BUSINESS BOOK Summaries®

September 30, 2015

The Agility Factor

Building Adaptable Organizations for Superior Performance

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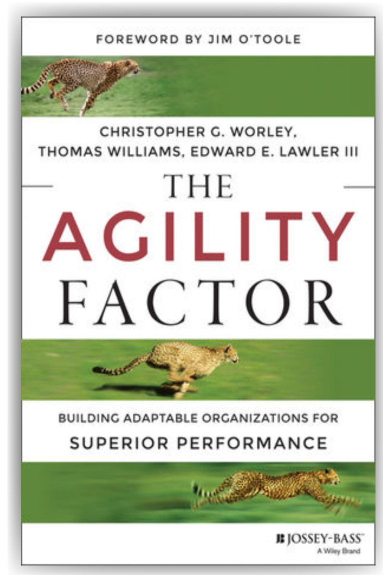
ISBN: 978-1-118-82137-4



Key Concepts

- *Continuous adaptation*. Agility is not a static condition that, once achieved, does not need to be revisited. Rather, it is a set of institutionalized approaches that, together, help an organization avoid becoming overly rigid and out of touch with a changing world.
- *Early recognition of opportunities and threats*. Timing is essential. Responding to an altered business environment before the competition does can yield large benefits.
- *Environmental demands and organizational capabilities*. A company that consistently outperform its peers understands its own capacity and how best to make it fit with the evolving business environment.
- *The strategizing routine*. Effective strategizing involves identifying realistic project commitments and resource allocations, creating flexible models, and using "what if" scenarios, including the worst possible situations imaginable.
- *The perceiving routine*. A predisposition to learning from the environment enables organizations to monitor changing conditions more quickly and respond to those changes more effectively by collecting, assessing, and disseminating pertinent information.
- *The testing routine*. Testing helps companies zero in on the most promising options among those identified by the strategizing and perceiving routines. This is true both in terms of examining a firm's current strategy and recognizing new opportunities.
- *The implementing routine*. Every organization must find its own approach to implementation. Through the process of self-transformation, a company will learn what agility means for it, in practical terms.

Summary

Introduction

In **The Agility Factor**, Christopher G. Worley, Thomas Williams, and Edward E. Lawler III lay out the essential components for maintaining profitability over the long term. Based on their study and analysis of large companies in a range of industries, the authors identify common threads that enable agile firms to beat the odds and remain successful while their competitors stumble or fall by the wayside. Systematic routines supported by the right kind of management and leadership creates organizations that can recognize threats and opportunities quickly, respond promptly, and know when not to act.

Maintaining Profitability

Few companies manage to regularly outperform their competitors. Some companies enjoy successful runs for a few years before slowing down, and others seem to get caught in boom-and-bust cycles that prevent them from achieving consistency. These companies are often widely considered to be successful, periodically undertake massive reorganizations that leave them depleted, and then fall back into their former ways.

Fundamental organizational shifts may result from a variety of factors, such as a change in top management, a technological breakthrough, or some other comparable event. Typically, each of these transformations starts as a one-time "fix" that will establish a company's direction and strategy for years to come. Often, these calculated institutional upheavals entail a great deal of risk, and while they may generate considerable favorable press, they generally do not lead to long-term success. In effect, these companies are often hailed as pioneers during their periods of strong performance but are held less accountable during the subsequent doldrums.

At the same time, there are firms that, while attracting less attention in the media and the business world, quietly outperform their competitors. Though these companies may operate in widely varying industries, each displays some common factors that help create and maintain organizational agility. At the heart of that common ground lies a capacity to continuously monitor changing environments, correctly understand what the observed factors point toward, and respond appropriately, whether that entails quickly seizing a new business opportunity or addressing some emerging threat. The ability to do these things consistently and in advance of the competition is the hallmark of an agile organization.

A common benchmark for assessing companies is *shareholder returns against the market*, but this metric falls short when one looks at the long term. A better measure is comparing an individual company's performance to the industry's *standard of profitability* during the period in question, which can be sustained over time, even amid periods of considerable economic or technological turbulence. By that measure, success can be attributed to a company's *agility factor*.

Agile firms are disciplined, rigorous, and patient. They may even appear slow and sluggish to outsiders because, knowing things will change, they carefully consider the balance between commitment and flexibility.

Organizing for Agility

Agility is not a static condition but an ongoing approach that is built into how a company operates. Such an approach does not happen spontaneously; rather, it requires effective organization that successfully balances the conflicting needs for stability and innovation, consistency and flexibility. *Agility* is the dynamic ability to make significant organizational changes successfully at the right time, to do so repeatedly over an extended period, and to sustain those changes for as long as they prove viable. Perhaps most importantly, these changes must be undertaken not for their own sake, but because they will yield clear, tangible advantages for a company.

Companies that outperform the competition typically employ four key routines:

1. *Strategizing*. This dynamic process includes defining a clear and inspiring purpose for an organization, developing a strategy based on that purpose, achieving extensive buy-in, and managing in a way that maintains the focus on and commitment to the strategy.
2. *Perceiving*. The challenge here is to continuously monitor the environment, read the signals accurately, and communicate those perceptions quickly and efficiently to those who can make the appropriate decisions.
3. *Testing*. Before fully committing to any significant change, agile organizations run experiments to test hypotheses and use what they learn to choose the best options.
4. *Implementing*. This key routine, applicable to both incremental and more dramatic changes, includes not just making changes happen but verifying the actual benefits to a company.

Together, these routines form the *agility pyramid*, which ultimately leads to sustainable, high-level performance.

In the *traditional model*, management is hierarchical and aimed at adopting what are perceived as best practices. Planning is conducted infrequently and in linear fashion, and once a plan is adopted, it is considered finished. Annual budgets are the principal means of allocating resources and controlling costs. This management style, however, is wildly out of step with the pace and extent of change today. Too often, companies following this model become overly rigid and unable to anticipate and respond to environmental changes.

Differentiated companies are less rigid and are more creative, aiming not to emulate the best but to set themselves apart from the rest. These companies tend to have decentralized, team-based management styles and encourage individualized leadership. In the planning process, they are more likely to emphasize resources and work environments. As noted, though, these characteristics tend to encourage periodic makeovers, and the accompanying turbulence can undercut sustained performance.

Strategizing is a dynamic routine. It does not produce dead documents from an annual ritual for presentation to the board, which are then forgotten.

In *agile companies*, organization is more complex and network based, and planning is an active, ongoing process that makes extensive use of scenarios. Quarterly forecasts give more up-to-date results, and managers can tolerate greater ambiguity while simultaneously focusing on multiple objectives and considerations. All of these processes are always carried out in service to a tangible advantage for the organization.

Strategizing

At its base, a company's strategy should express the firm's fundamental identity and culture as well as its current approach to creating an advantage over its competitors. A company's *identity* comes from shared institutional knowledge, including the history, image, and unique characteristics that have helped the company achieve success in the past and that can still play a useful role in future accomplishments. This identity must be aligned with current conditions and widely embraced throughout the organization.

Strategy considers how a company aims to position itself in the marketplace. It has three dimensions:

1. *Breadth*. How many products or services will be offered? How many markets will be served?
2. *Aggressiveness*. The key factors here are speed of execution and how much risk is acceptable.
3. *Differentiation*. This is what sets a company apart from its competitors and what gives potential customers a reason to choose one firm over another.

To be useful, a strategy must flexible. Alteration will be needed in order to keep up with changing conditions. It is the ability to keep adapting effectively that ultimately leads to long-term success. Establishing and nurturing a clear organizational mission, set of values, and behavioral standards that transcend profitability is the glue that holds a company together and keeps it on track in pursuing its goals.

Perceiving

The heart of the perceiving routine is an enduring commitment to learning from the business environment. With firm commitment, companies can collect, assess, share, and correctly understand the information that will lead to the most fruitful decisions. While strategizing is rational and analytical, perceiving is more emotional, stirring up strong conflicting opinions and enthusiasms. There are three key aspects involved:

1. *Sensing*. People in the company monitor every facet of the environment.
2. *Communicating*. This must be done quickly and without bias so that key information reaches the appropriate people in a timely fashion.
3. *Interpreting*. Once information is received, it needs to be understood in the context of the company's strategic intent so the response remains grounded in the larger vision.

Sensing means taking the pulse of a changing environment while also balancing present and future needs. Involving more people in the process helps ensure a more accurate snapshot of the situation, but it is at the boundaries between the internal and external worlds where the success of those efforts is determined.

Internal communication is essential, and in agile organizations it is based on generating and continuously revising scenarios. *Scenarios* contain assumptions about future events and the reactions to them. They are not predictions but possibilities that reflect what the environment seems to indicate. Transparency and openness to hearing "bad news" are important. Finally, there must be standards and structures in place that enable company leaders to make practical decisions that are a good fit with the organization's identity and purpose.

Testing and Implementing

The best way to avoid allocating massive resources for an initiative only to see it fail miserably is to test the underlying idea on a small scale. Better yet, companies can test many ideas and let the results of those experiments guide key managerial decisions.

Tests can be narrowly focused or very broad in scope. They may be seen as successful or not. Either way, what is essential is to learn from the experience by asking the right questions. Did things turn out as expected? If not, was that due to the design or execution of the experiment? Is there perhaps some unforeseen byproduct that might prove useful even if it is not what was originally envisioned?

There are also questions of scale. Will what worked at this level function the same way if the organization commits to a full-blown rollout?

At some point, organizations need to find out which ideas are worthy and which are merely "bright shiny objects." Testing and implementing are about an organization's capacity to use the knowledge that has been collected.

Testing and implementing picks up where the two previous routines leave off. Those earlier steps laid the groundwork for productive activity. Companies can now start considering specific initiatives, whether they are incremental shifts or sweeping changes. These phases are not entirely separate; they must all be integrated and interdependent as organizations seek a balance between exploiting current opportunities and pursuing new ones.

Effective testing requires adequate preparation. This includes not merely developing hypotheses but also determining the criteria to gauge success, the resources needed, and gaining executive backing. Once it has begun, testing must be managed like any other project and given the appropriate support. Finally, both the results of the experiments and the way they were conducted must be analyzed thoroughly to ensure the organization gains maximum benefit, regardless of the outcome. Approached in this fashion, testing essentially becomes a way to manage risk and innovate intelligently and responsibly.

Managing Change

Even if a tested idea shows great promise, an organization must still weigh the *potential* benefits of moving forward against the *current* benefits of carrying out existing operations. Executing the current strategy is vitally important, yet it cannot prevent management from recognizing the need to implement change in response to shifting conditions. *Execution* means striving to improve what is already being done, and *implementation* means learning something new. The challenge is to simultaneously undertake both, with resources and information flowing freely both ways.

While considerable lip service is given to the importance and ease of moving new ideas around in an organization, the single-minded devotion to profitability through efficiency often means that top management and organizations are unable to appreciate the value of a novel idea they didn't create.

During implementation, those managing the change must be given the authority to do the job while being held accountable for results. Incentives can help motivate these managers to make sure that projects are carried out efficiently and in accordance with business plans. During and after this process, results must be monitored and reviewed in order to maximize the chances for success and capture useful knowledge.

A key factor in creating and sustaining agility is the quality of an organization's personnel and the system for managing them. Creative people must be allowed to fail and make mistakes in order to learn. Otherwise, they will quit or be fired, leaving only those who may be good at obeying orders but cannot provide the kind of vision that is needed to continuously adapt.

At the same time, however, there must be limits. At some point, an individual's desired course of action must fit with the organization's needs and goals. Generous compensation can help retain the best employees, though companies may differ in how they choose to reward performance. At the end of the day, implementation helps keep firms functioning smoothly while ensuring that they retain the capability to adapt and stay agile.

Transforming to Agility

Over time, firms that integrate some version of all four agility routines will outperform companies that lack those capabilities. While few companies meet all the criteria for agility, that does not mean these organizations have no future. Many companies may vaguely sense the need to be more flexible, to respond more quickly, and to become more agile, and that desire may be the first step in transforming those companies.

Often, some aspects of agility may already be in place. It then becomes a question of determining what is missing, filling in the gaps, and adapting existing processes to better fit new norms. There are three broad categories that describe the kinds of activities successful transformations typically entail:

1. *Setting the strategy*. This involves both the immediate strategic intent and the long-term organizational identity. The intent is crucial in achieving strong current performance. It will need to be revised over time to reflect a changing environment, so it should not be viewed as something set in stone. A more daunting chal-

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lenge is retooling the company's identity in order to render it more fluid. This will require full buy-in from top management and consistent application of the newly adopted principles to every aspect of the organization. Keeping employees involved and creating systems to help them learn can speed up the process.

2. *Fixing the foundation*. Simply put, the organization's whole management structure must be designed to promote and sustain agility in service to profit. An overly rigid top-down system cannot hope to enable the necessary openness and flexibility. In addition, performance has to be measured in a way that is appropriate to the desired outcomes, and there can be no skimping on follow-up.
3. *Building the agility routines*. The focus here is the organization's ability to perform different tasks, each of which may require its own set of skills and knowledge. All internal systems must be structured in a way that recognizes and sanctions the behaviors essential to the outcome. It must also be understood that even with the best planning, acquiring new capabilities will entail a learning curve.

When the routines are successfully embedded in a company's culture, they enable the organization to change more quickly and effectively as needed. Implementation, in particular, is crucial in becoming more agile. Creating effective strategizing and perceiving routines may require a reexamination of a firm's existing leadership style and strategy, and it will depend on how quickly all the stakeholders can grasp the new approach, accept it, and contribute to its assimilation. The rank and file will not believe in the change until they see it reflected in their day-to-day work.

Afterword

The hard fact is that most businesses do not survive past the five-year mark. The rate of change is accelerating across the board, and globalization has created even greater challenges. Darwin's image of survival of the fittest applies equally to organizations battling inhospitable environments. A small number of firms manage to beat the odds and consistently outperform their competitors, and they do this by developing quicker institutional reflexes, anticipating possible scenarios, and becoming more agile.

Features of the Book

Estimated Reading Time: 3–4 hours, 208 pages

The Agility Factor zeroes in on the specific capabilities that enable some companies to consistently outperform their competitors. The book would benefit anyone seeking to better understand what it takes to succeed in an unforgiving business environment. Charts and graphs lay out the book's key points, and extensive case studies detail how the principles have worked in real businesses. The book should be read from start to finish in order to fully grasp how the various pieces fit together. Notes provide additional details, and an index makes it easier to find particular passages.

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