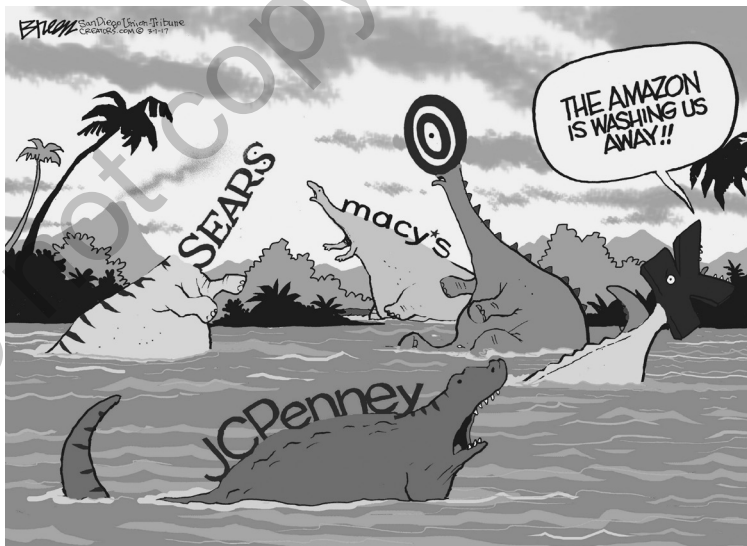# AGILITY

If organizational life is like a movie, then we could say that Chapters 3 through 7 allowed us to press the Pause button momentarily as we analyzed the STAR model and the interrelationships among the five categories of the design. Chapter 8 pressed the Play button, reminding us to see how design changes needed to be implemented in an ongoing organization. There we learned how to implement change and sustain the design over time. Consider, however, that the implicit model of change we have been using assumes that we can take a stable and established organization design, change it, and then return it back to a stable state. In contemporary organizations, the idea of a stable organization where change is the exception does not resonate.

To extend the metaphor, in this chapter, we will hit the Fast Forward button to consider how organization design today requires speed and agility to make more rapid changes in a fast-paced global environment. We will look

Learning Objectives

In this chapter you will learn

- Why agility has become a major concept in organization design.

- How agility impacts every point of the STAR model.

- How organizations are adapting organization designs to become more agile.

- What the elements of learning and leadership agility are.

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at how every point of the STAR model must be reconsidered and reimagined to allow the organization to become more agile. We will also examine how agility is a skill for leaders to develop.

WHY AGILITY IS IMPORTANT TODAY

Consider a simple but illustrative example: In 2007 the inexpensive Flip video camera was introduced, a technology that allowed users to take video images with a compact device and transfer the video to their computers via a USB input. It immediately gained significant market share and was popular with consumers, quickly spawning copycat devices from other producers. In 2009, Cisco Systems acquired the parent organization of Flip video. Just over 2 years later, in 2011, the entire operation was shut down. The same video capability, embedded in iPhones and its competitors, made a separate device unnecessary for most users. In just 4 years the company went from a start-up with a major success to virtually nonexistent (Ertel & Solomon, 2014). Cisco may or may not have been aware of the potential for a short leadership position in mobile video devices, but what is notable is the rapid cycle time of a company from inception to nonexistent.

The example is not unusual. Certainly some of the companies in Alfred Chandler's (1962) famous study of strategy and structure, such as DuPont and General Motors, still exist today. Yet consider that over the past decades, more than half of the Fortune 500 companies on the list have disappeared each decade for a myriad of reasons including bankruptcy and acquisition (Worley, Williams, & Lawler, 2014). Reeves and Deimler (2011) note that market leaders used to be able to count on retaining their leadership position, but that in 2008, about one in seven former leaders fell out of the top three for their industry. Market leaders were once strong profitability leaders, rewarded financially for their dominant position. Now that is true in just 7 percent of cases (Reeves & Deimler, 2011). Success and industry position can be tumultuous and provide no guarantee of future success.

Increasing competition and rapid environmental change provide some explanation for these trends. In the 1990s, Harvard business professor Clayton Christensen introduced the theory of disruptive innovation. The idea is that new market entrants usually bring to market a product that is "typically cheaper, simpler, smaller, and, frequently, more convenient to use" (Christensen, 1997, p. xviii). Examples of such disruptive technologies include online retailing, electronic free greeting cards, computer-based distance education, and online stock trading. Higher-end incumbents (full service stock brokerage firms, for example), focusing on a different (often more profitable) market, respond slowly to the upstart competitor while the innovator continues to add enough capabilities to increasingly threaten them (Christensen, Raynor, & McDonald, 2015). Incumbent leaders tend to disregard the smaller upstarts, maintaining confidence in their dominant position and investing in sustaining innovation (gradual product improvements). This is a realistic response when the change occurs slowly, even unnoticeably for quite some time in some industries (Wessel & Christensen, 2012). Eventually the competitor disrupts the incumbent when customers leave, often in a way that renders the original company obsolete (consider digital music and streaming versus music stores, and digital photography versus prints).

In some cases, however, the upstart competitors disrupt quickly from the beginning without a carefully planned evolution in capabilities. Called "big bang

disrupters" (Downes & Nunes, 2013), these companies change industries immediately. "We're accustomed to seeing mature products wiped out by new technologies and to ever-shorter product lifecycles. But now entire product lines—whole markets—are being created or destroyed overnight. Disrupters can come out of nowhere and instantly be everywhere" (p. 46). Consumers ask, "Why pay for a product or service when a newly launched smartphone app provides it for free?" which explains the disruption of standalone GPS devices by the Google Maps app (and others like it) available at no charge for most smartphones (Wessel & Christensen, 2012).

Agility becomes a matter of survival in these cases where an organization is required to quickly respond to an unforeseen threat or risk losing the entire business. Among other changes in the business environment making agility a necessity are the rise of new organizational models, the gig economy, and the blurring of industry boundaries.

New Organizational Models. Companies such as Airbnb and Uber provide platforms to connect buyers and sellers, producers, and consumers. These platform businesses gain value from the size of the network that participates in the business, in contrast to pipeline businesses that control the product development process from research and development through supply chain and delivery (Van Alstyne, Parker, & Choudary, 2016). In these businesses, the platform and community itself have a value. Consider that Airbnb announced in 2016 that it would expand through its Trips offering, connecting travelers with local experts or guides that could provide them with new experiences during their vacation, such as cooking classes, truffle hunting in Italy, or a cycling tour through France (Rosenbloom, 2016).

Gig Economy. The majority of large companies have long pursued offshoring or outsourcing arrangements to increase flexibility, and even more use temporary help on a regular basis. Today, dozens of companies connect freelance workers through "human cloud" platforms with those who are willing to pay for help for everything from running errands to complex software coding (TaskRabbit and TopCoder, respectively; Káganer, Carmel, Hirscheim, & Olsen, 2013).

Blurring of Industries. Innovations in technology are blurring industry boundaries as well. Cameras, telephones, and computers were once three separate industries. Now the pervasiveness of mobile video communication (Skype, WhatsApp, FaceTime, and many more) calls into question such neat boundaries and divisions between industries. Amazon, once a start-up Internet bookseller, is estimated to become the world's largest technology company by 2025.

CONTINUOUS DESIGN AND RECONFIGURABLE ORGANIZATIONS

All of these examples demonstrate Galbraith's (1997) observation that "when advantages do not last long, neither do the organizations that execute them. In the past, management crafted a winning business formula and erected barriers to

entry to sustain this advantage" (p. 88), creating an organization design to match. Eventually those designs (both product and organization) become copied by competitors and the advantage dissipates. Worse, when an organization aligns itself so strongly around its design and emphasizes organizational stability in the face of a rapidly changing environment, it can inhibit adaptability to future strategic and design changes.

What is required is the capability for continuous design and creating reconfigurable organizations that change frequently to respond to environmental conditions. "We need a new, aligned organizational design in which organizational structures and processes are easily reconfigured and realigned with a constantly changing strategy" (Galbraith, 1997, p. 88). To respond effectively to the rapid changes in the competitive environment, leaders must learn how to make frequent design adaptations. Stanford (2015) writes that today, leaders must

> begin with the view that the design is dynamic, has a life cycle and will change as the context demands, and there will be fewer accusations of design failure and more support from stakeholders. . . . Good designs are not a one-shot effort; they allow for meeting continuous change while simultaneously keeping the business operations running successfully. (pp. 256–257)

This view echoes a point we made in Chapter 1, that organization design is a process, not an event. Many leaders may think that they are always doing design work through annual strategic plans and budget allocations, frequent restructuring, quarterly business reviews, and annual employee performance evaluations and salary reviews. Such practices can, in fact, inhibit agility and rapid adaptation by delaying decisions until the next regular cycle. As we will see, however, agility is not only a matter of speed, but it is also about changing the content of these practices.

The point is that once familiar notions, strategies, industries, business models, and employment relationships are quickly changing. If organization design is one way of achieving a competitive advantage, and today's competitive advantages are being disrupted, then bedrock concepts of organization design may need to adapt to keep pace with the changing environment. "Agile organizations have designs that can adapt quickly in response to internal and external pressures for change or shifts in strategic intent. Adaptable designs have structures, processes, people, and rewards" that can flex to changes in strategy (Worley & Lawler, 2010, p. 195). This means that organizations of the future may look very different from the ones we have become accustomed to, as we will explore.

WHAT AGILITY MEANS

Agility "captures an organization's ability to develop and quickly apply flexible, nimble and dynamic capabilities" (Holbeche, 2015, p. 11). It is also the "capability to make timely, effective, and sustained organization changes" (Worley et al., 2014, p. 26). Importantly, agility is also an organization design capability "that can sense the need for change from both internal and external sources, carry out those changes routinely, and sustain above-average performance" (Worley & Lawler,

2010, p. 194). These definitions stress three key characteristics of agility (Horney, Pasmore, & O'Shea, 2010):

- **Fast**: Agile organizations operate with speed, making rapid decisions and moving quickly.

- **Flexible**: Agile organizations pivot as needed to take advantage of opportunities as they sense them.

- **Focused**: Being fast and flexible is a recipe for whiplash and chaos unless the organization is also focused. Agile organizations do not pursue every idea, they "do a better job of selecting the ones that will deliver on environmental demands" (Worley et al., 2014, pp. 26–27).

These characteristics are enabled by two additional capabilities in agile organizations: a "change-friendly" identity and an ability to sense when change is needed. What many agile organizations have in common is the ability to recognize the need to change based on knowledge of the external environment. They maintain an identity less rooted in specific products and more in lasting values and beliefs. They also hold to a curiosity about the external environment and are regularly seeking new knowledge.

"Change-Friendly" Identity

Agile companies have an ability to invent and reinvent themselves in dynamic ways. Netflix, once the innovator of rental DVDs by mail, evolved to provide streaming services when the technical capabilities and consumer preferences moved in that direction. Its next evolution was to produce its own content. Remaining stuck to the purpose of being a "DVD rental business" would have inhibited Netflix from this very successful path.

Yet despite the reinvention that gets played out in pursuing different activities, agile organizations also maintain an enduring identity that paradoxically allows for such change. Frequent change is accepted in organizations that prepare members for it. As Lawler and Worley (2006a) describe in their analysis of organizations that are "built to change,"

[A]n organization that prides itself on legendary customer service is in a good position to identify strategic adjustments that enhance its service. . . . When organization members know that announced or intended changes honor the firm's identity, they find it easier to support and commit to new structures and new processes or to building new capabilities. (p. 63)

They point out that an organization's culture and history contribute to its "change-friendly" identity which endures even when the tactics of the strategy change. In some organizations, the leadership team is uncertain whether the company is product or customer driven or whether it values long-term innovation or short-term revenue. As a result, frequent change feels unfocused to employees and customers alike. But when the organization's identity is clear and provides an underlying logic to change, such changes seem consistent and are likely to result in less confusion and resistance.

Sensing Change

One critical capability for agility is to sense that the need for change is coming. "In this environment, competitive advantage comes from reading and responding to signals faster than your rivals do, adapting quickly to change, or capitalizing on technological leadership to influence how demand and competition evolve" (Reeves, Love, & Tillmanns, 2012, p. 76). Doz and Kosonen (2008) note that this involves "early and keen awareness of incipient trends and converging forces with real-time sense-making in strategic situations as they develop and evolve" (p. 96). Agile organizations are carefully attuned to the marketplace, monitoring changes that other organizations miss, ignore, or misinterpret.

Doz and Kosonen's (2008) analysis of Nokia's rise and fall points out that in the late 1980s and early 1990s, Nokia foresaw the rise of mobile telephony. The company sensed a number of trends coming together, including the rise of digital networks and potential mass market interest in a well-designed user interface for a mobile phone (as witnessed in Apple's Mac computers). "Given the history of the company and their own personal experiences, Nokia's executives could perceive and frame, largely in real time, the nature and magnitude of the huge opportunity its competitors failed to see until much later" (Doz & Kosonen, 2008, p. 101). This allowed Nokia to invest in the growth area and organize resources to exploit the potential new market opportunity. However, the same sensing capability, when lost, also explains Nokia's decline. Later in the 1990s, Nokia maintained a focus on third-generation telephony (3G) for too long. The authors explain, "A winning strategy (as celebrated by Nokia when it wrestled worldwide industry market leadership from Motorola in 1998) turns into principles and beliefs, which are then treated as truth and are no longer challenged" (p. 109). Losing attention to the external environment (or failing to question prevailing interpretations) means failing to see the truth until it is too late to act.

Worley, Williams, and Lawler (2014) call this ability of agile organizations to accurately interpret the change in their environments a "perceiving routine." Agile organizations are able to sense the environment, communicate information to decision makers, and interpret environmental signals (p. 67). In typical organizations, it may be the job of the CEO, senior management team, competitive intelligence department, or marketing function to watch industry trends and read the latest predictions. By seeing themselves as the source of external knowledge and interpretation, they miss trends and important sources of data located inside their own organizations. By contrast, agile organizations "maximize the 'surface area' of the firm. As many employees as possible are near to or have direct contact with regulators, suppliers, the local community, watchdog groups and, most important, customers" (Worley & Lawler, 2010, p. 196). Employees who observe trends about customer preferences or complaints, who see unique and interesting uses of products, or who receive requests from customers for product enhancements, can pass along this information internally. This can be a source of valuable knowledge, but only if the organization develops rapid lines of communication that allow the information to be accurately passed along to the right place.

Once the need for change is felt, the organization must be able to adopt an agile organization design, requiring change in every aspect of the STAR model. In the next sections we will explore the principles of agility that alter each point.

AGILE STRATEGY

Agile organizations that maintain an identity that is conducive to change and who engage in regular sensing of the environment also tend to strategize differently. In agile organizations, strategy takes on a different meaning. Rather than an annual strategic plan formalized in a binder that articulates the pursuit of a long-lasting success, agile organizations see the planning process as organic. They have a process for monitoring and evaluating the strategy on a regular basis and communicating strategic information throughout the organization. Most importantly, they are committed to a mindset that sees strategic advantage as temporary.

In Chapter 2, we defined organizational capabilities as the unique and differentiated skills and abilities that give an organization a competitive advantage. In agile organizations, strategy is driven by regularly adapting these to the new needs of the environment through dynamic capabilities. "A dynamic capability is the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base" (Barreto, 2010, p. 271). Agile organizations recognize the need to add new capabilities, combine some, or jettison others. Developing dynamic capabilities in marketing, innovation, product development, supply chain management, and other organizational routines allows rapid environmental adaptation.

Zara and Transient Advantages

> Agile Principle 1: Agile organizations exploit transient advantages.

Recall that in Chapter 3 we reviewed the seminal work of Michael Porter and the example of Southwest Airlines. You will recall that Porter (1996) used Southwest to illustrate the idea that a strategy consists of a number of interlocking activities, all supporting the same strategy of low cost, differentiation, or focus. When those activities support and reinforce one another, a strategy is difficult to copy, and it results in what Porter defined as a strategy—a sustainable competitive advantage.

Yet as we have seen, based on the rapid changes in business models, globalization, and technology, the length of a "sustainable" advantage is questionable. McGrath (2013b) argues that "sustainable competitive advantage is now the exception, not the rule. Transient advantage is the new normal" (p. 64). If strategy is no longer defined as a sustainable competitive advantage but instead as a series of temporary advantages that are quickly exploited, then another model of strategy might be appropriate. Fashion company Zara provides one such example.

Zara is an apparel company based in Spain and one of a number of companies that are now referred to as being in the business of "fast fashion," including H&M, Uniqlo, and Forever21. With revenues of more than €15 billion, Zara is the dominant brand within a €23 billion conglomerate known as Inditex. While Zara has been expanding, opening stores in new markets and witnessing rising profits, competitors have suffered (Egan, 2015). One major Zara competitor, Gap, Inc., announced in 2015 that it would close 675 retail stores over the next several years (Tabuchi & Stout, 2015).

Zara has more than 2,000 stores worldwide in dozens of countries, each receiving shipments twice a week. Zara owns its own factories, allowing it to be responsive to customer demands. Certainly Zara's vertically integrated supply chain provides a major strategic advantage and has been the focus of a number of articles (for example, see Ferdows, Lewis, & Machuca, 2004). But we can also view Zara through the lens of agility to understand how Zara's strategy is based on rapid change and adaptability as its advantage.

There are several ways that Zara acts with much more agility than its competitors. Zara produces 11,000 items each year compared with the 2,000 to 4,000 that competitors are able to produce. A design can be created from a sketch to a physical sample in a matter of hours, which takes weeks for competitors. New orders can be produced and stocked in stores within 4 to 5 weeks, or in as little as 2 weeks for common items, a process that might take 6 to 9 months for Zara's competitors. What is more remarkable is that up to 85 percent of Zara's stocking decisions are made within the current season, reacting immediately to customer trends. By comparison, competitors must make design and purchasing decisions up to a year in advance (Ghemawat & Nueno, 2006). Limited supplies of each item and merciless removal of items that are not selling well means that the stores are always stocked with the latest fashions. Items that sell well can be restocked, and when items do not sell, store managers ask customers for input, returning the items to the factory with feedback about what customers would prefer. Returned items can even be redyed or altered and returned to store shelves.

Zara provides a more appropriate example of strategy today because the company is able to exploit transient advantages, reacting to the latest fashion trends immediately. They are not stuck with risky fashion design decisions for a long period of time, as their competitors are, perhaps missing the window to profit from a fast-moving trend. They can monitor competitive moves and fads on social media, and make quick decisions about how fads affect shifting customer preferences. Systems and processes are designed for agility and to maximize communication from the store level and local customer input to designers at headquarters. For Zara, change is the advantage.

McGrath (2013b) dissects the five waves of a transient advantage, or a common life cycle that occurs for any product or service.

1. First, the product or service goes through a *launch* process to initiate the idea or innovation. The company dedicates resources to bringing the idea to life, trying different versions or formulations until the idea is ready to be brought to customers.

2. The second phase, *ramp-up*, describes the process of bringing the innovation to scale and making it available widely beyond initial trials or pilots.

3. In the third phase, the organization enters an *exploitation* phase to gain market share and profitability as the innovation succeeds. The goal is to assume a leadership position and earn the financial rewards for having gained an advantage over competitors. The hope for most companies is that this phase lasts for as long as possible so the advantage can be as financially rewarding as possible.

4. Eventually the advantage erodes when competitors catch up or customers move on. This prompts a necessary fourth phase of *reconfiguration*, perhaps prompting a new business model.

5. Finally, the fifth phase of *disengagement* results in the difficult decision to discontinue, exit, and dispose of the assets. Here is where resources dedicated to the advantage are reassigned, ideally to a next innovation or idea.

The point is that today's advantages, fleeting and transient, move through this process with a faster cycle time. As the exploitation phase shortens, leaders must recognize when it is time to make the difficult choices to reconfigure before the financial results decline to an unhealthy point. "To stay ahead, they need to constantly start new strategic initiatives, building and exploiting many transient competitive advantages at once" (McGrath, 2013b, p. 64). Thus, at any point in time, agile companies have many transient advantages throughout this pipeline, launching some new ideas while others are discontinued.

Typical companies pay too much attention to the exploitation phase, hanging on to a declining product for too long. As Worley et al. (2014) explain, "[T]he cruel joke is that in attempting to preserve their source of advantage, organizations can overcommit to institutionalization, making them more inert and vulnerable to environmental shifts" (p. 29). Agile organizations acknowledge the important decisions that must be made in each phase of the life cycle of a competitive advantage. They know that recognizing the signs of when to engage in reconfiguration and disengagement is an important competency to remaining agile. According to one study, only 22 percent of leaders indicate that their organizations exit declining businesses effectively. The study's authors concluded that "top executives devote a disproportionate amount of time and attention to businesses with limited upside and send in talented managers who often burn themselves out trying to save businesses that should have been shut down or sold years earlier" (Sull, Homkes, & Sull, 2015, p. 62).

Rapid Prototyping and Experimentation

> Agile Principle 2: Agile organizations engage in rapid prototyping and embrace a "fail fast" mentality.

Zara's small batches of new designs also provide an example of a second characteristic of strategy in agile organizations—prototyping and experimentation. By producing some designs to see if they will be popular with customers and then restocking fast selling products, Zara can test the waters with customers without a large and risky financial consequence. Similarly, agile organizations are not afraid to introduce a trial product to see what might happen. Coughlan and Prokopoff (2004) of the design firm IDEO write that rapid prototyping can give a rough approximation of a product or service so that a potential customer can experience it and offer helpful feedback. Multiple prototypes offer a lower-risk method for pursuing options and learning what aspects of the prototype are successful and which are not.

As McGrath (2013a) describes, these organizations

> share an options-oriented pattern to exploring new opportunities. The essence of this approach is that they make small initial investments to explore opportunities, following up later with more substantial investments as the opportunity warrants. They are also willing to abandon a particular initiative if it doesn't appear to be developing effectively. (p. 47)

Companies that are the "growth outliers" for their industries are willing to place small investments in new markets, technologies, or acquisitions. They diversify their initial bets and then follow up on those that turn out to be promising (McGrath, 2012). Yet in many organizations, an unsuccessful product introduction often results in people losing their jobs and being marked with the shame of failure. Such responses make others risk averse which can squelch innovation.

Agile organizations develop cultures that support appropriate (but not reckless) risk taking. This can be achieved by encouraging "intelligent failures" and an "experimental orientation" (McGrath, 2013a, p. 102). Agile organizations have a "testing routine" that maintains a disciplined approach to project management, budgeting, and ongoing operational reviews to set goals for the test (for example, a small-scale pilot introduction of a new product line in one geography) and evaluate the results. Everyone involved in the experiment knows that "failure is accepted as a legitimate test outcome and a vehicle for learning" (Worley et al., 2014, p. 87). When failure occurs, learning can be used to inform future trials, improving the likelihood of success next time.

Research and development-oriented companies such as pharmaceuticals know that trials, tests, and failure are a part of their business, as do many organizations. But for agile organizations, the ability to experiment rapidly and frequently does not only refer to products and services but also concerns the organization's business models and processes. IKEA, for example, having realized that local real estate prices went up every time they opened a store, began investing in local real estate as well, now earning more profit in some geographies from real estate than the retail store (Reeves & Deimler, 2011).

AGILE STRUCTURE

> Agile Principle 3: Agile organizations rethink traditional organizational structures.

Typical organizational structures—hierarchies—are, in some respects, the very antithesis of agility. They tend to exist as stabilizing opportunities, centralizing power and authority, and specifying the scope of responsibilities of departments, teams, and individuals. We observed some of the dangers of too much structure in Chapter 5, noting that too much hierarchy inhibits information sharing and slows down decision making. Kotter (2014) puts it bluntly: "Hierarchies with great management processes and good leaders on top are not built for leaping into a creative future. . . . Management-driven hierarchies are built to minimize risk and keep people in their boxes and silos" (p. 15). Indeed, in

today's organizations, "action on the front lines is moving so fast that there simply isn't time to get enough rich information back and forth to senior-level decision makers before the opportunity vanishes" (McGrath, 2013a, p. 148). Our solution to the challenge of vertical structure in Chapter 5 was to create linking opportunities that included networks, shared goals, teams, and more to allow collaboration to occur across the hierarchy.

In agile organizations such dualities between structure and lateral capability are blurred. At the extreme, it might be said that the two points become one. Agile organizations create fluid structures, teams, and decision rights practices that allow for flexibility in strategy execution. Leading adaptive businesses use their organization designs to their advantage and learn how to become "shape shifters" (McGrath, 2013a, p. 27), reconfiguring and morphing themselves as the opportunities require. They avoid a painful and expensive annual restructuring because their structures exist "with permeable boundaries between functions, units and departments that allow for cooperation patterns and strategic collaboration to get established" (Holbeche, 2015, p. 62). Whereas in the past the structure point of the star may have been the foreground, and lateral capability helped to enable the structure, in agile organizations the structure seems to fade into the background, and opportunities for collaboration across the organization become foregrounded.

Two versions of a more agile structure are Kotter's "dual operating system" model and holacracy.

Structure and the "Dual Operating System"

Kotter (2012, 2014) argues that most start-up organizations act like networks. Small, agile, interconnected teams are often driven by the vision of a single entrepreneur. With a smaller organization, a flat hierarchy, and everyone-knows-everyone network, decision making can be nimble. As we saw in Chapter 8 when examining organizational culture, eventually as many organizations evolve, so do the rules and bureaucracies that control the work. The hierarchy that helps to organize and control resources begins to act in opposition to agility by creating reliable and efficient processes and minimizing risk taking. The old agile network dissipates in favor of formalized reporting relationships and hierarchical communication. Kotter (2012) is clear to remind us that hierarchy has its place, and that we have learned how to master hierarchical organizations and their predictable operations such as budgeting, staffing, and monitoring results and efficiency.

Agile organizations have learned how to add a second "operating system," a network model, to enhance the hierarchical organization. In this model, the hierarchy maintains its familiar objectives, "making incremental changes to further improve efficiency, and handling the small initiatives that help a company deal with predictable adjustments such as routine IT upgrades" (Kotter, 2012, p. 50). Alongside the hierarchy is a strategy network, operating in a dynamic way where initiatives form and dissolve as required. It is made up of members throughout the organization without hierarchy or siloes to inhibit communication. Kotter (2014, pp. 23–25) writes that this new operating system has five core principles:

1. **Many people driving important change, and from everywhere, not just the usual few appointees**: Kotter notes that 5 percent to 10 percent of the organization will participate in this "Accelerator network" made up of all levels in the organization.

2. **A "get-to" mindset, not a "have-to" one**: A "volunteer army" forms the network, and while members must have the sponsorship of senior management, they are not a separate group hired specifically and paid solely for their network participation.

3. **Action that is head and heart driven, not just head driven**: The purpose of the network must be compelling and appeal to the emotional interest of participants who want to make a difference.

4. **Much more leadership, not just more management**: "The game is about vision, opportunity, agility, inspired action, passion, innovation, and celebration—not just project management, budget reviews, reporting relationships, compensation, and accountability to a plan" (Kotter, 2014, p. 25).

5. **An inseparable partnership between the hierarchy and the network, not just an enhanced network**: The two systems work together. Every member of the network has a job in the hierarchy, but the network does not function as a layer or department in the hierarchy.

When the network feels a "sense of urgency around a Big opportunity" (p. 27), members of the network work together to share information and voluntarily address it. If someone in the network learns that customers are complaining about a bureaucratic runaround, he or she will put out a call for volunteers to understand the complaint and its causes and put a solution in place, using contacts and practices already well established in the hierarchy (such as budgeting or IT systems). The volunteer army, eager, agile, and not committed to the status quo or sacred cows, also knows how to get work done through the established channels.

Holacracy

By contrast to Kotter's dual operating systems, a second model advocates getting rid of the hierarchy altogether. The Internet retailer Zappos.com made headlines in recent years when CEO Tony Hsieh announced that the company was "banning the boss." A *New York Times* article on the company described it this way: "At Zappos, this means traditional corporate hierarchy is gone. Managers no longer exist. The company's 1,500 employees define their own jobs. Anyone can set the agenda for a meeting" (Gelles, 2015, p. BU1). Companies such as W. L. Gore and Associates and Morning Star are also known for having implemented a holacracy organizational model.

Holacracy relies on process rather than hierarchical power for a group to make decisions and organize its work (Robertson, 2015). Traditional hierarchies with a single leader rely on that leader to empower others, granting the ability of individuals to make decisions, usually within a well-prescribed set of boundaries. As an alternative design, holacracy grants individuals that freedom at the outset. Governance processes substitute shared decision making for the authority formerly granted to the highest-level leader or executive team. Instead of generic and outdated job descriptions used in many organizations, in a holacracy, each person and role has a purpose, a set of tasks or activities for which they are held accountable, and decision authority. If the job description in a holacracy seems

to conflict with the responsibilities of another person, either person could raise it to a governance discussion to clarify the roles. In this way, jobs are not fixed at all but continually evolving as the members experience them, as members grow their capabilities or change their interests, and as the organization's needs change. Accountability in a holacracy is not fixed to the hierarchy, so that people are accountable to their managers, but instead every employee is accountable to the expectations of many different colleagues. The holacracy governance process helps to clarify what those expectations are for every person.

Robertson (2015) explains that holacracy contains four practices:

- A constitution, which sets out the "rules of the game" and redistributes authority (an example is available at holacracy.org/constitution)

- A new way to structure an organization and define people's roles and spheres of authority within it

- A unique decision-making process for updating those roles and authorities

- A meeting process for keeping teams in sync and getting work done together (p. 12)

Instead of a traditional pyramid hierarchy, holacracies consist of circles of responsibility. There may be a marketing circle comprising people who work in advertising, social media, and corporate events, and any of those might be characterized as subcircles if there are multiple people working on those areas. Circles are connected to one another through liaison roles called lead links, integrating the work of the marketing circle with that of the sales circle or product development circle, for example. Rep links connect subcircles to the larger circle. Each of the link roles has the responsibility of maintaining the purpose of the circle and raising tensions between that circle's work and the work of others. Governance meetings provide the forum to discuss and resolve the tensions.

Robertson (2015) likens the governance practices of holacracy to the rules of a sport. Most sports proceed without discussion of the rules, known to all participants, until the rules are broken. When that happens, coaches, referees, and players all call attention to the broken rule and disciplinary actions are taken—penalty minutes, yards, points. Like learning the rules of a new sport, learning the practices of holacracy seem foreign at first but eventually become natural after enough practice. Van Vugt (2017) points out that the self-organizing teams in a holacracy have their roots in evolutionary psychology and the tribal behavior of ancestral human societies.

Video game company Valve provides another example of a company that has moved successfully to holacracy. In a detailed account of how Valve employees work in a non-hierarchical organizational model, Puranam and Håkonsson (2015) write,

There are no job titles, no job descriptions, and no employees called "bosses" in Valve. Instead, employees are encouraged to work on "what interests them and what brings value to Valve." Employees are free to choose how to use their time and talents. Every employee can initiate projects and choose which projects to work on. . . . Projects perceived as

risky may not be able to attract talent and thus may not be adequately staffed. . . . Employees are empowered to the extent that they can "ship" their own projects (provided two or more other employees agree). . . . It is up to the individual employees to talk to others in the company to find out what is happening. To coordinate with each other, employees simply move their wheeled workstations to be physically proximate to team members. (pp. 2–3)

Some have observed that these nonhierarchical models work more effectively in smaller organizations that already have a propensity to a network form of organizing (Birkinshaw, 2015). Others point out that some organizational activities (such as software development work at Valve) are more conducive to self-managed designs (Von Krogh & Geilinger, 2015). Even in the global banking company ING, however, a move to a less hierarchical organization that uses tribes, squads, and chapters instead of traditional hierarchy to organize work has been successful in introducing more agility (Barton, Carey, & Charan, 2018; see https://www.mckinsey.com/industries/financial-services/our-insights/ings-agile-transformation).

It is a myth about holacracy that it has no organizational structure or hierarchy, but the structure of a holacratic organization simply looks different from a traditional pyramid (Bernstein, Bunch, Canner, & Lee, 2016). There remain defined job roles (although they change and evolve), teams that have responsibilities and that organize the work, and results to be accomplished and expected performance measures. The process is open and often more democratic than in a traditional management hierarchy, and the team has the ability to define, redefine, assign, and reassign work as it sees fit. Holacracy assumes that the team, closer to the work, will know best how to organize itself. The structure of the team's processes substitutes for the more familiar functional or geographic structures that we reviewed in Chapter 4.

Whether holacracy is a passing fad or a lasting trend remains to be seen. GitHub, a California-based software company founded in 2007, operated without a traditional hierarchy. It allowed employees to adopt their own job titles, initiate and join projects as they saw fit, and encouraged self-management on the part of individuals and teams. By 2014, with the introduction of a new CEO, the company introduced more processes and procedures to coordinate employees. A hierarchy with formal titles was instituted and projects began to be assigned through a formal process. Studies of "boss-less" organizations and their evolution continue to contribute to our knowledge about whether (or under what circumstances) holacratic forms are successful (Burton et al., 2017).

Critics of holacracy point out that it requires a lot of communication and coordination. Since employees can participate on multiple circles and each circle holds a circle meeting, governance meetings, and other tactical meetings, employees complain that they spend an excessive amount of time in meetings (Gelles, 2015). Some doubt whether the holacracy approach is conducive to organizational strategies that require an overarching global perspective when small local teams may not see the bigger picture (Bernstein et al., 2016). Finally, holacracy offers challenges to talent practices such as hiring and compensation; when roles evolve frequently it can be difficult to manage skill requirements, assignments to new teams, and rewards for accomplishments.

AGILE PROCESSES AND LATERAL CAPABILITY

As we have seen, agile organizations seek to dissolve the strong divisions between hierarchical divisions and foster connections across groups. These practices play out in several ways that agile organizations seek to enhance lateral capability: through agile teams, global collaborative designs, and external networks and partnerships.

Agile Teams

> Agile Principle 4: Agile organizations form and re-form teams as needed to capitalize on opportunities quickly.

McGrath (2012) observes that in many organizations, strategic opportunities are wedged into the existing structure, sometimes inappropriately. Resources (budgets and people) are allocated to different business departments that have a parochial interest in using resources for their own benefit rather than the overarching benefit of the strategy. Rather than push strategic opportunities on an existing (perhaps unwilling) structure, agile organizations "configure the organization to the opportunity, not the other way around" (p. 88). Sometimes this means reconfiguring the organization (rather than pursuing a large restructuring) by combining or splitting organizational units. Another way agile organizations do this is through agile teams, or "disposable" organizational forms that allow members to quickly come together, address a problem or opportunity, and then disband when the work is done (McGrath, 2013a).

Visa's marketing organization moved from a functional structure to a project-based team approach, collaborating with product development and operations for new marketing programs as they arise. The team might include a variety of skills such as social media and online marketing, digital content, marketing operations, and marketing data analytics, allowing team members to quickly move on to other relevant projects with speed (Kane, Palmer, Phillips, Kiron, & Buckley, 2016).

These agile teams are unlike the stereotypical model of a sports or military team, executing a well-practiced set of plays (P. Meyer, 2015). Instead, agile teams should be thought of more like ad hoc, improvisational comedy troupes or jazz bands (Barrett, 2012). Less structured environments like these often exhibit some of the principles explained earlier, such as experimentation, prototyping, and self-management. In addition, an underlying set of values and shared beliefs about the nature of the team seems to characterize these improv teams. They are "often thrown together at a moment's notice without time for lengthy introductions. There is no chance to find out where everyone went to school, to swap resumes, or to discover each person's particular talent or behavioral style" (P. Meyer, 2015, p. 70). Meyer identifies four characteristics of improv teams that also apply to agile business teams (pp. 71–74):

1. **Identify your givens.** "At each opportunity, check that your team is working with the same understanding of the givens." The team must identify the who, what, and where of the team (who is participating, what the team needs to accomplish, what is the setting or context for the

work). Agile teams are defined by the ability to rapidly start up, assess the situation, and decide who will do what.

2. **Agree to agree**. "Once you have identified your givens, agree to them to speed your response and innovation rate." Teams can accelerate their work when they agree to build on the contributions of team members and accept one another as teammates, forming a powerful foundation of trust at the outset. Like successful improv teams that learn how to say "Yes, and" in order to support teammates, agile teams must also accept that speed comes from building, not tearing down, another teammate.

3. **Practice gift giving**. "Be intentional in the gifts you give as a team member, and recognize and reward those gifts that are particularly valuable to the collaboration." Agile teams respect and benefit from the unique contributions of team members.

4. **Find the game**. "Practice finding the game in your agile team by identifying and amplifying patterns of interaction as you play." Like children inventing a game on the fly, agile teams live "in the dynamic present," interpreting and making sense of new information as it comes in. They are not bound to what happened previously.

Certainly the characteristics of effective teams we discussed in Chapter 5 are applicable to agile teams as well. Yet a rapidly changing environment and the need for a rapid team response makes team formation and high performance even more challenging for today's teams. Team members must become comfortable with rapidly shifting roles, members that leave or join on a regular basis, and a constant flow of new information that alters the scope and progress of the team.

Unfortunately, the agile movement of resources and ability to engage in the rapid trust building required in cross-functional agile teams is not a skill common to most organizations. In a study of almost 8,000 managers, Sull, Homkes, and Sull (2015) found that only 20 percent of leaders reported that their organizations were skilled at assigning people in agile ways to strategic opportunities. While 84 percent of respondents reported that they could trust their manager or direct reports, only 59 percent felt that they could trust colleagues in other departments (only slightly more than those who felt they could trust external partners).

Global Collaboration

> Agile Principle 5: Agile organizations employ designs that enable rapid global collaboration.

In Chapter 4, we learned that one design choice about organizational structure is whether to centralize or decentralize certain activities. We learned that decentralization and specialization often require lateral capability to reintegrate what had been divided. When the marketing department is decentralized to manage advertisements at a local level, there will need to be some cross-geography team or matrix organization established to ensure that the company's brand messages remain consistent with a common message. We learned that the lateral capability can take various forms, from the establishment of networks to teams to a matrix.

Kesler and Kates (2016) argue that the foundational principle of centralization or decentralization does not need to be an either-or dichotomy. They point out that most centralization or decentralization decisions confuse the need for coordination with the act of control and decision-making ownership. Leaders often mistakenly centralize decisions for control, when coordination is the real objective. For example, when a centralized group at headquarters controls all activity and decisions in a geography (in a "hub and spoke" model), the organization is burdened with slow decision making. Headquarters may not be aware of local nuances or complexity, and thus makes decisions that are disconnected from the reality in the local area. As a result, "one-size-fits-none" (Kesler & Kates, 2016, p. 71). But if every region makes its own decisions with no overarching coordination, the result is a chaotic jumble of disconnected activity. Ultimately both local responsiveness and speed are needed in addition to umbrella global principles like brand messages, large investments requiring economies of scale, and strategy. Coordination is required to integrate divisions, but centralized control is not necessarily the goal.

Global collaboration can be more agile with a "center-led" model, where a centralized group may oversee consistent principles but with local implementation within a set of boundary conditions. As Kesler and Kates (2016) write,

> The goal should be to gain high degrees of integration without high degrees of control for work that must deliver both scale and speed. Some work and decisions—risk management, brand standards, big investments—should be centralized at the corporate level. Other work and decisions are so local, such as translations and local promotions, that no value can be added from people outside a given market and are best left fully decentralized. (p. 55)

To gain the benefits of both centralization and decentralization, agile organizations develop a center that has a unique set of value-added responsibilities but ensure that those responsibilities do not interrupt local agility and responsiveness. The central group takes the responsibility of developing global strategy and direction. They develop guardrails or boundaries within which the local groups can customize to local requirements. They maintain a close contact with regions, connecting different regions that may not have shared their own best practices and innovations with one another. Local regions are free to experiment and adapt as needed, but within reason, with a responsibility to share their learnings with other regions.

The center-led function has four responsibilities: listen and connect, build infrastructure, align and empower, and model collaborative leadership (Kesler & Kates, 2016, p. 69). The result is a global collaboration that avoids the extremes of centralization and decentralization and finds a middle ground where the benefits of both can be achieved.
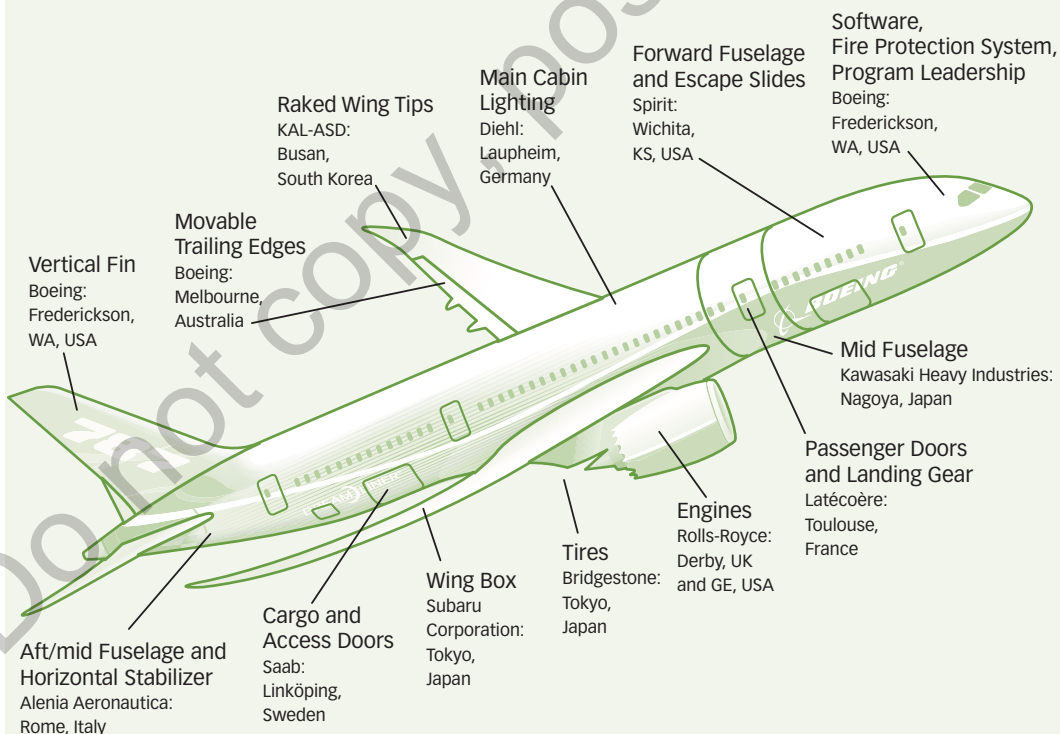
Partnerships and Collaborative Networks

Another way that agile organizations enable global collaboration is that they do not see organizational divisions as the boundaries for collaboration. Instead, they consider external partnerships as an integral part of the organization's network of capabilities. A key to the reconfigurable organization, writes Galbraith (1997), is the capability to engage in "external networking with partners to expand capabilities that can be combined to create new advantages" (p. 97). Similarly, Reeves and Deimler

(2011) argue that one capability that fosters rapid adaptation and agility is "the ability to manage complex and interconnected systems of multiple stakeholders" (p. 137). In this respect, an industry can be more appropriately thought of as "competing webs or ecosystems of codependent companies than as a handful of competitors producing similar goods and services" (Reeves & Deimler, 2011, p. 139).

In Chapter 4, we reviewed the network structure, an organization structure with a fluid mix of external organizations that enhance the components of a company's existing value chain. The use of external networks has several advantages for an organization: (1) They can enable the external provider to focus its attention on doing a narrow set of tasks extremely well (such as manufacturing or shipping); (2) the external provider can often serve multiple clients, thus reducing their costs and the cost for any given client; and (3) the provider can often react more quickly to market changes and demands than could a company (Huber, 2016). Nike is a good example of a company that recognized that its expertise lay more in design than manufacturing, and outsourced much of this work to external providers.

The Boeing 787 Dreamliner aircraft provides another example of how a collaborative network can work together to design a major innovation. With more than 50 members of the network in 130 countries, the network was organized by Boeing with each partner designing a major aspect of the plane (displayed in Figure 9.2), from the engines designed by Rolls-Royce in the United Kingdom

Figure 9.2 The Boeing 787 Dreamliner Organizational Network

Software, Fire Protection System, Program Leadership
Boeing: Frederickson, WA, USA

Forward Fuselage and Escape Slides
Spirit: Wichita, KS, USA

Main Cabin Lighting
Diehl: Laupheim, Germany

Raked Wing Tips
KAL-ASD: Busan, South Korea

Movable Trailing Edges
Boeing: Melbourne, Australia

Vertical Fin
Boeing: Frederickson, WA, USA

Mid Fuselage
Kawasaki Heavy Industries: Nagoya, Japan

Passenger Doors and Landing Gear
Latécoère: Toulouse, France

Engines
Rolls-Royce: Derby, UK and GE, USA

Tires
Bridgestone: Tokyo, Japan

Wing Box
Subaru Corporation: Tokyo, Japan

Cargo and Access Doors
Saab: Linköping, Sweden

Aft/mid Fuselage and Horizontal Stabilizer
Alenia Aeronautica: Rome, Italy

Source: Chambliss, William J., Eglitis, Daina, S. (2015). *Discover sociology, 2nd ed*. Thousand Oaks, CA: SAGE, p. 399.

and GE in the United States to the cargo doors designed by Saab in Sweden. Instead of Boeing designing and manufacturing everything, the network had significant ownership of the designs for their own parts, speeding time to market and reducing manufacturing assembly time. This shifted Boeing's role to an integrator of the work of others (Shuman & Twombly, 2010).

These partnerships have various names or configurations: alliances, outsourcing, offshoring, "hollow," "modular," and "virtual" organizations (Anand & Daft, 2007). Such networks require a choreographer who has the responsibility of bringing the network members together. Whether they are suppliers, distributors, outsourced providers, or joint ventures, the ability to rapidly adapt requires a coordination and communication capability. Companies that lack this capability often make several mistakes with their networks: They fail to consider the partnership in a strategic sense and only seek cost reductions, they keep partners at arm's length and treat them like all other vendors, and they fail to organize in a trusting and collaborative relationship and understand how the partnership requires different skills of their existing staff (Shuman & Twombly, 2010).

AGILE PEOPLE

As we have seen, more and more companies are sourcing talent through the *gig economy*, a term to describe contingent workers often linked to the company through a technology platform that enables the connection (such as Uber and Lyft). These and similar agile organizations "travel light" with the ability to "acquire and discard talent as needed" (Worley et al., 2014, p. 100). They may have irregular talent needs and require workers for only a short period of time. Some estimate that as much as 20 percent to 30 percent of the U.S. workforce is engaged in the gig economy or works outside a typical full time permanent job (Younger & Smallwood, 2016).

Agile people practices are not limited to contingent workers, however. Recall that in Chapter 6, we hinted at ways that more agile companies rethink traditional talent management, redefining careers as a multidimensional career lattice rather than a single vertical path. There we also discussed a "tour of duty" model of careers, with adaptable job assignments that allow employees to learn and employers to benefit from an employees' diverse background and contributions as they move from role to role, inside and outside the company. Indeed, McGrath (2013a) writes that agile organizations demonstrate "fluidity in allocation of talent" (p. 28), building a capability to "reallocate resources flexibly and on an ongoing basis, rather than going through sudden divestitures or restructurings" (p. 41).

To achieve this fluidity in talent, two key characteristics of an agile people design are learning agility and leadership agility.

Learning Agility

> Agile Principle 6: Agile organizations pursue learning agility.

Rapid movement of talent requires an agile approach to employee development. "To build a multiskilled workforce, instead of hiring new people with a narrow skill set to meet a temporary need, leading companies strengthen their

existing employees with additional skills" (Holbeche, 2015, p. 63). This is only true, however, when the development can occur at a rapid enough pace to keep up with the shifting skill needs and changing strategy. "In a world of transient advantage, it isn't always possible to know what kind of people you are going to need, so being able to reconfigure the people that you have can be very helpful" (McGrath, 2013a, p. 151). The central competency required to achieve this is the ability for employees to quickly learn new skills and adapt to a changing direction, or learning agility. Like Netflix that reinvented itself with new capabilities, individuals need to be able to rapidly acquire needed skills and reinvent themselves for the demands of the shifting strategy.

Learning agility has four components:

People Agility—describes people who know themselves well, learn from experience, treat others constructively, and are cool and resilient under the pressures of change.

Results Agility—describes people who get results under tough conditions, inspire others to perform beyond normal, and exhibit the sort of presence that builds confidence in others.

Mental Agility—describes people who think through problems from a fresh point of view and are comfortable with complexity, ambiguity, and explaining their thinking to others.

Change Agility—describes people who are curious, have a passion for ideas, like to experiment with test cases, and engage in skill-building activities. (Lombardo & Eichinger, 2000, p. 324)

While researchers debate the exact items that form learning agility (see DeRue, Ashford, & Meyers, 2012), there is agreement that the ability to learn from experience and to rapidly adapt may be more important than any specific skill an employee could possess. Hiring learning agile employees means looking for more than today's skills; it means looking for the characteristics that could make a candidate successful as the organization's skill needs change. Hiring managers and recruiters can ask themselves these questions about a job candidate:

- What characteristics does a promising employee bring to the challenge?

- How do they manage an unfamiliar situation? Do they get excited by matching their attributes against the demands of a task?

- What is the individual's likely career path—the type of positions and highest level in the organization that they can attain? (Holbeche, 2015, p. 174).

Agile organizations are highly reflective about both their successes and failures. In an environment of rapid prototyping and experimentation, agile organizations must capture this learning and communicate it throughout the organization. Technology can enable a UPS driver to receive instant updates on a mobile device, and supervisors conduct 3-minute morning briefings with news, tips, and reminders. Regular reflection as a standard practice (versus period or ad hoc reflection) allows organizations to sustain learnings and remain agile. Moore

(2015) advises organizations to set up an "incubation zone, . . . a domain where learning is the prime objective and fast failure is actually a form of success" (p. 91). To encourage reflection on both successes and failures, leaders and teams should be habitually returning to these three questions:

- What is happening (or has happened)?

- What new information or guidance can we draw from our experience?

- How can we incorporate this new information or guidance into our attitudes, beliefs, and actions going forward? (Meyer, 2015, p. 47)

To summarize, improving performance in an agile organization means more than mastering a new skill or knowledge. "Learning and development for agility requires whole-person engagement to prepare the learner to be effective in unpredictable, ambiguous, unfamiliar, and often changing contexts" (P. Meyer, 2015, p. 131). Typical behavioral learning practices (such as training programs) provide knowledge and look for evidence of it (passing a test, being able to perform a predefined task). In agile organizations, the shifting context and surprising conditions mean that employees must perform tasks in unfamiliar circumstances that were not part of the training curriculum. They will have to adapt previous knowledge to new circumstances, evaluating the situation, and making real-time decisions about what to do. They must learn on the job, through experience or in unexpected ways that do not look like the typical training courses. Performance feedback cannot wait for an annual discussion; immediate feedback to acknowledge successes and evaluate improvement opportunities is critical for agile learning.

Leadership Agility

> Agile Principle 7: Agile organizations consider agility to be a leadership competency.

Perhaps unsurprisingly, in an environment of less hierarchy, more cross-functional teaming and an emphasis on coordination, not only do employee roles change in agile organizations, but so does the definition of leadership. "It is unrealistic to expect that top leaders will have all the answers, especially in knowledge-based organizations, and old-style hierarchical approaches are of limited use" (Holbeche, 2015, p. 247). In their study of leadership agility, Joiner and Josephs (2007) write that 90 percent of leaders follow a traditional "heroic" leadership mindset, maintaining power, control, and authority. They alone set strategic direction, assign and coordinate activities of subordinate staff, and measure and monitor performance. By contrast, only 10 percent of leaders can be called "post-heroic" leaders. Post-heroic leaders

- develop a vision that inspires and aligns the team;

- promote a highly participative and empowering team work environment;

- seek out and learn from a broad range of diverse viewpoints;

- express empathy;

- develop collaboration on their teams;

- seek feedback; and

- can adapt their leadership style, recognizing when it is important to take charge or take a supporting role.

Leadership in an agile organization is much more likely to be distributed and collective than concentrated in a single person at the top of the pyramid. Agile leaders tend to see leadership as a process of engaging employees in a participative conversation rather than the responsibility to exercise power. They tend to view organization as a process or verb rather than a noun, with the leader's responsibility being to connect and engage employees as the organization changes and evolves. Agile leaders "encourage naysayers, positive deviants, and rabble-rousers to challenge the status quo" (Worley et al., 2014, p. 66). They inspire openness and even dissent, so that healthy debates result in the best solution.

One model of leadership agility skills uses the word AGILE to identify the important characteristics of agile leadership (Horney et al., 2010):

- **Anticipate Change**. Agile leaders develop mechanisms for sensing the environment. They monitor the organization's performance and future trends to predict when changes might be needed, and align the vision and value proposition of the organization.

- **Generate Confidence**. Agile leaders ensure that employees understand how the work they do every day results in an outcome for a stakeholder or customer. They align the organization's objectives, goals, and priorities with the vision and values. They encourage employees to learn something new to build confidence in transferring knowledge to new and unfamiliar circumstances.

- **Initiate Action**. Agile leaders hold a predisposition for action. They develop a culture of urgency and achievement. Agile leaders model collaborative decision making, empowering employees to make decisions themselves rather than wait for permission and miss an opportunity. They connect people and teams across the organization with an action-oriented mindset.

- **Liberate Thinking**. Agile leaders value diversity, are inclusive, and value input from every contributor. They focus relentlessly on customers and how the organization can best serve them. Agile leaders encourage and expect that everyone will contribute to innovations and suggestions for improvement.

- **Evaluate Results**. Agile leaders maintain high standards for performance with measurable outcomes. They ensure that employees understand priorities and are given real-time feedback with consistent metrics.

To these characteristics Joiner and Josephs (2007) add four complementary competencies of agile leaders:

- *Context-setting agility* refers to the ability of a leader to have situational awareness, seeing the big picture. Agile leaders develop a long-term sense of purpose that transcends any individual project or meeting.

- *Stakeholder agility* refers to the leader's ability to connect with stakeholders to see an issue from another person's perspective. They engage others in dialogue even when the leader's perspective is in conflict, with the belief that respectful engagement among people with different beliefs will result in a better outcome.

- *Creative agility* involves developing novel solutions to complex problems that the leader may not have seen before. Conventional wisdom and past solutions inform but do not inhibit current approaches.

- *Self-leadership agility* involves self-awareness and the pursuit of personal and professional development. Agile leaders seek feedback about their own strengths and weaknesses, are conscious about their leadership identity, and experiment with behavior change with a growth mindset.

Four practices encourage a culture of agile leadership: individual and team coaching, creating an agile executive leadership team, enhancing the organization's competency models with agility characteristics, and creating action learning programs (Joiner, 2009). Developing leadership agility involves more than another leadership training course, but instead centers the leader on building a capacity for reflection (Joiner & Josephs, 2007). Leaders should reflect on the situation and assess it before taking action. They should clarify their intent and the outcomes they are trying to reach, building self-awareness about any assumptions or feelings that might be preventing them from taking a different course. Such a shift to inquiry, instead of jumping into reactive behavior, encourages leaders to become more conscious of the choices they are making and their underlying rationale. These capabilities are effectively built through 360-degree feedback programs and leadership coaching that enhance workshops and simulations where leaders can experiment with new behaviors and reflect on their own effectiveness.

AGILE REWARDS

> Agile Principle 8: Agile organizations create flexible rewards practices.

We know from our discussion of rewards in Chapter 7 that organizations that use annual raises based on seniority tend to be less adaptable to change. Tenure and seniority pay does not reward success but endurance, which rewards complacency rather than adaptability. We emphasized how the design of the rewards system should be based on the strategy, such as entry into new markets, development of new products, or efficiencies and cost management. In a rapidly changing environment, with its transient advantages, sticking to well-established rewards systems can be a hindrance to agility. Typical organizations are loath to change rewards systems, but "there is no substitute for changing a reward system if it is not contributing to dynamic alignment. . . . Failure to revise the reward system will create a failure to change" (Lawler & Worley, 2006a, pp. 252–253).

In agile organizations, jobs and their associated performance metrics may change frequently. Consequently, the use of bonus systems, such as those given at the end of a performance cycle or completion of a successful project, can flexibly tailor the reward to changing circumstances. A bonus can be allocated to individuals or members of a project team after completion of a customer project that is on time and on budget. When work tasks change frequently, person-based (versus job-based) pay systems can reward people for achievement of tasks and learning new skills. "This reinforces a culture that values growth and personal development; the result is a highly talented workforce that is receptive to change" (Worley & Lawler, 2010, p. 196).

Lawler and Worley (2006) identify two other features of rewards systems in agile, built to change organizations to support the principles of agility that we have already discussed. First, agile organizations provide rewards for risk taking and innovation. Google, for example, created a "Founders' Award" to offer significant stock compensation for employees who developed innovations. In other organizations, employees are provided with bonuses for suggestions or idea innovations that grow the business and support customers. Second, they reward "good" failures that provide useful insights and opportunities for the organization to learn from experiments that did not work out. Organizations that punish all failed experiments will find themselves with a risk-averse population. Instead, they can reward appropriate risk taking by rewarding the learning that is captured and spread throughout the organization.

SUMMARY OF AGILITY PRINCIPLES

1. Agile organizations exploit transient advantages.

2. Agile organizations engage in rapid prototyping and embrace a "fail fast" mentality.

3. Agile organizations rethink traditional organizational structures.

4. Agile organizations form and re-form teams as needed to capitalize on opportunities quickly.

5. Agile organizations employ designs that enable rapid global collaboration.

6. Agile organizations pursue learning agility.

7. Agile organizations consider agility to be a leadership competency.

8. Agile organizations create flexible rewards practices.

AGILITY AND STABILITY

A surprising finding about agile organizations is that they also place an emphasis on stability. "People are not very effective when facing extreme uncertainty—it tends to be paralyzing" (McGrath, 2013a, p. 34). Too much change is chaotic, as we have observed. Recall that in Chapter 1, we learned about the classic Burns and Stalker (1961) study that characterized organizations as either mechanistic or organic. In agile organizations, which tend to display more of the characteristics of organic structures, there remain some mechanistic or formal elements.

Organizations making the agility shift are finding a dynamic middle ground upon which to centralize or create hubs for many key management functions. . . . At the same time they are flattening out and networking across other projects and services. When structuring for agility, fluidity and stability are not competing values. (P. Meyer, 2015, pp. 95–96)

Consistent and predictable routines can provide efficiency and agility as long as those routines continue to provide value and do not inhibit necessary adaptation. Some aspects of agile organizations remain remarkably consistent, such as identity, culture, and values. (Indeed some organizations such as insurance companies and financial institutions count on their reputations for stable and consistent operations.) McGrath (2012, 2013a) finds that agile organizations also maintain consistent strategy statements, leadership teams, employee populations, and client and partner relationships. Thus, agility and stability are not contradictions but work hand in hand. Employees can innovate and work in regularly reconfigured project teams but against a backdrop of a foundational mission, key relationships, and cultural values that are commonly shared across the organization.

Some organizations emphasize the functional organization structure as a "home base" for employees. Even though employees may be assigned regularly to projects with colleagues outside their immediate management structure, the functions can hold a long-term perspective on the capabilities and skills needed in the future. The functional structure can monitor professional trends and pursue knowledge depth, for example, in technical or scientific areas (Galbraith, 1997). Galbraith (2010) writes that in reconfigurable organizations

the first stable part is the basic structure, and the second stable part is the set of common business processes. As people move from one team assignment to another, the processes are common and stay the same. . . . The variable parts of the organization are the teams that form and reform, and the management decision-making groups that allocate resources and determine priorities. (p. 119)

Innovation practices in agile organizations maintain an unconfined process for free thinking and experimentation, but such practices are also controlled to ensure that experiments take place within a relatively bounded domain consistent with the organization's purpose and identity (Holbeche, 2015).

SUMMARY

The reconfigurable organization, continuous design, and "disposable" organizational form all describe the idea that an organization's design today must become agile and adaptable. Agile organizations are fast, flexible, and focused, with a change-friendly identity and the capability to sense when change is needed. The shift to agility impacts every aspect of the STAR model of organization design that we have studied. Strategy today has become a series of transient competitive advantages that must be continually pursued. Agile organizations engage in prototyping and experimentation with a belief that failures can provide opportunities for rapid learning. Agile organizations rethink organizational structures and in some cases eliminate the emphasis on hierarchy,

substituting instead an emphasis on collaborative practices and teaming. People practices in such organizations stress learning agility and leadership agility, seeking employees that can learn quickly and apply knowledge to new and changing contexts. The role of leadership changes in agile organizations to a distributed model, where leaders develop the capacity for collaboration across the organization and encourage the agile practices that form the other elements of the star. Rewards practices in agile organizations, commonly bonus or performance-based rewards, are equally dynamic to support the rest of the organization's agile practices. Finally, agility and stability are not contradictory, but instead work interdependently to provide employees with consistency at the same time as the organization pursues change.

QUESTIONS FOR DISCUSSION

1. What recent innovations or disruptions can you identify that make agile organization designs a necessity? Compare a recent disruption to one from a decade ago. How do the two situations differ?

2. Would you like to work in an organization that is pursuing a holacracy? Why or why not? What other agile practices covered in this chapter would make an organization a more attractive employer to you? What practices would make that organization a less attractive place to work?

3. Consider an organization that you are familiar with or have researched, and describe the balance between agility and stability in that organization. Are there practices that were too agile or too frequently changing? Are there practices that were too stable and that inhibited the organization from making the changes necessary to remain competitive? What lessons from agile organizations that we have reviewed in this chapter could have helped that organization?

FOR FURTHER READING

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