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DEVELOPMENT OF AN AGILE TRANSFORMATION STRATEGY AT SATA GROUP

A practical approach to Enterprise Agility

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Abstract

For a significant period of time the Portuguese airline SATA has been in financial distress. On the way to solve this problem, the introduction of Agility at the organizational level was identified as a possible solution. For this purpose and reflected by this work project, an Agile Transformation strategy was developed, based on the results of a series of qualitative interviews with eight department heads of SATA and 20 experienced Agile Transformation managers of various companies worldwide. The selected strategy was based on the conceptual development of a new Agile operating model with the main focus on strategy, structure, processes, people and technology.

Keywords: Strategy, Agile Transformation, Agile Organization, Large-scale Agile

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1. Introduction

"The European Commission has approved, under EU State aid rules, € 133 million in liquidity support to SATA Air Açores" (European Commission 2020). This is just one of many headlines that appear in connection with SATA, a Portuguese airline. The company has been in financial distress for some time, with negative operating results of € 135 M over the last three years, accounting for 20% of total revenues. (SATA 2021b) To overcome this financial hardship, SATA has identified the adoption of enterprise-level Agility as one pillar of its solution approach, as this has proven to have the potential to not only improve financial performance by up to 30%, but also increase employee engagement, customer satisfaction and operational performance. (Aghina et al. 2020)

In order to introduce Agility at the organizational level, strategy, structure, processes, people and technology need to be transformed into a new operating model (Jurisic et al. 2020). This process is called "Agile Transformation" and can be implemented by adopting one of several existing transformation frameworks (Theobald, Schmitt, and Diebold 2019). Consequently, the main objective of this work project is to elaborate an Agile Transformation strategy for SATA by applying McKinsey's Agile Blueprint, the framework of choice (Brosseau et al. 2019).

Following this approach, the first part of this document provides a theoretical background on the definition and benefits of Agility, the characteristics of an Agile Organization and the different steps and drivers involved in an Agile Transformation based on McKinsey's Agile Blueprint. This is followed by a short introduction of SATA. The methodology chapter then explains the research approach and design on which the paper is based on, as well as how the data was collected and analyzed. Afterwards, SATA's Agile Transformation strategy is developed, using the results from the theoretical background and the interviews conducted. Finally, the last chapter summarizes the most important key findings and outlines any limitations.

2. Theoretical Background

2.1. The Concept and Benefits of Agile

When researching the term “Agility” both in a search engine and in academic literature, a plethora of definitions is found. While word choices may vary, most agree on the content and describe Agility as “the ability to create and respond to change” (Agile Alliance 2015). Today, the term is used in countless contexts, but is best known as an alternative approach to the waterfall model in software development and project management (Orvos 2019). The waterfall model is based on a sequence of phases, requiring each phase to be completed before the next can begin. This not only increases the risk of carrying over errors from the previous phase to the next but also fails to account for changing customer requirements in a later phase of the process. (Dima and Maassen 2018) Thus, the waterfall model approach may function well in stable environments but reaches its limits in today's increasingly unpredictable and volatile software markets. (Rigby, Sutherland, and Noble 2018). In 2001, this realization sparked a group of 17 software developers to convene in Utah with the aim to collectively define four values and twelve principles for improved software development - the birth of the "Agile Manifesto". In summary, these values and principles stipulated that software development should focus on people and continuous value creation for the customer in order to achieve the goal of being able to react quickly to changes and bring software quickly to the market. (Rigby, Sutherland, and Noble 2018) But not only software markets, today's modern world in general is characterized by an ever-increasing level of uncertainty, unpredictability, and volatility (Aghina et al. 2015). This creates new financial, safety, and business challenges for organizations (Bates et al. 2021) and is forcing them to rethink their organizational structures, influence, and control in order to remain competitive (Mikalsen et al. 2019). Hence, to capitalize on the great successes of Agile in software development, companies have started to

apply Agile practices to other areas of the business and even implement enterprise-wide Agile operating models (Handscomb et al. 2018) (Uludağ et al. 2019).

This scaled adoption of Agile has been proven to bring numerous benefits to an organization. A recent research study by McKinsey revealed that a successful adoption of Agile at the enterprise level can increase employee engagement by 20-30 %, customer satisfaction by 10-30 %, and operational performance by 30-50%. All together, these three factors can reinforce each other and have the potential to increase financial performance by an additional 20-30% (Aghina et al. 2020).

2.2. Characteristics of an Agile Organization

But what characterizes an Agile Organization and how does it differ from a traditional model? The fundamental idea behind the prevailing traditional organizational model is that the world is predictable. In an attempt to cope with the increasing complexity of today's world, traditional organizations mainly center on static, siloed, and structural hierarchies that are guided by the exercise of control. (Smet, Lurie, and George 2018) Unlike the traditional model, Agile Organizations assume that the world is uncertain. They are composed of a network of teams, that operate in rapid, iterative decision cycles, based on a human-centered culture, and guided by an overarching shared mission. Agile Organizations have a strong backbone that provides the stability to develop and scale the dynamic capabilities which are needed to be able to respond rapidly to changing circumstances and opportunities identified in the previous chapter. (Lackey et al. 2017) To achieve this paradox of being equally stable and dynamically pronounced, traditional companies are shifting structure, people, processes, strategy, and technology in the direction of a new operating model (Jurisic et al. 2020). This process is referred to as "Agile Transformation" and is explained in more detail in the next chapter, while the following section provides a more detailed description of the various stable and dynamic components of the Agile operating model (Lackey et al. 2017).

Strategy - The strategy component forms the core of the Agile Organization and provides stability through the development of an overarching purpose to which the entire organization is aligned. Dynamism is created by the flexible allocation of resources and the proactive adaptation of the strategy in response to environmental changes or customer preferences. (Ahlbäck et al. 2017)

Structure - The structure element of an Agile Organization builds on the strategy. Stability is achieved by maintaining a C-level structure while replacing the remainder of the existing architecture with purpose-driven performance cells. The main features of such cells are a high degree of autonomy as well as ownership, cross-functionality, and a focus on value-adding activities. (Lackey et al. 2017) Dynamism is accomplished through the structure of an open physical and virtual work environment. (Ahlbäck et al. 2017)

Processes - Processes are subject to the entire Agile Organization and gain stability by adopting the right balance between standardization and innovation (Rigby, Elk, and Berez 2020). Additionally, stability is achieved through performance orientation, in which teams and employees responsible for the same end-to-end processes are evaluated based on Agile metrics that are summarized and analyzed in "Agile KPI Dashboards"(Ahlbäck et al. 2017). Alternatively, "Objectives and Key Results" (OKRs) can be leveraged to identify objectives and the process metrics by which these objectives can be achieved (Gothelf 2020).

Dynamism is added to the processes of an Agile Organization through a transparent and iterative way of working that actively promotes experimentation. (Ahlbäck et al. 2017) This way of working is facilitated by the adoption of Agile working methodologies, with Kanban and Scrum being the two most popular methods on the market. While Kanban helps teams increase transparency by visualizing work processes, Scrum provides a framework for iterative and incremental implementation through a set of defined rituals and roles. (Bibik 2018)

People - The people component forms the fourth component of an Agile Organization. Stability is achieved by ensuring employees have an entrepreneurial drive and an intrinsic motivation to proactively identify and pursue new opportunities. This can be attained, on the one hand through a "servant leadership" that empowers employees by coaching and personal development rather than hierarchical authority. On the other hand, by creating a culture in which teams trust each other across all levels and act in the best interest of the company, its customers and other key stakeholders. (Ahlbäck et al. 2017) As such a culture is best fostered through fit based recruiting, Agile Organizations feature a talent engine capable of attracting and retaining the best candidates (Brosseau et al. 2019). Dynamism is given to the people component of an Agile Organization by enabling employees to easily switch between roles and teams on both vertical and horizontal levels, depending on their own development goals and the organization's needs (Brosseau et al. 2019).

Technology - The final building block of an Agile Organization is technology. This component becomes stable by ensuring that the organization has the right tools to support the way it works and that these tools are properly integrated into key processes. In addition, testing and integration processes are automated to enable rapid and continuous deployment and an appropriate and flexible infrastructure is developed, which is able to quickly respond to changes. Dynamism in the technological context is achieved by constantly adapting the development of the IT architecture according to internal and external requirements. (Brosseau et al. 2019)

2.3. Agile Transformation based on McKinsey's Agile Blueprint

As outlined in the previous chapter, the process by which traditional companies are shifting structure, people, processes, strategy, and technology in the direction of a new operating model is called Agile Transformation (Brosseau et al. 2019). But how does this process look like and what aspects need to be considered? This question has been addressed by a number of so-called

"Scaling Agile Frameworks" that provide a guided plan for a scaled adoption of Agility (Theobald, Schmitt, and Diebold 2019). In the following, due to the limited scope of this work, the increments of an Agile Transformation can only be explained within the framework of choice, McKinsey's Agile Blueprint, which consist of the four building blocks value, structure and agile Teams, backbone, as well as roadmap (Brosseau et al. 2019). This framework was selected, as it covers all relevant organizational dimensions and is applicable to the prescribed scope of this work. However, since McKinsey only provides an outline of the transformation framework, appropriate literature was independently sought and supplemented for each step.

Value - In the first step of Agile blueprinting an as-is analysis of the company is carried out, in which it is classified with regard to the characteristics of its stable and dynamic practices outlined in chapter 2.2. A distinction is made between the four stages: Start-up, Agile, Trapped, and Bureaucratic, depending on their stable and dynamic forms. An Agile company has equally pronounced stable and dynamic practices, which represents the target picture of transformation. Organizations in a Bureaucratic state, have a low dynamic foundation, characterized by standardized ways of working, risk aversion, and siloed structure. To become more Agile, these entities need to evolve their dynamic practices while continuing to develop their existing stable backbone in relation to structure, processes, and people. In contrast, Start-up units are characterized by a lower stability component, which is expressed through both, creativity as well as ad hoc and unpredictable behavior. To overcome this low stability, Start-up units need to evolve their stable practices while at the same time enhancing their dynamic practices in terms of processes and strategy. Finally, Trapped organizations lack both, stability and dynamism, as they are defined by strong internal politics, insufficient coordination, and power games. In the context of an Agile Transformation, these units need to focus their main attention on the development of the people component, as they are most lacking in entrepreneurial drive and servant leadership. (Ahlbäck et al. 2017)

In addition to the as-is analysis, the first step of McKinsey's Agile Blueprint includes the identification of the business areas Agility can add value and where the potential of Agility is limited. Conducting an Agile Maturity Assessment of the various business areas, covering strategy, structure, people, processes, and technology, can be helpful in this process (Aghina et al. 2020). Furthermore, the organization's different value streams are being identified, distinguishing between Operational and Development value streams. While Operational value streams are directly involved in creating customer value, Development value streams merely support internal processes. (Comella-Dorda, Handscomb, and Zaidi 2020).

Structure and Agile Teams - Based on the identified value streams and the areas suitable for Agile Transformation, the new taxonomy can be developed and filled with Agile teams(Brosseau et al. 2019) being distinguished between three different team types: cross-functional, self-managing and flow-to-work. Cross functional teams hold all the necessary skills and capabilities within the team to deliver end-to-end products, projects, or activities. Such teams are best suited for a team based and integrated nature of work. In turn, self-managing teams are characterized by the delivery of baseload activities and therefore more applicable for repetitive, stand-alone work. These teams are very stable and collectively responsible for their end-to-end performance. Flow-to-work pools are the third type of Agile teams, in which individuals are assigned full time to different tasks based on needs and prioritization. (Lackey et al. 2017)

In addition to designing the new taxonomy, this step of the Transformation blueprint also requires the selection of the best-suited Agile working methodology for the different team types. (Comella-Dorda, Handscomb, and Zaidi 2020).

Backbone - Any Agile Transformation will fail if only the organizational structure and the way of working are being transformed without also equally developing the stable backbone of the organization. This backbone is a composite of people, rocesses, and technology. (Comella-

Dorda, Handscomb, and Zaidi 2020) A more detailed description of the stable characteristics associated with these three organizational elements has been given in chapter 2.2. on Agile Organizations.

Roadmap - To implement the components developed by McKinsey's Agile Blueprint, it is important to establish a high-level roadmap, which addresses the overall scope and pace of the transformation (Brosseau et al. 2019). A distinction is made between a stepwise, emergent, and all-in implementation of Enterprise Agility. Stepwise, the first archetype is the most common approach and mostly consist of the different iterative phases “aspire, design, pilot, scale and improve”. (Brosseau et al. 2019). In an emergent transformation approach, the key drivers of change emerge from the bottom up, while the leadership team only provides some sort of overall direction. The third and final approach puts all its eggs in one basket by executing the entire transformation with a single big bang. This "all-in" approach requires prior management commitment and preliminary consensus on a transformation strategy. (Brosseau et al. 2019)

3. Introduction of SATA Group

SATA Air Açores, founded in 1941, is an international airline rooted in the Autonomous Region of the Azores, carrying the mission "of building Atlantic bridges between the Azores and the world". The company is composed of two airlines and an aerodrome managing body. (SATA 2021a) The first airline, “Air Açores”, is the group' s parent company and responsible for providing essential air services throughout the islands in accordance with a public service contract. Furthermore, the company operates the ground handling at all airports in the region. (SATA 2021b) “Azores Airlines”, the second of the two airlines, also operates under a public service contract and provides connections between the Azores and the Portugal mainland as well as Madeira. In addition, the company offers international routes to North America, Europe and Africa. (SATA 2021b) SATA's third pillar of business is an aerodrome managing body

which is responsible for the operation of the regional airfields serving the islands of Pico, Graciosa, Corvo, Sao Jorge and Flores.

Despite the COVID-19 pandemic, SATA has already been struggling with negative operating results for years. These negative operating results amounted to -€ 135 M in the last three years, with a total debt of € 373 M. Reasons for these ongoing negative results include lower aircraft utilization, an increase in costs for operational disruptions and unforeseen high unforseen maintenance costs. Further causes include high expenses for fleet restructuring and an increased competition with low-cost carriers, such as Ryanair. (SATA 2021b) In order to overcome this financial hardship in the long term, SATA has identified four simultaneous solutions: Azores development, financial balance, environmental sustainability and organizational agility. The former, Azores development, is to be achieved by consolidating the bond with key Azorean diaspora in North America, becoming the airline of choice between the Azores and the mainland Portugal, and steering european operations towards the main tourist markets in the Azores. Moreover, qualified and value-added employment on the islands is being promoted and the company is acting as a pillar for mobility for both, people and goods, in the region. Financial balance is planned to be achieved through higher utilization and increased efficiency of operations through the renewal of the fleet. Optimizing resources, through cost-saving measures and negotiations with suppliers, as well as a greater focus on the development of value-added products for the customer should further improve financial performance. In the conetxt of environmental sustainability the integration of environmental factors into the business strategy, the renewal of the fleet according to environmental criteria, and the promotion of the Azores as a sustainable travel destination will support to overcome the current challenges faced by SATA. (SATA 2021b) Fianlly, determining how to realize the last of the solution approaches, organizational Agility, is the objective of this work project and will be discussed in the following results section.

4. Methodology

4.1. Research Approach and Design

Previous remarks of Agility in view of its business context provide the foundation for the investigation of the research question “What should SATA Group's Agile Transformation strategy be, applying McKinsey's Agile Blueprint?”. With the purpose of gaining insights into motivations, approaches and challenges of various Agile business transformation journeys, semi-structured interviews have been conducted with leaders of Agile Transformations in companies pioneering in this field. Simultaneously, unstructured interviews have been carried out with the heads of the different business divisions within SATA, to gain a deeper understanding of their individual situations, needs and challenges. The rationale for having chosen an all-qualitative research format is that in order to obtain valid and reliable in-depth insights, participants should not be influenced by predefined variables or definitions as in quantitative methodologies. The qualitative design selected allows meaning to come from the respondents and provides a dynamic environment for follow-up questions in real-time, allowing valuable conversations to emerge. (Saunders, Thornhill, and Lewis 2019)

4.2. Data Collection and Analysis

The data collection is composed of primary data, being unstructured and semi-structured in-depth expert interviews, but also secondary data. The latter comprises existing literature, case studies as well as online research and is presented in the Theoretical Background section.

As part of the primary semi-structured interviews, 20 transformation managers from successful Agile Organizations were kindly asked on LinkedIn to voluntary participate in an interview on their company’s Agile Transformation journey. To diversify testimonies and results, companies and their representatives were selected from different European, but also non-European countries, which varied in size and belonged to different industries. A detailed distribution of the Agile Organizations reflected by the background of the participants can be found in

Appendix 8. All of the 20 interviews were conducted and recorded via Microsoft Teams and had a duration of one hour. In addition, eight unstructured in-depth interviews were conducted with SATA's main department heads, comprising both Flight Operations divisions, Human Resources, Marketing, Sales, Maintenance, Finance, IT and the Workers Council. The unstructured interviews took place on site at SATA headquarters in São Miguel, lasted about an hour, and were also recorded. To analyze both the semi-structured and unstructured interviews in retrospect, in a first step the previously conducted audio and video recordings were transcribed in an Excel spreadsheet based on the specific topics addressed. Subsequently, the data obtained, was mapped in the online whiteboard application "Miro" to the corresponding superordinate domains of McKinsey's Agile Blueprint. In addition to mapping the qualitative data, some of the information from the 20 transformation managers that showed a particular matching pattern was coded and quantified. Finally, the mapped and coded data provided the basis for the development of SATA's Agile Transformation strategy.

5. Results

5.1. Value

As a first step in view of the development of SATA's Agile Transformation Strategy following McKinsey's Agile Blueprint approach, an as-is analysis of the company was performed to determine for which parts of SATA Agility can add any value for improvement and where limitations apply. In addition, different Operational and Development value streams were identified within the organization.

As-is Analysis – To understand how distinctive SATA's stable and dynamic practices are with respect to structure, people, strategy, processes, and technology, the results of the interviews with the company's various leaders were contextualized to provide a high-level overview. This process revealed that the organisation finds itself trapped in a vicious circle.

As described in chapter 3, SATA has been struggling with financial difficulties, leading to an application for support from the European Commission. Following the approval of this application, € 133 M in liquidity was provided to the Portuguese airline for it to be able to further continue its public service obligations (European Commission 2020). This is reflected in the company's strategic practices, as its dependence on the European Commission meant that the company was externally driven and therefore unable to develop and pursue its own shared vision. The results of the interviews not only confirm this assumption, but even indicate that none of the respondents are aware of any kind of corporate vision, whether externally or internally mandated, let alone act on one. Furthermore, the interviews made apparent that the application for financial support resulted in a reduction of salaries due to cuts on spending, as required by the government. This greatly impacted SATA's people component, as according to the airline's directors, money remains the biggest incentive within the company. Reflecting this absence of incentives, a lack of motivation and entrepreneurial drive emerged among employees, which in turn had a negative impact on the corporate culture.

Although this shortage of motivation led to a lower quality of work and thus also had a strong impact on a decline in operational performance, a permanent lack of standardised and iterative ways of working as well as transparency of processes also contribute to this decline. According to the interviewed executives, this is a result of the organizations siloed structure, with each department choosing its own approach to work. In addition, knowledge and capabilities are not being shared between divisions as both, employees and managers, fear that this might imply a relinquishment of power. Consequently, the decline in operational performance translated into a lower value of SATA to the customer which resulted in a decline in sales in view of flight tickets sold. This is particularly problematic as the Portuguese airline competes with low-cost carriers such as Ryanair, which position themselves through low ticket prices. SATA, on the other hand, justifies its comparatively higher prices with a better customer experience, i.e. better

operational performance. In turn, such customer dissatisfaction negatively impacted the airline's financial performance, starting the vicious cycle all over again. This vicious circle and the associated triggers and results strongly indicate a lack of stability and dynamism, which characterizes SATA as “Trapped” in the context of the four proposed aggregate states described in chapter 2.3. As recommended by the experts in the literature, due to its trapped state SATA should place the greatest focus on the People component within its Agile Transformation.

Scope of the Transformation – With the aim to understand to which business parts of SATA Agility can add value and to which limits apply McKinsey's Agile Maturity Assessment was conducted for each department studied, covering their strategy, structure, people, processes and technology. The outcome of the assessments was categorized into low, medium and high, depending on the departments individual level of Agile practices across the five business components. A detailed synopsis of these assessments can be found in Appendix 4. In summary, the results indicate that 50 % of SATA's departments demonstrate either a low or medium Agile maturity level.

Two of the departments with a medium maturity level, which at time of analysis occurs as the highest level of Agile maturity within SATA, are Flight Operations and Maintenance. This may lead to the assumption that these areas might have one of the greatest potentials to become even more Agile. However, the opposite is the case, as these departments only exhibit such a high degree of Agile maturity because they operate in a regulatory environment. In comparison to other areas of business, Flight Operations and Maintenance’s strategy, roles and responsibilities need to be more predefined and their processes more standardized, elements that define a high degree of Agile maturity. But the departments' Agile capabilities are limited as they must comply with regulatory requirements even in the context of Agile transformation and cannot change their roles, structures, and processes unilaterally. Therefore, both Flight operations and Maintenance cannot be transformed into an Agile model and must remain in their old structure.

The other two departments with a medium Agile maturity level are Finance and IT. Both departments are managed by "servant leaders" who have already integrated a certain Agile mindset into their strategy, structure, processes, and people development. In addition, the IT department is already partially working according to Agile principles, like Scrum and Kanban. Conversely, a more traditional approach to leadership indicates a lower level of Agile maturity. Areas at SATA where this applies are Sales and Service as well as Marketing. As these areas are particular close to the customer value creation, their low level of Agile maturity is one of the reasons that is leading to customers dissatisfaction, which is reflected in the vicious circle SATA finds itself. In summary, Sales and Service as well as Marketing are the areas SATA can benefit the most from an implementation of an upscaled adoption of Agile.

Identification of Value Streams - To understand how SATA can get out of its “Trapped" position, it is important to comprehend where and how value is created in the organization. This can be accomplished by identifying and mapping value streams, which also has been done by 50 % of the transformation experts interviewed. Regarding the mapping process, the interviews with the experts revealed that either a customer journey, system or country approach can be chosen. Since SATA is only present in Portugal and as an airline does not offer a system-based product, it is reasonable to choose a customer journey approach for the mapping process. Of note, the identification of value streams only includes departments which have been interviewed to ensure credibility. Furthermore, to stay within the predefined requirements of this work, only the most relevant finding within the identification of value streams can be analyzed in closer detail in the following.

To provide a brief overview, four Operational and four Development value streams were identified along SATA’s Customer Journey. The Operational value streams consist of Sales, Flight Operations, Maintenance and Service and are directly involved in the value creation for the customer, while the Development value streams Finance, IT, HR, and Marketing are

responsible for the end-to-end support of the organization. Nevertheless, the analysis of the value streams raised the question in which part of SATA's Customer Journey the greatest potential for increased added value for the customer lies. By analyzing this question, it became apparent that the greatest source of customer value should be created upstream the Customer Journey through the development of a customer-focused product portfolio that is continuously adapted and aligned with identified market opportunities. As SATA has not yet established a team dedicated to this purpose, a new business unit should be formed to accomplish this objective as a result of this analysis. Within this work project this unit has been named “A-Team” and should be composed of employees from IT, Marketing, Strategy and Product Development. Further details on the proposed structure and composition of this unit are outlined in the next chapter on Structure and Agile teams.

5.2. Structure and Agile Teams

40 % of the 20 companies studied have changed their entire organizational structure in the course of their Agile Transformation, while 35 % have transformed large parts of their structure and 15 % only redesigned the IT department. These mostly large-scale organizational changes by successful Agile companies show that the structural adaptation to Agile requirements is one of the most important drivers for an effective Agile Transformation. At SATA, structural change is possible for the entire organization, with the exception of the regulated areas Flight operations and Maintenance, as mentioned earlier. Based on the identified value streams and areas suitable for Agile Transformation the goal of this chapter is to develop a new Agile taxonomy for the airline and to staff it with Agile teams. To create SATA's new taxonomy, the best practice that emerged from interviews with two of the most successful Agile companies was used as a reference guide. These companies both organized their taxonomy into a “Delivery", “Enterprise", and “Account” cluster. In the following, these clusters will be

explained at a high level by transferring this approach to SATA and by filling them with the most suitable Agile team design as described in chapter 2.3.

Delivery **–** According to the transformation experts, the teams in the Delivery cluster are responsible for creating direct value for the customer. Within SATA, the previously introduced A-Team, which focuses on the development of a customer-oriented product portfolio, is the team most involved in creating direct value for the customer and should therefore be assigned to this cluster. The nature of work in the A-Team and thus also in the Delivery cluster should be little repetitive and take place in projects rather than in standardized processes. Furthermore, the outcomes of a collaborative team effort should stem from employees with different areas of expertise, such as IT, Marketing, and Product Together these requirements for diversity, joint value creation and project-based working procedures are indications SATA's Delivery cluster should be composed of cross-functional teams.

Account - In the view of the transformation experts, Account, the second cluster within the new Agile taxonomy is the area responsible for end-to-end fulfilment of individual customer needs enabling them to utilize both, products and services. SATA's Sales and Service divisions, which are responsible for delivering a differentiated customer experience along the entire customer journey, should therefore be assorted to this cluster. According to the departments executives the nature of work of both, Sales and Service, involves highly repetitive process-driven activities which are conducted individually rather than in a joint team effort. This indicates that SATA's Account cluster should be organized in self-managing teams, implying that the teams are collectively responsible for end-to-end performance and prioritization of work, while team leadership is alternated among the various members.

Enterprise- The teams within the Enterprise cluster serve as a support function for the organization, according to the transformation experts, and are not involved in direct value creation for the customer. As this represents the main purpose of the four Development value

streams HR, IT, Finance and Marketing, it is recommended that these should be assigned to this cluster. According to SATA's executive, the teams in the Enterprise cluster, similar to the Account cluster, are also more process-oriented, as most of the work can be characterized as repetitive and stand-alone. However, what differentiates the two cluster is that unlike SATA's Sales and Service teams, which are responsible for continuous customer support, the expertise of the HR, IT, Finance and Marketing teams is not needed by the different teams within the Operational value streams on a constant basis. Therefore, employees in these teams must be constantly reassigned to new tasks based on priority of needs. To efficiently facilitate this allocation, SATA's "Enterprise" cluster should be organized into flow-to-work teams.

Agile Working Methodology- In addition to the mix of teams in the new taxonomy, a decision must be made on the most suitable Agile working methodology within this part of McKinsey's Agile Blueprint. In this context, the interviews with the different transformation managers revealed that Scrum is best suited for project-based teams and Kanban for process-driven ones. Among the 20 companies studied, 35 % exclusively employ Scrum, while 60 % apply a mix of Scrum and Kanban, and only 5 % of the companies integrate other Agile working methodologies into their everyday work. As SATA's taxonomy should consists of both project and process driven teams, it can be argued that SATA should follow the best practice of the interviewed companies and should implement a hybrid approach between Scrum and Kanban.

5.3. Backbone

SATA is currently trapped in a situation characterized by a lack of dynamism and stability. To overcome this situation and to implement the previously designed Agile teams, the organization's stable backbone must be developed as the next step. Although this backbone is generally based on processes, technology and people, SATA should place its primary focus on developing the people element, as this is the element most lacking in the company's trapped state. Unfortunately, due to the unstructured interview format chosen for SATA's executives,

only insufficient information regarding technology resulted from the interviews, which is why only processes and people will be discussed in the following.

People - As outlined in chapter 2.2. on Agile Organizations, stable practices related to the people element include the development of a talent management system, servant leaders, and a culture built on trust. To develop the talent management system needed in an Agile organization, the external transformation managers interviewed recommend two simultaneous approaches: One is to hire new talent that matches the new skills required by implementing new HR solutions that include a talent management framework and an employee evaluation cycle. The other approach is to motivate existing talent to grow into the new requirements created by the company's Agile transformation. This can be achieved by defining a guiding purpose and jobs with recognition value, but also by working on the mindset of the employees, how role descriptions and status are perceived within the organization. The interviews with SATA's department heads revealed that there is currently no integrated talent management system within the company. As most new hires are born and educated in the Azores, there is a lack of the kind of value that someone with broader international experience could offer the business. Being a public company, SATA cannot release its employees easily with the consequence that employees often feel less accountable for their work and mistakes. Additionally, employee evaluation within the company was discontinued ten years ago and has never been resumed since. To overcome these challenges, SATA needs to develop a talent management framework that includes the recruitment of diversified new talent but also tools to identify and motivate existing talent. Further, the company needs to develop a new career model for the new Agile roles and define new incentives and motivators for employees who are not in a leadership position. How this can be achieved is depending on the culture and part of a mindset change. In the literature, the inclusion of Agile coaches is cited as one of the critical components for a successful transformation of the corporate culture. Out of the 20 transformation managers

interviewed, a total of 90 % employs and trains their own Agile coaches within their organization. An interview with one of SATA Group's department heads revealed that in 25 years, there has not been a single coaching session for neither the executive nor team level. This is why the deployment of Agile coaches has been identified as one of the key success factors in the airline's cultural transformation. But according to the literature, there is another important aspect to the development of the culture component, the cultivation of a servant leadership style within the various levels of management. To achieve this, 30% of the transformation experts interviewed re-staffed all management positions according to new Agile leadership criteria as part of their transformation, while 70 % developed an internal Agile leadership program to train new and remaining leaders in a servant leadership style. Furthermore, most companies agreed, that a change in leadership must start at the top, with the board acting as a role model. In terms of how leadership is practiced at SATA, the company seems to be very divided. While some department heads encourage growth, ownership and autonomy, others leverage pressure and prospects for punishment. This is directly reflected in the Agile maturity level of the various departments, in which leadership is a major evaluation criterion. At the board level, however, it became apparent from the interviews that the recent change in members is seen as a step in the right direction, influencing the way employees view the company. Therefore, the airline should continue to build on this success by also implementing Agile principles and methods at the top level. This should be supported by an Agile coach exclusively dedicated to the executive board. Replacing the current leadership positions is not advisable, as the company has suffered from great uncertainty over the last years. Such an approach would only further increase this uncertainty and negatively influence the culture and motivation of the employees. Nevertheless, as a way to develop a servant leadership style among the remaining executives, the organization should develop an Agile leadership training program that is designed and led by experienced Agile coaches.

Processes - As explained in chapter 2.2. on the characteristics of an Agile Organization, process stability depends on the right degree of standardization, performance orientation, and prioritization of value-creating activities. The interviews with SATA's executives indicate that the company suffers from a lack of strategic orientation. Consequently, it is difficult to identify key processes and steer them in a value-creating way. To overcome this lack of strategic alignment, the introduction of OKRs, discussed in more detail in Chapter 2.2, and the implementation of so-called "Obeya rooms," which were mentioned by one of the external experts interviewed, provide a potential solution. The analysis of the qualitative interviews with the 20 transformation experts revealed that 40 % of the organizations used OKRs, both as part of their transformation and for their new Agile Organizational model. For SATA, OKRs have the potential to improve the development of strategic goals in order to facilitate more effective decision-making. The "Obeya room" can be used to visualize governance by displaying the status of strategy, performance, and leadership in a physical room on different walls. The interviews with the various executives of SATA revealed that almost all departments neither have a clear comprehension of the corporate strategy nor have defined a functional strategy for their area of business. Furthermore, there are no alignment meetings between the different departments to validate whether they are all going in the same direction. Currently, strategic goals are set on board level and passed on by individual board members to the relevant department heads. Establishing an "Obeya room" can be one way of strengthening cooperation between departments and ensuring that their strategic direction is consistent. The strategic positioning of SATA, enhanced by OKRs and the "Obeya room", can then be used as a basis for the identification of value adding key processes. Once the core processes of SATA have been identified, it is possible to evaluate where standardization is possible. The effectiveness of these standardized processes can be tracked using Agile KPIs, consolidated in a dashboard and adapted, if necessary.

5.4. Roadmap

To implement the previously developed elements of the transformation strategy, a high-level roadmap must be designed. However, following the advice of the transformation managers interviewed, the implementation of Agile in an organization should not be done in a waterfall setup, but more using an Agile approach. This means that the roadmap elements recommended in the literature, which are scope and pace, should be planned from the outset, but in an iterative and incremental way that constantly incorporates new learnings.

The scope of the transformation has already been defined in the previous chapters. In summary, SATA has the potential to transform its entire organization, with the exception of the regulated areas Flight Operations and Maintenance. In terms of pace, the literature distinguishes between the three archetypes "all-in," "step wise," and "emergent,", as described in chapter 2.3. Out of the 20 companies examined, only 10 % implemented an all-in transformation, which according to the responsible executives is less painful for the organization than a slower transformation and 25% chose an emergent approach. With 65 % most companies opted for a stepwise introduction of Agility, by splitting the transformation into different “waves”. SATA is currently in a situation characterized by both a lack of stability and dynamism with a low to medium Agile maturity level. Therefore, a stepwise introduction of Agility, as chosen by most of the interviewed companies, should be recommended for the Portuguese airline. This could be started with pilot projects in the various cluster levels Delivery, Account and Enterprise to enable the transformation team to incorporate initial learnings from this first step experiments in the following wave.

6. Conclusion and Limitations

6.1. Conclusion

SATA finds itself in a vicious circle of poor financial and operational performance, which results in dissatisfied employees and customers. To break this vicious cycle, the company

identified the implementation of enterprise Agility as a pillar of the solution. To this end, an Agile Transformation strategy based on McKinsey's Agile Blueprint was developed as the objective of this work project.

By analysing SATA's as-is state it became apparent, that the company suffers from an insufficient degree of stability and dynamism. To understand how the company can emerge this trapped position, four Operational and four Development value streams were identified and mapped along the customer journey. This process uncovered the need for the introduction of a new unit dedicated to the upstream creation of value. This unit, referred to as the "A-Team," should aim to develop and continuously adapt a customer-focused product portfolio based on identified market opportunities. Building on the identified value streams, the new taxonomy of the organization was formed, comprising the three cluster areas Delivery, Account and Enterprise. The Delivery cluster should constitute the "A-Team" and should be made up of cross-functional Agile teams. The Account cluster should be composed of the Operational value streams, Service and Sales, and should consist of self-managing teams. Enterprise, SATA's last cluster in its new taxonomy, seems the best approach for the four Development value streams Human Resources, IT, Marketing and Finance and should be organized into flow to work teams. Due to excessive regulatory requirements the Flight Operations and Maintenance departments need to remain in their old organizational structure. As a suitable working methodology for the Portuguese airline, a mix of Scrum and Kanban was chosen, as the nature of work among the different clusters is both, process and project oriented. The foundation of the new Agile Organization, its backbone, is built around the development of the stable components of processes and people. To further stabilize SATA's processes in the long term, OKRs, Agile KPI dashboards and "Obeya rooms" should be established. The stability of the people component should be achieved by implementing a talent management system and career model for the new

Agile roles. In addition, the recruitment of Agile coaches and the development of a leadership training program should contribute to the long-term development of an Agile culture.

To implement the developed transformation strategy, the scope and pace of SATA's transformation was discussed within an iterative Agile roadmap. This process revealed that a stepwise implementation of Agile, starting with pilot projects in the different clusters, is the most reasonable approach for the Portuguese airline. This stepwise implementation should start with the Delivery cluster, followed by Account and finally Enterprise.

6.2. Limitations

The development of an Agile Transformation strategy is very complex and certainly broad in its scope by affecting all areas of an organization. Due to the clearly defined frame of such a work project, especially in view of restricted page numbers, this paper is limited in its ability to cover all relevant aspects of the strategy in greater detail. As a consequence, the results developed could only be presented at a very high level and potential challenges not be considered. In addition, for a later implementation of the strategy within SATA it would have been important to conduct interviews not only with the eight main departments, but with each unit of the organization, to ensure a comprehensive analysis of the present state of the company as a basis for the development of the transformation strategy. Again, this could not be conducted due to the limited scope of this work project but can serve as a starting point for further research. Moreover, the literature on Agile Organizations and transformations, which also forms the basis for the development of the strategy, is very limited. Since the topic is still fairly unexplored, there are few reliable sources. However, McKinsey, as one of a few, has done a lot of research and publications on the topic. Yet, this makes it difficult to ensure diversity in the literature review and recommendations made to this subject.

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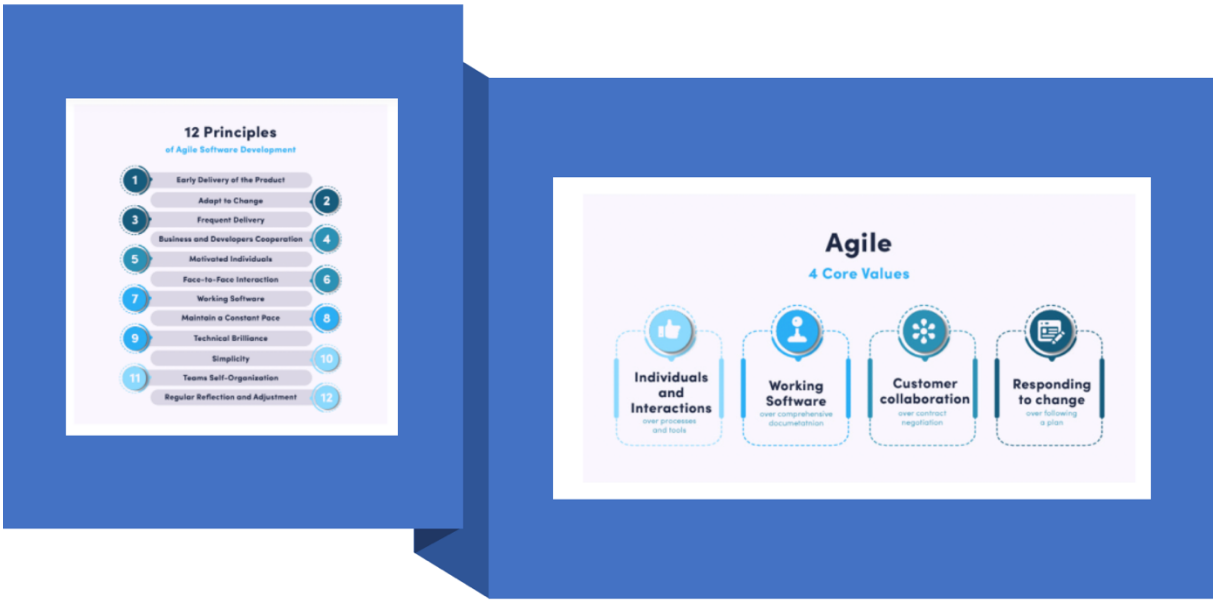
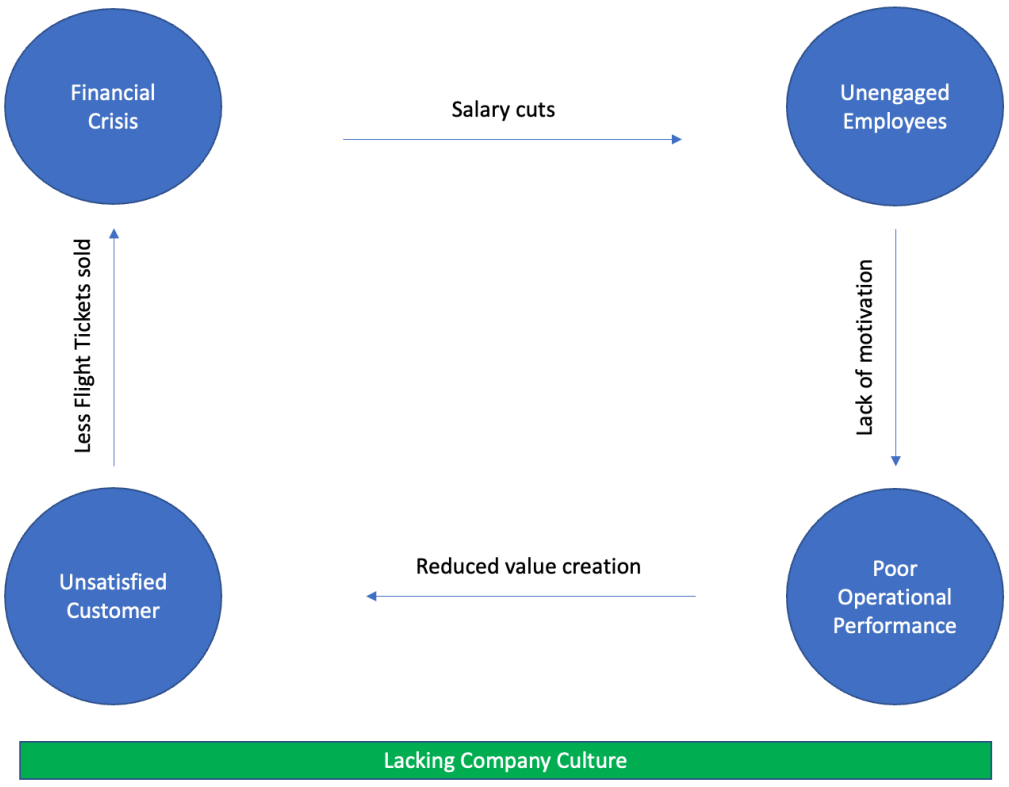
Appendices

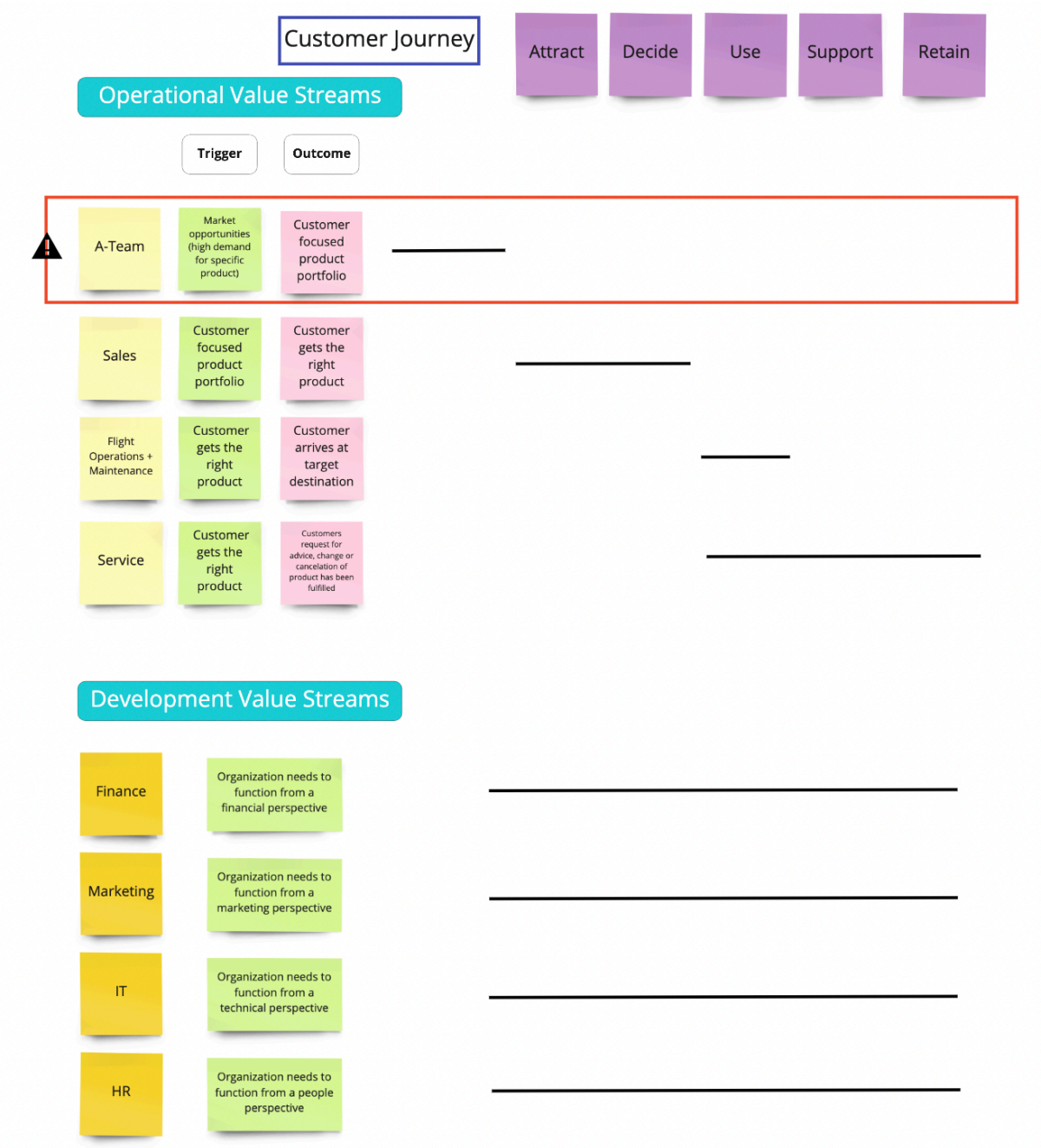
Appendix 1: Agile Manifesto Values and Principles



Appendix 2: SATA Group's vicious cycle



Appendix 3: Detailed overview of Values stream mapping



Appendix 5: Agile Maturity Assessment at SATA Group in summary

	Department	Flight Op. Air Azores	Flight Op. Azores International	Maintenance	Marketing	Sales & Service	IT	HR	Finance
Factor									
Strategy		Medium	Low	Medium	Medium	Medium	High	Low	Medium
Structure		Low	Low	Low	Low	Low	Medium	Low	Medium
Processes		Medium	Low	Medium	Low	Medium	Medium	Low	Medium
People		Medium	Medium	Medium	Low	Low	Medium	Low	Medium
Technology									
TOTAL		Medium	Low	Medium	Low	Low	Medium	Low	Medium

Appendix 4: Agile Maturity Assessment at SATA Group in detail

Human Resources	low	medium	high
Strategy			
Shared vision	x		
Actionable strategic guidance	x		
Sensing and seizing opportunities	x		
Structure			
Reporting Structure	x		
Governance	x		
Roles and responsibilities	x		
Workforcesize and location model			x
Processes			
Team Processes	x		
Linkage mechanism	x		
Planning and decision processes		x	
Performance management	x		
People			
Culture	x		
Talent management	x		
Leadership	x		
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline	x		
Architecture evolution	x		
Supporting systems and tools	x		
Team build	x		

IT	low	medium	high
Strategy			
Shared vision			x
Actionable strategic guidance			x
Sensing and seizing opportunities			x
Structure			
Reporting Structure		x	
Governance		x	
Roles and responsibilities		x	
Workforcesize and location model			x
Processes			
Team Processes			x
Linkage mechanism		x	
Planning and decision processes		x	
Performance management	x		
People			
Culture		x	
Talent management		x	
Leadership		x	
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline			x
Architecture evolution			x
Supporting systems and tools			x
Team build			x

Marketing	low	medium	high
Strategy			
Shared vision	x		
Actionable strategic guidance		x	
Sensing and seizing opportunities		x	
Structure			
Reporting Structure	x		
Governance	x		
Roles and responsibilities	x		
Workforcesize and location model			x
Processes			
Team Processes	x		
Linkage mechanism	x		
Planning and decision processes	x		
Performance management	x		
People			
Culture	x		
Talent management	x		
Leadership	x		
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline	x		
Architecture evolution	x		
Supporting systems and tools	x		
Team build	x		

Sales & Service	low	medium	high
Strategy			
Shared vision		x	
Actionable strategic guidance		x	
Sensing and seizing opportunities	x		
Structure			
Reporting Structure	x		
Governance		x	
Roles and responsibilities	x		
Workforcesize and location model			x
Processes			
Team Processes	x		
Linkage mechanism	x		
Planning and decision processes		x	
Performance management		x	
People			
Culture	x		
Talent management	x		
Leadership	x		
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline	x		
Architecture evolution	x		
Supporting systems and tools	x		
Team build	x		

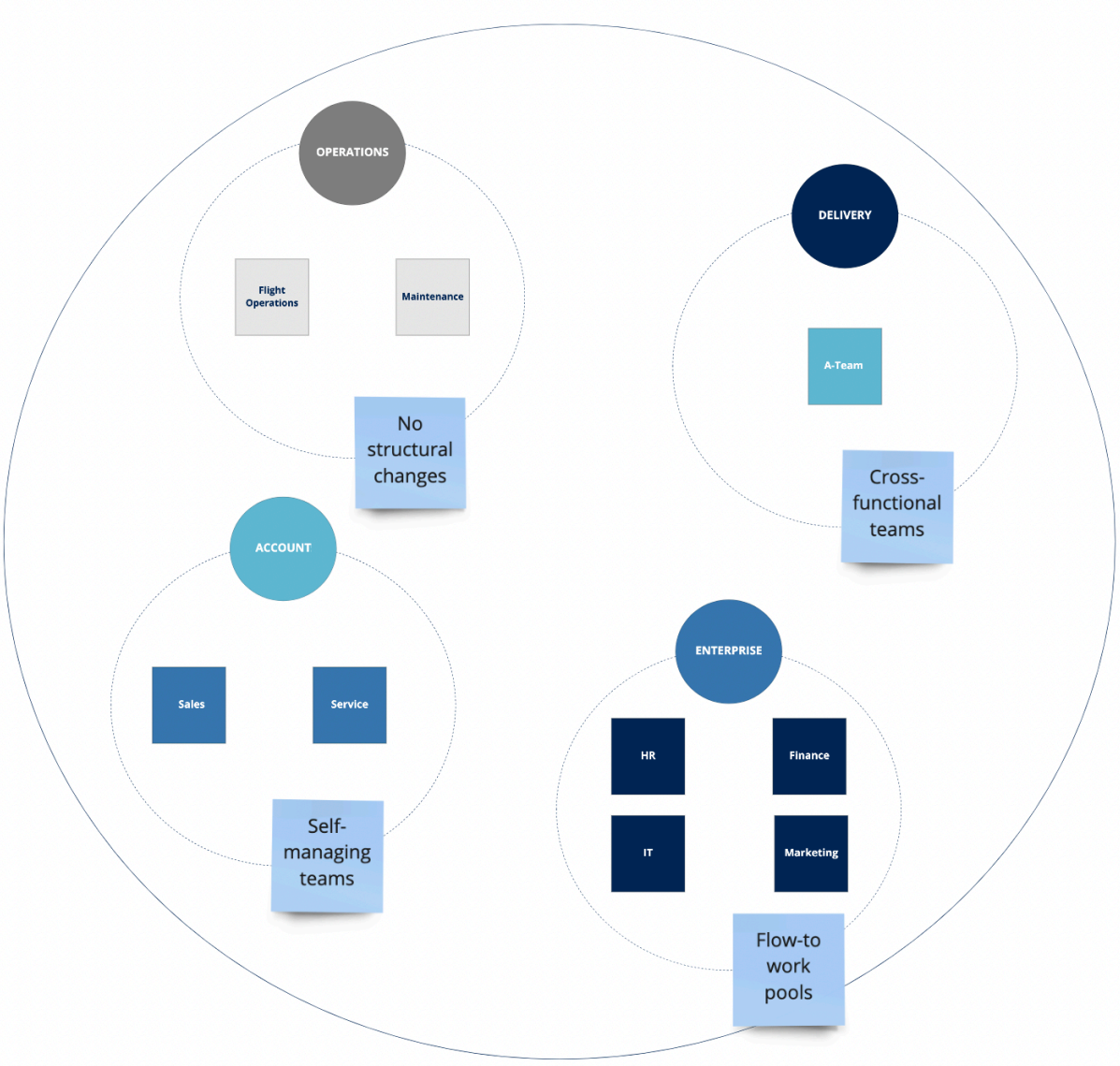
Finance	low	medium	high
Strategy			
Shared vision		x	
Actionable strategic guidance		x	
Sensing and seizing opportunities		x	
Structure			
Reporting Structure		x	
Governance		x	
Roles and responsibilities	x		
Workforcesize and location model			x
Processes			
Team Processes	x		
Linkage mechanism	x		
Planning and decision processes		x	
Performance management		x	
People			
Culture		x	
Talent management		x	
Leadership		x	
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline	x		
Architecture evolution	x		
Supporting systems and tools	x		
Team build	x		

Maintenance	low	medium	high
Strategy			
Shared vision		x	
Actionable strategic guidance		x	
Sensing and seizing opportunities		x	
Structure			
Reporting Structure	x		
Governance	x		
Roles and responsibilities	x		
Workforcesize and location model			x
Processes			
Team Processes		x	
Linkage mechanism	x		
Planning and decision processes		x	
Performance management		x	
People			
Culture		x	
Talent management		x	
Leadership		x	
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline	x		
Architecture evolution	x		
Supporting systems and tools	x		
Team build	x		

Flight Ops Air Azores	low	medium	high
Strategy			
Shared vision		x	
Actionable strategic guidance		x	
Sensing and seizing opportunities		x	
Structure			
Reporting Structure	x		
Governance		x	
Roles and responsibilities	x		
Workforcesize and location model			x
Processes			
Team Processes		x	
Linkage mechanism	x		
Planning and decision processes		x	
Performance management		x	
People			
Culture		x	
Talent management		x	
Leadership		x	
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline	x		
Architecture evolution	x		
Supporting systems and tools	x		
Team build	x		

Flight Ops Azores International	low	medium	high
Strategy			
Shared vision	x		
Actionable strategic guidance	x		
Sensing and seizing opportunities		x	
Structure			
Reporting Structure	x		
Governance	x		
Roles and responsibilities	x		
Workforcesize and location model		x	
Processes			
Team Processes		x	
Linkage mechanism	x		
Planning and decision processes	x		
Performance management		x	
People			
Culture		x	
Talent management		x	
Leadership		x	
Informal networks and communications	x		
Technology			
Combination of IT infrastructure and operations and delivery pipeline	x		
Architecture evolution	x		
Supporting systems and tools	x		
Team build	x		

Appendix 6: SATA's Agile Structure and Teams



Appendix 7: Interview Guidelines for external Transformation Managers

SATA Group Agile Transformation

In-depth Interview Guidelines: Enterprise Agility

Purpose

To gain insights into motivations, approaches and challenges of various agile business transformation journeys.

Introduction & Process

The SATA Group is currently in the process of exploring how a transformation towards an agile enterprise could look like - that is where I jump in. My goal is to develop an enterprise-wide transformation strategy that enables the organization to respond faster to change, reduce time-to-value, and become more customer-centric. The following discussion guide serves to outline the subject areas I envision covering during the in-depth interviews. It does not function as a script, but rather as an open conversation. I kindly ask for your permission to record the conversation. Do you have any questions?

Let's get into it!

I would like to discuss the following topics with you today:

- The underlying motivation for the transformation and initial steps
- The various elements of the implementation and personal experience with the transformation
- The pain points and trade-offs of the transformation and lessons learned

1. Motivation and initial steps

- How and why did it all start? What have been the very first actions that you have taken?
- Were there already incorporated agile principles or methods used in the company prior to the transformation?
- How agile mature was the company before the transformation?

2. Implementation and personal experience

- How did you come up with the organization's new design structure?
- What has changed within the scope of the transformation, e.g. processes, and what has remained the same?
- Which agile working methodologies have you opted for and why?
- How have you trained your executives in agile leadership?
- How did you measure whether you achieved the goals you set prior to the transformation? How did you counteract if you weren't able to do it?

3. Pain Points and Lessons Learned

- Which role did company culture and mindset play in the transformation? How did you manage to change it in the long term?
- Overall, what do you consider the biggest challenges and pain points in the transformation?
- If you could start over from scratch today, what would you do differently?
- What advice would you give to other companies that want to become big scale agile?

Appendix 8: List of external Interview Partners

Company	Industry	Country	Role
ING DiBa	Banking	Germany	Transformation Team member
John Deere	Construction and Farm Machinery	Brazil	Agile Transformation Coach
Santander	Banking	Portugal	Transformation Team member
Austrian Airlines	Aviation	Germany	Project Lead Agile Transformation
Danske Bank	Banking	Denmark	Lead Agile Transformation
Bosch	Engineering and Technology	Germany	Global Project Lead Agile Transformation
Santander Global Tech	Technology	Spain	Head of Agile Transformation
Lego	Toy Production	United Kingdom	Digital Transformation Lead
BBVA	Banking	Spain	Global Head of Agile Office
EDP	Energy	Portugal	Head of CoE Agile
Allianz	Insurance	Germany	Agile Transformation Coach

BNP Paribas	Banking	Portugal	Head of Agile Project Management
Porsche AG	Automotive	Germany	Agile Transformation Manager
Latécoerè	Aeronautics	France	Senior Vice President Innovation
Fraport	Airport Services	Germany	Vice President Corporate Strategy and Digitalization
VW Group	Automotive	Germany	Head of Agile Center of Excellence
Virgin Money	Banking	United Kingdom	Head of Digital Solutions
SEAT	Automotive	Spain	Head of Agile Center of Excellence
Audi	Automotive	Germany	CIO Office and Transformation
Zenuity	Technology	Sweden	Integral Agile Transformation