

# **The Agile Organisation**

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**- Book Extract -**

## **Why go agile?**

The list of industries engulfed by complex strategic change grows longer every day. Even before the challenging times faced today, the average life expectancy of a multinational corporation – Fortune 500 or its equivalent – was thought to be between 40 and 50 years.

Over the last couple of decades the entire ecosystems of industries as diverse as health care, aerospace, pharmaceuticals, energy, retailing, defence, advertising, financial services, retail and automotive have been transformed in the face of a variety of factors – political, cultural, economic, technological and demographic – that are forcing the pace of change. These forces are global in their scope and far-reaching in their impact, affecting not only the environment in which organizations operate but also redefining what they need to do in future in order to compete successfully.

Technological advances in particular are pressuring costs and prices much faster than in the past through increasingly connected supply chains, squeezing budgets and margins ever tighter. Public sector institutions too are under ever more intense pressure to produce excellent outcomes with decreased budgets. With tighter regulation, shifting public attitudes and growing demands for transparency in their practices and outcomes, even previously venerable institutions are coming under intense scrutiny.

In the current context new rules of the game are being invented; there will be some winners and many losers. Statistics on organizational decline are startling. Research conducted by the Deloitte Centre for the Edge indicates that over the last 55 years the average company tenure on the S&P 500 has declined from 61 years to 18 years. Moreover, the rate at which companies have lost their leadership position in a given industry has risen 39 per cent in the same period. Strategic agility is emerging as the essential capacity that organizations must possess if they are to adapt successfully to change.

In this chapter we consider:

- \*Why organizational agility is important.
- \* What organizational agility is about.
- \* What is driving the need for agility.
- \* Why resilience is such a crucial counterbalance to agility.

## **The business case for agility**

While the current context presents many challenges, success is nevertheless possible. Research by the Centre for Effective Organizations (CEO) has found that a few large companies in every industry consistently outperform their peers over extended periods. These companies have the capability to anticipate and respond to events, solve problems and implement change better than what CEO describes as the ‘thrashers’. And they maintain this performance edge despite significant business change in their competitive environments.

Compare the fortunes of companies such as Eastman Kodak who appear to have waited too long before responding to marketplace developments, leaving them struggling to survive in a diminished form, while others such as Amazon, buffeted by the same challenging winds, manage to reinvent themselves in time to prevent failure. Amazon recognized the changing market trends and transformed itself from a web-based bookseller to an online retail platform to a digital media powerhouse, then became a leader in cloud computing. And this continual change has taken place without a performance crisis, demonstrating an ability to anticipate changes and adapt – instead of the reverse.

What these survivor organizations have in common is agility. Agile organizations are better able to thrive in complex environments because they have developed the ability to spot business opportunities and threats early and to implement change quickly. Agile organizations create not only new products and services but also new business models and innovative ways to create value for a company.

The returns on agility are significant. Agile companies exhibit superior business value relative to their industry groups.<sup>3</sup> Agile businesses have 29 per cent higher earnings per share, with net margins 20 per cent higher, return on assets 30 per cent higher and revenue growth 8 per cent higher than comparable businesses. Not surprisingly, in a substantial 2009 study by the Economist Intelligence Survey the overwhelming majority of executives (88 per cent) cited agility as key to global success and 50 per cent of executives said that organizational agility is not only important but a key differentiator.

Given the changing context, the CEO argues that when the measure of high performance in business is profitability, as measured by shareholder return, it is impossible to sustain over the long term.<sup>6</sup> They propose that return on assets (ROA) is a more meaningful proxy for profitability than either total shareholder return (TSR) or cumulative shareholder return and a better indicator of management’s effectiveness. This measure suggests that the management of agile companies taken a longer-term view and is more concerned about investing in value creation processes than attending solely to generating short-term shareholder value.

## **Organizations as complex adaptive human systems**

For many years modern organizations have been thought of as ‘machines’ whose processes and output can be controlled in a predictable way. In contrast some of the ideas that have shaped thinking in the Agile community of software developers come from studies of complex adaptive systems that recognize the inherently unpredictable nature of software development outcomes in a fast-changing competitive environment. From a complexity and human systems perspective, an organization is a complex adaptive system. It is therefore not just what an organization does but what it is that makes it agile.

As with living organisms, organizations self-regulate and change in response to external and internal triggers but the rules and patterns that underpin these responses are complex. In contrast to a mechanical system, where the links between cause and effect are clear and linear, in a complex adaptive system there are multiple interacting and intertwined parts that are non-linear. Change in any part of an organization will affect other parts of the system.

Each organization is made up of a collection of individual agents who have the freedom to act in ways that are not always totally predictable. Where people – the individual agents – have freedom to act, one agent’s actions can change the context for others. Individual agents respond to their environment using internalized simple rule sets and mental models that drive action. Patterns of thinking and behaviour and relations between agents are therefore just as much a part of the system as are structures and processes.

In a human system, alongside the formal structures reflected in organization charts there exists the so-called informal ‘shadow side’ consisting of relationships, power and political networks, and informal communications or ‘gossip’.<sup>7</sup> Since this informal system is usually more powerful than the formal system in influencing people’s behaviour, efforts to innovate within the formal system are often limited by what is happening in the shadow system. So key to understanding the system is to understand the relationships among the agents.

## **What is organizational agility?**

Agility is a complex construct that can take multiple forms. It captures an organization’s ability to develop and quickly apply flexible, nimble and dynamic capabilities. Originally linked with software development, lean manufacturing, just-in-time supply chains and process improvement methodologies in the 1990s agility theory is now informed by complexity science and encompasses more broadly an organization’s capacity to respond, adapt quickly and thrive in the changing environment.

## **Ability to adapt**

Since organizations are complex adaptive systems, like living organisms they naturally adapt to their context or they die. Evolution theory teaches us that organisms are naturally changing and adapting to their environment all the time, often in infinitesimal ways. They experiment, learn what works, find sources of nourishment and opportune contexts in which to grow. Those that fail to adapt do not survive. According to the theory of evolution it is reasonable to assume that only the ‘fitters’ organizations – those that can successfully respond to and learn from external events and adapt rapidly to their changing ecosystems – will survive and thrive into the future. After all, Charles Darwin reportedly said that: ‘It is not the strongest or the most intelligent who will survive, but those who can best manage change.’<sup>8</sup>

## **Ability to manage change**

Many organizations struggle to manage change and appear ill-equipped to deal with major transformation, especially the kinds of change linked to what D’Aveni calls ‘hyper-organization’. The underlying logic of hyper-organization is to focus on staying slim, reducing costs and externalizing risks, stripping out unnecessary positions, outsourcing processes and people, ruthlessly pursuing greater efficiency while keeping up and improving performance levels.

As chief executives work to short-termist agendas and take drastic measures to minimize cost and maximize economic growth, managers consistently tend to pay more attention to the ‘process’ and ‘technology’ aspects of transformation than to the ‘people’ element, with often seriously limiting consequences for the organization and for people. More often than not, rather than creating the new ways forward needed for the organization, the way that change is managed can be so disruptive that it can tear organizations apart. When change results in organizational chaos, initiative overload and employee resistance, the gap between strategic intent and strategic implementation widens, slowing down progress still further.

The key question then is whether the ‘natural’ ability of human organizations to change can be deliberately accelerated and optimized to benefit all concerned. Can organizations learn to become ‘change-able’ and adaptable? To some extent at least, yes. As we discuss in Chapter 3, there are many ways to introduce positive change into the system even though direct benefits cannot be guaranteed. In later chapters we look various organizations are attempting to become more change-able.

## **Speed**

Given the rapid pace of technological development and growth of global competition, agility is also the ability to move ‘quickly, decisively, and effectively in anticipating, initiating and taking advantage of change’. In today’s hyper-competitive phase of globalization, organizations need to move swiftly just to keep pace with developments, take advantage of opportunities or avert disaster. In a world where new ideas, technologies and services are emerging all the time, organizations that cannot move fast enough to meet customer needs, or fail to seize opportunities, innovate, trim costs and avoid major errors, soon go out of business. Just look at the UK retail sector where a combination of tough trading conditions,

reduced consumer spending and fierce competition from online retailers has led to the closures of well-known high street firms such as Woolworths, Comet and Focus.

Agile organizations are able to react swiftly and decisively to sudden shifts in overall market conditions, to the emergence of new competitors and the development of new industry-changing technologies by developing a range of products that satisfy a range of customers. It is essential to pick out fast what matters and act accordingly. Rapid decision making and nimble execution are therefore defining attributes of an agile business. As noted by Horney, Pasmore and O'Shea, to succeed, 'leaders must make continuous shifts in people, process, technology, and structure. This requires flexibility and quickness in decision making.'

Yet adopting newer, faster, better ways of doing things does not happen overnight; after all, conventional hierarchical organization and governance structures are designed to stabilize and safeguard processes. And as we return to a period of growth many companies and institutions can expect extreme competitive and operating pressures to continue and accelerate further. According to a Deloitte CFO Survey, 'the top priority for CFOs in 2014 is expansion'.<sup>12</sup> But expansion requires investment – and investing in solid infrastructure has, historically, been known to take time.

## **Innovation**

As well as encapsulating the ability to adapt and thrive in fast-changing environments agility is also defined as the ability to 'produce the right products at the right place at the right time at the right price'.<sup>13</sup> The consumer boom of the early 2000s continues apace and the consumer desire for novelty and stimulation is driving the quest for pace, quality and innovation. Consequently, it is no surprise that accelerated innovation now sits high on executive and board agendas in every sector.

Through technology the possibilities for innovation and new business opportunities seem endless. For instance, in April 2014 Google announced that it had bought a company called Titan Aerospace so that the internet's biggest giants are all now 'in' drones. Facebook previously purchased a UK drone-maker called Ascenta, and Amazon is already working on the eighth generation of its Prime Air drone. Though drones are not yet in commercial operation, 'if you're a major multinational corporation, parcel deliverer, army or key emergency services provider and you haven't either invested in a drone manufacturer or at least trialled the things, you're in danger of looking hopelessly out of step'.<sup>14</sup>

## **Does every organization need to be 'agile'?**

Is agility a prerequisite for survival for every organization? After all, it could be argued that some organizations may endemically lack agility and yet they remain successful. Consider universities, for instance. These long-lived elite institutions have been able to select the 'best' students and secure funding in a variety of ways, not least through endowments.

However, in today's globalized knowledge economy, higher education has become a major industry, rapidly expanding, highly competitive and marketized. For instance, in 2012 the maximum tuition fee level was raised to £9,000 at English universities, more obviously transforming students (and their parents) into consumers, if not customers, of higher education establishments. The challenge for today's institutions is to differentiate themselves in an increasingly crowded marketplace in order to attract the numbers of students and other

sources of funding they depend upon. Thus, in a relatively short period of time, the dramatic shifts in the higher education landscape have significantly called into question the purpose and infrastructure of higher education, and have enabled new entrants to compete, seize market share and put all but the most financially secure institutions under pressure to change their ways if they are to survive.

That is why I argue that agility and its various components are essential for all organizations. At the very least, we need to change the way we think about change. I agree with Abrahamson that in a world where ongoing disruption can be envisaged as the norm, and change is therefore now a way of life rather than an exception, a useful way of thinking about today's context is to see it as one of 'dynamic stability'.<sup>15</sup>

Such a mindset allows for change to be reframed as part of an evolutionary process, as the norm to be embraced positively, without major trauma, rather than a painful add-on to 'business as usual'. Such a perspective will also affect how we enact change, moving away from the kinds of reactive change management that result in radical disruption towards a cultural shift that readily embraces and stimulates change and innovation.

To achieve this shift, Abrahamson argues that a more modulated approach to change is required, what he calls 'pacing', in which major change initiatives are deliberately interspersed with 'carefully paced periods of smaller, organic change'. After all, he suggests, although some change is management-led and occurs within a strategic framework, most change is really happening locally, almost imperceptibly in automatic, spontaneous and reflexive ways at individual and team levels. In later chapters, we explore how embracing change as dynamic stability may require a conscious mindset shift and active learning for employees and managers at all levels.