



RIDING THE WINDS OF CHANGE ***THE POWER OF AN AGILE ORGANIZATIONAL CULTURE***

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More and more often, companies are finding themselves in volatile industries. They may be highly sensitive to economic trends; may be jolted by anything from international crises to the weather; may be in highly competitive businesses; may need to respond rapidly to technological change as well as changes in customer perceptions and needs. Such businesses must be highly adaptable if they are to survive the turbulence in their environments.

What we have learned through more than a hundred years of organizational and systems research is that the most adaptive systems are *not* the steadiest and most stable, but those that operate near the edge of stability. The design of fighter aircraft offers an analogy: up to a point, the less stable the aircraft, the greater its maneuverability.

The same holds true of organizational systems. They must operate at the edge of stability to respond to change, but avoid being so unstable that they become unmanageable or break down.

Today's managers will shape the future of these businesses. They will need to put aside much of their past to work toward a future characterized by adaptability, responsiveness, decentralization and innovative thinking. Each manager has an opportunity to play a critical role in this future: He or she can be either a major force for creating maneuverability or a major impediment to it. Their prime duty, as managers and as corporate citizens, is to help create a healthy, adaptable company.

Harvard professors Kotter and Heskett recently completed an analysis of more than 200 companies over an eleven-year period. Their findings were most revealing. Companies with a culture, which allowed them to adapt to changing business realities, improved their net incomes by an average of 756%; organizations without such a culture realized an average net increase of 1%.¹ An astounding difference — and dramatic support for the belief that an organization's most important assets are its people.

The most important variable in the success of a business over time is not to be found on the balance sheet; it is inherent in the way people in the organization conceive of the business. Specifically, it is the extent to which the organization has a culture, which is appropriate to its business strategy and adaptable to changing conditions.

One has only to look at two giants in the electronics field, IBM and Hewlett Packard, for an example. One had a very bureaucratic, stable culture; (though that appears to be

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Kotter, J.P. Heskett, J.L. *Corporate Culture and Performance*. New York: MacMillan, Inc., 1992.

changing) the other had a set of values, which encouraged adaptation and change and was founded on a high degree of respect for people. Hewlett Packard has generally succeeded in adapting to the whirlwind of change in its industry; IBM has struggled and floundered. IBM will no doubt succeed, in part because its size gives it staying power — but it has already seen hardships it never dreamed of and is adapting slowly.

If one had looked at the financial statements of IBM and HP ten years ago as we did, it would not have predicted their relative situation today. But if one had visited the two financial *departments* of those companies one would have seen an enormous difference in the way they conceived of their roles. In one, the role was to make sure the organization conformed; in the other, the role was to help make the organization work. *It may well be that the way financial departments operate is a far better predictor of a company's long-term success than the financial statement they provide.*

Organizations need to move from a mentality of bureaucracy and control to one of enablement and advice. In a non-protected environment, a business must adapt to ever-changing conditions. Among the few safe predictions is that there will be change — and that organizations with bureaucratic, rigid cultures will find it difficult or impossible to be successful over time. One has only to look at the number of major corporations, cited as "ideal" or "excellent" by writers only a few years ago, which are now struggling because they lack a culture, which allows them to adapt to new conditions. There is a need to legitimize conflict and challenge within the organization to help maintain adaptability. This is difficult for many companies. Although some bureaucracies have legitimized challenge, many are strongly hierarchical in nature, and almost forbid it.

Under these conditions, decisions are designed to "please the boss." The question then becomes, "What does my boss want?" not "What's right for the business?"

Over the last twelve years we have worked with a number of organizations in highly volatile industries that have successfully adapted to changing business conditions. Our experience has given us insight into what makes a difference.

Our first conclusion is probably one that most people can accept: The capacity to adapt to rapidly changing business conditions lies primarily in an organization's people not in its resources, products, or technology. Our second conclusion, however, is less widely held: While skills and competencies are important to fostering successful change, the practices and behaviors that make up the organization's culture are of even greater importance.

DEVELOPING AN INSTRUMENT TO MEASURE ADAPTIVE CULTURES

Our experiences at British Airways, Hewlett Packard, Galileo International and other organizations that have been successful in volatile environments led us to begin developing an instrument which would measure corporate agility in a way that would provide actionable feedback. In addition to our own applied research, we have consulted the writings of others, primarily the following:

Collins and Porras, *Built to Last*, 1994
Peters, *Thriving on Chaos*, 1987
Kotter and Heskett, *Corporate Culture and Performance*, 1992
Pascale, *Managing on the Edge*, 1990
Senge, *The Fifth Discipline*, 1990.

As we examined these sources, we were struck by the fact that, by and large, they described successful companies using similar language. There was a great deal of agreement as to what characterized successfully adapting companies. However, that overlap was sometimes obscured by the author's "position." That is, each author tended to emphasize a particular aspect of the organization. Their biases caused them to place a priority on one or two principles, such as learning from mistakes, legitimizing contention, focusing on the customer, etc. We had our own bias, in fact, toward "open communications."

In designing our diagnostic instrument, we did our best to avoid imposing a single bias by using a wide variety of sources to supplement our own experience. We deliberately avoided trying to assess any single position such as determining what constitutes a "learning company" as described by Senge. We went through the sources mentioned as well as our own work to identify behavioral practices that appear to characterize adaptive companies. For the most part, we used only items that had support from three or more sources. This gave us a substantial set of practices, which were then clustered into groups according to the principle they most strongly represented. We found that eight principles accounted for most of the items:

- Commitment
- Creating Value
- Initiative
- Support for Change
- Leadership
- Learning
- Openness
- Respect and Challenge

To construct an initial instrument we chose six practices for each of the principles. Before trying the instrument out, however, we wanted to do a pre-validation review to see if any of our authors appeared to be right in their emphasis on a particular principle. The items were reviewed by people in fifteen companies with substantial experience of change; practices were rated as to the degree of importance for their change efforts. The results were frankly surprising at first, but on reflection they make sense. For example, the single most important practice was related to understanding how one's job contributes to the bottom line. Neither we, nor any of the "gurus" we consulted, gave this kind of item top billing but each made some reference to it. It's something that everyone agrees is important but that is seldom dealt with well. Here are the top ten practices in the order of perceived importance to successful adaptive change.

1. People have a good understanding of how their work is linked to the success of the organization.
2. Our people show a sense of personal urgency and energy about achieving results.
3. We are willing to make significant change in the way we do things now to better provide value to the customer and to the company.
4. Meeting the needs of the business and customer is seen as far more important than conforming to bureaucratic/administrative requirements.
5. People in the organization have a clear understanding of how their efforts impact the satisfaction and retention of our customers.
6. Once we have made a commitment to change, we have a sense of urgency and a high level of resolve to follow through.
7. We see ourselves as able to influence events, not as victims of circumstances.
8. People feel encouraged to make on-the-spot decisions when necessary, without waiting for full approval from higher management.
9. At the conclusion of a project, we regularly look for “lessons learned.”
10. People share a set of core beliefs about what is important in the way we operate the company.

You might see your favorite item here. Certainly those who embrace “empowerment” can see several practices related to that idea. The results suggest, however, that no guru is *quite* right. That is, no single principle dominates the field.

Practices from all principles appear in the top ten. The principle that scored the highest has three practices out of the top ten, and that is “Commitment.” It seems to be very important that people understand how their work contributes to the business and that they feel they have influence and the power to make things happen.

These two themes — understanding how your job makes a difference and feeling you have the power to take action — dominate the items in the top ten. It caused one of our respondents to comment, “You know, that’s how people in small enterprises feel. Maybe all this effort to increase entrepreneurial skills in organizations isn’t so important if we can just create conditions where people understand how they make a contribution and feel they have the power to make things happen.” Even though this perhaps is an oversimplification, it has a ring of truth about it.

The fact that successful adaptation depends on several factors may also help to explain why single-focus approaches such as empowerment or customer focus or quality don't seem to work for the long run.

The results of the review indicate that all of the principles appear to affect "agility." Only two practices of the original 48 were not rated as important by any respondent; both were linked to "Respect and Challenge."

The pre-validation review caused us to make changes in the final instrument. We have modified several items, and deleted or added a few more. Our preliminary 'top ten' list has been used as a quick "scorecard" to give management an initial base for discussing cultural issues in the organization.

Top ten lists are always popular and provide a good place to start, but we believe a more comprehensive instrument is necessary to provide a base for making solid recommendations or taking action. As a first approximation, however, one might ask, "Would people respond positively to these ten items in my company?" If the answer is "not very," perhaps an investment in creating a more agile organization is appropriate.

DATA REVIEW

Review of the data showed that four of the agility categories accounted for most of the variance in the ratings. We have tentatively labeled these "the core four:" commitment, creating value, leadership, and initiative. The other remaining four areas, while still rated as important, are not seen as having the same level of impact on the organization as the first four.

1. **Commitment:** A key element in commitment is understanding how your efforts contribute to the success of the organization. Surprisingly, relatively few people really understand what drives the businesses they work in. And all too often senior management attitudes seem to say, "Why do they need to know that?"
2. **Creating Value:** People in agile organizations tend to look at their jobs in terms of the value they create rather than just the tasks they perform. This view of the work helps build motivation to improve, to work with others, and to find new and better ways of doing things. Creating value means getting people to think about what's right for the business and operate from business priorities, rather than personal or political pressures.
3. **Initiative:** The practices of initiative are not just "empowerment warmed over." Initiative comes from individuals, not their bosses, and is based on both self-confidence and the opportunity to take action. It's not enough for the boss to give permission to act; people must believe that there is genuine support so that they can give *themselves* permission to act.

4. **Leadership:** In organizations that handle change well, people are typically comfortable that top management is scanning the environment for possible opportunities (or threats) and taking the effort to keep them up to date. Leaders also encourage *everyone* in the organization to make, or help make, tough decisions.

Let's now take a look at the four principles, which are supportive of agility, but do not seem to be quite so central as the first four.

5. **Support of Change:** An organization's history of dealing with change affects how it will approach change in the present. E.g., has the organization dealt successfully with change in the past? Do people have a sense of continued commitment, or do they see a series of "flavors of the month?"
6. **Openness:** Key impediments to openness are the sense that communication upward is blocked, and/or that certain issues are out of bounds. In agile organizations there is little protectiveness of information, and few if any "sacred cows" or sore points that cannot be questioned or openly discussed.
7. **Respect and challenge:** Richard Pascale said that one of the differences between companies that continue to succeed and those that don't lies in the extent to which they have legitimized challenge. A key factor in doing so is behavior that clearly demonstrates respect; that recognizes that people can have legitimate reasons for opposed views. Agile organizations tend to treat people as adults who are capable of taking responsibility and thinking for themselves.
8. **Learning:** The "learning organization" is one that is genuinely focused on learning *as an organization*, not just supporting the learning and development of individuals. A key element is the habit of looking first for lessons learned when things go wrong, rather than searching for where to assign blame. Searching for who's at fault will quickly suppress the very information needed to make constructive change.

A LIKELY FUTURE

No one has figured out how to predict change very well. What we can predict, however, is that the pace of change will continue, and the organizations that are likely to do well over the long term will be the agile organizations.

It's time, then, to start the "agility revolution": the one that will put us in shape to get the most out of whatever comes our way, while keeping the stress and strain of change manageable. We will know that the revolution has occurred when training in "How to Manage Change" is seldom offered because "agility" has become the way we run our businesses.