

# Dynamic Capabilities

## Ability to act: the managerial capability for a dynamic era

March 2015. **Lukas Michel** | Agility Insights AG

Back in 2014, at Global Peter Drucker Forum 2014 in Vienna ([www.DruckerForum.org](http://www.DruckerForum.org)), business leaders from organizations globally, agreed that the managerial practices in too many businesses are not suited to cope with an increasingly complex world.

This resonates with Agility Insights' results based on 10 years of research. Our work with many organizations from around the world shows that:

1. Detailed insights of the workings of organizations are often missing. This means that organizations often initiate change without the required clarity on the right levers and intervention points.
2. Many organizations have made bad experiences with ineffective change programs, and
3. Leadership development has not delivered on its expectations. These are signs of missed implementation opportunities.

Too many global businesses are failing to realize the potential of the knowledge of highly qualified talent in their organizations.

For years, business experts and leaders have stated that traditional management requires a fundamental rethink. But in saying that, leaders

continue to fail in their ambition to translate this knowledge into action.

Managerial principles, invented 100 years ago for the industrial age, are no longer able to support organizations and people in the 'knowledge era'. Change programs will not cut it any more. Businesses need to consider a shift in management practice in order to survive and thrive in an unprecedented economic environment.

In our book THE PERFORMANCE TRIANGLE (2013), we explore in detail the root causes of this management malaise and unveil a simple model with a diagnostic tool designed to pinpoint the areas in your business that require the most attention. As such, the book serves as a guide for entrepreneurs, managers and leaders; enabling them to lead in a turbulent environment – where knowledge is king.

### **Reacting to the changing business environment**

Higher **V**olatility, more **U**ncertainty, increasing **C**omplexity, and raising **A**mbiguities, challenge traditional corporate management. This is because control-based management responses inherited from the industrial age are often ineffective in dealing with the new environment or are totally out of place.

For example, 'Management by Objectives' (goal setting by managers as objectives, so employees understand what they need to do and what is expected of them) has been wrongly translated by many organizations into a tool that faces difficulties when coping with fast-paced change. This has, in many cases, led to unintended consequences. For example, often goals are obsolete once they have been agreed upon. Moreover, it is unfair to ask people to abandon their goals and performance contract in order 'do what is right' for the business as things continually change.

As a result, organizations lose time, they continually re-define their goals, increase costs, realign objectives and ultimately run risks in an attempt to discover the holy grail of the right goal for which to aim.

Over the years, 'viruses' such as this, have unknowingly and unwillingly crept into organizations' operating systems and become part of 'infected' corporate cultures.

But the good news is that the performance of people across entire organizations remarkably increases by simply removing these interferences. Therefore, knowing where and when to install the 'antivirus program' has to be given first priority on the 'clean-up' roadmap. Its purpose is to 'disinfect' an organization's culture.

### **The knowledge economy**

Simultaneously, the nature of work has fundamentally changed over the past 20 years. Knowledge has become the dominant way to work; with technology providing access to information in ways that was unthinkable years ago.

This has consequences for the way we lead our organizations, as Peter Drucker said: *"In times when knowledge is the critical resource, all people are executives"*.

However, the results from the Agility Insights' work with clients from around the world using the Agile Management Score show that the average organization effectively uses only 67% of the knowledge and talent available. Many other engagement studies employee survey institutions claim that the number is actually even lower. To achieve higher levels of performance, organizations need to find ways to better use the human capacity as a second 'clean-up' action item on their roadmap. The good news is that this anti-virus program and new ways of working require the same intervention and roadmap for both.

### **How do these capabilities fit the higher challenges of the new era?**

The "inner game", a term and self-management concept coined by the author and speaker, Timothy W. Gallwey, is based upon principles in which sports people use non-judgmental observations of critical variables, with the purpose to increase the awareness about context in which they operate. This state of relaxed tension is known to stimulate creativity and learning.

In sport, it follows that if these observations enable immediate learning, the person's body will adjust and correct itself automatically to achieve highest levels of creativity and best performance.

Gallwey designed this way of thinking based on the game of tennis, but in a work sense, the 'inner game' will cultivate awareness, focus attention, build trust and enable people to make

choices as the fundamental principles of self-management based on self-responsibility as motivator rather than outside control.

However, these behaviours conflict with industrial principles of command, goals, control and detailed instruction. Members of sports teams have understood these mental principles for years. They are natural, ready to use capabilities that can be activated and used as high levels of engagement for peak performance. They also know that the outdated principles interfere with their knowledge work. As a result, they have learned to isolate these interferences. By playing the inner game, they block out these interferences to solely focus on the things enable superior performance.

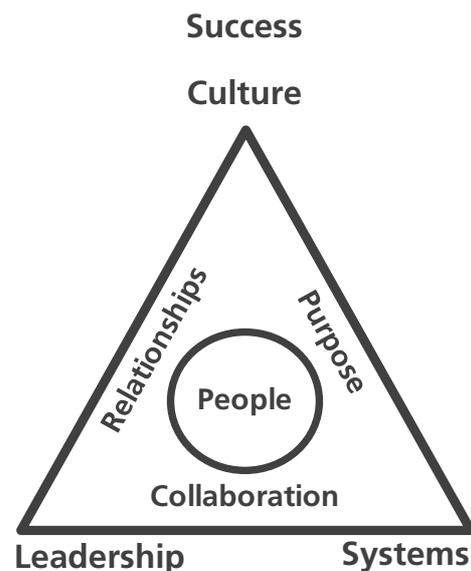
To better cope with the demands of this 'outer game'- the challenges of the internal and external environment - organizations need to better support the 'inner game'.

Gallwey, explains: *"The greater the external challenges accepted by a company, team or individual, the more important it is that there is minimum interference occurring from within"*. (2000) As such, it becomes obvious that leaders need to create an environment in their organizations that is free of interfering viruses in order to enable peak performance.

Organizations and management systems for the knowledge era need a design for effectively leading people. As a result, they have to become fast, agile, resilient and able to act. They enable good decision-making where the work is being done and support the appropriate implementation of decisions.

## The Performance Triangle

The **Performance Triangle** serves as the model and bridge between the capabilities of people and the challenges that organizations face. It uncovers the managerial capabilities that organizations need to achieve peak performance levels.



The first step towards a higher ability to act for organizations is, according to Professor Johanna Anzengruber, gaining a deep understanding of the organization-specific future competencies in favour of speed, agility and resilience in order identify the required talent, teams, and networks.

These kind of talents are at the heart of the triangle (**People** in the center). Peter Drucker advises leaders to *"accept the fact that we have to treat almost anybody as a volunteer"*. Self-responsibility is the foundation for knowledge work and motivation and 'inner game' reinforces non-judgmental awareness, trust in one's self and others and leaves choices with people. The 'inner game' promotes speed in organizations through decisions on the front-

line, as well as applied knowledge and leaders that do not interfere.

**Culture, Leadership, and Systems** frame the corners of the triangle. Superior decision-making and effective actions require a culture that creates shared context. Leadership needs to interact and facilitate the conversation around purpose, direction, and performance. Systems that work diagnostically, direct the attention to the issues that matter most to the business and allow allow people to act in a self-directed manner.

A shared context, intense interactions, and diagnostic controls make organizations agile. They help people to detect weak market signals early from feedback data, allow for the interpretation of that information and facilitate the timely action to address it. These are the features of an agile organization and the foundation for innovation and growth.

**Purpose, Relationships, and Collaboration** are the bonding elements of the triangle. For superior decisions, knowledge work requires purpose. A sense of purpose is another dominant lever of motivation. Employees use internal and external relationships to share and expand their knowledge to create value for clients. In short, only knowledge that is shared and applied, has value for any organization. New technologies facilitate the transfer of information in a way that generates fresh insight. As such, any knowledge related task in an organization will require more than one

individual to complete and it is this combined awareness as well as the shared experiences which stimulate creativity, innovation, and growth.

An image of the future of work, might not be far from the Borg society in *Star Trek, The Next Generation*, where millions of individuals were connected mentally through a vast neural network so the experiences of any single individual were immediately shared with the entire collective.

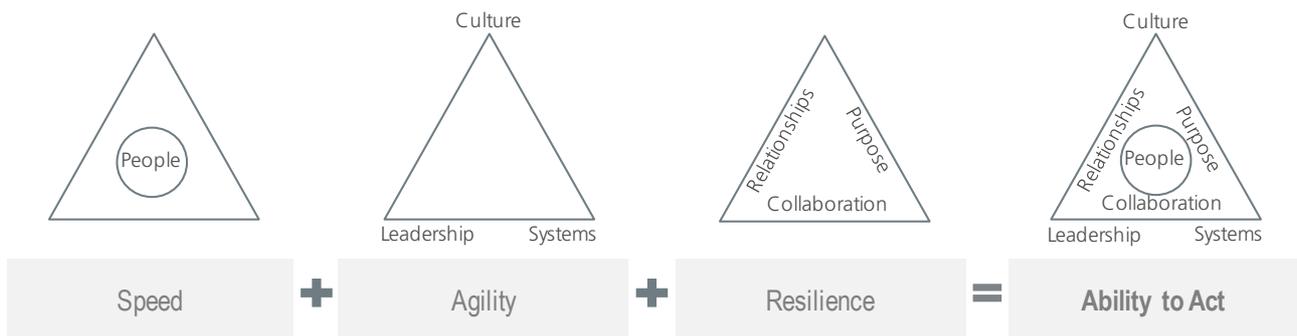
(Article: People-centric Neural Networks: The Key to Managing Organizational Complexity <http://www.druckerforum.org/blog/?p=612>)

This knowledge sharing economy means that collaboration across boundaries is essential in order to successfully garner the collective intelligence of people and better deal with a turbulent environment. Shared purpose, relationships across networks, and boundary-less collaboration are the organizational capabilities needed to withstand external shocks and defend against unexpected outside influences.

These are the building blocks for a resilient organization; the glue which keeps culture, leadership, systems, and people at the core.

**‘«Management is the art to getting things done’». (Eccles und Nohira, 1992)**

It's the actions not visions, expectations, or solutions which make the real difference in organization.



By combining **speed**, **agility**, and **resilience** into the **Ability to Act**; organizations are able to use knowledge in their networks through people that engage themselves with the organization and simultaneously create the required capabilities to cope with the challenges of a turbulent environment (Anzengruber, 2013). The use of knowledge and the approach to cope with higher challenges require the same capabilities. Organizations that use their knowledge effectively, have the potential to address the challenges of the new era. A management team with a high ability to act designs its' organization for people.

As such, people are the center of attention.

### Embracing change

The 2014 Global Drucker Forum concluded that there is a high awareness among business leaders globally, that management and organizations need to change. Though the question remains as to why, if all leaders concur that change is a fundamental why then is the transformation towards modern organizations so slow or does not happen at all. Through our work, using the [Performance Triangle](#) and the [Agility Insights Diagnostic tool](#), we believe **this is as a result of three things:**

**1. Tips don't work.** People learn primarily through their own experiences. There is (almost) nobody that would disagree that traditional management needs an upgrade. It is the

observation points guided by [Diagnostic Mentoring](#) that are required to help leaders translate their insights into learning as a self-directed experience. Observation focuses attention and energy to leave the choice with the leadership team as a deliberate act of individual and collective willpower. For the right design and implementation of change, we recommend to experiment first on a smaller scale, go through the experience, and learn before embarking on the next major change project.

**2. A transformation is required.** The change towards a people-centric approach fundamentally changes behaviours and capabilities. Such projects are a deep intervention into the culture and leadership of any organization and therefore include risks. It transforms the decision-making throughout an organization and requires five distinct choices:

- How do we engage people?
- How do we coordinate work?
- How to we set goals?
- How do we change?
- How do we make decisions?

Every one of these questions requires a choice between more freedom or more control. It is not one or the other. It is the combination of a high degree of freedom for people and the ability to gain more control over decisions that will make

the difference. The combined answers to the five questions guides the **design of management** and organizational structures.

**3. It takes courage to ‘work on the system’**– rather than to continue with more ‘leadership development’. It is not the leaders in middle and lower management that prevent the organization from doing things, interfere with work and cement mediocrity. Most of these managers follow what they have been asked to do. They are dedicated to performing well by ‘working *within* the system’. Modern knowledge work first requires **‘work on the system’**- the right design of organization and management in order to cope with a complex and uncertain environment. ‘Work *on* the system’ initially is the task of senior management. It starts with utmost clarity on the responses to the aforementioned five questions: the choice of managerial principles that fit the nature of the organization and simultaneously reduce the risk of failure.

**«Management is, above all, a practice where art, science, and craft meet.» Henry Mintzberg**

Here is the link to review your organization’s ability to act with the [Agile Management Score](#). [The Performance Triangle](#) and [Management Design](#) will guide you in developing the capabilities to cope with a dynamic environment.

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The craft of management for the knowledge age requires the right tools, such as **The Performance Triangle**, to facilitate the conversation with the leadership team on the question: how do we manage our organization? Because when knowledge takes the helm, leaders must find the right managerial design in order to facilitate every executive’s ability to act appropriately in a turbulent environment.

This design depends on the specific context and needs of people, however to enable a transformation of management into a ‘client-oriented’ service (where employees are the client and people are at the centre), observation and conversation points must be created to allow leaders to choose the right intervention for their organisation.

Since every organization only employs the best talent, (most) organizations already have the required capabilities to compete in the new era. Many just do not realise it. It therefore remains the leadership team’s act of willpower to lead the way by making changes, unlocking hidden potential, and activating its talent for the benefit of its stakeholders.

## Management Services: Diagnostic Mentoring

Diagnostic information and client feedback reveal that HR directors, CEOs and managing directors in organizations worldwide have experienced a variety of benefits for their businesses after applying Diagnostic Mentoring.

Some of these benefits are listed here:

### For Employees

Unlocked the creativity, skills and talents of individuals and teams

Highly engaged and motivated staff deliver world class customer service and added client value

### For the Organization

Highly agile in dynamic markets through collaboration breaking siloes

Enhanced innovation in management, business model and offerings

### For Managers

Faster decision-making and higher quality problem solving

A high ability to act in a volatile, uncertain complex and ambiguous environment

### For Clients

Higher predictability, reliability of operations and quality services

Superior performance and growth throughout the organization

## Agility Insights

**Enabling organizations to future-proof their capabilities and maximize the talent of their people; Amplifying leaders' ability to act by accelerating change in turbulent times.**

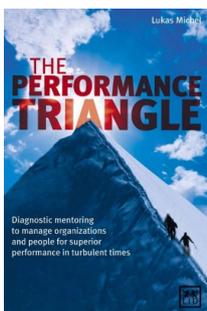
Email us at [contact@agilityinsights.com](mailto:contact@agilityinsights.com) for more information of how we can help design a bespoke program for your business or visit our website [www.agilityinsights.com](http://www.agilityinsights.com) for more information and a wealth of free resources.

## Books



### The Management Workbook

Michel L., Management Design: Managing People and Organizations in Turbulent Times: A Visual Thinking Aid, LID Publishing, London, November 2014



### The Leadership Guide

Michel L., The Performance Triangle: Diagnostic Mentoring to Manage Organizations and People for Superior Performance in Turbulent Times, LID Publishing, London, October 2013