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Management

The Age of Agile

How Smart Companies Are Transforming the Way Work Gets Done

by Stephen Denning

THE SUMMARY IN BRIEF

An unstoppable business revolution is under way — and it is Agile. Companies that embrace Agile management learn to connect everyone and everything . . . all the time. They can deliver instant, intimate, frictionless value on a large scale.

Agile began emerging many decades ago but truly took off in the software-development industry. Sparking dramatic improvements in quality, innovation and speed to market, the Agile movement is now spreading quickly throughout all kinds of companies. It enables a team, a unit or an enterprise to nimbly adapt and upgrade products and services to meet rapidly changing technology and customer needs. And the process is applicable anywhere — companies don't need to be born Agile.

Filled with examples from every sector, *The Age of Agile* helps readers master the three laws of Agile management, embrace the new mindset, overcome constraints, make the entire organization Agile — and more.

With this breakthrough approach, even global giants can learn to act entrepreneurially. Their future depends on it.

IN THIS SUMMARY, YOU WILL LEARN:

- The three core characteristics of the Agile mindset and management.
- Key behaviors for achieving Agile management at scale.
- The trap of shareholder value and why it's incompatible with the Agile mindset.
- Why Agile strategy focuses on the future rather than past performance.

CONTENTS

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THE COMPLETE SUMMARY: **THE AGE OF AGILE**

by Stephen Denning

The author: Stephen Denning is the author of six business books on leadership, innovation, leadership storytelling and Agile management. From 1969 to 2000, he held many management positions at all levels at the World Bank. Since 2000, he has worked as a consultant and speaker for scores of Fortune 500 companies and government agencies. He leads the SD Learning Consortium, in which firms are sharing insights on the ongoing transition in making their organizations Agile.

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PART I: AGILE MANAGEMENT

More Value From Less Work

Thousands of organizations have made a fundamental discovery: Business success in the 21st century increasingly depends on becoming as nimble as the rapidly shifting and unpredictable context in which they find themselves. As a result, Agile management is now spreading to every kind of organization and every aspect of work.

Agile management is about working smarter rather than harder. It's not about doing *more work* in less time; it's about generating *more value* from *less* work.

But what exactly is Agile? What does it mean for an organization to embrace the Agile mindset?

When you hear the word "agile" or "nimble," you might think about a squirrel or a ballet dancer or a champion soccer player. You probably wouldn't think of a large organization — big, unwieldy, clunky, slow, out to make money from you and fundamentally unfriendly. You generally don't think of organizations as being nimble because generally they're not. And yet Agile organizations are not only possible. They do exist.

Organizations that have embraced Agile have three core characteristics:

1. **The Law of the Small Team**
2. **The Law of the Customer**
3. **The Law of the Network**

Agile means embracing fundamentally different assumptions. For traditional managers, the process usually isn't comfortable. It isn't easy. At the outset, it feels wrong. It's like learning a foreign language with a different grammar. It is only over time and through actual experience and practice that Agile becomes second nature and automatic. This is not about "implementing Agile tools and processes." Ultimately, Agile is about understanding and interacting with the world with a different mindset.

The Law of the Small Team

Picture this. It's 1997 and you've just had a great idea: a slim hand-held device that's small enough to slip into your pocket and that can perform multiple functions at the touch of a fingertip. It will serve as a portable telephone, an address book, a map, a navigation system, an airline boarding pass, a music or movie player, a television set, a camera, a flashlight, a dictation machine, a stopwatch, an alarm clock, a translation machine, a remote control, a repository of the world's newspapers and magazines, a library of thousands of books and more.

But how to bring it to reality? Well, it's 1997 and so you apply the best management practices of the day. First, you spend a couple of years winning support for the idea's feasibility and persuading the strategy committee of a major corporation to design, build and market this amazing new device.

After finally getting this approval, you pull together a huge team of designers and engineers and spend another couple of years developing detailed specifications for the device with a timeline to deliver and integrate its various components. You then recruit hundreds of thousands of engineers and developers to build the device. You

1-800-SUMMARY
service@summary.com

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **A. Imus**, Contributing Editor

also hire tens of thousands of managers to supervise and control them to ensure that they deliver according to the plan and on schedule.

The result? Many years and billions of dollars later, you find that your device is still far from being ready for the marketplace. The technical problems are unending and seemingly exponential. Coordination between units is a massive headache. There is acrimonious finger-pointing about who is responsible for the technical problems and the delays.

Sadly, management decides that your project must be canceled. That's because a real-life competitor — Apple — had by 2007 developed a similar product, having brought it "from scratch to market" in just 18 months at a fraction of the cost of traditional management practices.

How was that possible? Apple designed and built a relatively simple physical device — the iPhone — that was developed in an iterative fashion in short cycles and steadily upgraded. Instead of *scaling up* the organization to resolve a complex problem, Apple *scaled down* the problem into tiny bite-size pieces that small independent teams could deliver in an iterative fashion with direct feedback from customers.

The Law of the Small Team is simple. It's a presumption that in a VUCA world, big and difficult problems should — to the extent possible — be disaggregated into small batches and performed by small cross-functional autonomous teams working iteratively in short cycles in a state of flow, with fast feedback from customers and end-users.

What exactly are the practices that make up the Law of the Small Team? Although there is no "one size fits all" and no universal "best practice," management practices have a striking family resemblance. The main characteristics are

- Work in small batches
- Small cross-functional teams
- Limited work in process
- Autonomous teams
- Getting to "done"
- Work without interruption
- Daily standups
- Radical transparency
- Customer feedback each cycle
- Retrospective reviews.

The Law of the Customer

In 1539, a Polish doctor, economist, mathematician and part-time astronomer named Nicolaus Copernicus published a paper he had been working on for some years. The paper explained a strange idea: The earth revolves around the sun. His idea flew in the face of common sense. Everybody knew from direct evidence of their own eyes that the sun revolves around the earth. Copernicus was saying, "Forget common sense. Forget what your eyes are telling you. Forget what everyone believes. Common sense is wrong. The earth revolves around the sun."

The publication of Copernicus's theory began not just a rethinking of astronomy but an inexorable process of inquiry into the entire organization of society, including the rights and privileges of the individuals who happened to be in charge of the Roman Catholic Church and of the monarchies that asserted power by divine right.

A Copernican Revolution in Management

Under the Law of the Customer, the practice of management is currently undergoing an equivalent transformation in the way organizations understand, and interact with, the world. The earliest and simplest articulation of the law came from Peter Drucker in 1954: "There is only one valid definition of business purpose: to create a customer... What the business thinks it produces is not of first importance — especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers 'value,' is decisive — it determines what a business is, what it produces and whether it will prosper."

Drucker's proposition was a radical departure from the common sense of the day. Everyone knew that a business was in business to make money. Support for the view of money-making as the sole purpose of a business steadily gathered momentum in the latter part of the 20th century, despite Drucker's insight.

Meanwhile, changes in the marketplace since 1954 were steadily reinforcing the validity of Drucker's insight and the embryonic Law of the Customer. Deregulation, globalization, the emergence of knowledge work and new technology all made inroads. Competition increased. The pace of change accelerated. Knowledge workers became central to generating the innovation needed to create and retain customers. To top it off, the Internet transformed everything.

An epochal change in the commercial center of gravity thus occurred: Power in the marketplace shifted from seller to buyer. For firms to be successful, customers had to be not only satisfied, they had to be *delighted.* New technological capabilities meant that it became possible to deliver instant, intimate, frictionless value at scale. Once that became possible, as shown by firms such as Apple, Amazon and Google, it also became *necessary.*

Instead of giant corporations standing as the solid center of the marketplace making money out of passive consumers who float by and are manipulated, the living customer with mercurial thoughts and feelings is now the center of the commercial universe. The customer is the sun, and organizations orbit around it. It's a Copernican revolution in management.

Now, the customer truly *is* number one. If internal systems, processes, goals, values or culture are getting in the way of making that a reality, they must be changed.

We see certain characteristics in firms that have achieved post-Copernican performance:

- There is a shared goal of delighting the customer.
- Top management takes responsibility for ensuring enthusiasm for delighting the customer throughout the organization.
- The firm aspires to be the best at what it does.
- Everyone in the organization has a clear line to the customer.
- The firm ensures it has accurate and thorough knowledge of the customer.
- Staff members are empowered to make decisions.
- The firm's structure changes with the marketplace.
- Relationships are interactive, vertically, horizontally, internally and externally.
- Back-office functions are aligned to serve the customer.
- Value for customers must be monetizable for the organization.

The full gains from post-Copernican management come when the whole organization is operating under the Law of the Small Team and the Law of the Customer. How is this possible? It is to this set of issues that we turn.

The Law of the Network

The network model of organization is key to making the whole organization Agile. A network is a group or system of interconnected people or things. An organizational network is a set of teams that interact with and collaborate with other teams with the same connectivity, interaction and passion as they do within their own small team.

An organizational network is founded on the Law of the Small Team. But it requires more. Each team needs to look beyond its own goals and concerns and see its work as part of the larger mission of the collectivity.

To the conventional management thinker, large, efficient networks are an oxymoron. They are not managerially possible. Big organizations require authority-based hierarchy. It's not even worth thinking about anything different.

Yet over the last 15 years, we have seen examples of large and efficient organizations operating as networks in the world of Agile. These examples include Riot Games, Spotify, the Network Management unit in Ericsson and the Developer Division at Microsoft, all of which have more than 1,000 people collaborating on large, complex tasks in networks of Agile teams, rather than in pyramidal hierarchies.

What Makes Networks Work

While we still have much to learn about the functioning of large networks, we can make some strong hypotheses as to what it takes to make them work:

The network has a compelling goal. In the case of Agile management, the goal flows from the Law of the Customer: the naturally inspiring goal of adding value to customers. Once that obsession is shared throughout the organization, it matters less *who* is delivering the value. What's important is the *fact* of delivery.

The network comprises small groups. "Successful movements," says John Hagel, the director of Deloitte's Center for the Edge, "are all organized around small, local action groups, who work together to achieve impact in very different contexts. These action groups are united by a loosely coupled network that enables them to seek help from others and to observe and learn from the diverse actions of each group what actions can achieve the greatest impact."

The groups have an action orientation. These groups are about putting ideas into practice, not about abstract knowledge or even ideas for the sake of ideas themselves. These groups are about changing the world in a direction that the participants think is better in an important way.

The network is the sum of the small groups. The network doesn't *contain* the small groups; rather, it *is* the sum of the small groups. The small groups are not groups *within* the organization; conceptually, they *are* the organization.

The network's legal framework stays in the background. The legal aspects of an organization still exist.

But in a network, the substantive decisions are taken by the competence-based network. If that is not the case and the organization becomes a hierarchy of authority rather than a hierarchy of competence, then the network ceases to be a network: It has regressed back to a bureaucracy.

Implementing Agile at Scale: Microsoft

Agile values are alive and well in the Developer Division of Microsoft. The division consists of about 4,000 people, working in hundreds of teams, each team having 10 to 12 people and working in three-week sprints. It ships a range of products and services, including Visual Studio, Visual Studio Team Services, Team Foundation Server and TypeScript. The division is not only implementing Agile practices for itself, it is also promoting them for others at Microsoft.

But the Agile transformation journey has been anything but a straight path from A to B. Introducing the practices of sprint planning, backlogs, daily standups and retrospectives was only part of the challenge. More important — and difficult — was the shift in mindset for all involved.

Here are some of the keys that group program manager Aaron Bjork believes are needed to make Agile happen at scale.

Get the right balance of alignment and autonomy. The goal at Microsoft is to have alignment at the top and autonomy at the bottom. The leadership team is responsible for the rules of the road. This includes clarifying the roles, the teams, the cadence, the vocabulary and the limits on the number of quality problems a team can have. The team has autonomy in terms of how they go about doing the work in both planning and implementation. Within the overall framework, each team can take a different approach.

Master the role of the Agile manager. What happens when a team fails to deliver what is expected in a sprint? A manager doesn't monitor a team's burndown chart of things to do. It's vital that people understand why they are doing the practices and then taking responsibility for the value that is meant to come with them. If the daily standups aren't working, then be a grownup. Make a change! That's where autonomy comes in.

Ensure continuous integration. In principle, all the teams are "working in the same branch." What that means is that each of the teams is branching their changes in a program called Git. But the teams don't work in a silo by themselves for three weeks and then hope it all comes together. They come together all day, every day. If a team breaks the build, it fixes the build immediately.

Recognize the team is the product. In software, the product life cycle is shortening. "In traditional accounting," says Bjork, "the business asset is the product. But more and more, in practice, the asset is a team that is capable of delivering products. The team has a longer lifetime of generating value than the product itself. That's a big shift in focus."

From Operational to Strategic Agility

While most organizations implementing Agile management are still preoccupied with upgrading existing products and services through cost reductions, time savings or quality enhancements for existing customers (i.e., operational Agility), they need to realize that the major financial gains from Agile management will flow from the practice of Strategic Agility — that is, generating innovations that create entirely new markets by turning noncustomers into customers. Strategic Agility is the next frontier of Agile management.

Strategic Agility occurs in two main ways: either as a by-product of operational Agility or as an explicit initiative to generate market-creating innovation.

By-product of operational agility. At Spotify, Discover Weekly was a feature intended to solve a known problem with an existing product: the difficulty that existing users were having in locating music that they would truly love, in Spotify's vast library of millions of songs. Discover Weekly not only solved that problem for existing users, but the innovation was so successful that it brought in tens of millions of new users and became, in effect, a brand in itself. In some countries, Discover Weekly playlists are better known than Spotify itself.

Market-creating value proposition. Market-creating value propositions involve a shift in thinking from the known to the unknown — from existing products to new products — and from existing users to nonusers of the firm's products. This, in turn, means redefining how needs are being met and, in the process, discovering value for both customers and noncustomers from elements that lie outside current thinking, both within the firm and within the industry.

It also means a change from thinking of the outputs of the organization to considering outcomes for the customer or end-user. "Instead of thinking of your company as providing a particular type of product or service — electric power, health records management or automobile components," writes PricewaterhouseCoopers consultant Norbert Schwieters, "think of it as a producer of outcomes. The customer needs to get somewhere, so you're not a car company; you're a facilitator of that outcome. The house is cold, so you help make it warm, possibly without supplying the necessary fuel . . . Customers, in turn, are making fewer purchases to accumulate physical things and more purchases to achieve outcomes, convenience and value."

Changing the Organizational Culture

For most organizations, the shift to Agile management and Strategic Agility means a change in organizational culture — perhaps the most difficult thing that any organization can attempt.

In 1998, when Curt Carlson became president and CEO of SRI, it was practically bankrupt. It had been established in 1946 as a research institute headquartered in Menlo Park, California. The trustees of Stanford University formed SRI as the Stanford Research Institute, a center of R&D and innovation, initially to help support economic development in California and then the world. It is now an independent company.

Over the next 16 years with Carlson as CEO, SRI and its organizational culture were transformed. SRI tripled in size, became profitable and created many world-changing innovations. One of its best-known successes was Siri, the personal assistant on the iPhone.

How did SRI become a serial innovator? Carlson summed up what made the difference in changing the vision, organizational design and spirit at SRI.

"First, you need a few really good partners who have the skills, values and credibility required," he says. "People who know what to do and who have the perspectives and skills that you are missing. You must have at least one partner; you just aren't smart enough by yourself."

"Second," he says, "change happens in logical steps. There must first be agreement on the need to change. When you initially go into an enterprise suffering from challenges, people say, 'What's the need for change?' Until you have established the need, they are not ready to move. When people see the need, they then ask, 'What's the vision?'"

"Third, once you have a shared vision, people start asking, 'Okay, I get the need and the vision — what's the plan?' It's need, vision and plan, in that order."

"Fourth, a focus on early adopters. Even if people generally agree with you, most are naturally cautious. You need to find the 5 to 10 percent who will be your early champions to help you establish the principles and prove them out."

Then, "fifth, the language you use is critical," Carlson says. "I never used demoralizing and misleading words like 'culture change,' or 'work harder' or 'fail fast' in my discussions with SRI staff. Rather, I talked about making a bigger impact, working smarter and learning faster. I talked about the specific things we needed to do to be successful. To be heard and understood, you can only have two or three big actionable themes that are repeated every time. Otherwise people don't hear or understand you."

PART II: MANAGEMENT TRAPS

The Trap of Shareholder Value

The real world of business is the world in which factories are built, software is developed and real products and services are designed, produced and sold that make a real difference in customers' lives. Real dollars of earned profit show up on the bottom line.

The real world of business differs from the stock market. In the stock market, investors assess the resources and activities of a company today. Based on that assessment, investors form expectations as to how the company is likely to perform in future as well as how much value the firm will return to its shareholders.

The best managers are seen as those who meet expectations. It takes a dedicated chief executive to do the hard, long-term work of undertaking innovation in an increasingly competitive marketplace populated with unpredictable customers. It's much simpler, easier, personally safer and more lucrative to boost the stock price by cutting costs to enhance the apparent short-term performance in the firm's quarterly earnings, or to use financial engineering to extract value for shareholders.

In fact, a CEO of a public company has little choice but to pay careful attention to the stock market, because if the firm's share price falls markedly, accounting rules require that it be classified as a good-will impairment. Auditors may then require the company to record a loss of capital. Even more worrying, activist hedge funds may launch campaigns to oust the management and put in place executives who are more "shareholder friendly."

Thus, most executives perceive themselves to be under continuous pressure to maintain a high stock price.

The Error of Shareholder Thinking

By March 2016, *The Economist* could proudly declare that shareholder value thinking is now "the biggest idea in business." That may be so, but it is also "the error at the heart of corporate leadership," according to two distinguished Harvard Business School professors — Joseph L. Bower and Lynn S. Paine. Maximizing shareholder value, they write, is "flawed in its assumptions, confused as a matter of law and damaging in practice." Over decades, shareholder value theory has not only failed on its own narrow terms of making money for shareholders, but it began destroying the productive capacity and dynamism of the entire economy.

Today, symptoms of economic malfunction are everywhere. A large pharmaceutical company systematically keeps buying other companies, cancels their drug research and uses the resources to buy still more pharmaceutical companies — until the pyramid scheme abruptly collapses. A major news organization turns a blind eye to sexual harassment to protect short-term profits. A global auto manufacturer uses a software device to enable its diesel-driven cars to circumvent environmental regulations.

Financial resources are being diverted from needed investments in innovation. A brilliant study by economists from the Stern School of Business and Harvard Business School compares the investment patterns of public companies and privately held firms. They found that, keeping company size and industry constant, private U.S. companies invest nearly twice as much as those listed on the stock market: 7 percent of total assets versus just 4 percent.

Contrary to what the academic economists had predicted in putting forward the theory of shareholder value, compensating executives with stock had made them less entrepreneurial for the firm, not more. As a result, the economic recovery from the Great Recession of 2008 was undermined and the ability of firms to innovate was restricted.

The pressing question for Agile leaders at all levels of the organization is to figure out how to protect Agile management from the noxious consequences of shareholder value thinking. One obvious option? Just say no! Some CEOs have already spoken out. Alibaba CEO Jack Ma has declared that "customers are number one; employees are number two, and shareholders are number three." Paul Polman, CEO of Unilever, has denounced "the cult of shareholder value."

Sadly, though, most public corporations have yet to respond to the call. One reason is that they have succumbed to the siren call of the most appalling mechanism of finance engineering of them all: share buybacks.

The Trap of Share Buybacks

In 2014, economics professor Bill Lazonick presented the business world with astonishing news: Many major public corporations are engaged in buying back their own shares to an extent that constitutes stock-price manipulation on a macroeconomic scale.

Once firms began in the 1980s to focus on maximizing shareholder value, the actual capacity of these firms to generate real value for the organization and its shareholders began to decline as cost-cutting, dispirited staff and limited capacity to innovate took their toll. Thus, the C-suite faced a dilemma. They had promised increasing shareholder value, and yet their actions were systematically destroying the capacity to create that value. What to do?

They hit upon a wondrous shortcut: Why bother to *create* new value for shareholders? Why not simply *extract* value that the organization had already accumulated and transfer it directly to the shareholders (including themselves) by way of buying back their own shares? By reducing the number of shares, firms could, through simple mathematics, boost their earnings per share. The result was usually a bump in the stock price — and short-term shareholder value.

The pressing challenge for Agile leaders is how to deal with continuing pressures to shift resources from investment into share buybacks. The answer lies in recognizing that going along with these pressures is a choice, not a necessity. Amazon, Unilever and Berkshire Hathaway have made clear to investors that they won't be playing the shareholder value game. Instead of being punished for ignoring the short term, these firms have been rewarded with strong investor support.

The Cost-Oriented Economics Trap

"The numbers give us no choice," the CFO declares. "It's obvious that if labor costs in another country are very much lower, it will be cheaper to outsource the work there, even if the workers there are somewhat less productive."

Agile managers in public corporations are often confronted with such declarations. But where do the CFO's numbers come from? And what are their underlying assumptions? To prevail in such settings, Agile managers need a certain amount of understanding of financial accounting and its tools, the assumptions underlying the numbers and their relationship to Agile management.

Here, as in other areas, what's key is the management mindset. A mindset that is set on extracting value from a corporation for the shareholders will come to different conclusions from the numbers, compared to a mindset focused on creating monetizable value to customers.

Take the decisions of U.S. public corporations on issues of offshoring over the last several decades. In analyzing proposals, firms must go beyond rudimentary cost calculations focused on the cost of labor and, instead, consider the total cost and risk of extended international supply chains over time.

"Many companies that offshored manufacturing didn't do the math," said Harry Moser, an MIT-trained engineer and founder of the Reshoring Initiative. "Often what firms find is that whereas the offshoring price is perhaps 30 percent less than the U.S. price, all these other costs add up to more than 30 percent. If they are willing to recognize all of them, then they can see that it may be profitable to bring the work back."

Why did so many smart managers make the same mistake? It's not a lack of mathematical capability. Their decision making was driven by the rush to generate short-term profits — or at least appear to be generating them — so as to raise the stock price.

The Trap of Backward-Looking Strategy

Traditional strategic planning efforts entail massive data gathering and analyses, as every conceivable facet of the competitive landscape is explored. But because there is no data on the future, the data gathering is inevitably about the past, from which extrapolations of the future are made. The comfort that is gained from detailed analysis is thus inherently backward-looking.

The widespread adoption of information-based strategy in business, built on data from the past, helps explain the frequent outcome of strategic planning exercises to do "more of the same." It also helps explain why firms consistently missed disruptive innovation. It could hardly be otherwise when firms pursued information-based strategy built on data from the past.

In Agile management, the idea that competitive advantage can be located has given way to the realization that competitive advantage has to be continuously created. Strategy is not a place — it's an activity. In Agile management, strategy recognizes that the future cannot be discovered solely by studying mountains of data based on the past or by probing what competitors might be doing. There is a recognition that in a world of rapid technological change, the future structure of the industry will almost certainly be different from the current one.

The central task of strategy in Agile management is to answer the following questions: How will customers meet their needs in the future? What are the larger needs that actual or potential customers have, only part of which are addressed by current products and services? What approach can our organization take to help meet those needs in a profitable fashion? What benefits will flow from this as compared to costs? Can we do this better than any competitor? How can risk be managed?

A proper approach to strategy in Agile management means emancipating strategy from the sole province of top management and implementing a truly inclusive process in accordance with the Law of the Network. Ideas can come from anywhere, and the insights of the entire organization — and beyond — are mobilized in an effort to imagine and influence the future. Rethinking business strategy for the 21st century means remaking the notion of management itself.

In the emerging age of Agile, the dynamic focuses on human beings creating delight for other human beings. When an organization — or a society — is populated by people with this mindset, it can be at one with itself, at one with those for whom the work is being done, at one with those who are doing the work and at one with the wider society in which it operates.