The next frontier for Agile: strategic management

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As the Agile mindset and processes increasingly enter the management mainstream, organizations are learning the exciting potential of this alternative to "industrial age" management, which hobbled innovation by emphasizing efficiency through bureaucracy and instituting complex systems of rational planning and analysis. Agile, in contrast, offers a management approach that emphasizes a team-based search for opportunities to achieve continuous customer-focused innovation and to finding solutions through rapid experimentation and decisiveness. Agile management, by drawing on the full talents of those doing the work and involving customers at every stage of product development, has proven capable of generating innovation that customers value.[3]

While some large organizations are preoccupied with mastering operational Agility as a way to upgrade existing products and services, they and the wider management community need to realize that the main financial benefits from Agile management will flow from the next frontier: achieving Strategic Agility.

This article explores the opportunity of enterprise-wide Strategic Agility. A follow-up article in the next issue will explain what's involved in implementing Strategic Agility.

Strategic Agility

Today in most firms that practice some form of Agile management–or its analogs, such as "Lean" and "design thinking"–operate with a pre-occupation for achieving operational agility – enabling a team, a unit or an entire enterprise to nimbly adapt and upgrade its existing products and services to meet rapidly changing technology and customer needs, with efficiency gains or quality improvements.[4]

Operational agility and the innovation capability it delivers are increasingly necessary for a firm to survive. But in a marketplace where competitors are often quick to match changes made in existing products and services, and where power in the marketplace has decisively shifted to customers, it can be difficult for firms to monetize those gains and improvements. Amid intense competition, customers with choices and access to reliable information are increasingly able to demand that quality improvements be forthcoming at no cost, or even lower cost.

Efficiency gains and quality improvements create advantage within a limited customer/competitor frame of reference. "The conventional view of the competitive landscape," as Clayton Christensen and his colleagues explain in their latest book *Competing Against Luck* (2016), "puts tight constraints around what innovation is relevant and possible, as it emphasizes bench-marking and keeping up with long-time rivals. Through this lens, opportunities to grab market share can be temporary, with most companies settling for

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gaining a few percentage points, within a zero-sum game.”[5] The genuine opportunity is to introduce and master Agile management: of market-creating innovation.

Market-creating innovations generate large financial gains

Market-creating products and services are innovations that produce customer value that didn’t previously exist.

- Sometimes they transform products that are complicated, inconvenient and expensive into things that are so much more affordable, convenient and accessible that many more people are able to buy and use the product, for example, the personal computer.
- Sometimes the new products meet a need that people didn’t realize they had and create a “must-have” dynamic for customers, even though the product is relatively expensive.

Market-creating innovations usually don’t come from resolving customer complaints or asking existing customers what they want: As Henry Ford famously said, if he had asked customers what they wanted they would have requested a faster horse. Market-creating innovations come from imagining and delivering something that unexpectedly delights whole new groups of customers, once they realize the possibilities. Examples include Apple’s iPhone and Starbucks’ coffee-maven culture. Those firms delivered something that surprised and delighted customers, once they experienced what it could do. The product itself created the demand.

Market-creating innovations open up the so-called “Blue Oceans” of profitability, as W. Chan Kim and Renée Mauborgne explain in *Blue Ocean Strategy*.[6] An organization can generate high growth and profits by creating value for customers in uncontested market spaces, rather than battling bloodily with rivals in an existing sector. By looking at the world from the customer’s point of view, some firms have opened Blue Ocean markets by inventing popular new experiences.

- Thus the Cirque du Soleil was able to enter a dying industry – circuses – and by eliminating animals and combining extreme athletic skill with sophisticated dance and music, it created a high growth business appealing to all ages.
- Apple has been able to take “mature” low-margin sectors – retail computers, music, mobile phones and tablet computers – and turn them into huge money-makers. In the process, Apple went from being near bankrupt in 1997 to achieving one of the world’s largest market capitalizations in just 15 years.

There are a number of other strategic management tools that have been used to envision new market spaces. Disruption guru Clayton Christensen now offers “Jobs to be done” theory, which urges practitioners to discover new products and markets by creatively rethinking why a customer hires a product to perform a function or to satisfy a desire. The successes of such strategic repositioning concepts show that there are new business models waiting to be discovered in mature industries. This is the ideal challenge for the Agile mindset of speed and customer intimacy: the new frontier of Strategic Agility.

As exciting as this opportunity is for companies that thrive on being dynamic, the mature industries that maintain the bureaucratic hierarchies that built the corporate giants of the 20th Century are likely to stay steadfastly Agile-resistant.

Why 20th Century firms lacked Strategic Agility

In the 20th Century, top-down bureaucracies constrained innovation by focusing on delivering "more of the same" with ever greater efficiency through economies of scale. The goal was to achieve competitive advantage, and then defend it. "Traditional, MBA-style thinking," as Google executives, Eric Schmidt and Jonathan Rosenberg, write in their book, *How Google Works*, "dictates that you build up a sustainable competitive advantage over rivals and then close the fortress and defend it with boiling oil and flaming arrows."[7]

The fortress is "built to minimize risk and keep people in their boxes and silos," as business school professor John Kotter writes. People "are working with a system that is designed to get today's job done – a system that asks most people, usually benignly, to be quiet, take orders, and do their jobs in a repetitive way."[8]

In effect, exploitation of the existing business took priority over exploration of new possibilities (see Exhibit 1). Innovation was carried out – if it happened at all – on the side with task forces, special project groups, strategy departments, tiger teams, skunk works or R&D departments. While these efforts made some short-term gains, they were temporary fixes. Any gains were a great deal less than what would have been possible if the entire firm had embraced Agile management.

The capability of long-established corporations to generate market-creating innovations was rare. When giant bureaucracies tried to venture beyond their core business, they generally failed. Even where innovation champions within giant corporations perceived the need to make market-creating innovation, and did all of the research needed to generate it, as at Kodak or Nokia, the firms stuck to their core and eventually suffered devastating losses, as other firms ended up implementing the very innovations that they had pioneered intellectually.[9]

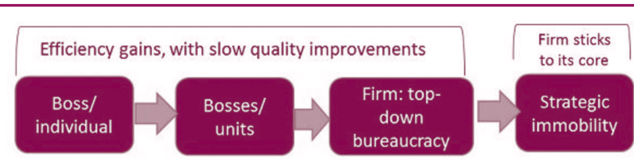
The guiding objective for senior executives in the new era has to be different. The first step toward achieving Strategic Agility is through gaining experience with operational Agility.

The path to operational Agility

In the 21st Century, the scene started to change with the successful implementation of Agile software development and the spread of its technology and insights to understanding and implementing Agile management on a host of other operational areas. Leading adopters learned to master the three laws of Agile:

- The law of the small team.
- The law of the customer
- The law of the network.[10]

Exhibit 1 20th Century: Top-down bureaucracy



The law of the small team

The first and almost universal characteristic of Agile organizations is that practitioners share a mindset that work should be done in small autonomous cross-functional teams working in short cycles on relatively small tasks that deliver value to customers and get continuous feedback from the ultimate customers or end users.

The law of the customer

Agile practitioners are obsessed with delivering value to customers. In the Agile organization, “customer focus” means that everyone in the organization has a clear line of sight to the ultimate customer and can see how their work is adding value to that customer – or not. If it isn’t, then an immediate question arises as to why the work is being done at all. The firm adjusts everything – goals, values, principles, processes, systems, practices, data structures, incentives – to generate continuous new value for customers and ruthlessly eliminates anything that doesn’t contribute.

The law of the network

Agile practitioners view the organization as a fluid, interactive and transparent network of players that are collaborating towards a common goal of delighting customers. They recognize that competence resides throughout the organization and that innovation can come from anywhere. In effect, the whole organization shares a common mindset and operates as a network of high-performance teams The Law of the Network is the new frontier of the Agile movement – how to make the whole organization Agile.

As these ideas spread, change has followed. “Now agile methodologies,” as *Harvard Business Review* declared in April 2016, “involve new values, principles, practices, and benefits and are a radical alternative to command-and-control-style management – are spreading across a broad range of industries and functions and even into the C-suite.”[11]

Operational Agility at the team or unit level can enable a firm to make necessary adaptation to marketplace dynamics (see Exhibit 2). By focusing development work on what adds value to customers and systematically eliminating what doesn’t, it can lead to cost savings (efficiency gains). And by giving everyone in the organization a clear line of sight to the customer and working in small teams and short cycles, it can enable continuous enhancements of existing products and services (quality improvements).

The transition to full operational Agility at the enterprise level as shown in Exhibit 3 is particularly difficult in firms where senior managers themselves are still learning to embrace and embody the Agile mindset. All too often, senior managers regard Agile as merely a set of tools and processes that engineers in the IT department have to master, rather than a mindset that they themselves must understand and employ on a daily basis.[12]

The result of limiting Agile management to the team or unit level is usually a failure to capture the full gains of operational Agility, as well as an inability to reach strategic Agility (see Exhibit 3).

Surveys carried out by Scrum Alliance in 2015 and 2016 show that more than 70 percent of Agile teams perceive tension between the way the teams function and the way the whole

Exhibit 2 Operational Agility at the team/unit level

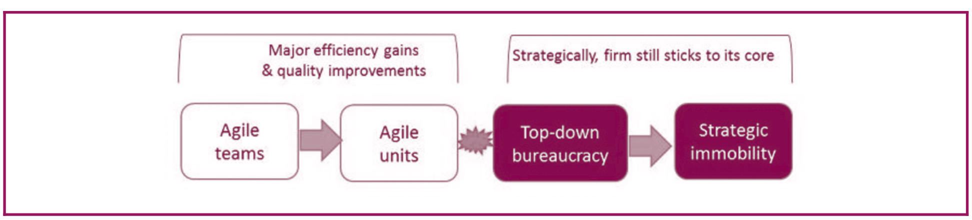
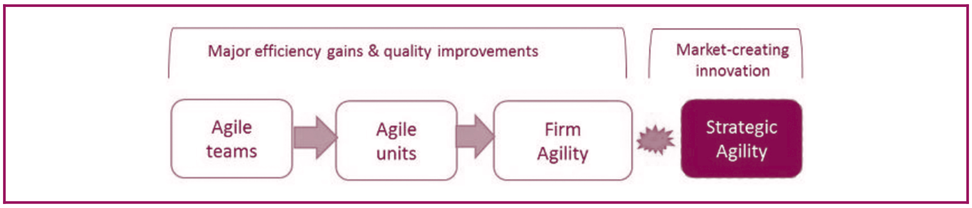


Exhibit 3 Operational Agility at the enterprise level



organization operates. The full gains of operational Agility will typically come when the whole firm embraces its methodology and mindset. Only then can the firm adopt Strategic Agility and use it to devise business models and develop products to open up markets that don't currently exist. (see Exhibit 4).

The path from operational Agility to Strategic Agility

Ideally, there is a natural progression from operational Agility to Strategic Agility:

- A firm may start experimenting with one or a few teams with operational Agile. Even in successful cases of "a big bang" approach to adopting Agile as at Salesforce in 2006 there is almost always one team that has had some experience with it.[13]
- As more and more teams take on Agile, eventually a whole unit champions Agile, as in Microsoft's Developer Division in 2011.[14]
- Then multiple units and the whole firm may embrace Agile with major enhancement of the capacity to make quality improvements and efficiency gains.
- The new-found operational Agility at the enterprise level then finds its natural evolution in strategic shifts that open up new markets, as at Amazon and Apple.

In practice today, many firms are stuck at operational Agility at the team and unit level (Exhibit 2), having failed to master the third law of Agile, "the law of the network."[15]

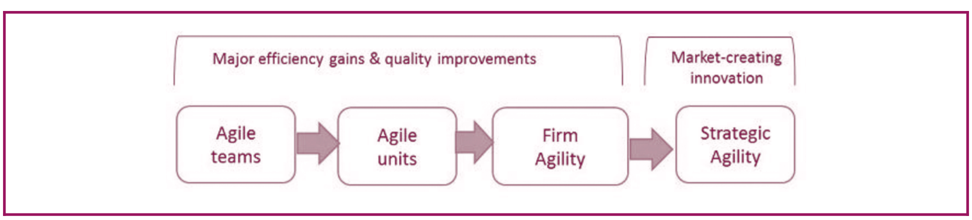
The collapse of sector boundaries

Strategic Agility is needed to deal with the 21st Century reality that sector boundaries themselves are penetrable and market makers are endlessly evolving. Apple successfully moved from computers, to the iPod, to the iPhone, to the iPad and the iWatch. Amazon moved from retail books, to retail everything, to cloud computing services, to music and video streaming, to movie producing.

While these firms looked initially like outliers, it is now apparent that the boundaries between sectors are easily crossed.

A recent PriceWaterhouseCoopers report called "The Future of Industries: Bringing Down the Walls," documents how the boundaries among sectors are dissolving. "The pace of technological change is creating at least the prospect of a new industrial order, in which

Exhibit 4 Operational and Strategic Agility



most companies no longer operate within the comfort zones of their established sectors. Already, a few companies–Apple, Amazon, and GE, among them– have boldly and successfully moved into new industries. Now just about every other company will have to do business that way."[16]

The report cites examples of whole sectors being redefined and reinvented:

- *Telecommunications*: A telecom company used to be a business of routing calls and data. But now they are becoming entertainment content companies.
- *Automakers*: The future of car manufacturing will be "facilitating mobility on demand. Consumers will order cars from mobility services to suit their immediate needs."
- *Electric utilities*: The staid industry of power generation is facing a future of smart infrastructure. It begins with "security and temperature control," and expands to embrace "a diverse range of integrated and automated services, including [. . .] larger-scale energy management, monitoring of building maintenance, city resource management, transportation efficiency, and eldercare."
- *Hardware*: The Internet of Things (IoT) is transforming hardware, as firms can add sensors to their products to enable predictive maintenance and other forms of security and monitoring.
- *Healthcare*: Here too, IoT is leading to "the use of sensors to provide data that health professionals can use to provide early diagnostic or real-time follow-up services."
- *Personalized services*: "The IoT will greatly intensify the focus on outcomes, convenience, and value. In consumer products manufacturing, for example, the IoT makes it possible to get feedback directly from consumers."
- *3D Printing*: "The time is coming soon when digital fabrication will make it possible for a single factory to build everything from airplane parts to garden ornaments."

Thus, companies in all industries need to be ready to stretch their horizons beyond their existing businesses. "This doesn't necessarily mean the borders will disappear between all industries. But if you are a business leader, you should expect your company's sector to be transformed, probably within a decade, by the shockwave of technology change that is upon us."[17]

Achieving Strategic Agility isn't easy

Given that industry borders are dissolving and competition is more dynamic than ever, the need for Strategic Agility – speedy, customer focused innovation that aims to make markets–is becoming increasingly obvious. As Booz & Company Strategy & reports, "Spending more on R&D won't drive results. The most crucial factors are strategic alignment and a culture that supports innovation."[18]

In my follow-up article–"Four key steps to achieving Strategic Agility."– I will explore what market-creating innovation looks like in practice: In it I will examine how to develop a

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market-creating value proposition, the use of continuous innovation as integral to the business model and the deployment of Agile scenario teams and options theory to test strategies as the context evolves.

Notes

1. This article draws on insights from the author's blog: http://blogs.forbes.com/stevedenning/
2. The SD Learning Consortium is a non-profit corporation registered in the state of Virginia. http://sdlearningconsortium.org/. Disclosure: The author is an unpaid pro bono member of the board of directors.
3. Denning, Steve, "The Age Of Agile," *Strategy & Leadership*, Vol. 45, No. 1 and "Understanding the three laws of Agile," *S&L*, Vol. 44, No. 6.
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9. www.forbes.com/sites/stevedenning/2013/09/03/how-the-elastic-enterprise-defeats-the-sclerosis-of-scale/
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