IO conference in California, we were utterly amazed by what we saw and heard: young people talking animatedly about technology and excitedly discussing the possibilities of Android, Google Maps, and the like. They were proud of their engineering skills and achievements. We asked ourselves, "Why don't we have this kind of engineering culture at ING? Why is it that large enterprises in Holland and Western Europe typically just coordinate IT rather than being truly inspired by it?" We consciously encouraged people to go back to writing code—I did it myself—and have made it clear that engineering skills and IT craftsmanship are what drive a successful career at ING.

The *Quarterly*: Can you say more about the companies that inspired you?

Peter Jacobs: We came to the realization that, ultimately, we are a technology company operating in the financial-services business. So we asked ourselves where we could learn about being a best-in-class technology company. The answer was not other banks, but real tech firms.

If you ask talented young people to name their dream company from an employment perspective, they'll almost always cite the likes of Facebook, Google, Netflix, Spotify, and Uber. The interesting thing is that none of these companies operate in the same industry or share a common purpose. One is a media company, another is search-engine based, and another one is in the transport business. What they all have in common is a particular way of working and a distinctive people culture. They work in small teams that are united in a common purpose, follow an agile "manifesto," interact closely with customers, and are constantly able to reshape what they are working on.

Spotify, for example, was an inspiration on how to get people to collaborate and work across silos—silos still being a huge obstacle in most traditional companies. We went to visit them in Sweden a few times so as to better understand their model, and what started as a one-way exchange has now become a two-way exchange. They now come to us to discuss their growth challenges and, with it, topics like recruitment and remuneration.

The *Quarterly*: Without traditional reporting lines, what's the glue that holds the organization together?

Bart Schlatmann: Our new way of working starts with the squad. One of the first things each squad has to do is write down the purpose of what it is working on. The second thing is to agree on a way of measuring the impact it has on clients. It also decides on how to manage its daily activities.

Squads are part of tribes, which have additional mechanisms such as scrums, portfolio wall planning, and daily stand-ups to ensure that product owners are aligned and that there is a real sense of belonging. Another important feature is the QBR [quarterly business review], an idea we borrowed from Google and Netflix. During this exercise, each tribe writes down what it achieved over the last quarter and its biggest learning, celebrating both successes and failures and articulating what it aims to achieve over the next quarter—and, in that context, which other tribe or squad it will need to link up with. The QBR documents are available openly for all tribes: we stimulate them to offer input and feedback, and this is shared transparently across the bank. So far, we have done four QBRs and, while we are improving, we still have to make them work better.

In the beginning, I think the regulators were at times worried that agile meant freedom and chaos; that's absolutely not the case. Everything we do is managed on a daily basis and transparent on walls around our offices.

The *Quarterly*: Can traditional companies with legacy IT systems really embrace the sort of agile transformation ING has been through?

Peter Jacobs: I believe that any way of working is independent of what technology you apply. I see no reason why an agile way of working would be affected by the age of your technology or the size of your organization. Google and ING show that this has nothing to do with size, or even the state of your technology. Leadership and determination are the keys to making it happen.

The *Quarterly*: Are some people better suited to agile operating approaches than others?

Bart Schlatmann: Selecting the right people is crucial. I still remember January of 2015 when we announced that all employees at headquarters were put on "mobility," effectively meaning they were without a job. We requested everyone to reapply for a position in the new organization. This selection process was intense, with a higher weighting for culture and mind-sets than knowledge or experience. We chose each of the 2,500 employees in our organization as it is today—and nearly 40 percent are in a

different position to the job they were in previously. Of course, we lost a lot of people who had good knowledge but lacked the right mind-set; but knowledge can be easily regained if people have the intrinsic capability.

Peter Jacobs: We noticed that age was not such an important differentiator. In fact, many whom you may have expected to be the "old guards" adapted even more quickly and more readily than the younger generation. It's important to keep an open mind.

The *Quarterly*: How would you quantify the impact of what has been done in the past 15 months?

Bart Schlatmann: Our objectives were to be quicker to market, increase employee engagement, reduce impediments and handovers, and, most important, improve client experience. We are progressing well on each of these. In addition, we are doing software releases on a two- to three-week basis rather than five to six times a year, and our customer-satisfaction and employee-engagement scores are up multiple points. We are also working with INSEAD, the international business school, to measure some of these metrics as a neutral outsider.

The *Quarterly*: Do you see any risks in this agile model?

Peter Jacobs: I see two main risks. First, agility in our case has been extremely focused on getting software to production and on making sure that people respond to the new version of what they get. If you are not careful, all innovations end up being incremental. You therefore have to organize yourself for a more disruptive type of innovation—and you can't always expect it to come out of an individual team.

Second, our agile way of working gives product owners a lot of autonomy to collect feedback from end users and improve the product with each new release. There is a risk that people will go in different directions if you don't align squads, say, every quarter or six months. You have to organize in such a way that teams are aligned and mindful of the company's strategic priorities.

The *Quarterly*: What advice would you give leaders of other companies contemplating a similar approach?

Bart Schlatmann: Any organization can become agile, but agility is not a purpose in itself; it's the means to a broader purpose. The first question you have to ask yourself is, "Why agile? What's the broader purpose?" Make sure there is a clear and compelling reason that everyone recognizes, because you have to go all in—backed up by the

entire leadership team—to make such a transformation a success. The second question is, "What are you willing to give up?" It requires sacrifices and a willingness to give up fundamental parts of your current way of working—starting with the leaders. We gave up traditional hierarchy, formal meetings, overengineering, detailed planning, and excessive "input steering" in exchange for empowered teams, informal networks, and "output steering." You need to look beyond your own industry and allow yourself to make mistakes and learn. The prize will be an organization ready to face any challenge.

1. The integration of product development with IT operations.

About the author(s)

Peter Jacobs is the chief information officer of ING Netherlands; **Bart Schlatmann**, who left ING in January 2017 after 22 years with the group, is the former chief operating officer of ING Netherlands. This interview was conducted in October 2016 by **Deepak Mahadevan,** a partner in McKinsey's Brussels office.