Why go agile? 01

The list of industries engulfed by complex strategic change grows longer every day. Over the last couple of decades the entire ecosystems of industries as diverse as healthcare, 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 Center 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.

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The business case for agility

While the current context presents many challenges, success is nevertheless possible. Research by the Center 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.[1] 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.[2] 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.[3] Not surprisingly, in a substantial 2009 study by the Economist Intelligence Unit 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.[4] Despite 90 per cent of managers and executives being aware that their industries will be disrupted by digital trends to a great or moderate extent, a 2015 global survey conducted by *MIT Sloan Management Review* and Deloitte suggests that only 44 per cent of managers believe their organizations are adequately preparing for the disruptions to come.[5]

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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.[6] 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 is a better indicator of management’s effectiveness. This measure suggests that the management of agile companies takes a longer-term view and is more concerned about investing in value creation processes than attending solely to generating short-term shareholder value.

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.

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'.[7] 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.

Ability to adapt

Since organizations are complex adaptive systems, like living organisms they naturally adapt to their context or they die. As Professor Ed Lawler III puts it, superior performance is possible only when there is a high degree of fit between the requirements of the environment and the capabilities of the firm. In today's increasingly turbulent environments, this fit is temporary at best. To remain successful, organizations must be able to change in a way that creates a new alignment when the environment changes; in other words they must be agile.[8] Evolution theory teaches us that organisms are naturally changing and adapting to their environments 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 'fittest' 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.'[9]

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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'.[10] 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 at how 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'.[11] 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, 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'.[12]

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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'.[13] 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'.[14] 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. Drones are about to enter commercial operation and, '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'.[15]

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 global 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.

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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'.[16] 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'.[17] 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.

Forces driving the need for agility

The forces for discontinuous change are multiple – they include the broader politico-economic system implicit in Anglo-American neo-liberal forms of capitalism, global markets, demographics, technology, connectivity, sustainable developments, changing social attitudes, to name but a few – and their effect on business and organizational survival is intensifying.

A global marketplace

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Today's marketplaces are ruthlessly competitive, in part because the powerful economic philosophy underpinning the global economy since the 1980s is neo-liberalism, or free-market thinking and practice. This thinking places profit ahead of people, with shareholder value as the dominant goal of organizations, and encourages short-term thinking from the top to the bottom of organizations. Neo-liberal theory underpins mainstream management theory and practice widely taught in business schools, has affected organizations of every sector, and also appears to have influenced societal values in the West. In the UK in particular, before the onset of the recession in 2008, consumerism and greed – fuelled by easy access to cheap credit – led to widespread individual and public spending and debt.

Since the 1980s knowledge and service industries have become the mainspring of many Western economies. Industries such as financial services have been progressively deregulated to enable global competition. Deregulation enabled the proliferation of new financial products so complex and ultimately ill-founded that prior to the recession few people understood their nature. Early warning signs of what can happen when the prospect of huge bonuses drives ill-judged behaviour, as in the case of several 'rogue traders' whose reckless gambling brought their own employers' businesses to their knees, were ignored.

As discussed earlier, even traditional institutions such as universities are not immune from neo-liberal free-market practices. Denneen and Dretler argue that over the past two decades the higher education industry has followed not 'Moore's Law' (ie the observation that over the history of computing hardware, the number of transistors on integrated circuits doubles approximately every two years) but what they call the 'Law of More': ie *more* and *bigger* are better.[18] Colleges have continuously built up campus facilities and increased campus spending, the numbers of programmes they offer and the size of the administration, hoping to raise their rankings and reputations. In such a competitive marketplace, the only outcome of this, these authors argue, is an increased debt risk.

Disruptive innovation

Almost every aspect of the business environment and business itself is being transformed by disruptive forces. The days when major corporations could dominate markets and provide standardized products at inflated margins seem to be coming to an end. Retaining competitive edge in the face of what Professor Clayton Christensen termed 'disruptive innovation' can be a real challenge.[19] The term originally described how and why some changes in the technology sector (and now more widely in all business sectors) lead, in a relatively short time, to a radical restructuring of the overall system. Christensen found that disruptive innovations in a given marketplace are often triggered by the arrival of new competitors who punctuate the existing equilibrium having spotted opportunities, usually aided by changes to a wider context. Thanks to globalization and technology, new competitors can emerge from anywhere and completely rewrite the laws of competition through innovation.

In Christensen's 1997 book *The Innovator's Dilemma* he distinguished between 'sustaining innovation' (incremental or step changes in an existing order) and 'disruptive innovation' (major changes that ultimately transform an industry sector). So while existing players in a given market might be better at sustaining innovation, it is usually new entrants who become the real winners at disruptive innovation. Those that cannot adapt swiftly enough will struggle. Compare for instance the fortunes of insurgents such as Apple versus established firms such as Nokia. Nokia witnessed the Apple iPhone crush its global business, particularly at the high end of smartphones, which were by far the most lucrative segment of its business. Indeed, things are so fast-moving that manufacturers of high-end smartphones and tablets now fear that consumer demand for their gadgets may be slowing down due to market saturation.

In retailing consumers are looking for the latest products, choice, personalization, quality and low cost. Innovation applies not only to product design but also to delivery mechanisms. Today commuters in many major cities can 'click and collect' goods, which within hours are ready for collection at convenient points such as their local store. The business model involves cutting out the 'middle man' and shortening the supply chain. Of course, home delivery companies will not go without a fight and, partly in response to the spread of click and collect services, couriers are now doing home deliveries every day of the week, thus pushing up costs to delivery companies. So the ability to keep abreast or ahead of customer demand – or better still, to create it – needs to be married with the ability to innovate

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technically and organizationally, and to plan and execute new courses of action that are cost-effective and fast.

So agile organizations that are able to 'successfully respond to and learn from external events, to innovate technically and organizationally, and to plan and execute new courses of action',[20] are better able to continually and successfully adapt to changing circumstances.

Technology

Technology is at the centre of many business transformations and the rapid development of new advanced technologies is causing the pace of change to accelerate. The digitization of texts, symbols, instructions, patterns, visual images and music allows huge data sets to be marshalled more efficiently than in the past. Thanks to the transformations wrought by digitization, stakeholders including customers are developing very different expectations about how they want to receive services and products, and about their access to knowledge and information. Many economic activities that once depended on physical proximity and face-to-face encounters can now be conducted at a distance. For the first time, in a 2012 IBM study CEOs identified technology – rather than market forces – as the biggest driver of change.[21] Again in 2014, CEOs ranked technology first, believing that the impact of emerging technologies on their organizations will be profound.

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Why is the digital age so disruptive? In its many forms – for instance Big Data, artificial intelligence, the Internet of Things, automation, robotics and 3D printing – digitization is rapidly driving fundamental change. Whole industries, businesses and working practices are being transformed by the use and effects of technology. Digital business models can reorder value chains and create new opportunities, whether for a digitally modified business, a new digital business or for digital globalization.

Technology will replace some jobs and make others more complex. Increasingly work is carried out at the confluence of digital, physical and social worlds. In the digital era everything is interconnected, with multiple accelerations in product development. Speed is required – both in terms of product development and execution. If the product roadmap takes longer than four to six weeks, a product (and company) is at a high risk of quickly becoming obsolete. Agile working helps deliver products more quickly through initiatives such as two-week sprints. Digital is removing traditional operational constraints and paradoxes are being reconciled in the interests of speed and innovation. Standardization is needed but so too is empowerment; control is required but so too is innovation.

To take advantage of the technology, you have to build the organizational capability to respond to what it can do. It is as much about culture and behavioural change as it is about process change.

With a trend such as digitalization, organizations must also become customer-centric since digital has informed and amplified customer expectations and is increasing customer power in very fast-moving environments: '*Yes, we do have a customer-centric movement going on – among customers… [they] are acting more empowered and emboldened and are continually upping their expectations of companies. More than just a "movement", this is a large rock rumbling downhill at increasing speed that imperils anything in its way*'.[22]

In other words, organizations that want to be customer-centric must be agile, and vice versa. Customer-centricity begins with the belief that there is only one customer: the person who buys or uses your organization's services or products. Indeed, the customer experience is at the heart of agility. The agile development process familiar to software engineers institutes a set of customer-focused management practices and values achieved through iterative and incremental development, in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams and their customers.[23]

Technology is also enabling social transformations and has wider implications for the way businesses operate and the way we live and work today. Even definitions of 'work' and 'leisure' are being transformed by the use and effects of technology. Workforce expectations in particular are changing fast, with the diminishing centrality of work in individuals' lives and a marked shift towards the so-called 'independent' careers, where people increasingly prefer to hold multiple jobs over the course of a career, to make lateral rather than upward moves. Within organizations, hierarchies and jobs for life are being replaced by a knowledge-based network economy bursting with innovative online communication technologies, including mobile devices and cloud computing. Technology is also enabling greater choice for employees, and working lives are changing accordingly. Aided by improved domestic access to high-speed broadband and widespread availability of global devices, an increasing number of people now work from home at least part of each week, as flexible working options have expanded.

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In a world in which relationships, business transactions and even political uprisings are being enabled by social media, connectivity is the name of the game. As with the internet, the use of social media brings benefits and new risks – of brand sabotage and cyberbullying for instance. Social media are increasingly used by organizations for recruitment and vetting purposes. Where previously detailed company information was the privileged domain of the most senior management, today the use of social media for internal and external communication purposes reflects profound changes taking place in the ways in which employees expect to be managed and communicated with. Largely gone are the days when companies banned staff from using Facebook and other social networking sites for fear that they were wasting company time. Now many firms use social media for all company messaging, and many CEOs now regularly connect directly with their workforce through blogging and other social media activities. In comparison to the speed with which messages are co-created and proliferated through the use of social media, conventional internal communications often seem slow and clunky.

In many organizations employees are encouraged to bring their own devices to work rather than the company providing employees with hardware that will soon be obsolete. While saving company costs, such policies reflect the fact that companies can no longer control access to company data by employees. By implication, organizations must trust that employees will not abuse access to previously privileged company information, but will instead help to promote their company brands through the use of such sites. So this democratization of access to information within organizations represents a potential shift of power bases within organizations, in which 'employees' are being reframed as 'customers' and 'partners'.

In the years ahead, rapid technological development will require organizations to continually review their provision in response to changing social attitudes of customers and staff in relation to the use of technology. After all, technology creates and stimulates new and empowered consumer behaviours, and social media provide accessible platforms for consumers to exercise their collective voice, and in so doing to demand innovative products, directly affect organizational reputations and stimulate change. To return to the example of the higher education (HE) sector, the development and proliferation via the internet of massive open online courses (MOOCs) allows individuals to download 'content' (ie lectures and whole courses from leading universities) free of charge. The market for such services is increasingly competitive and the 'customers' more demanding.

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Of course MOOCs are not going to put universities out of business, but they do challenge a business model that assumes the institution holds a monopoly on high-quality content. Increasingly students (and their families) will choose universities that offer a high-quality university experience, with instant provision tailored to their learning and social needs, and for their success in helping students to achieve the desired outcomes of higher education, including qualifications and access to the first step on a career ladder.

A market society

On a broader front, organizations reflect the societies in which they operate and vice versa. Neo-liberalism has become deeply rooted in the public consciousness. Political philosopher Michael Sandel argues that since the early 1980s we have gone from *having* a market economy to *being* a market society.[24] A market society is a place where almost everything is up for sale, where market values dominate every aspect of life, from the private to the civic, driving up inequality as highlighted perhaps in the UK's Brexit vote.

Similarly, capitalism itself is under the spotlight in the wake of various infamous corporate and institutional scandals and the huge 'rewards for failure' granted to too many organizational chiefs. The values, accountabilities and morality of various politicians, corporate and institutional leaders have been called into question. Of course it could be argued that, carried to an extreme, the neo-liberal pursuit of individual self-interest and placing shareholder value ahead of notions of community or public value was what gave rise to some of the unethical and reckless business practice that has been subsequently identified as a primary cause of the mainly Western economic crisis from 2008 onwards. There have been calls for stronger regulation and better governance as well as higher standards in public life. Company reputation is increasingly recognized as a firm's greatest asset and is easily destroyed by unethical practice.

Despite this, little appears to be changing in practice. It takes a major scandal to really spur businesses into action. An example of this can be seen in the 2012 garment factory fire in Bangladesh, which killed 112 workers producing goods for a variety of global brands. This raised public anger and put consumer pressure onto corporations to use their buying power to improve practice across their global supply chains.

Given the state of the global economy, with rising tensions in international relations, the deepening threat of climate change, and after a decade or more of unprecedented global economic and geopolitical uncertainty, the time seems right to question the seemingly inexorable flow of neo-liberalism with its extreme gaps between 'winners' and 'losers'. Resulting social divisions and the rapid rise of populism in many parts of the world are putting globalization into the spotlight, causing political, economic and social upheavals. At the time of writing the first edition of this book, the United Kingdom was firmly a member of the European Union; now Brexit beckons. In PwC's 21st CEO survey (2018) CEOs worldwide report heightened levels of anxiety regarding the business, economic and, particularly, the societal threats confronting their organizations.[25] Sandel calls for more collective reasoning around the value and meaning of our social practices. Even some of the guru architects of neo-liberal management theory, such as Michael Porter,[26] now argue for a shift away from a primary focus on shareholder value towards 'shared value' as the principal aim of business. To some extent this search for more meaningful practice is evident amongst potential recruits, where 78 per cent of generation Y are said to look at ethics and values before deciding which company to work for.[27]

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David Marquand sees a wider issue: the fall of the public realm.[28] He argues that we are well advanced towards a state of genteel barbarism where the crisis is one of our moral economy as much as of our political economy. He sets out a framework for a new public philosophy founded on civic conscience and cooperation. In such a context, 'new' must genuinely result in 'different' and 'better'.

Demographics

Changing workforce demographics are having a significant effect on organizations across industries and geographies. In the West the population is ageing, and becoming much more ideologically and ethnically diverse, while in developing economies such as China and India the population is younger, growing rapidly and gaining improved educational opportunities.

In many companies, increasing numbers of employees are retiring, taking with them valuable knowledge, the loss of which can place the organization at risk. Companies face the challenge of maintaining a productive workforce in the face of potentially shrinking labour pools and the increased mobility of the younger generation of employees. Industries as diverse as utilities, oil and gas producers, healthcare and the public sector are clearly experiencing the effects of employee retirements and difficulties in sourcing new talent.[29] At the same time, the application of automation and artificial intelligence in the workplace is creating an increasingly 'hourglass' workforce – with low-skilled work at the bottom, enhanced work at the top and a squeezed middle where roles disappear. The changing composition of the workforce and changing expectations of employees are likely to drive the need for a wide range of new approaches to HR practices designed to define, attract, recruit, motivate and develop 'talent' for the top of the hourglass. The relative power in the employment relationship between employer and employee will determine the nature of what organizations offer their employees – or their 'employee value proposition'. What seems increasingly clear is that, notwithstanding desires for fairness, there is unlikely to be 'one size fits all'.

It remains to be seen which of these (and other) influences will prove to be merely incremental 'sustaining innovations' and which will be 'game-changing' disruptive innovations. The impact of each will become apparent as progressive layers of pressure and innovation interact with each other.

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Can competitive advantage be sustained?

In this turbulent context, even the very notion of sustainable competitive advantage becomes questionable – as firms such as Microsoft, Nokia and Blackberry bear witness. More than two in five CEOs in the 2014 IBM study now expect their next competitive threat to come from organizations outside their industries.[30] These new competitors are not just set to steal market share; they are upsetting whole industries, redefining how value is created and what constitutes value.

The challenges posed by the potential disruptors will require many existing players in a given market to respond in new and innovative ways. Traditional businesses in particular often struggle to get to grips with potential trends, opportunities and risks to their current business models, yet those that do are more likely to be in the driving seat of change, allowing for evolution rather than revolution. By way of example, a medium-sized UK distribution company specializing in supplying heating and plumbing products to the trade identified some of the following factors as driving change in their business:

- Government legislation, in particular tougher health and safety and climate change/environmental requirements. Only environmentally friendly boilers will sell in future, which means developing partnerships with new suppliers.

- In an e-commerce world with many customers ordering online, some customers will still prefer face-to-face interaction, so a variety of effective channels will be needed and these will need to be maximized, requiring different skill sets and approaches, shared client knowledge and integrated systems.
- The company is well known for its good relationships with customers. With an ageing traditional customer base a generational change will be needed among customers and staff to expand beyond this. The brand must be rapidly developed to appeal to newer, younger customers – keeping the best of the old alongside the new.
- Mobile technology, personalization and individual relevance mean that 'one size does *not* fit all' – speed of response and flexibility of offer will be required.
- Increasing demands by customers for transparency of pricing mean that margins are likely to be squeezed.
- With competitor consolidation in this mature business, the challenge is to leverage strengths in other areas and develop other partnerships.

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In this case, the firm recognized that it needed to better understand its non-traditional yet growing potential customer bases and decided to invest in further market research. Having understood the needs of relevant customer segments, the firm decided to operate through multichannels to meet the more varied needs of tomorrow's mobile customers, trialling some channels ahead of others in order to test customer response. To supply more environmentally friendly products and services and potentially enhance its brand as prime supplier of such products would mean the firm revising its arrangements with long-standing suppliers, finding new sources who could meet requirements of quality, speed and price. Transparency on pricing would mean developing a variety of customer propositions offering greater choice and value and also a more win–win relationship with customers so that trust could be built and maintained. This in turn would require staff development so that branch employees' customer service skills could be taken to the next level.

Companies such as IBM increasingly talk of 'cognitive advantage' gained by those vanguard firms that are learning to optimize the partnership between cognitive computing, artificial intelligence and humans. Yet insurgents can be just as vulnerable to change as existing players if they fall into the 'first-mover trap' (the belief that being first in the market creates a sustainable competitive advantage), one of seven 'misconceptions' in executive thinking identified by Rita Gunther McGrath.[31] Similarly a 2005 McKinsey study[32] found that the probability of market leaders being 'toppled' within five years stood at 30 per cent chance, over three times what it used to be a few decades before.

Some theorists argue that since the need to adapt is part of the evolutionary process, and if a company's competitive advantage is unlikely to be sustainable over the long term, what matters more is its ability to maintain evolutionary advantage over time. After all, old age, obsolescence or changing environmental conditions can cause previously healthy organisms to perish. But at least with human organizations there is the possibility that becoming aware increases leaders' choice about how to deal with the situation facing the organization. All of this is putting pressure on leaders and boards to find new ways to run business in contexts where there are no easy answers, and where recipes of success from the past may not be helpful. So for any organization, a useful starting point is to become aware of the trends that might most affect its current and proposed business and to work out what the specific risks and opportunities of different scenarios might represent for the business. We discuss this further in Chapter 4.

Resilience

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As we have discussed, strategic agility is vital to any organization aspiring to thrive in today's business environment; it is needed in order to address change that is continuous and relentless. Yet agility alone will not secure sustainable success.[33] In a future defined by ambiguity, unpredictability, complexity, multiple stakeholders and rapid change, organizations also need resilience in order to respond to change that is severely disruptive and surprising.[34] Also termed organizational 'resiliency', this is the capacity to deploy different forms of strategic agility when confronted with the unexpected and to respond effectively to changing conditions.[35] It involves taking prompt, creative, situation-specific, robust and transformative actions to minimize the impact of powerful events that are not avoided or avoidable and that have the potential to jeopardize the organization's long-term survival.[36]

Thus, resilience capacity and strategic agility are complementary capabilities that enable organizations to deal with the turbulent environments in which they operate.[37] Key resilience capabilities are 'anticipation' and the 'ability to bounce back'.

Anticipation

Resilient organizations are able to address pivotal events that affect their business because they are alert to, and anticipate, both internal and environmental changes – opportunities as well as challenges – and effectively respond to those changes using available resources in a timely, flexible, affordable and relevant manner. For a notable retailing success story, the John Lewis Partnership, a company founded in 1864, has remained in touch with its customers and ahead of the competition for over a century. It became the largest multichannel retailer in the UK in 2014 through its shrewd anticipation of changing customer preferences and the timely development of its online business ahead of the competition. At the same time, the brand is trusted because the firm delivers its promise to customers and staff to be 'never knowingly undersold'.

Ability to bounce back

Resilience is not only about being able to respond rapidly to unforeseen and problematic change. It is reasonable to assume that, in turbulent circumstances, organizations will not get things right all the time. There may be mistakes, some of them costly, so resilience is also about bouncing back from setbacks with speed and determination.[38] Thus an organization demonstrates resiliency when it experiences a severe, life-threatening setback but is able to reinvent itself around its core values.[39] At organizational level, this is about the robustness of systems; the capacity for resisting, absorbing and responding, even reinventing if required, in response to fast and/or disruptive change that cannot be avoided.[40]

Different levels of resilience may result in different organizational outcomes. While modest levels should enable a firm to recover from disruptions and resume normal operations, high levels of resilience may place an organization ahead of its competition since it has learned to capitalize on environmental disruptions and is able to create new options and capabilities while undergoing a robust transformation in the face of adverse events.

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Both strategic agility and resilience are prerequisites for organizations to thrive in a dynamic environment. These concepts share common roots and are built from complementary resources, skills and competencies. While resilient organizations are nimble, flexible and agile, not all agile organizations are resilient.[41] If agility is pursued from a cost-cutting perspective, involving work intensification or job losses, it is likely that the employment relationship between employers and employees will suffer and trust will evaporate. How likely is it, then, that employees will wish to 'go the extra mile' for organizations that see them as costs to be cut or as commodities to be exploited?

Conclusion

Organizational agility – or the capacity for moving quickly, flexibly and decisively – needs to be complemented by resilience, or the ability to anticipate, initiate and take advantage of opportunities while aiming to avoid any negative consequences of change. Together they enable firms to prepare for changing conditions, restore their vitality after traumatic setbacks, and become even more effective as a result of the experience. Combined they represent an organization's adaptive capacity or its 'change-ability'.

Central to an organization's resilience capacity is its relationship with its workforce, and the ways in which the workforce feels 'engaged' or not with the organization and its fortunes. And while people are often stated as a company's greatest asset, few businesses have a clear model of leadership that improves engagement, removes barriers to innovation and uncovers hidden strengths in people and the organization. So how can leaders make the transition to a new way of thinking and working?

In a context where change is a key aspect of the business environment for the foreseeable future, organizations must become change-able. If change is to happen effectively, people at all levels need to embrace change; have a desire for, a mindset oriented towards and a capability for (a way of acting upon) change. All three aspects can be developed to prepare individuals, groups and organizations for change, to render organizations more agile, more resilient and more responsive to change than they might previously have considered possible.

In practice this means that:

- *Everyone needs to be externally aware and alert*, willing to voice and allowed to act on such knowledge.
- *Products and services need to be innovated continuously* in order to meet the demands of the marketplace and customers.
- *Costs need to be kept low on all fronts*, tapping into the goodwill of local staff to implement cost-cutting initiatives while also innovating.
- *Organizations need to be flexible and adaptable* in roles, responsibilities and structures.
- *Key staff need to be able and willing to continuously develop themselves* – flexible sourcing and multiskilling.
- *Organizations need to aim for high engagement with staff* in order to tap into the discretionary effort of all their knowledge workers.
- *Organizational culture needs to be highly adaptable, agile, organic* – with everyone, regardless of rank, willing and able to commit to the organization and contribute to its success.

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Plenty of challenges exist, perhaps the greatest of which is assuming that developing agility and resilience are optional. For organizations and individuals that want to survive and thrive in today's fast-changing environment – it is not.

Of course, this is easier said than done – otherwise why are organizational agility and resilience so elusive? This is the theme we explore in the next chapter, where we will consider some of the main barriers to agility before moving on in later chapters to consider what can be done to enable agility.

Checklist

What's happening in your context?

- What are the key environmental factors that are likely to affect your organization in the medium and long term?
- What are the key opportunities and risks you foresee?

- What mechanisms does your organization have to identify and analyse emerging trends?
- How effectively are these trends acted upon and the necessary changes made?
- To what extent do you look out for emergent relevant changes in the environment, using alliances, partnerships and joint ventures?
- What do you see as the role and purpose of your organization?
- Who are its key stakeholders?
- What is the basis of your company's reputation? Where is this at risk?

Notes

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