

Dynamic Capabilities and Organizational Agility: RISK, UNCERTAINTY, AND STRATEGY IN THE INNOVATION ECONOMY

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“Organizational agility” is often treated as an immutable quality, implying that firms need to be in a constant state of transformation. However, this ignores that such transformations, while often essential, come at a cost. They are not always necessary, and may not even be possible. This article explores agility at a more fundamental level and relates it more specifically to dynamic capabilities. It demonstrates that it is first essential to understand deep uncertainty, which is ubiquitous in the innovation economy. Uncertainty is very different from risk, which can be managed using traditional tools and approaches. Strong dynamic capabilities are necessary for fostering the organizational agility necessary to address deep uncertainty, such as that generated by innovation and the associated dynamic competition. This article explores the mechanisms by which managers may calibrate the required level of organizational agility, deliver it cost effectively, and relate it to strategy. (Keywords: Competitive Advantage, Competitive Strategy, Strategic Management)

This article brings together under the rubric of the dynamic capabilities framework a multidisciplinary perspective on the management of risk and uncertainty. Deep uncertainty is ubiquitous in connected interdependent economies experiencing rapid technological change. We harness economic and financial concepts and tools, along with insights from organization and management theory, to illuminate contexts where maintaining organizational agility is worthwhile and possibly a necessity.

Many treatments of agility (or the equivalent term, flexibility) in the management literature would seem to suggest that business firms should doggedly seek to become agile no matter the cost, keeping options open all the time, maintaining redundancy at all times, and staying in a constant state of radical transformation.¹ Hamel is sometimes representative of this view, claiming not only that “the goal is a company where revolutionary change happens in lightning quick evolutionary steps,”² but also that the fundamental challenge companies’ face requires reinvention continuously, and not just in times of crisis.³ We suggest that when inflection points emerge, uncertainty is enhanced, and change is necessary for firms to remain competitive. However, because change is costly and achieving agility often