



HOW TO THRIVE IN TURBULENT MARKETS

A classic boxing match offers useful lessons for seizing opportunities during a downturn: True champions have the capacity for both agility and absorption.

IN

the dressing room before the fight, the reigning heavyweight champion, George Foreman, bowed his head in prayer. In a few minutes he would defend his title against Muhammad Ali in a bout dubbed the Rumble in the Jungle, held in Kinshasa, Zaire, and broadcast around the world. The stakes were high for both fighters. They would split a \$10 million purse – the largest to date – and the win-

ner would hoist the championship belt. Foreman and his corner men did not pray for victory; they took that for granted. Rather, they prayed that the champion would not seriously injure his opponent. Muhammad Ali, despite his vaunted ability to float like a butterfly and sting like a bee, entered the match as the three-to-one underdog.

Uncertainty is the defining characteristic of any boxing match. Fighters and trainers can study the tapes of past fights

★ BY DONALD SULL ★



or select sparring partners who simulate an opponent's style, but they cannot predict a blow-by-blow chronology of a fight, foresee spikes in confidence, foretell the errant punch that splits an eyebrow, or anticipate a wily foe's deliberate shift in tactics.

Uncertainty is also the defining characteristic of business competition today. Competing in volatile markets can feel a lot like entering the ring against George Foreman in his prime – or, even worse, like stumbling into a barroom brawl. The punches come from all directions, include a steady barrage of body blows and periodic haymakers, and are thrown by a rotating cast of characters who swing bottles and bar stools as well as fists.

Many managers consider the recent global credit crunch and resulting economic meltdown to be a one-off – that right hook they never could have seen coming. Nothing could be further from the truth. In a report, the accounting firm PricewaterhouseCoopers even summarized the decade ending in 2006 as “10 years of high-speed change” characterized by “unsettling twists and turns,” recounting a series of events that confounded executives' plans. Those included Enron's implosion, the popping of the dot-com bubble, the September 11 terrorist attacks, the Gulf War, a sharp jump in commodity prices, the rise of emerging market economies, and growing concerns about global warming.

As they fight their way through the turbulence, business leaders can learn much from the Rumble in the Jungle. The two opponents vividly illustrate two distinct approaches to mastering the brute uncertainty of the ring. Ali was alert to fleeting opportunities and nimble at seizing them. Foreman lacked Ali's agility, but because of his sheer bulk, physical strength, and toughness, he could absorb all the punishment his opponent could dish out, all the while waiting for

IDEA IN BRIEF

» These days business competition feels much like a boxing arena, where punches come from different directions, strategies change blow by blow, and another challenger is always waiting to take you on.

» The author uses the Rumble in the Jungle, a classic boxing match between Muhammad Ali and George Foreman, to illustrate two fundamental approaches to mastering the uncertainty of today's environment. Agile companies (the Alis) quickly spot and exploit emerging business opportunities. Absorptive firms (the Foremans) have the strength and stamina to weather market shifts.

» Firms actually need to apply both approaches, at just the right times during the life cycle of the organization. The companies that display such agile absorption don't just thrive during unstable times; they emerge as true market leaders.

a chance to unleash his own powerful blows when his adversary tired.

Companies can, like the contender Ali, employ *agility* to spot and exploit changes in the market. Alternatively, they can rely on their powers of *absorption* to withstand market shifts. Some, however, combine both approaches and display “agile absorption” – the ability to consistently identify and seize opportunities while retaining the structural characteristics to weather changes. In unstable times, cultivating and using both capabilities in combination can help companies not only survive but emerge as true market leaders.

Agility: Float Like a Butterfly, Sting Like a Bee

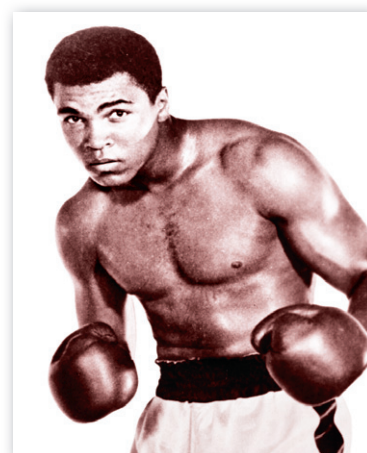
In his prime, Muhammad Ali embodied agility. He could spot a fleeting opportunity – the hint of a sagging glove or an upturned chin – and shoot off a well-placed blow before the moment passed. Many executives aspire to comparable nimbleness. A recent McKinsey & Company survey found that nine out of 10 executives ranked organizational agility

as both critical to business success and growing in importance over time. Respondents expected agility to confer multiple benefits, including higher revenues, greater customer satisfaction, increased market share, and faster time to market.

Organizational agility is a company's ability to consistently identify and capture business opportunities more quickly than its rivals do. In a decade-long study of dozens of firms around the world that thrived in volatile markets, I have identified

AGILITY

Ali could spot a fleeting opportunity – the hint of a sagging glove or an upturned chin – and shoot off a well-placed blow before the moment passed.



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three distinct forms of agility: operational, portfolio, and strategic. (For an overview of each type, see the exhibit “Three Ways to Be Agile.”)

Operational agility. The first kind of agility is a company’s capacity, within a focused business model, to find and seize opportunities to improve operations and processes. These opportunities need not be sexy. Cost reductions, quality improvements, or refinements to distribution processes can be just as valuable as introducing new products and services – as the success of Toyota, FedEx, and Southwest Airlines illustrates.

The crucial factors here are speed and execution – central tenets in the case of Companhia Cervejaria Brahma. In less than two decades, the company rose from the struggling number-two brewer in Brazil to drive the creation of the world’s largest brewer, by merging first with its domestic rival, Antarctica Paulista, then with Belgium’s Interbrew, and finally with Anheuser-Busch.

Much of Brahma’s rise to global leadership is the result of its operational agility, honed in the harsh climate of Brazil’s volatile market. Marcel Telles, who joined Brahma as CEO in 1989, had spent the preceding two decades as a trader in Brazil, a job in which he learned the value of real-time market data. On taking charge, he revamped the brewer’s information systems, providing executives with daily sales data by individual retail outlet at a time when competitors relied on dodgy numbers aggregated by region at month’s end. To help his management team develop a shared understanding of the market situation, Telles literally knocked down the walls and created an open office reminiscent of a traders’ room. The space encouraged collaboration among managers, who constantly swapped insights on the changing business landscape and ideas for new ways to seize market share or improve efficiency.

Brahma’s managers moved quickly from insight to action. The company’s top management team selected and prioritized three opportunities each year – such as targeting 20-something consumers, reducing the cost of goods sold, and strengthening the distribution network – each based on current market realities. The company’s focused business model – nearly all its profits were earned in Brazilian beverages at that time –

MANAGERS SHOULD view organizational agility and absorption as complements, not substitutes. Getting the right mix of the two approaches, rather than relying heavily on one or the other, increases their effectiveness. Here are some principles for achieving and maintaining that balance – an approach the author calls agile absorption.

» **Not all sources of absorption are created equal.** Low fixed costs are good; they don’t prevent companies from seizing opportunities as they emerge. But excess staff is bad; top-heavy management teams create more work to justify their existence and introduce unnecessary layers of bureaucracy.

EXAMPLE The low fixed costs of Brazilian brewer Brahma allowed the company to outlast its longtime rival Antarctica in the face of price competition, flattening demand, and macroeconomic shocks. The brewer’s cost savings generated the cash required to launch a second brand and ultimately acquire Antarctica and start the ascent to global leadership.

» **Actively manage trade-offs.** Don’t sacrifice good sources of absorption (or agility) without being sure of the benefits you’ll receive in return.

EXAMPLE GM typically doesn’t lay off workers when demand slips, which translates its labor from a variable to a fixed cost – thereby decreasing the carmaker’s absorption. Meanwhile, Toyota also guarantees its employees lifetime employment but has proactively instituted flexible work rules, variable job assignments, and employee involvement – which collectively enhance the company’s agility.

» **Maintain a culture of agility.** Firms follow a fairly standard trajectory over time: They slowly develop absorptive strengths, which can erode the culture of agility that once enlivened them as start-ups. This decline is common but not inevitable.

EXAMPLE The CEO of Brahma and his team maintained a strict focus on the handful of values they deemed critical to agility – performance, transparency, informality, and teamwork. For instance, they eliminated executive dining rooms and reserved parking spaces to send a clear signal that performance trumped titles or tenure. Data on individual and team objectives and performance were posted publicly to stimulate healthy rivalry, put pressure on underperformers, and help managers come to a shared understanding of what everyone was doing and how it all hung together.

allowed executives to choose opportunities that made sense for the business as a whole. The team translated the corporate priorities into clear performance objectives and communicated them throughout the organization. Those few objectives channeled the company’s efforts, prevented managers from wasting resources on peripheral activities, and clarified who was accountable for what.

Telles and his team kept up the pressure to execute by offering high-powered incentives, including a compensation scheme that rewarded the top 14% of managers with bonuses equal to 18 months of their base pay, while the bottom 40% received no bonuses at all. Managers’ objectives, moreover, were

posted publicly in the office and coded: Green dots denoted that they were on track, yellow dots meant objectives were at risk, and red dots flagged initiatives that were off track.

Brahma's largest rival, Antarctica, attempted to seize the same opportunities but consistently started a year or two later, took longer to execute, and trailed well behind Brahma. When budget brewers depressed prices across the industry, for example, Brahma's management moved quickly to reduce its fixed costs, shedding more than half the company's workforce between 1991 and 1994. Meanwhile, Antarctica began its staff reductions in 1995 and took another three years to complete the job. With cost cuts behind them, Brahma's executives could turn their attention to exploiting the market gap in serving young adults, while the company's competitor was still mired in cost cutting.

Portfolio agility. The second type of agility is the ability to quickly and effectively shift resources, including cash, talent, and managerial attention, out of less-promising units and into

more-attractive ones. A recent study of more than 200 large enterprises by McKinsey found that the reallocation of resources to faster-growing segments within a company's portfolio of businesses was the largest single driver of revenue growth. Although the conventional wisdom holds that diversified conglomerates – think Daewoo and Tyco – destroy shareholder value, recent research by economists qualifies this generalization, finding that diversification does not necessarily destroy value. Rather, managers often diversify in a desperate bid to escape problems in their core businesses – which is the real underlying source of weak earnings. In contrast, diversified firms such as Johnson & Johnson, Procter & Gamble, and Samsung Electronics have used their portfolio agility to succeed over long periods, while private equity groups, such as Blackstone, KKR, Carlyle, and TPG, have earned high returns for their investors by actively managing portfolios of businesses.

A varied set of business units doesn't guarantee portfolio agility, however. Portfolio agility requires disciplined processes

3

Ways to Be Agile

Organizations can achieve agility in three distinct ways. Here are some of the factors associated with each.

1

OPERATIONAL

Within a focused business model, consistently identify and seize opportunities more quickly than rivals do

EXAMPLES

Southwest Airlines, Toyota, Tesco

MUST-HAVES

- Shared real-time market data that is detailed and reliable
- A small number of corporate priorities to focus efforts
- Clear performance goals for teams and individuals
- Mechanisms to hold people accountable and to reward them

LEADERS NEED TO

- Stay in the flow of information
- Sustain a sense of urgency
- Maintain focus on critical objectives
- Recruit entrepreneurial staff

2

PORTFOLIO

Quickly shift resources out of less-promising businesses and into more-attractive opportunities

EXAMPLES

General Electric, Samsung Electronics, Procter & Gamble

MUST-HAVES

- A diversified portfolio of independent units
- A cadre of general managers who can be transferred across units
- Central corporate control over key resources, such as talent and cash
- Structured processes for decreasing investments or selling off units

LEADERS NEED TO

- Make unpopular calls on resource reallocation
- Base decisions on rational rather than emotional or political criteria
- Invest heavily in promising opportunities

3

STRATEGIC

Identify and seize game-changing opportunities when they arise

EXAMPLES

Banco Santander, Emirates Airline, Oracle

MUST-HAVES

- A strong balance sheet and a large war chest to finance big bets
- A governance structure that permits companies to seize opportunities more quickly than rivals do
- Long-term perspective from owners and executives

LEADERS NEED TO

- Maintain the owners' confidence
- Mitigate downside risk on big bets
- Wait for the right opportunities

for evaluating individual units and reallocating key resources. Since those resources include talent, companies also must cultivate general managers who are versatile enough to move from business to business. General Electric, a pioneer in active portfolio management, invests heavily to develop a cadre of such managers. In addition to offering them leadership training, it gives them P&L responsibility early on and rotates them through jobs and units.

It is equally critical that the corporate office control a central pool of resources. Consider the experience of one large North American bank, which paid a management consulting firm millions of dollars to profile its diverse business units in painstaking detail. The research provided a compelling case for shifting resources from two established businesses into promising new ones. Unfortunately, the bank operated as a loose federation of units and lacked the precedent or processes to reallocate resources across fiefdoms. As a result, the cash cows continued to jealously hoard their money, their claims on the IT budget, and their best people.

As this example suggests, portfolio agility demands that leaders make difficult and often unpopular choices. The late Reginald H. Jones, Jack Welch's predecessor at GE, had the formal tools to classify the company's strategic business units, but he shied away from some difficult decisions, such as exiting the Utah International mining company deal, which he himself had pushed. Welch excelled at reversing Jones's mistakes, cleaning out GE's portfolio in his early years on the job. More impressive, he was willing to reverse his own mistakes, such as selling Kidder, Peabody & Company in 1994 when the acquisition, engulfed in trading scandals, did not live up to expectations. Welch was also great at allocating resources based on logic rather than emotion. He was willing, for instance, to invest heavily in GE Capital, although he did not always see eye-to-eye with the leadership of that business. But he fired the head of Kidder, even though that executive was an old friend.

Strategic agility. Business opportunities are not distributed evenly over time. Rather, firms typically face a steady flow of small opportunities, intermittent midsize ones, and periodic golden opportunities to create significant value quickly. The ability to spot and decisively seize the last kind of opportunity, the game changers, is the essence of strategic agility. Such opportunities usually entail rapidly scaling up a new business, aggressively entering a new market, betting heavily on a new technology, or making significant investments in capacity. The agility to make a big bet quickly does not, of course, guarantee that the gamble will pay off – recall AT&T's cable acquisitions. However, companies that avoid big bets altogether risk falling behind more aggressive competitors.

Emirates Airline faced a golden opportunity in the midst of a perfect storm in the global airline industry in the early 2000s. At the time air carriers were battered by a surge in crude oil prices and depressed consumer demand in the wake of the September 11 terrorist attacks. By sheer bad fortune, the su-

pervisory board of Airbus announced its intention to produce the A380 less than a year before the September 11 attacks and desperately needed to fill its order book to cover development costs. Although the double-decker aircraft promised more passenger space, better range, and greater efficiency, it came to market at a time when few carriers had the wherewithal to buy it.

Emirates, however, ordered 15 aircraft less than a month after the World Trade Center attacks and soon became Airbus's largest customer for A380s. Emirates' ability to buy in bulk when other airlines could not ensured the carrier favorable prices and delivery terms, which gave it a leg up on rivals.

Absorption: Take a Licking and Keep on Ticking

Agility makes for good viewing – few heavyweights have matched the young Muhammad Ali for pure spectacle. But agility is not the only or surest way to win a bout. Boxers like George Foreman rely on absorption – compensating for their lack of “bob-and-weave” dexterity with the size, physical strength, and toughness to withstand nearly any punishment opponents can mete out. Foreman could weather his opponent's blows, round after round, patiently waiting for his adversary to run out of steam or make a mistake – and that's when he'd let loose the knockout punch.

In a business context, firms can build absorption in several ways. The obvious levers include size, diversification, and a war chest of cash. Other factors (high customer switching costs, low fixed costs, and a powerful patron) can also buffer a firm against environmental changes, although in less evident ways. (See the exhibit “10 Ways to Build Absorption.”)

Emirates, for example, had structural strengths other airlines lacked. To begin with, it was owned by the government of Dubai, which is ruled by the Al-Maktoum family, so it was free to make bets that might pay off in years, not quarters. The airline also had diversified its profitability across regions and cargo, which left it less susceptible to a drop-off in travel; possessed a large war chest; and maintained low fixed costs – which put it in a good position to ride out tough times.

Because golden opportunities are not evenly spaced over time, absorptive capabilities can keep a company in the game until its big chance emerges. Look at Apple. Its iPod is an excellent example of agility, but it was the firm's absorption – in the form of a small core of customers locked into the firm's product – that kept Apple around long enough to seize the opportunity. During the 1990s, Apple was relegated to the “other” category in the U.S. PC market when its share fell to under 5%, and from the late 1980s through early 2004, its stock was essentially flat. A small base of fanatically loyal customers kept the company going until changes in context created its golden opportunity.

Absorption also allows companies to outlast rivals in wars of attrition. Consider Microsoft's entry into the game-box

industry. The software giant has duked it out in round after round with Nintendo and Sony, in the process losing billions of dollars by some estimates. But Microsoft has also built up enormous stores of absorption over the years – through its brand identity, customers who are locked into its standard, and bulging coffers of cash – that have allowed the company to wear down its gaming rivals through successive periods of investment. Microsoft’s absorptive capabilities increase the odds that the company could emerge victorious at the end of the battle for leadership in the game-box industry – even without offering the best product.

Firms that rely on absorption solely for defensive purposes risk falling behind rivals that deploy it on offense as well. For over a century, Banco Santander and rival Banco Popular were members of a protected oligopoly of Spanish banks. Then Spain deregulated its banking market, and their paths diverged. Santander bulked up at home, seized opportunities in Latin America, and expanded into Europe, while Banco Popular played it safe, eschewed foreign markets, and focused on the Spanish market. Popular’s domestic focus provided good returns to shareholders but left the bank without Santander’s ability to weather changes in the home market or seize major opportunities – such as buying a portion of ABN Amro’s business – when they arose.

Whereas agility allows a company to stake out an early position, absorption permits the firm to secure an early lead and reinforce its position. For example, in the fast-moving consumer goods industry both Groupe Danone and Procter & Gamble were quick to spot growth opportunities in China, Russia, Brazil, and other emerging markets. Danone, a much less absorptive company, relied on joint ventures to scale up quickly despite limited resources. This approach, however, created headaches later on when the partnerships soured. By contrast, the much more absorptive P&G could afford to initially staff its emerging market operations with expatriates and then hire local talent, inculcate those hires in the P&G way over the years, and gradually replace the expats.

Agile Absorption: Strike the Right Balance

Absorption and agility are not stark alternatives – the former is not the sole domain of established enterprises defending their turf nor the latter of nimble start-ups looking at new ways to grow. In the Rumble, Muhammad Ali prevailed because he maintained his trademark agility but also had enhanced his absorption. His training regimen months before the fight consisted largely of being clobbered by the hardest-hitting sparring partners his trainer could find. And during the Rumble, he deployed the now-famous “rope-a-dope” strategy, defying centuries of conventional wisdom in boxing by deliberately placing himself on the ropes, which absorbed the energy of Foreman’s massive blows and allowed Ali to take much more punishment.

Managers should similarly view agility and absorption as complements, with the balance shifting as circumstances change. Getting the mix right, instead of relying heavily on one or the other, increases the effectiveness of these two approaches during volatile times. (The sidebar “Is Your Business a Champ or a Chump?” contains a diagnostic tool to quickly assess your organization’s balance of agility and absorption.)

Striking the right balance isn’t necessarily easy. Many of the structural factors that provide absorption appear, at first glance, diametrically opposed to those required for agility: global scale versus lean operations, for instance, or legacy assets versus a clean sheet of paper. So how, in practice, can leaders help their firms achieve and maintain agile absorption?

More good fats, fewer bad fats. As a first step, executives should recognize that sources of absorption vary in terms of their effect on agility. Absorption is a store of energy for hard times – much like fat on the human body. And like dietary fats, some sources of absorption are more healthful than others. Low fixed costs, for example, are an outstanding source of absorption. They allow a firm to weather a wide range of threats without necessarily impeding its ability to seize golden opportunities. The low fixed costs of Brazilian brewer Brahma, for instance, allowed the company to outlast its rival Antarctica in the face of price competition, flattening demand, and macroeconomic shocks. The brewer’s savings on fixed costs also provided the cash required to launch a second brand and



ABSORPTION

Foreman compensated for his lack of “bob-and-weave” dexterity with the size, physical strength, and toughness to withstand nearly any punishment.

10 Ways to Build Absorption

TO CREATE A BUFFER against inevitable hard times, executives should focus on strengthening the following sources of organizational absorption. They must remember, however, that some sources of absorption tend to kill agility, while others allow a firm to weather a wide range of threats without necessarily impeding its ability to seize opportunities. Low costs, for instance, can keep a company in the game long enough to ride out market shifts, but excess staff can depress profitability and create busyness for others.

- 1 LOW FIXED COSTS**
To weather a wide range of changes – for instance, price wars, higher raw-materials costs, declining demand
- 2 WAR CHEST OF CASH**
To deploy against unexpected opportunities and threats
- 3 DIVERSIFIED CASH FLOWS**
To withstand downturns in specific units; diverse units can serve as a store of potential wealth that can be sold later
- 4 VAST SIZE**
To enable downsizing of operations during crises
- 5 TANGIBLE RESOURCES**
To generate profits in the future; these resources might include raw-materials deposits and real estate
- 6 INTANGIBLE RESOURCES**
To insulate the firm against short- and mid-term market shifts; these resources might include brand, expertise, or technologies
- 7 CUSTOMER LOCK-IN**
To buy time when competitive dynamics and markets shift; high switching costs, for instance, can prevent customers from jumping ship
- 8 PROTECTED CORE MARKET**
To provide a safe stream of cash to weather storms
- 9 POWERFUL PATRON**
To provide extra resources or a buffer from market shifts during times of change; such patrons may include a powerful government, regulator, investor, or customer vested in the firm's success
- 10 EXCESS STAFF**
To be shed in hard times

ultimately acquire Antarctica and start the ascent to global leadership.

At the other extreme are sources of absorption that bolster the company's ability to weather uncertain times but come at an unacceptably high cost in terms of lost agility. A prime example is excess staff. Over time, firms often build up "latent slack," the academic euphemism for more employees than a company needs to get the work done. Excess employees, in this view, constitute resources that management can recover, through layoffs or capacity reductions, to free up cash in difficult times. But excess workers, particularly those in staff positions, tend to generate work to justify their existence. Their efforts, however well-intentioned, introduce unnecessary layers of complexity and bureaucracy that sap an organization's agility.

Actively managing trade-offs. Consciously managing the trade-offs between agility and absorption is critical, as the ex-

periences of two automakers show. Consider General Motors, which consistently missed opportunities that Toyota seized, including differentiating on product quality and coming out with smaller cars and hybrids. Many factors have contributed to GM's relative decline, but one oft-cited explanation is management's inability to lay off workers when demand slips, which would translate labor from a variable to a fixed cost, thereby decreasing the carmaker's absorption. But Toyota also guarantees its workers lifetime employment; the Japanese carmaker attempted to lay off workers in the 1950s but encountered massive resistance from unions and the government. Toyota agreed to a larger workforce with its higher fixed costs but also instituted flexible work rules, variable job assignments, and employee involvement, which collectively enhanced the company's agility. GM's executives, in contrast, basically gave the absorption away without receiving significant benefits in return.

Many managers believe that corporate bulk is the arch-enemy of agility. But it is not size per se that kills agility; it is complexity. Executives at Emirates, for example, found they needed several ancillary businesses, including baggage handling, hotels, and tours, to support the company's growth from a two-plane operation in 1985 to one of the top 10 international carriers in the world by 2007. Rather than complicate the core business, however, Emirates hived off the ancillary businesses into a separate entity under different management. Note that while a focused business model definitely enhances operational agility and scales up well without adding complexity, it can also decrease the scope for portfolio agility and leave a firm vulnerable to shifting consumer tastes (as Benetton and Laura Ashley were) or to new technologies (think Wang or Polaroid).

An alternative approach to combining scale and agility consists of breaking a large company into multiple, independent profit-and-loss units. These units can move quickly, increase transparency and therefore accountability for performance, and foster a sense of ownership among managers and employees. Because they continually probe different markets, looking for unfilled gaps, the units are also more likely to see new op-

portunities before their rivals do. The great attraction of this approach is that it offers the potential to combine all three types of agility with high levels of absorption. Firms that excel at this, including GE and Johnson & Johnson, have remained leaders in their industries over long periods of time. Note that this approach carries costs as well: Independent units often duplicate back-office functions, which increase fixed costs, and executives must invest heavily to promote cooperation among fiercely autonomous divisions.

Maintaining a culture of agility. During the start-up phase, firms generally are agile but incredibly short on absorptive capabilities. Their small size and lack of legacy allow these firms to turn on a dime, but they can also find themselves at a disadvantage to heavyweight incumbents. As firms enter corporate adolescence, they maintain some agility but also accumulate absorption as they launch new products, expand geographically, bolster brand value, or firm up customer relationships. Over time, absorption stabilizes while agility deteriorates.

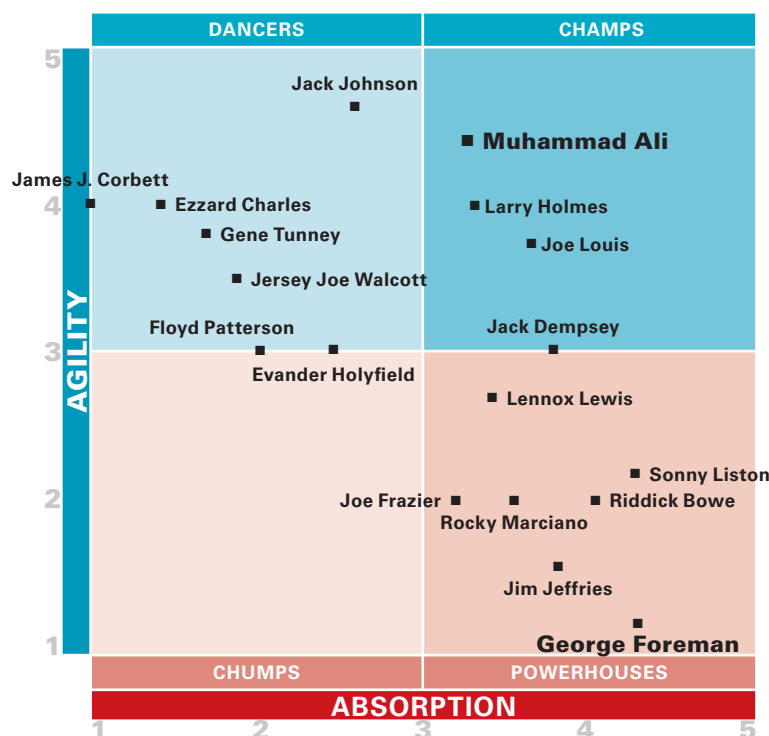
Worse, a company's absorptive strengths can erode the culture of agility that once enlivened it as a start-up: Size often engenders bureaucracy and silos. Switching costs give incumbents a false feeling of invulnerability, which can lead

Is Your Business a Champ or a Chump?

THE MATRIX at right plots 18 of the greatest heavyweight boxers of all time in terms of their agility (including variables such as hand speed and footwork) and absorption (including size and endurance). George Foreman defines one extreme, scoring among the highest in absorption and lowest in agility, and 1892 heavyweight champ James J. "Gentleman Jim" Corbett represents the other extreme – exceptional agility but limited absorption.

To see where your organization falls in terms of agility and absorption, take the accompanying survey: Fill in the number that reflects your level of agreement with each of the statements. Next, calculate the average of your scores for each of the absorption and agility measures. You can then plot your organization on the matrix against the heavyweights.

If your organization lands in the upper-right quadrant, it will likely do well, come what may. If it lands in the bottom-right box, it may well survive but risks a steady decline as it cedes opportunities to agile rivals. If it's in the upper-left corner, it needs to build absorption. And if it lands in the lower-left quadrant, it risks the failure and obscurity of the boxers who lacked agility and absorption.



to high-handed arrogance in dealing with customers and competitors. A protected core market can lull firms into complacency. The biggest threat facing absorption heavyweights such as General Motors, Coca-Cola, Microsoft, Royal Dutch Shell, and Sony is the slow erosion of their once vibrant cultures, rather than threats from new technologies, competitors, or regulators.

The decline of a company's culture of agility is common but not inevitable. Recall the Brazilian brewer Brahma. The new CEO and his partners bought a controlling stake in 1989 and spent the next decade transforming the century-old company from a sleepy bureaucracy to an aggressive competitor, and in the following decade transplanted its culture first to its largest Brazilian rival, Antarctica, and then to Belgian Interbrew. (And perhaps it will transplant that culture to Anheuser-Busch in the future.)

Managers who want to maintain (or rekindle) a culture of agility need to maintain a strict focus on the handful of values they deem critical to agility. Telles and his team, for example, eliminated status symbols such as executive dining rooms and reserved parking spaces to send a clear

signal that performance trumped titles or tenure. The team minimized the role of hierarchy by holding meetings around a large table and modeling executive meetings on the free give-and-take of a traders' room. Transparency was another critical value: Financial and operating data were freely available, while individual and team objectives and performance were posted publicly to stimulate healthy rivalry, put pressure on underperformers, and help managers come to a shared understanding of what everyone was doing and how everything hung together.

The team also focused on attracting and retaining employees who shared these values. Brahma had limited success hiring experienced recruits from the industry, who were often too political and cynical to thrive in the company. Instead the team focused its attention on attracting new recruits and launched a trainee program that hired students straight from

college to serve as the primary source of management talent. The career opportunities, rich incentives, and excitement of the company were such that the trainee program attracted 9,000 applicants for 25 positions, placing the program among the most popular in Brazil. In its first

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ABSORPTION VS. AGILITY SURVEY

SCORING SCALE 1 2 3 4 5
STRONGLY DISAGREE NEITHER AGREE/DISAGREE STRONGLY AGREE

MEASURES OF ABSORPTION

1. Our size prevents us from failing or being acquired.
2. Our company's cash flows are highly diversified by business line or geography.
3. We have a strong balance sheet and more cash and marketable securities than our rivals do.
4. We own unique tangible assets that customers pay a premium for and our rivals cannot imitate.
5. We control intangible resources that customers pay a premium for and our rivals cannot imitate.
6. We have abundant slack (people who are not creating value in the organization).
7. Customers are locked into using our product by high switching costs.
8. Powerful partners (for instance, government or investors) are vested in our success.
9. We are leaders in a profitable home market with high barriers to entry.
10. We have low fixed costs relative to our most efficient competitors.

ABSORPTION SCORE AVERAGE

MEASURES OF AGILITY

1. Our systems provide us with detailed, reliable market data in real time.
2. We consistently spot and exploit changes in the market before our competitors do.
3. We have a shared understanding of the situation across units and levels.
4. Objectives are clear to all, and everyone is held accountable for delivery.
5. We are not overwhelmed by a large number of key performance indicators and objectives.
6. Our organization attracts, retains, and rewards entrepreneurial managers.
7. We maintain the same sense of urgency as a start-up venture even in good times.
8. Management admits mistakes and does not delay in exiting unsuccessful businesses.
9. Top executives systematically reallocate cash and top management talent across units.
10. Top executives have the courage to seize major opportunities when they arise.

AGILITY SCORE AVERAGE

decade, the company hired more than 400 recent college graduates; 60% went on to management positions, with the other 40% serving in senior positions. The new recruits, along with promising employees promoted from within, became the carriers of the new culture to the acquired companies.

As executives set out to increase their organization's capacity for agile absorption, they should keep in mind that what works in one industry may prove totally inappropriate in other sectors. Scaling up a focused model, for instance, works well in airlines, retail, automobiles, and fast food but not in consumer goods, luxury products, or investment banking, all of which require more portfolio agility. No matter what the situation is, however, managers need to take inventory of the sources of agility and absorption within their organizations. Specifically, they can ask themselves a series of questions: How agile are we? How absorptive are we? Where does our absorption currently come from? Are these the best sources? Are there alternative ways to boost our absorption that would enhance our agility?

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The rise and fall of Muhammad Ali illustrates a universal dynamic: In his early career, Ali could bob-and-weave to victory, but he rose to true greatness by building his capacity to take a punch. As champion, Ali combined agility and absorption in measures that made him "the greatest of all time." But over time, the agility seeped from his limbs, and by his final fights

Ali could do little more than absorb the punishment his opponents dished out.

Many organizations follow a similar arc. Their early agility wins them the trappings of success – size, cash, and a secure position. These very sources of absorption, however, gnaw away at the cultural roots of agility, while bureaucracy, political infighting, complacency, and arrogance sprout like noxious weeds in their place. When the context shifts – and it always does – the bloated organization lumbers through the ring like a punch-drunk heavyweight, absorbing blows that it can no longer dodge and missing opportunities it is too slow to seize. The cumulative effect of these blows can wear down champions, like U.S. Steel or General Motors, that once appeared invincible.

But tendency is not destiny. By understanding the sources of agility and absorption and their combined power as a one-two punch, and by actively balancing them over time, leaders can increase their organization's ability to go the distance in an uncertain world. 

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"For argument's sake, let's say the report is bubble-wrapped and floating in my bathtub."

P.C. Vey

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