WHY ORGANIZATIONS HAVE TO BECOME MORE AGILE

CONCEPTS AND DRIVERS OF AGILITY AND THEIR EFFECTS ON ORGANIZATIONS

A complex environment, intense global competition, an accelerated rate of innovative change, and new competitors put more pressure on organizations than ever before. Especially large corporations that are traditionally governed through hierarchical structures struggle with these developments. The digital transformation forces many industries and businesses to address major adaptations in the domains of strategy, structure, product development, and service delivery. Agility is one of the key concepts that enables corporations to address these challenges. This chapter will help to understand the transformation organizations are undergoing today.

What is an agile organization?

Since agility entered the business agenda about a decade ago, its buzz has yet to decline. On the contrary, it has become one of the most-discussed business concepts of our time. Hardly a day has passed without the publication of a new report on the growing importance of agility and diverse strategies to become more agile. Agility means that an organization should become significantly faster, more flexible, and more responsive – either by establishing new ways of planning (Design Thinking, Scrum), organizing (flexible teams, flatter hierarchies, horizontal structures), or more collaborative stakeholder interaction.

While most ideas behind the concept are not new, agility has nevertheless gained a lot of attention in recent years. The main reason for this current impetus is the combination of external developments, especially technological shifts, market demands, and societal changes. Organizations find that their current traditional set-up makes them too slow and ineffective; they often cannot adapt quickly enough to changing circumstances.

The **traditional organization** (designed primarily for stability) is based on vertical structures with clear hierarchies and clear responsibilities. Goals and decisions filter down from the top management. It operates through linear planning and control in order to capture value for shareholders. Structures are strong, but often rigid and inflexible.

In contrast, an **agile organization** (designed for both stability and dynamism) is based on a network of teams with a people-centered culture. It operates based on rapid learning and fast decision cycles, which are supported by technology. Agile organizations are guided by a powerful common purpose to co-create value for all stakeholders. Such an agile operating model helps to reconfigure strategy, structure, processes, people, and technology quickly and efficiently towards value-creating and value-protecting. An agile organization thus adds velocity and adaptability to stability. It creates a competitive advantage in volatile, uncertain, complex, and ambiguous conditions.

However, one should also keep in mind that agility fits neither every task nor every situation. Certain fields that are less prone to agility, such as investor relations, compliance and risk communication, are mostly areas where a one-voice-policy and a clear chain of command are essential.

Where does the concept come from?

The problem of how organizations can successfully deal with complex, unpredictable, dynamic, and constantly changing environments – today described as 'VUCA world' (Bennett & Lemoine, 2014) – has been a prevailing topic both in industry and academia for decades. Agility, although a buzzword and current management trend (Cram & Newell, 2016), is not necessarily a new concept or a new phenomenon (e.g. Sherehiy et al., 2007; Klein, 2017). As early as the 1920s and especially in the 1960s, management researchers started to develop concepts about how organizations deal with increasingly volatile environments.

The more specific concept and term of 'agility' was proposed in the 1990s by researchers at Lehigh University, Pennsylvania. Originally, it focused on agile manufacturing. The term and concept were later adopted by researchers in the fields of production and supply chain management, production economics, software development, and information technology.

Agility really gained momentum when picked up by the software industry, where the concept is most commonly applied today. Soon, a variety of specific methods that operationalize the agile philosophy gained attention, such as Design Thinking, Scrum, or Kanban. These methods prescribe specific practices, including cross-functional teams, sprints, daily stand-up meetings, iterative processes, retrospective project evaluation, etc. (Maximini, 2015; Plattner et al., 2018, see page 18-24).

What are external drivers of agility?

A turn towards corporate agility is usually triggered by changes in a company's external environment. They represent a source of potential opportunities but also threats. From our interviews and the literature review (e.g. Vasquez-Bustelo et al., 2007; Tseng & Lin, 2011) we identified three main drivers for agility in organizations:

- **Technological shifts:** These refer to the overall digital transformation of work and life. Digital technologies transform all parts of the value chain. Accelerated and altered development cycles for new products and technologies require organizations to become more flexible and faster. Businesses and industries are being commoditized or replaced through digitization and automation. Key words representing these developments are machine learning, the Internet of Things, and robotics.
- **Market demands:** Rapidly changing markets, increasing cost pressure, and intensified international competition require corporations to adapt their market portfolios. Furthermore, the expectations of customers regarding customization, quality, and delivery times are rising. This intensifies the pressure on corporations to meet individual needs instead of

DEFINING AGILITY

There are many definitions and conceptualizations of agility. This sometimes makes it difficult to grasp the essence of the concept. We propose the following definition of agility that has guided our research:

*Agility is the **overall capability** of an organization to respond to and take advantage of the changes initiated by the drivers in the internal and external environments. It includes the **ability to identify relevant changes** and to **respond proactively, efficiently and effectively**, employing the **right personnel** based on competence, not hierarchical status. Additionally, it includes the ability to **implement flexible structures and processes** suited to the immediate tasks at hand and to **employ the appropriate resources** in the shortest possible time.*

mass production. New competitors, some of them start-ups and entrepreneurs, are often smaller and faster. Market volatility is increasing due to growth in the market niche. Last but not least, investors demand growth and financial success, which often leads to acquisitions and subsequent needs for restructuring.

- **Societal and political changes:** Employees belonging to the much-acclaimed generations Y and Z have different expectations for their career than previous generations. They want to take on responsibility for their own projects very soon and prefer to work in teams. For many, taking leadership positions is no longer a top priority. Flexible working structures, which are common in agile organizations, fit their expectations better than hierarchical set-ups. Apart from this, unstable and complex political environments and stronger regulations put pressure on companies. Examples can be found in the areas of data protection, environmental protection, compliance, and diversity.

These drivers have an impact on the relationship between corporations and their stakeholders. A complex set of expectations is created and has to be taken care of. There has been a general shift in mindsets from an environment of scarcity to recognizing the abundance of opportunities to satisfy the need for individualization. Organizations need to be highly customer-focused and should seek to meet the customer's diverse needs. In the end, organizational success will depend on how much value a company can co-create for all their stakeholders (i.e. customers, employees, investors, partners, and communities).

Which internal factors drive or impede transformation?

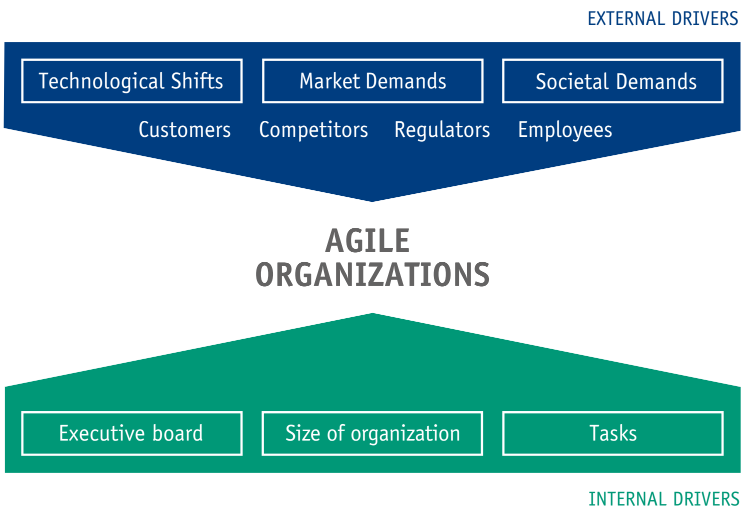
Several internal factors are decisive for supporting or impeding the transformation towards agility:

- The most important factor is the **role of the top management**. A management board will only amend the corporate strategy and the organizational set-up if it believes in the advantages of agile structures. This can stimulate radical changes in organizational design or corporate culture, for instance. Likewise, lack of support is still one of the largest impediments to organizational transformation. It is very difficult to establish agile structures and processes against the wishes of the top executives.

- Another factor is the **size of the organisation**. It is easier for smaller organizations, such as start-ups, to implement agile ways of working. At the same time, many very large corporations are rethinking their current traditional organizational set-up and processes. They are the ones who feel the growing competition from smaller and more flexible suppliers the most. So far, medium-sized companies are the least concerned with agile restructuring.

- As mentioned, not all **types of businesses or tasks** within an organization are suitable for agile working. Activities such as accounting, investor relations or handling legal issues work better with clear chains of command and responsibility.

Internal and external drivers of agility



Several internal and external factors drive the organizational transformation towards agility. They in turn have an impact on the relationship between corporations and their stakeholders.

Which capabilities do organizations need to react to changing environments?

Agile enterprises have to adapt quickly to changes within their business environment. To do so, they require four capabilities: performance, flexibility/adaptability, responsiveness, and speed (e.g. Aghina et al., 2018; Tseng & Lin, 2011; Yusuf et al., 1999). However, research shows that aside from speed and flexibility, stability is also a significant catalyst for organizational performance. Agile organizations master the paradox – they are both stable and dynamic at the same time.

PERFORMANCE means an enterprise's efficiency and effectiveness in reaching its goals through the intelligent and strategic employment of resources. This includes a stronger network between employees – crossing departmental and divisional boundaries – that increases team productivity.

SPEED is the ability to complete tasks in the shortest possible time. Organizations need to cut down reaction times, e.g. for responding to changing market conditions, customers' needs or technological life cycles.

FLEXIBILITY AND ADAPTABILITY refer to an organization's ability to adapt its structures and processes in order to achieve greater flexibility in the employment of resources. Employees need a higher degree of freedom in their work, which requires more coordination within the team.

RESPONSIVENESS is the ability to identify changes, to respond to them quickly and to recover from any unforeseen problems. Changing conditions can be, for instance, new competitors or legal frameworks. In addition to changes, changing priorities also have to be managed.

AT A GLANCE

- The increasing dynamics of corporate environments in the VUCA world have placed more emphasis on agility.
- Technological shifts, new market demands, and political and societal changes are drivers of agility in organizations.
- These factors require organizations to become more responsive to changes, to speed up their processes, adapt structures and employ resources more efficiently and effectively.
- The extent to which a corporation can implement agile ways of working depends on the support of the top management, the size of the organization and the type of business.
- Agility is likely to have a strong impact on communication departments. However, most of them still struggle with how to cope with the challenges this presents.

FURTHER READINGS

Kotter, J. B. (2014). Accelerate. Building strategic agility for a faster-moving world. Boston, MA: Harvard Business Review Press.

McKinsey (2018). Agile organizations. www.mckinsey.com/featured-insights/agile-organizations.