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# THE - AGILITY FACTOR



BUILDING ADAPTABLE ORGANIZATIONS FOR SUPERIOR PERFORMANCE



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# More praise for *The Agility Factor*

"All business leaders who deal with a rapidly changing business environment must read this book. You will learn how you can make your organization a winner in the 'creative destruction' game while continuing to financially outperform your rivals."

—Tony Petrella, consultant; and founding partner of Block-Petrella-Weisbords

"The Agility Factor is an outstanding research-based guide to creating adaptable, high-performance organizations. A great read for managers, consultants, and scholars."

—Warren Bennis, Distinguished Professor of Business Administration, and founding chairman of The Leadership Institute, University of Southern California

"Clear a space on your bookshelf and make room for *The Agility Factor*! It is a unique and useable approach to change and leading through difficult management challenges. Every human resource in your organization will find their way to engagement and focused results through use of these principles."

—Sue McNab, vice president and CHRO, PEMCO Insurance

"For two decades, Chris Worley and Ed Lawler have been the most compelling voices calling for adaptive, healthy organizations. Now with Tom Williams, they present a beautifully researched and clear case for the success criteria for organizations in today's hyper-competitive landscape."

-Foster W. Mobley, founder and CEO, FMG Leading

"Worley, Williams, and Lawler have unraveled the nugget of sustained organizational performance. In an increasingly volatile, uncertain, complex, and ambiguous business context, organizations maintain superior performance by building the capability of agility. Agile corporations strategize, perceive, test, and implement faster than competitors and consistent with market changes. Their work is a marvelous integration of innovative ideas, sound research, and relevant actions."

—Dave Ulrich, professor, Ross School of Business, University of Michigan; and partner, The RBL Group

"The half-life of a distinctive, coherent strategy is shrinking in today's dynamic marketplace. Leading organizations make up for this with agility as they sense and respond to rapid changes before their competitors. This becomes the new competitive advantage for the twenty-first century."

—R. Andrew Clyde, president and CEO, Murphy USA Inc.

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# The Jossey-Bass Business & Management Series

# THE AGILITY FACTOR

Building Adaptable Organizations for Superior Performance

CHRISTOPHER G. WORLEY
THOMAS WILLIAMS
EDWARD E. LAWLER III

Foreword by James O'Toole

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Cover image © Getty

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Published by Jossey-Bass

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One Montgomery Street, Suite 1200, San Francisco, CA 94104-4594—www.josseybass.com

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#### **Library of Congress Cataloging-in-Publication Data**

Worley, Christopher G.

The agility factor: building adaptable organizations for superior performance/ Christopher G. Worley, Thomas Williams, Edward E. Lawler, III; foreword by James O'Toole.

pages cm

Includes bibliographical references and index.

ISBN 978-1-118-82137-4 (hardback); ISBN 978-1-118-82141-1 (ebk); 978-1-118-82139-8 (ebk)

1. Organizational change-Management. 2. Organizational effectiveness. I. Williams, Thomas. II. Lawler, Edward E. III. Title.

HD58.8.W683 2014

658.4'06-dc23

2014019132

#### **Foreword**

A century ago, a young retailer named James Cash Penney explained to one of his managers how he planned to reorganize their company in new and untried ways, all of which were designed to empower the managers of the small chain of clothing outlets to be responsive to the changing needs of their customers. The manager immediately understood the genius of what Penney was proposing: "What you are planning, sir, is an organization that will always be renewing itself from within!"

We now know Penney had the right idea: truly great business leaders create self-renewing organizations. And that's what Jim Penney achieved at what would become—for a brief period, at least—the world's leading retailer. Unfortunately, Penney lost interest in the business he founded before he had a chance to institutionalize the organizational capacities needed for the company to sustain the agility it would need to thrive in the long term. The J.C. Penney company is still around, of course. But for decades it has been desperately thrashing about, trying one me-too strategy after another in a constant struggle to keep afloat in the ever-changing world of retailing.

The history of J.C. Penney is, sadly, much like that of dozens of other formerly great companies ranging from General Motors to Motorola to Hewlett-Packard. In fact, most large companies seem doomed to a cycle of lurching from success to crisis, then frantically trying to regain their former excellence by way of large-scale, disruptive, costly—and typically ineffective—organizational change programs.

But there are exceptions to this general rule of unsustainable success—specifically, a small number of notable companies with long-term records of high performance (as measured in cold cash). And management consultants and professors (like me) have been trying (and failing) for decades to figure out how they accomplish this trick. But as the authors of this path-breaking book convincingly demonstrate, we have been barking up the wrong tree: there is no such trick to be found. In fact, there is no magic formula, no secret sauce, no five, ten (or even twenty) "best practices" that lead to sustainable high performance. In hindsight, we should have been able to see that. After all, if great management consisted of simply adopting a universally effective set of policies or practices, all companies would follow suit and ape the actions of the leaders in their industries—et voilà, they'd all be equally as successful as the best. What we learn from *The Agility Factor* is that it ain't that easy. The long-term and repeated successes of high performers are actually due—in the main —to their hard, constant, and never-ending struggles to continually reinvent themselves.

The authors of this remarkable book—my former (full disclosure) colleagues Chris Worley, Tom Williams, and Ed Lawler—have spent the better part of the last eight years collecting and analyzing the data they present here in an admirably concise, useful, and readable form. Instead of asserting their findings, they demonstrate them with reference to their massive database of 60 companies and 4,700 directors and executives. In short, they have the *numbers*—and they use those logically and analytically to back up their findings. This is serious research, yet the result isn't sterile, impractical, academic theory. They clearly illustrate their findings with real-world examples of how high-performing companies continually recreate themselves. Step by step, the authors lead us through the dynamic processes, or "systems of integrated routines," that give companies the capacity to make the timely

changes in their products, policies, practices, and strategies that result in besting their competitors in the marketplace, time and again.

Although what these agile companies do is neither simple nor easy to replicate, it appears learnable—given the proper will, dedication, and leadership. Let's face it, it isn't easy for even the best companies to always keep themselves open to change. After all, success has a subversive way of making people and organizations feel, well, a bit smug, self-satisfied, and, ultimately, complacent. In sum, today's success breeds tomorrow's failure. Unless, that is, the organization develops the habits of mind that lead them to be constantly self-critical; dissatisfied with their performance, no matter how stellar; enamored of change; and constantly vigilant for the telltale signs of complacency. Our authors show us what those rare organizational traits actually look like in the cultures of a few companies that not only see change as normal but have built the capacities that, paradoxically, make change routine. Those routines, mind you, are not *practices*; rather, they are integrated systems that amount to having a culture of continual improvement. Eventually those systems and routines get into the DNA of organizations, and they become so habitually focused on the future, so used to always adapting to new challenges and trying new things, and so accustomed to taking calculated risks, that they become unaware that they are doing so—and of how unusual their behavior is in the domain of large corporations. What makes all this so difficult is that acquiring those habits necessary for agility requires managers to forgo the comforts of the familiar and tried and true, and for leaders to set aside the ego-satisfying feeling of knowing it all. Hey, it's no fun having to do things differently all the time, having to always relearn and unlearn, having to be open to the unusual and the new, and, especially, having to listen to contrarians and heretics (and even a few "crazies")!

I leave it to the authors to tell you why they have adopted the cheetah as a symbol of the kind of organizations they are describing. I once spent a bit of time in Africa and actually had a few occasions to observe the behavior of wild cheetahs. The ones I saw were always on the prowl. These speedy, agile cats know that if they sit still for too long in any one place they will be devoured by the voracious lions, leopards, and hyenas who compete against them for the same game. Thus, as tempting as it might be after a successful hunt to establish a camp in which to stretch out for a long nap, cheetahs know that if they don't keep moving they will end up as some other beast's lunch. And so it is with companies. For example, during the years when Motorola was a high-flying tech superstar, its leaders often hummed the mantra of its founder, Paul Galvin: to whit, "Always be in motion!" But when a company has a (metaphorically speaking) full belly, the temptation is to kick back and have a satisfying little snooze. And that's a big part of what happened at such formerly great industry leaders as Motorola, GM, HP, U.S. Steel, RCA, and J.C. Penney: zzzzzz.

But that doesn't have to happen to your company. Thanks to this useful little book, you can learn what capacities your organization needs to develop in order to *always be in motion*. And you will see how the hard work required for agility can pay off handsomely in the long term. And you can trust the authors' conclusions: *They've got the numbers*.

—James O'Toole Senior Fellow Markkula Center for Applied Ethics

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Santa Clara, California
May 2014

## **Preface**

Wherever we are, it is but a stage on the way to somewhere else, and whatever we do, however well we do it, it is only a preparation to do something else that shall be different.

—Robert Louis Stevenson

This book is about organization agility and its performance consequences. Despite the volume of writing on the subject, the business and academic press rarely connect these two issues in any meaningful and concrete way. There is a lot of discussion about agile software development in the technology community; agile culture and leadership, among management gurus and in the blogosphere; agile manufacturing practices, among operations experts; agile supply chains, among logistics professionals; and agile organizations, among executives and academics. But there is little in the way of a demonstrated connection between any of these forms of agility and organization performance. The connection between agility and performance is often implied but rarely established.

Moreover, there is considerable debate over what "good performance" actually means. Does a high stock price today mean the organization is performing well? If the stock price falls tomorrow, is it suddenly not performing well? How long must an organization sustain high levels of profitability or stock price to be called successful?

Over the past seven years, our research and experience with large corporations has unearthed two key findings concerning agility and organization performance:

- 1. In every industry, there are three long-term patterns of profit performance. Some firms have profitability that is consistently below industry average, a larger proportion of firms have profitability that thrashes below and above average, and a few firms consistently outperform the industry.
- 2. The best explanation for the outperformance pattern is a capability we call *agility*—a system of routines that allows a company to make repeated organization changes when necessary. These consistently high-performing companies do a better job of revising their strategy, perceiving and interpreting environmental trends and disruptions, testing potential responses, and implementing the most promising changes. Agility of this type cannot be developed overnight, and it is not likely to emerge by accident. An agile organization must be built on an integrated foundation of management practices that create an adaptable organization.

# **Origins of the Book**

The stories, data, and conclusions in the following pages are the result of a long-term collaboration—the integration of two streams of thought that came together about six years ago. One stream of thought originated at Booz & Company (now Strategy&, the former commercial part of Booz Allen Hamilton). While working there, Tom Williams and Steve Wheeler wondered what light research might shed on helping organizations transform more quickly and reliably. As management consultants, they typically dealt with organizations that were in trouble. They found their clients in one of four states, only one of which was desirable. Companies were (1) "behind the curve," hurtling toward a crisis that demanded a performance transformation; (2) facing inconsistent execution of change

initiatives that were not delivering expected results; (3) coming out of a transformation exhausted and frustrated; or (4) anticipating the need for the next transformation to take performance to a higher level. Booz & Company's efforts to improve execution—guiding client top management to establish clear objectives, to design a sequence of campaigns, and to execute those campaigns under tight control—usually delivered results. However, they also believed that there was something missing and that more could be done to improve the success rate of campaigns and to institutionalize new capabilities.

The other stream of thought originated at the Center for Effective Organizations (CEO), a research center within the Marshall School of Business at the University of Southern California where Sue Mohrman, Ed Lawler, and Chris Worley were thinking about the state of practice and research related to organization change. At the time, most writing began with impressive statistics about the percentage of change efforts that failed to meet expectations despite a large base of empirical studies and years of interventions. There was a strong feeling among academics and practitioners that organization change was misunderstood, and the usual remedy was to call for better tools and intervention processes.

Ed and Chris asked a different question. What if the failure rate of organization change was the result not of bad change management practice, but of time-honored design principles and assumptions that produced organizations that valued stability? The result of their inquiry, the book *Built to Change*, represented a vision of what an organization might look like if it replaced the *stability* = *effectiveness* assumption with the assumption that *changing* = *effectiveness*.

Jim O'Toole, a research scientist at the Center for Effective Organizations and a longtime advisor to Booz & Company, saw the parallels between the two streams and orchestrated a meeting. As the groups explored their different models and frameworks, the overlapping concepts and interests became clear. A key insight emerged when the groups realized that if executives viewed campaign implementation and capability building as the same thing, the ability to change could be institutionalized. An agile organization would not engage in periodic transformations with campaigns that were seen—and usually resisted—as "not invented here" intrusions. The organization would see change as normal.

The insight became a purpose: to understand if there were organizations that possessed such a capability and if that capability delivered sustained results.

The purpose spawned three streams of work. In the initial stream, the team reviewed the literature on strategic change, adaptation, and evolution. CEO's O'Toole, Worley, and Lawler worked with Booz's Williams and Adrienne Crowther to describe what was known. The review suggested that change was indeed possible but problematic. A few well-documented, popular, and successful cases of large-scale transformations stood in the shadow of a much larger number of failures. Similarly, empirical articles consistently found a few key predictors of successful change but rarely found the same key predictors.

Clearly, something was missing. On the one hand, no single change theory seemed to work in all cases. A wide variety of successful and unsuccessful organization changes were going on, and the existing theories and frameworks were struggling to account for these activities. As a result, managers were left holding the bag. Their only option was

to choose their favorite approach from among a set of inadequate theories. On the other hand, most studies focused on a single change and, at best, short-term performance improvements. The link between change and long-term performance was not established, and the only good data asserted a negative relationship: change was associated with an increasing risk of failure. These two observations drove the second and third streams of work.

The second stream inquired into the possibility of sustained performance. Using prior research as our jumping-off point, we looked at the long-term financial performance of large public companies. In the end, our sample included 424 firms in twenty-two industries over thirty-two years (1980–2012). The findings of this research were summarized earlier in this Preface and are reported in Chapter One. It shows that consistent, above-average profitability, although rare, is possible.

In the third stream, we wanted to understand whether the high-performing organizations possessed an agility capability that other firms did not. Toward that end, we developed an organization survey and interview protocol. Questions for the survey and interview were developed by Tom Williams and Adrienne Crowther from Booz & Company and Ed Lawler, Sue Mohrman, and Chris Worley from CEO.

In the end, the core of the survey consisted of fifty-one items. The items rated an organization's strategies, structures, systems, and culture on a five-point scale, where 1 = not at all and 5 = to a great extent. The fifty-one items rolled up into fourteen initial scales. Based on the interview data, the fourteen scales eventually were grouped into the four routines of agility: strategizing, perceiving, testing, and implementing. For the interested reader, the e-book *Assessing Organization Agility* describes

the survey and interview questions in more detail. It also provides access to a short form of the survey as well as assessment guidelines.

Over the next five years, Chris led the effort to gather data from large public corporations in different industries as well as data from nonprofits, privately held companies, and other types of organizations. Rather than accepting a single survey response from a senior executive to represent the whole firm, our approach was to work closely with an organization. We typically collected surveys and/or interviews from a top management team, a sample of senior managers, or a sample from a function or business unit. The data were then fed back to the organization for discussion and action planning. This allowed us to gain a deeper understanding of the survey and interview findings and to understand whether the data represented the traditional way an organization operated or not.

The final data set included surveys from over 4,700 directors and executives from sixty companies about the way their organizations formulate strategy, design their structures and work processes, lead their people, change, and innovate. Thirty-four of these companies were large firms in our public company financial performance database. All three performance patterns were present. Our interview sample was somewhat smaller; it represented nineteen of the thirty-four firms in our financial database.

When we compared the survey data with the financial performance data, we saw a strong relationship between an organization's profitability patterns and its approach to management—specifically, the ways it anticipated and responded to events in the outside world, solved problems, and implemented change. When an organization possessed three or four agility routines working together as a system,

it was able to sustain an above-average level of performance. Whenever markets and technologies changed rapidly and unpredictably, as they did in every industry over the thirty-two years we studied, the outperformers successfully applied these routines and the others did not.

Our conclusion: Agility does more than allow firms to adapt. It makes them adaptable and proactively nimble. In environments that change continuously, unpredictably, and at an increasing rate, organizations must be able to change repeatedly if they are to maintain their environmental "fit" and survive. They also need to be able to change quickly enough to stay ahead of the environmental forces that can signal tough times or even the firm's demise.

## **Outline of the Book**

Chapter One describes our research on large company performance in twenty-two industries, from 1980 to 2012, and explores alternative explanations for the patterns we found. Given the breadth and depth of change in every competitive environment over those thirty-two years, an "initial endowment" hypothesis of locked-in advantage fails to explain how the outperformers managed to consistently beat the industry average. Similarly, an "excellent company" hypothesis of sustainable competitive advantage based on superior management practices is found wanting. The best explanation is that outperforming firms were able to adapt to environmental changes better than their competitors.

Chapter Two describes the Agility Pyramid and the four routines that comprise the agile capability through the lens of a major transformation at DaVita, a Fortune 500 health care provider that operates over 1,800 kidney dialysis centers in the United States and beyond. DaVita methodically built agility on top of a solid foundation of

vision and values, good management practices, and clinical care capabilities. Along the way, they metamorphosed the culture to one of inclusion, engagement, execution, and accountability. DaVita's performance since 2000 speaks for itself.

Chapter Three explores the first two agility routines, strategizing and perceiving, in more detail. Nokia—despite its recent stumbles and Microsoft's acquisition of its devices business—provides a good example of how these routines, separately and in combination, operate to deliver the potential for competitive advantage. Potential, however, is not realized until something is implemented.

Chapter Four describes the testing and implementing routines of agility. The ability to run low-cost experiments and clearly determine their success or failure separates good ideas from merely feasible ones and helps focus implementation resources. Implementing changes to strategy, organization structure, capabilities, or the asset base is one of the distinguishing characteristics of agile organizations. Most managers believe their company possesses this ability, although the hard evidence suggests otherwise.

In Chapter Five, we describe the process of transforming to an agile organization and provide multiple company examples. Cambia Health Solutions, the diversified Blue Cross Blue Shield insurer, has set about transforming their regulated business into an agile organization. Allstate Insurance—one of the country's largest property, casualty, and life insurance providers—adopted advanced change processes to transform their organization. Finally, when Rich Teerlink took over from Vaughan Beals as CEO at Harley-Davidson, Teerlink and his management team chose to build an organization that would adapt and endure because it took advantage of everyone's abilities and

insights. Over the course of a decade, Teerlink and his team built a solid foundation of good management practices and differentiated capabilities on which to base agility.

The Afterword completes the book by stepping back from the research results and practical recommendations to explore two "So what?" issues. While agile organizations may enjoy sustained financial performance, there's nothing stopping them from pursuing other ends for good or ill. We explore two positive applications of organization agility, including how agility might be used to support a broader sense of sustainability and a renaissance in the field of organization development.

## Final Thoughts

The cheetah on the cover is our symbol of agility. Conventional wisdom has it that a cheetah's formidable survival skills are the result of its speed, sometimes approaching sixty miles per hour. More recent research, employing tracking collars equipped with GPS, accelerometers, and gyroscopes, has demonstrated that the cheetah can accelerate, decelerate, and change direction faster than anything else on the African savannah. It has evolved into the fastest mammal on land, and one of the most agile creatures on earth.

A variety of theories and schools of thought guided the development of our frameworks. Throughout the book, there are a number of sidebars that enumerate particular topics in greater detail. The sidebars provide what we hope is a useful synopsis of these theoretical schools of thought and some key publications for the interested reader. Readers can safely skip these without losing our main lines of argument.