

# Embedding Strategic Agility

## *A Leadership Agenda for Accelerating Business Model Renewal*

Yves L. Doz and Mikko Kosonen

Strategic discontinuities and disruptions usually call for changes in business models. But, over time, efficient firms naturally evolve business models of increasing stability - and therefore rigidity. Resolving this contradiction can be made easier by developing three core meta-capabilities to make an organization more agile: strategic sensitivity, leadership unity and resource fluidity. This article reviews the underlying determinants of these capabilities, based on detailed research undertaken in a dozen companies who were re-conceiving their business models - among others, Nokia, easyGroup, HP, SAP and Kone are used as examples. We propose a repertoire of concrete leadership actions enabling the meta-capabilities needed to accelerate the renewal and transformation of business models. To organize our argument we borrow the three main dimensions of the strategic agility framework presented in our earlier work, and develop corresponding vectors of leadership actions, each of which can enhance a firm's ability to renew its business models.

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### Introduction

How can CEOs and their leadership teams radically accelerate the evolution of their business models? This is a critical question: many companies fail, not because they do something wrong or mediocre, but because they keep doing what used to be the right thing for too long, and fall victim to the rigidity of their business model. In the face of discontinuities and disruptions, convergence and intense global competition, companies now need to transform their business models more rapidly, more frequently and more far-reachingly than in the past.

Business models can be defined both objectively and subjectively. Objectively they are sets of structured and interdependent operational relationships between a firm and its customers, suppliers,

complementors, partners and other stakeholders, and among its internal units and departments (functions, staff, operating units, etc). These 'actual' relationships are articulated in procedures or contracts and embedded in (often) tacit action routines. But, for the firm's management, business models also function as a subjective representation of these mechanisms, delineating how it believes the firm relates to its environment. So business models stand as cognitive structures providing a theory of how to set boundaries to the firm, of how to create value, and how to organise its internal structure and governance.<sup>1</sup> Both as objective relationships, based on contracts and organizing routines, and as their collective cognitive representation, business models tend also to be naturally stable, and hard to change.

Their stability is further increased by the search for efficiency and predictability, particularly in periods of rapid growth, where the reliable and efficient scaling up of operations becomes critical.<sup>2</sup> Such stability is required for efficiency: in traditional management practice, success is based on routine repetition of tasks by semi-skilled workers, and the phenomenon of convergence-to-fit - i.e., the growing adaptation to a particular situation - contributes to increase their stability.<sup>3</sup> But such stability is also likely to result in a growing rigidity, which inevitably limits a firm's strategic agility and thus its ability to renew and reform itself.

To develop our prescription for business model renewal, we build on the *strategic agility* framework developed from our earlier empirical research on a dozen companies in the information technology industry which were reconceiving their business models.<sup>4</sup> This work conceptualised strategic agility as the '*thoughtful and purposive interplay*' on the part of top management between three 'meta-capabilities':

- **Strategic sensitivity:** the sharpness of perception of, and the intensity of awareness and attention to, strategic developments;
- **Leadership unity:** the ability of the top team to make bold, fast decisions, without being bogged down in top-level 'win-lose' politics;
- **Resource fluidity:** the internal capability to reconfigure capabilities and redeploy resources rapidly.

We have observed successful business model renewal and transformation as being one of the main outcomes of strategic agility - in conventional academic terms we could call it a dependent variable. First, heightened strategic sensitivity allows firms to identify opportunities for new business models and also to be sensitive to the timely need for the renewal and transformation of their existing business models. Second, business model changes often involve gut wrenching decisions for executives, calling for difficult and risky personal adjustments and collective commitments. New adaptive leadership work and leadership team unity are essential to enable shifts in business models. Thirdly, resource fluidity is called for to allow firms to redeploy and reallocate their resources - particularly people - to new opportunities or new activities in a transformed activity system.

This article proposes a repertoire of concrete leadership priorities and actions enabling the meta-capabilities needed to accelerate the renewal and transformation of business models, and make more likely that such renewal efforts will succeed. To organize our argument we borrow the three main dimensions of the framework developed in our earlier work, and develop three corresponding vectors of five recommended leadership actions for each dimension, as illustrated in [Table 1](#). Each of these sets of leadership actions can contribute to, and condition, a firm's ability to renew its business models successfully.

## A leadership agenda for accelerating business model evolution

### Heightening strategic sensitivity

#### *Anticipating: sharpening foresight*

This is perhaps the most classic approach and the hallmark focus of the field of strategy. Superior anticipation and greater foresight allow deliberate reforms of business models to be undertaken in time for firms to maintain strategic advantage and value creation.

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