*"Brady Brim-DeForest understands the opportunities and challenges facing large organisations and how to innovate and de-risk at scale. Read what he has to say."*
—**SIR MARTIN SORRELL**

# SMALLER is BETTER

## Using Small Autonomous Teams to Drive the Future of Enterprise

BRADY BRIM-DeFOREST

# Smaller is Better

# SMALLER
# is BETTER

## Using Small Autonomous Teams to Drive the Future of Enterprise

BRADY BRIM-DeFOREST

Copyright © 2024 by Brady Brim-DeForest

All rights reserved. In accordance with the U.S. Copyright Act of 1976 the scanning, uploading, and electronic sharing of any part of this book without permission of the author constitutes unlawful piracy and the theft of the author's intellectual property. If you would like to use material from the book (other than for review purposes), prior written permission must be obtained by contacting the publisher art *permissions@micrometerpress.com*. Thank you for your support of author's rights.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the author is not engaged in rendering legal, investment, accounting or other professional services. While the author has used his best efforts in preparing this book, he makes no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaims any implied warranties of merchantability or fitness for a particular purpose. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional when appropriate. The author and the publisher shall not be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, personal, or other damages. To the maximum extent permitted by law, the publisher and the author disclaim any and all liability in the event any information, commentary, analysis, opinions, advice and/or recommendations contained in this book prove to be inaccurate, incomplete or unreliable, or result in any investment or other losses. Your use of the information in this book is at your own risk.

Micrometer and its colophon are trademarks of Micrometer Press.

MICROMETER
PRESS

Micrometer Press
www.micrometerpress.com

First Edition: February 2024
Library of Congress Control Number: 2023951530
ISBN: 979-8-9896873-0-5
Ebook ISBN: 979-8-9896873-1-2

Cover and interior layout design: John van der Woude, JVDW Designs

*I dedicate this book to my partner, wife,*
*and best friend, Jessica, without whom this*
*book would never have been written.*

# CONTENTS

Foreword *by Sir Martin Sorrell* **xi**
Introduction **xv**

Chapter 1. Yes, You Should Change Everything **1**

## PART ONE. THE TEAMS MODEL

Chapter 2. Teams, Not Silos **21**
Chapter 3. Mission Focused **45**
Chapter 4. Radical Transparency **65**
Chapter 5. Real-Time Feedback **89**
Chapter 6. Continuous Improvement **129**

## PART TWO. PRINCIPLES FOR IMPLEMENTATION

Chapter 7. There Is No Partial Implementation 155
Chapter 8. Work in Phases 179

## PART THREE. THE PHASES

Phase 1. The Foundation 189
Phase 2. Trust and Feedback 209
Phase 3. Building on Success 227
Phase 4. More Teams 245

## PART FOUR. MANAGING CHANGE

Chapter 9. Slower is Faster 253

Conclusion 273
Acknowledgments 283
About the Author 287

# FOREWORD

## by Sir Martin Sorrell

I'm no stranger to the challenges of large organisations, as I spent 33 years as Founder and CEO of WPP, during which time it grew into the world's largest advertising and marketing services group. Now, as the Founder and Executive Chairman of S4Capital, I have had the privilege of trying to guide a team that has helped thousands of clients grow, perform, and deliver for their shareowners and the market. Large organisations have specific and interesting problems and they must make large-scale decisions with meaningful financial impact every day.

Yet, large scale isn't always the best testing ground for innovative ideas. Markets change over the inevitable course of history and products' lifespans come to an end, probably more and more quickly due to the pace of technological change. To continue to deliver financial performance, large organisations must do what smaller organisations do best: adapt, test, and create new products and services uniquely suited to what comes next. The difference between organisations that fail to do so and ones that succeed, is often about the quality and effectiveness of their teams.

When I first met Brady Brim-DeForest, I was impressed with his approach to managing organisational change on behalf of an impressive list of clients. I was also surprised at his emphasis on smaller teams, as I was of the view that large-scale efficiency was inherently valuable even at the department level. As I became more familiar with Brady's approach and as we merged with his business, I became convinced. Smaller teams given more autonomy within larger organisations produce better, faster, more efficient results… often out of proportion to the resources given them. Smaller teams are effective, offering more impact, than larger teams.

Smaller is, in fact, better.

I am happy to report that Brady's book of the same name is both helpful and insightful. He provides a practical summary of transformative ideas, a step-by-step explanation of how to turn from bureaucratic "business as usual" to the kind of fast-moving autonomous team structures he has employed so successfully with large organisations in a variety of industries.

He lays out the small teams model in six chapters, each with its own theme, to go on to implementation concerns in the latter half of the book. Some chapters, such as real-time feedback, contain extremely counterintuitive principles and yet his arguments hold water. I find the book compelling and impactful for the bottom line.

Brady has brought a great deal of counterintuitive thinking into our own organisation at S4Capital and we are better for it. Much of the way that Formula.Monks relies on measurement and metrics to manage a fully distributed, autonomous set of teams was new to us. Yet, we have seen it act so effectively that we've taken every opportunity to roll it out throughout our organisation as a new standard. What Brady has to say about effective team management and structure is invaluable.

This is why I am writing this foreword. More effective teams deliver outsized results. Therefore, you need more effective, autonomous teams within your organisation and I highly recommend this model to achieve better results. Brady Brim-DeForest understands the opportunities and challenges facing large organisations and how to innovate and de-risk at scale. Read what he has to say.

—SIR MARTIN SORRELL

# INTRODUCTION

Adam puts his head in his hands. It's 7:00 p.m., and he is still at the office. His team has missed its sprint delivery goals. Again. And has been late with the release. Again.

He's just been called into the VP's office to defend the team's performance. He knew going in that the software on the cars' navigation consoles wasn't great. How could it be, with the barrage of requirements and competing priorities they were handed?

The VP lets Adam off with a warning, telling him to fix the velocity problem or he'll lose his job. Adam is frustrated. He wants to do good work. Everyone on his thirty-person team wants to do good work. Everyone is working full out, all the time, but the department struggles to accomplish even mediocre results. Worse, they know the actual work isn't right for the organization or for its customers.

*This can't go on*, Adam thinks. *Something has to change.*

## Wishing He Could Do Great Work

Adam has worked for CarCo's very large North American organization for ten years. He's come up through the ranks, and he's learned the right way to navigate the bureaucracy. He can socialize ideas and ask permission like a champ.

However, Adam is smart and ambitious enough to also want to do great work, to deliver a great experience for the customer. He's seen his early career colleagues working at the Googles of the world. He went to work for this company instead because he believes in it, and he wants to be able to help the team do great things. He dreams of one day showing his friends software he is proud of, software he and his team have made with their own hands. Unfortunately, the more he tries, the more effort he puts into his department, the farther away that dream seems to move. He feels like his hands are tied.

Adam's team is caught in a confusing web of ambiguous technical requirements and strict feature quotas that make every day feel like a slog. They've been working "crunch time" hours for two years now, and the whole team is demoralized. Three different people quit last month alone.

This week their in-dash navigation software has been compared unfavorably to their leading competitor's. Their NPS scores are twenty points lower. More features have, if anything, actually hurt them in the marketplace.

Adam grabs his coat. He needs to take a drive around town and figure this out.

## More Than Making Widgets

Adam's experience working for a large organization is par for the course. Many enterprises are run like factories. They optimize for consistency, not quality of outcomes. In fact, most ISO quality management programs in large companies don't measure objective quality at all; they measure how consistently the operations match the process they've committed to follow. If the process leads the organization off a cliff, but the process is consistent and on time, leadership in most large organizations will be happy (for a while). Consistency in enterprise is king.

Unfortunately, most enterprise work—like the work Adam's software team does—isn't making widgets. In knowledge work, consistency alone doesn't provide a good experience for the customer. Consistency can, in fact, be a distraction.

Every project that Adam's team works on is a one-off. Every feature requires a new approach to solve new problems. And while Adam did once successfully talk the VP out of rewarding his software engineers just for writing more code—think of the inefficient buggy nonsense the team would have produced then—they are still being measured on the number of features they produce. Not the quality of the features. Not how well the features integrate into the in-car experience. Just the number.

Worse, the VP has already communicated that, since AI tools will be integrated into the team's workflow soon, he will expect the number of features produced to increase.

Every time Adam tries to make an impact on quality or make something great, their delivered features number slips and he's penalized. Instead of smart people who can solve problems and deliver outcomes, the team is treated like a set of machines that make widgets according to the stakeholders' requirements. The team is being held to account to deliver a plan that doesn't actually serve the customer.

Fortunately, Adam is smart enough to know that he's being rewarded for the wrong thing. Likely, so are you. Optimizing for consistency—even with cutting-edge tools—is, in fact, the polar opposite of innovation. It's the opposite of what drives lasting success in the marketplace. Organizations that stay in the safe zone over the long term can and *will* get left behind by competitors.

So what should we do instead?

## There Is a Better Way

If you're reading this book, you care about making good things. You care about succeeding, about delivering outcomes for your clients or customers—and if you lead a team, you care about your team's happiness and success. Unfortunately, it's very likely that you're also frustrated. Progress feels impossible due to the weight of the large organization around you. You spend your time dealing with other people's poor decisions, caught on a slow treadmill to mediocrity. This is the struggle of large organizations.

Fortunately, there is a way out. When we radically rethink the way we organize ourselves and the people we work with, real progress is possible. Yes, even in extremely large organizations; I've seen it countless times.

The enterprise can, in fact, move as nimbly as smaller companies. The enterprise can change its focus to what moves the needle. Furthermore, it can do so in a way that frees up leadership from the day-to-day decisions and empowers individuals to focus on outcomes rather than process. All of this together can radically accelerate organizational results.

To accomplish the outcomes, however, we have to adopt an entirely new framework. We have to embrace small—small autonomous teams, that is.

Smaller is better. Even—and especially—at scale.

## A Sensible, Efficient Framework at Scale

I've been consulting with enterprise organizations for more than twenty years now, teaching them how to adopt small autonomous cross-functional teams in ways that deliver meaningful results.

The framework is proven, but it isn't prescriptive. It doesn't tell people how work should happen, or what tools to use. In fact, it's the exact opposite; the framework is a system of ideals and practices designed to empower the most important person in the room—the individual contributor. By flipping the traditional hierarchy to move decision-making from the upper echelons of an organization to the front lines, it transforms leadership into a support structure for the people who have the most outsized impact on organizational outcomes.

Why move leadership out of the way? In very large organizations, even the smartest leadership group becomes a bottleneck; important decisions must wait days or weeks for leadership to be able to act on them. The system is not at all efficient at scale. In contrast, when we empower individual contributors to make the decisions that directly pertain to their jobs, decisions happen exponentially faster. Speed of decision making is key. They're often also more effective, since the people making the decisions already have the front-line information they need to make the most impact.

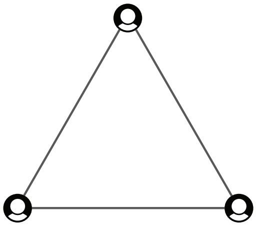
Moreover, small autonomous teams are highly efficient for other reasons. Bureaucracy is like sand; walking across a beach takes far more effort than walking across an open field. Just like the friction of the sand wastes energy in the real world, when an enterprise asks top contributors to conform to large-scale bureaucratic rules, we also waste their energy on tasks that don't ultimately give us what we want. By empowering contributors to make day-to-day decisions within a clear mission-based framework, however, we capture that extra momentum, transforming it into meaningful results instead.

Smaller teams (five to eight people) are a natural size for human collaboration. They are able to communicate efficiently, gaining the benefits of working with other people without the downsides inherent to larger groups. They are able to move on their mission efficiently and effectively, radically accelerating progress when compared to traditional enterprise structures that require top-down approval. Teams smaller than five often lack the ability for effective delivery; teams larger than eight can suffer from poor individual performance and lack of alignment. Counterintuitively, adding more team members doesn't speed things up—it slows things down. Staying small means staying effective.

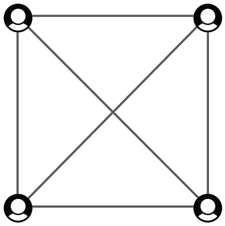
Communication also becomes significantly more complex with each new relationship you add. With more than eight team members, there simply isn't enough time for a leader to manage one-on-one communication effectively.

Small team structures may sound unrealistic for very large companies, but in fact, they are ideal for the enterprise. Unlike other structures, they scale beautifully; one team or a thousand teams don't fundamentally operate differently, as long as each is given an appropriately sized mission. The basic structure—and the culture supporting it—allow for scaled, replicable success for even the largest organization.

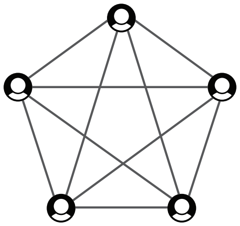
The "teams" framework works every bit as well for remote and distributed teams as it does for those that are in person. (It turns out that autonomy is the ideal structure for teams both outside and inside the office.) The teams framework also functions beautifully in the new world of AI tools; as overall teams of contributors get smaller, moving to small autonomous team structures allows those people to make an outsized impact. If anything, the AI revolution makes the teams model more necessary. It will drive organizations, month by month, and year by year, towards smaller teams.



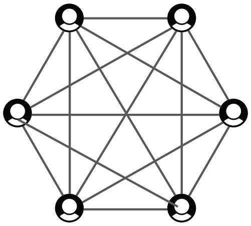
3 People, 3 Lines



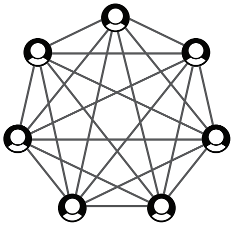
4 People, 6 Lines



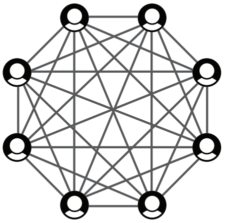
5 People, 10 Lines



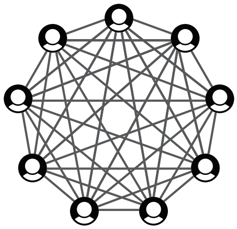
6 People, 15 Lines



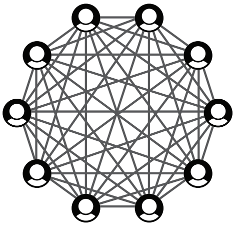
7 People, 21 Lines



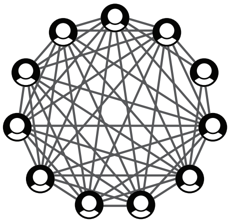
8 People, 28 Lines



9 People, 36 Lines



10 People, 45 Lines



11 People, 55 Lines

## Returning to What Works

At some point in the past, every large organization did something well, something that got its customers excited. (That's why it grew.) But what got the organization here won't get it where it's going, reacting to the rapidly changing world. Decision-making in large organizations has become increasingly removed from the front lines. This has happened, in part, because the front lines have become ever more removed from the people who made all of the organizations' early decisions.

Every organization that has gone bankrupt in the last hundred years failed because decisions and reality grew more and more distant from one another. However, bankruptcy isn't inevitable; even large organizations can keep and have kept autonomy at the edges. Berkshire Hathaway is a great example. The company is a giant multi-hundred-billion-dollar empire, but it has a tiny central staff. It keeps as much of the decision-making on the edge as possible, and it has found wild success doing so.

If your organization has moved away from distributed decision-making, it's time to go back to a framework that allows for it again. It's time to embrace small autonomous teams.

Here's what this book will show you how to:

- be more successful delivering on your results
- outpace the other directors or the other companies
- deliver objectively valuable innovation
- improve customer results
- measurably improve your core metrics and KPIs

All you need is a little time, the ability to form one small team of five to eight people (I'll show you how), and the willingness to experiment.

## How This Book Came to Be

I've been consulting with leaders and organizations for the better part of twenty years. I've worked with Fortune 10 companies, small start-ups, mid-stage companies, nonprofits, federal agencies, and state governments. Most often, though, I work with enterprise organizations. The common denominator between all of my clients is that they have an appetite for improvement.

Most organizations come to my company, Formula.Monks, thinking that they need a specific outcome, such as innovation or cost cutting. They want to build new revenue streams, incorporate new technology tools, or launch new products. They know their teams aren't working at a sustainable pace, and they want to find better ways to meet their goals.

I always take a close look at the business before making a final determination. However, in most cases, the reality is that the enterprise doesn't need the outcome they think they need; they need a fundamental shift in their culture. They need to change the way they work before they can consistently achieve the outcomes they want.

Outcomes don't happen by magic. Outcomes happen as a direct result of culture, processes, decision-making, and willingness to tolerate failure on the way to success. The best and most lasting way I know of to deliver meaningful outcomes to clients is to help them change all of these other things first. As one client said after a light-bulb moment, "Wait, you're not making a thing for me; you're actually changing how I make things!"

When the client fully understands what we are doing together for the first time, they realize it is the most valuable outcome I could possibly have delivered for them. That is not to say the process is easy.

Moving to a small autonomous team framework is a stark shift for the majority of organizations. The transformation feels risky and scary, and there are moments that feel deeply uncomfortable along the way. Yet, if the organization persists, and keeps its focus on the *how*, it will inevitably see the big results it wants.

What kind of results are possible? Here are a few I've seen personally:

- Large manufacturing organizations like Caterpillar have been able to remove more than $1 billion of slack in their supply chains.
- Organizations like AT&T have gone from a three-year product-realization life cycle to shipping production software in less than three months.
- Multiple Fortune 1000 companies have developed innovation programs that directly funnel client and customer feedback into the process of designing and iterating products—leading to high-quality innovation with a built-in market.
- The United States Air Force has designed a model putting the mental health and wellness of pilots at the center of operational planning and logistics.
- Large healthcare companies have built benefit plans shaped by the needs and input of their own employees,

only to be able to sell those exact plans successfully to other large organizations as part of their health insurance offerings.

The small autonomous teams framework can help your organization realize similar dramatic results on your preferred priorities.

### A Wider Impact

I wrote this book because, as a consultant, I've had to come to terms with the fact that the impact I can have on the world is limited by the number of hours my team and I have in a day or a year. Unfortunately, there's a fixed number of clients I'll be able to help one-on-one in my career.

I'd love to be able to help each and every potential client in the world transform their companies and realize all of the benefits of small autonomous teams. So many organizations would benefit tremendously by implementing the kinds of systems I've spent my career helping to implement, and I'd love to help them all. However, even with the incredible people I have working with me, there's just not enough time to do that on a consulting basis. Instead, I've decided to share what I know broadly, in the hopes that this book will help as many people as possible to transform their organizations for the better.

I'd like to democratize the knowledge I've spent my career building. I feel that the benefits of doing so are far more important than any of the upsides of keeping it a trade secret. My hope is that if we all work together, if we empower organizations with the right tools and the "teams" framework, we can maximize human potential just a little. We can accelerate the contributions of the people responsible for building our civilization, making them more efficient, able to make better decisions, to enable change faster, and to do more good.

If everyone can implement the model in this book, it has the potential to make our lives better, to make our products better, and to make our work better. Work is just more satisfying when we can focus on meaningful outcomes rather than arbitrary metrics. It's better when we know we're making an impact, and can see the impact we make firsthand. I'd like my children to grow up to work in organizations where they can see just that kind of impact.

Of course, there is a selfish aspect to this mission as well—organizations that already work this way are far easier to consult with!

## What This Book Is and Isn't

Because I'm a big fan of setting expectations, I'd like to take a moment to talk about what you can and can't expect out of this book, before we move on.

**The book is not a philosophy of management**, or a textbook about any sort of professional skill. I assume that if you're a manager, you can already manage. If you're a user interface designer or a software engineer, you can design or code. I assume if you're a CEO, you've already got systems in place to give you accurate feedback about your organization. If you need help with any of those aspects, there are other books for you.

**This book is not a self-help book, or in any way focused on individuals.** I assume that you're an Adam (or a Shirley, an excellent leader highlighted near the end of the book), someone with decision-making power over others, and enough power to implement the principles in this book without having to ask permission. That being said, if you're more senior (or more junior and excellent at convincing your boss to try new things), there's no reason why you can't do the same work through different means. In fact, if you are a leader implementing the framework, you'll likely want to share the book with the team. (Hi, team!)

**The book *is* a practical guide about how to move faster and deliver higher-quality outcomes inside a large organization.** In our case, we define a large organization (or enterprise) as a corporation, nonprofit, or governmental entity with more than 3,000 employees. (Though the principles in the book will work for smaller organizations too.)

This book will teach you how to deliver the outcomes in the context of a large organization using the specific mechanism of small autonomous teams.

## Hard Things Are Not Easy

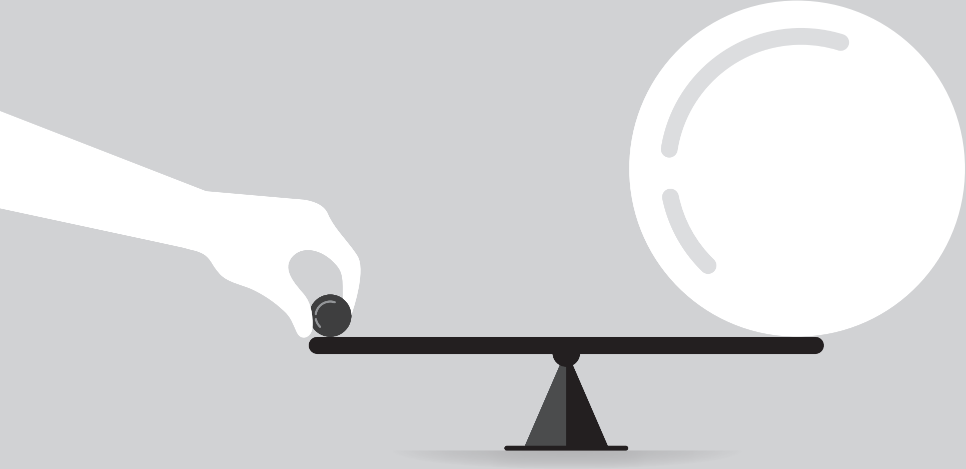
To be clear, this framework isn't revolutionary, or even all that new; instead, it's a deliberate return to the natural ways that humans interact with one another best. Children already act in this way, as do families and many groups in educational settings. The system only seems counterintuitive for large organizations because it often feels uncomfortable to trust people to accomplish their missions. The discomfort is the issue here, and the inertia of a large organization, not the team structure.

That being said, because of the challenges of large-organization life, this book is not a magic bullet or fail-proof system. I can't promise you an easy answer, as nice as that might feel. Every large organization is different and will require a slightly different approach. Most of the principles are also difficult in practice; most require deep commitment to the method and a willingness to tolerate discomfort. In fact, with some of the aspects of the method, such as real-time feedback, a lack of discomfort is a red flag that you're doing it wrong!

The teams model isn't a prescriptive system. It doesn't give you sixty-seven steps and then set you on your way. No, this framework operates as more of a set of standards you'll have to hold yourself and your teams to. You'll understand a principle in an afternoon, but you may have to persist for weeks or months to set the habit. Hard things require a higher level of commitment to master.

However, the difficulty is also the upside. Many people will not be willing to go through the discomfort to get to the outsized rewards at the end of the process. If you and your team persist, you'll be able to claim a competitive advantage that will be difficult to match. You'll unlock potential in your organization in a way that can't be easily reversed. You'll move forward at a much faster and more sustainable speed, using whatever tools you need with much better outcomes. Moreover, you won’t have to make a significant up-front investment, pay for fancy training, or get permission from three layers of bureaucracy above you.

All it takes are five to eight dedicated people and at least three months. The risks are small, and the upsides are tremendous.



# 1

# YES, YOU SHOULD CHANGE EVERYTHING

In 2010, the global CTO for one of the largest telecommunications companies in the US was a man named John.

John stepped into the CTO position at a critical moment for the telecom company. They'd been acquiring regional competitors steadily for over fifty years. Now they had more revenue, and a larger headcount and subscriber base than ever before. But their major service was a commodity, and the margins were being compressed. If the trends continued, they would eventually lose their dominant market share.

The company's core strength was its massive communications network, and the reliability of that network. John oversaw 100,000 employees in the technology side of the organization, which kept the massive network going. The operations focused on uptime, risk mitigation, disaster recovery, fault tolerance, and redundancy across the US.

For a hundred years, the telecom company had been oriented around consistency and dependability. Success had meant recovering from an event, returning to the status quo, and investing in another tower. Unfortunately, to survive, the telecom company couldn't just keep doing what it had been doing. It would need innovation. But the people and systems operating the giant machine at scale were by definition highly resistant to change.

So, John called me to help him build a system for change.

We built a small cross-functional autonomous team—a small investment to prove the model. At the end of twelve months, we shipped production software. Since the organization was used to a product-realization life cycle of thirty-six months, we then had the buy-in to do whatever we wanted.

We rolled out the process, systems, and tools more widely, building dozens of teams. Over the course of months, we built an end-to-end operating system for John's innovation program, including a customized playbook based on the specific organizational reality. We created an Innovation Foundry in one, then two, then three global locations.

Over 1,000 people worldwide eventually operated under this system. The program delivered more than fifty products to market in the first two years. It has been responsible for generating more than $20 billion of revenue, about $2 billion dollars of high-margin revenue per year. The telecom company is thrilled.

The cross-functional autonomous team structure—and the culture supporting it—delivered the results John wanted.

## Change Is Hard

To be clear, John wasn't looking for a major change in his company's way of working. He—like most leaders of large organizations—thought that with the right planning, his company could have innovation on top of the reliability and consistency oriented culture they've worked so hard to build. Unfortunately, real innovation requires a culture and work practices that support it.

Culture is the way that people interact with one another, the way that an organization values contrary perspectives (or doesn't), and the way it promotes pragmatism, dialogue, and reasoning (or doesn't). Shifting from one set of cultural behaviors to another is hard, but culture indelibly drives performance.

John was looking for systems and methodologies and structural changes. So, we started there, rolling out systems and structures. Because John could see the impact of what we were doing at every step, by the time the full cultural transformation was apparent, he was fully committed. He was on board with the small autonomous cross-functional teams model (hereafter called the "teams model" for brevity) and the culture it engenders.

The teams model works by empowering individual contributors to take meaningful risks to accomplish specific, important missions. This is in contrast with traditional large-organization culture, where the system is set up to extinguish risk and discourage failure. That culture kills innovation in the cradle.

## Innovation Requires Risk

It's human nature: what you reward, you get. What you punish, you discourage.

Playing it safe is not how innovation happens. Innovation, by definition, is doing things you don't know how to do. You don't have a clear roadmap; you'll constantly be dealing with messy ambiguity and copious curveballs. There will be failure—a *lot* of failure.

If failure becomes practically impossible, people stop trying anything risky. (Without risk there is no outsized reward). They choose a safe idea, and execute it slowly and carefully for fear of punishment. They make poor ideas somewhat work rather than start over. Over time, they start reacting with learned helplessness. Innovation stops. The organization atrophies.

In contrast, if you allow and celebrate small-scale failures, you will inevitably arrive at success. The oldest problem-solving algorithm in the world is the try/fail cycle, and it works.

If innovation was obvious—well, it wouldn't be innovation. To get to a new solution, you'll have to try a variety of approaches for things you don't yet know how to do. Innovation requires learning. It means building new capabilities. Innovation is not an arbitrary or a linear process. It's about the organization changing itself, and taking ideas that it tests and shapes to meet new challenges.

Innovation results in experience and informed decisions, not a set outcome. “No” is the answer more often than “yes.” Decision trees get pruned. Possibilities get eliminated, and you get closer to the right answer than you were.

People think when they’re setting up an innovation program, they’re going to end up with the next Post-it note. They believe that if they just set up the process correctly, at the other end, they’ll have a breakthrough they’re excited about. They expect new products and major revenue streams to fall in their laps quickly. However, the majority of innovation is learning. While products and breakthroughs *can* eventually emerge from an innovation program, they’re not a certainty. In fact, if you hyperfocus on exactly what you want, you may miss incredibly valuable by-products and learning that arrive instead.

Innovation may look like valuable insight into strategy or tactics. It may also look like spotting a failure early in the process, so that you can pivot—or be suddenly able to take advantage of an obvious opportunity. What innovation does *not* look like is predictable, risk-free control.

## Limiting the Size of Failures

In traditional top-down organizations, the culture is designed to eliminate failure. The system focuses on control. Since risk can, by definition, result in failure, and there is no reward or upside for taking risks, people learn not to.

I would argue that this approach is actually far riskier than allowing small-scale failure. In large organizations under a traditional model, it's all too easy to get your momentum going and keep giving a bad idea more time. All of a sudden, you're three years into a five-year initiative that is a glorious $40 million gold-plated failure.

In contrast, a smaller, more manageable failure would have been far less risky in the end. Far better to spend $1 million, see the mistake clearly in four months, and move on. If failure will happen (and it *will* happen), the earlier and more honestly you can see the failure, the better. Fail, but fail in the smallest possible increment, as quickly as possible, without fear. If you allow people to move fast rather than play it safe, they will fail—and fail often. But they will also innovate, and deliver massively impactful improvements.

If you allow individuals to do so, of course. Most large organizations leave decision-making in the hands of the executives, the people furthest from the front lines where the high density of information sits.

## The Traditional Model Is Broken

The traditional structure in most enterprise organizations actively sabotages high-quality innovation. Because the executive decision-makers are inherently risk averse (as most humans are), the organization spends a lot of time attempting to collect accurate information and providing it to them. Inevitably, much of that information is abstracted from day-to-day realities.

The round trip for taking decisions upstream, along with the information required to enable them, burns time and creates inaccurate pictures of reality. By their very nature, the inaccuracies create risks, and the long lead time tends to compound those risks. Organizations with top-down models move slowly and tend to make suboptimal decisions. As talked about earlier, they also tend to risk slow, large-scale failure that can't easily be changed.

The teams model inverts the decision making hierarchy, and so dramatically decreases risk. It moves the decision-making power, as much as possible, into the hands of the people most with the highest density of high-quality data. Immediately the entire system speeds up. Risks and failures are made bite-sized. Management becomes a support function, there to provide mission, and to define success. Results become obvious, and course corrections can happen quickly.

The inversion of the hierarchical pyramid unlocks tremendous value, even for leadership. Management should never have been responsible for seeing everything. They should see the big picture and chart the course, but everyday decisions in navigating the waters and clearing obstacles should always be made by the people with their hands on the sails. The decisions that come to management need to be ones that truly can't be made at the organization's edge. Both leadership and the people on the front lines can concentrate on what they do best, to the benefit of the organization as a whole.

The teams model changes the game entirely.

## Teams for the Enterprise

People usually think about small autonomous teams in the context of start-ups and Silicon Valley software companies, but they're tremendously useful for large organizations as well.

Start-ups don't have the luxury of overstaffing, or throwing people at a problem. They have to solve their problems as quickly and efficiently as possible. They have to be creative and resourceful *because* they're resource constrained. Working in small teams makes sense.

It makes sense for large organizations for the same reasons. A small group of people working together toward a common mission will always be more efficient than a large, sprawling department. The larger a group grows, the more resources it sucks up, the slower it moves, and the less efficient it becomes. The more focused a team of great people empowered to act is, the more efficient the work becomes.

Large organizations often forget how constrained resources can be beneficial because they're abstracted from the impact of their decisions. By uniting the responsibility with the day-to-day decisions, the enterprise can return to being nimble.

## The Gains Possible

"Nimble" is not a theoretical claim. I have seen countless examples of organizations achieving dramatic gains from a transformation to the teams model of working.

To return to the example of the telecom company, moving from delivering production software in thirty-six months to delivering it in twelve months is a velocity increase of 3x. Quality also dramatically improved, as the divisions running the new system saw an immediate improvement in customer NPS scores. The people building things understood the customer's needs, and products improved.

We instituted a similar program at Caterpillar, more narrowly scoped in their supply chain logistics organization. In the first twelve months of rolling out the new model, we saw more than $1 billion in slack removed from their outbound supply chain. That was a permanent improvement. When the people at the edges of the organization—customer service, the dealer network, logistics, supply chain teams—were empowered to orchestrate and deliver product directly to the customers, they did.

When leaders enable teams to have more autonomy, amazing things happen.

Here are more of the results I have seen:

- **Increased productivity**. Not only does velocity increase, along with quality in many cases, but the teams model also allows for greater throughput. Team members waste less energy on bureaucratic friction and spend more energy on value-creating activities.

- **Decreased risk**. Because missions are naturally scoped down to the level of teams, it is possible to accomplish more of them on a smaller scale. The incremental progress adds up, and risk is decreased and spread out. You won't need as many home runs if you're constantly swinging at single hits.

- **Decreased management overhead.** As a large portion of decision-making moves within the team, fewer full-time roles are needed in management.

- **Better collaboration.** Because each team contains a small number of people, a team can collaborate with each other, with another internal team, or with an outside group far more efficiently. With clear areas of responsibility, collaboration and results become far easier.

- **Retention increases.** Team members stick around more when given more control of their work. They also tend to do a better job!

- **Innovation.** Allowing for more instances of low-risk creativity gives you more chances to find a truly great idea. Since you're moving faster, being first to market with the right product also becomes radically more possible.

- **Money.** As a result of all of the above, you make more of it.

Best of all, if you handle the switch yourself, the small autonomous teams model doesn't require any special tools or money. You don't need additional headcount. The only real cost is the work time spent transitioning. To be frank, the shift in structure can represent a major (temporary) loss of productivity, and does represent a significant investment in lost velocity as you start it up. But the payoffs, as you can see, are immense.

## Opportunities of Change

Capitalism is ultimately a zero-sum game. If your competitors are adapting and improving, if start-ups are nipping at your heels, then not evolving means getting left behind. Eventually, your organization will die.

Change is inevitable. The market is changing, your competitors are changing, and you will need to change too. If you make the change to small autonomous teams, you'll find incredible opportunities available to you in meeting that change, regardless of its nature.

Organizations that can embrace the new system will enjoy closer alignment between their people and their mission. Their people become mission-minded, and expend the vast majority of their efforts directly on the goals that matter most. Teams see what's needed clearly, and find their own motivation to move the needle.

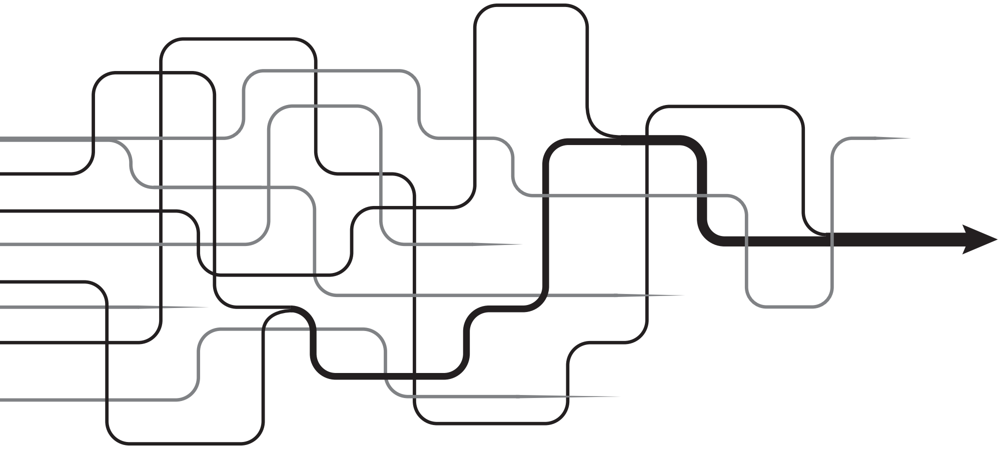
How far could you go if all of your people were pulling in the right direction?

## Faster Evolution

The teams model does not only allow for alignment and improved outcomes; it can reliably create an innovative "leap ahead" when multiple teams compete on approaches to the same simple problem. In this way, using the small autonomous teams structure allows for a higher parallel throughput of innovation.

Deliberate random evolution feels wasteful, since the effort we put into "failed" solutions apparently goes nowhere. Most people would prefer a process that leads directly to innovation along a single line. But in actuality, a structure that allows the organization to experiment with more ideas finds solutions faster than all the straight lines in the world.

Evolution is powerful. In the biological sense, evolution works because mutations occur randomly. Some fail, and get washed out of the gene pool. Some mutations provide an advantage and stick around, and inevitably, the good ones compound upon each other to improve organisms dramatically over the long term.



In business, it's much the same. We all want innovation, but innovation only happens when mutations are given a chance to prove themselves in a sometimes-disruptive way. Yes, that means many—if not most—potential ideas will fail, but out of the crucible will come the solutions to your biggest challenges as an organization. Running this process in the format of small autonomous teams keeps the risks small and the learning fast.

Small autonomous teams allow a wider range of people to take many more bets on what solutions might work for any given challenge. Each of these bets then interacts with the real world, with some failing and some succeeding in a short amount of time. The organization can then double down on its investments in the direction(s) that are working, it can take more small bets, and success can build upon success.

An organization running the old decide-and-commit model will still be working on its first iteration in the time it takes the new organization to run four or five rounds of experimentation. Evolution will also allow for a wider potential set of solutions to fail or to prove themselves and thus will lead to a far better set of answers.

No matter how smart you are, then, a model that leverages the effects of evolution will let you be smarter.

## Limiting Bias

We all like to believe we can make great decisions with the data we have, and we all like to believe we're free of bias. Neither is true. We cannot see the reality of a complex world clearly. We cannot predict the future in a world with imperfect data and an ever-changing market. We are also not our customers, no matter how much we pretend that we are. We don't understand what we don't understand.

The teams model limits bias and risk by dramatically increasing the number of influencers and decision-makers. It allows for more potential solutions and more testing. Thus, decisions end up being made less on assumptions and bias, and more on what can be proven to be true.

More bets placed on a single game by more players dramatically increases the odds that one of them pays off.

## Embracing the Chaos

Especially in the beginning, the teams model can feel very unpleasant and chaotic to leaders. Empowering small autonomous teams to choose small bets, and to make the everyday decisions related to those bets, is a major departure from traditional work habits.

This will translate into people working on projects that you are personally confident will fail. The marketplace of ideas may not feel intuitive; you will likely be tempted to intervene to double down on whatever projects make the most sense to you. Persist through the discomfort. Trust the evolutionary process, and allow the winners to emerge naturally.

If you let the internal marketplace and external marketplace collaborate, you can leverage the “chaos” to be a major asset to your organization. If the goal is product-market fit, you will get there exponentially faster with multiple opportunities and approaches. When it is time to take solutions to market, it is also possible to combine the best elements of several solutions into one amalgamated vision. Rather than testing one thing and hoping it’s perfect in all its facets, you can test multiple things, picking and choosing the pieces that prove themselves and combining them into the version of "perfect" the market wants.

I ask my clients, "Would you rather have one chance to solve this problem, or multiple opportunities to solve it?" Nine times out of ten, they choose multiple opportunities, but they think about the process linearly. They want to try one thing, fail, and try the next. They want to iterate in a sequential way.

Perhaps it's not surprising. The human brain has known limitations. The smartest person in the world tends toward the sunk-cost fallacy, doubling down on investments rather than walking away from failed ones when the investment goes bad. Similarly, while the brain is very good at predicting linear trajectories, it struggles to predict exponential ones. A linear approach literally feels correct at our deepest level, but it's misleading. Multiple simultaneous pathways with random selection vastly increase the probability of success.

In other words, instead of iterating on one thing ten times, do ten things at one time. It feels strange, but you'll get a far better result every time. Get the rough right answer first, *then* iterate.

## Don't Wait for Perfect

Some decisions are business critical or irreversible. Others simply can't be separated into small enough risk sets. Those larger, critical decisions need to be made carefully and with great calculation by senior management. But these decisions are rare.

In contrast, any decision that can be undone—and this is the majority of all decisions—should instead be made quickly by frontline teams. Place as many bets as you can. Then give solutions room to prove themselves.

No product survives first contact with a customer. Waiting for perfection, as many inevitably do in the corporate world, is waiting for death. Better to ship something basic, something you're nearly embarrassed to claim, and see how it needs to evolve. You can't get to perfect fast enough otherwise, because you can't see what perfect *is* on your own. The market will tell you how to evolve if you listen.

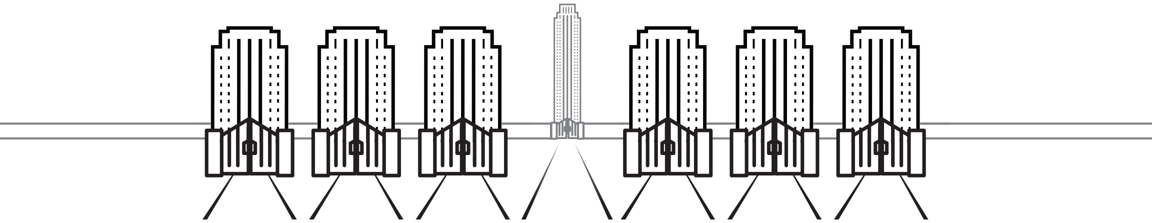
## Moving the Gateway

Small autonomous teams make more, smaller bets, and move faster.

At the telecom company in its original state, people submitted proposals with an idea, research, and data supporting that idea. Visions competed, and at the end, the leaders greenlit one idea to become the chosen solution. The gateway was rigorous, based on hypotheticals, and entirely on the front end.

With the Foundry system, we moved the gateway. Insvtead of having one $10 million initiative, we had a hundred $100,000 initiatives. The scale and scope of mistakes was smaller for the simple reason that no one project had the ability to waste $10 million. (The risk of each project was also, therefore, dramatically lower.) More often than not, the problem a team was tasked with solving was, in fact, solved, and a product went to market for $100,000.

This was a very small amount of money relative to the way these organizations typically consider capital investments.



What made the project succeed was the way it was envisioned. One hundred percent of investments could fail, and that would be acceptable. To measure success or failure, however, a single project had to either acquire paying customers or completely run out of money. The boundaries—and the $100,000 budget constraint—became a powerful focusing mechanism. The structure tightly aligned the makers and the doers around the problem, without the red tape that exists in a larger-scale program. The limited resources forced creativity and strategic choices.

The Foundry radically transformed how the telecom company did business. Because the Foundry team was empowered to work directly with customers to build a solution, customers were seeing the company take their problems seriously, and working directly with people actually solving those problems. The teams writing the code and designing the interfaces, pricing, and solutions could get input directly from customers. Quality and speed both improved dramatically, end to end.

The new system and relationships created a strong allegiance that didn't previously exist between the customers and the company.

Now, the customer had a real seat at the table, not just through a focus group or tossing ideas over the fence, but in speaking with the people who were actually building the products in real time. The customer experience was transformed. (Using prior products was often a painful experience.)

Even better, because the customers participated in the development of the product, they bought in. Suddenly there was no need for the salesperson. Conversion rates for customers involved in product creation spiked. Furthermore, the telecom company spent dramatically less because they had less overhead. They were no longer paying market researchers and consultants and salespeople to get in the middle. While intuitively, creating ten versions of something would seem more wasteful, it was actually cheaper by a long shot. By fixing the scale and scope of each individual experiment, the teams were encouraged to become more entrepreneurial, and achieved success more often.

The new system empowered teams to think and act like owners. It drove better results, happier employees, and dramatically better customer relationships that generated more revenue. Not to mention, it was cheaper. Failures were identified and washed out early, rather than spending two years of excess resources past the point where failure could have been identified.

To get to that point, the telecom company had to change absolutely everything. You will too. So let's talk about how the teams model works in practice.