INSTITUTE FOR CONTEMPORARY LEADERSHIP

Leading Adaptive Organizations in a Complex World: What You Need to Do Differently

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Executive Summary

Exponential change has shifted the business environment from complicated to complex, prompting a need for organizations to become more adaptive. The quest to become more adaptive requires organizational transformation and necessitates a new and fundamentally different type of leadership. This paper describes the four specific practices – Catalyzing, Engaging, Sensemaking, and Grounding – that leaders must adopt to build and lead adaptive organizations in today's complex business environment. Mastering these practices takes concerted effort, and in many cases, requires leaders to let go of what has worked for them previously. Those willing to make the leap, however, will be best positioned to lead their organizations into the new and next.

Introduction

We live in an era of exponential change, triggered by scientific and technological breakthroughs that were science fiction a few years ago – think genetics, nanotechnology, robotics and artificial intelligence. The digital revolution that underpins these advances has been a tremendous boon to industry, reducing costs and creating new revenue models, but it comes with a price. Digitalization has hyperconnected the global economy, contributing to the business environment's evolution into a complex system – one in which organizations must continuously contend with unknowns related to disruptive technologies, globalization, the war for talent, the democratization of information, and threats to data security, to name just a few. The impact on organizations is profound and necessitates a new leadership paradigm.

From Complicated to Complex

Since World War II, leaders have typically operated in complicated business environments *(Sargut & McGrath, 2011)*. Complicated systems have multiple, interconnected parts that operate in patterned ways, enabling leaders to discern cause and effect and predict outcomes. This allows them to set goals, plan, and execute accordingly *(O'Driscoll, 2018)*.

Today, business operates in a vastly more complex environment. Standardized computing platforms, globalization, mobile technologies, and the internet of things mean enterprises are more deeply and densely interconnected than ever before *(Economist Intelligence Unit, 2014)*. As a result, local events and interactions can cascade and reshape the entire system. Moreover, individual responses to the system's new structure create feedback loops that further reshape the system. In this complex environment, cause and effect are not apparent and outcomes are less predictable *(Reeves, Levin, & Ueda, 2017)*.

In part because today's operating models are outdated, three-quarters of today's companies are expected to be replaced within 10 years

(Anthony, Viguerie, Schwarts, & Landeghem, 2018)

Unfortunately, the operating models used by many organizations are still designed for complicated environments instead of contemporary, complex environments. The challenge, as articulated by management guru John Kotter, is that the majority of organizations are "optimized much more for efficiency than strategic agility," and the "hierarchical structures and organizational processes that we have used for decades to run and improve our enterprises are no longer up to the task of winning in this faster-moving world" *(Leavy, 2014, p. 7)*.

To thrive in today's complex environment, organizations must evolve. They must move from mechanistic operating models that view organizations as machines to operating models that view organizations as organisms *(Reeves, Levin, & Ueda, 2017)*. Mechanistic approaches, with their emphasis on planning and execution, work well when one can predict outcomes. However, they are prone to failure in complex environments where the ability to plan is diminished by volatility and uncertainty. In complex environments, organizations must adopt biological operating models focused on sensing and responding versus planning and doing *(Reeves & Deimler, 2011)*. This ability to sense and respond to stimuli is a defining characteristic of all living things and enables resilience in the face of complexity.

Leaders must look critically at their organizations with these issues in mind, because many organizations will be better prepared to perform successfully if they begin to change now. To do this, leaders need to take a serious look at their own capabilities, mindsets, and ways of working – with an eye toward personally adapting to changes in the environment so they will be able to lead the charge for organizational adaptation.

Contemporary Leadership

The journey to become more adaptive requires organizational transformation and a fundamentally new form of leadership (*De Smet, Lurie, & St. George, 2018)*. Through our research and experience working with hundreds of leaders across the globe, we have identified four key practices that executives must adopt to build and lead adaptive organizations capable of thriving in complex environments ***(see Figure 1).***

Contemporary Leadership Practices

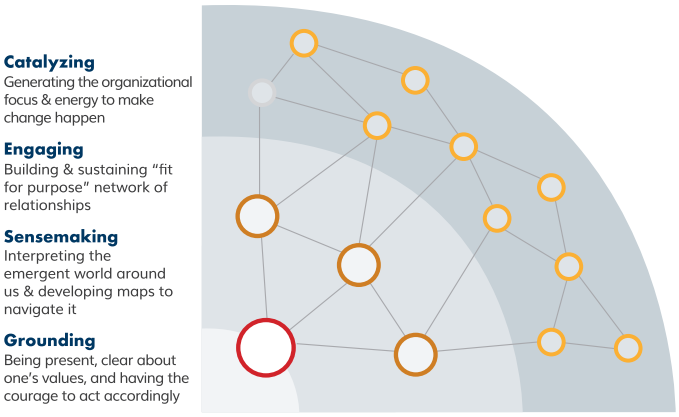

Figure 1

These four practices – Catalyzing, Engaging, Sensemaking, and Grounding – comprise interrelated and overlapping capabilities. Leaders can develop these capabilities, but they need to re-evaluate what has worked for them in the past, build on existing strengths, unlearn and let go of others, and in some cases, adopt entirely new ways of working.

Reflect on your own current capabilities as you read further. What are your strengths? Where are your gaps? Where are your opportunities for profound change and your opportunities to have a significant impact on your group or organization if you were to approach things in new ways?

Catalyzing

Leadership is a process of social influence that maximizes the efforts of others towards achievement of a goal *(Kruse, 2013)*. Successful leadership, however, looks very different in complicated environments as compared to complex environments.

In complicated environments, command and control leadership works well. Leaders with positional power conferred by the organization develop a future vision, define a strategy, and oversee execution, applying organizational structures and processes to coordinate employee behavior.

Complex environments demand a different leadership approach. When the half-life of a market opportunity can be measured in days, one-year planning cycles are obsolete. Organizations in the new normal must be far more agile and responsive, with less rigid structures, more multi-directional feedback, and systems and processes focused on experimentation, learning, and adaptation. Adaptive organizations end up looking less like formal hierarchies that operate through linear planning and control in order to "plan and do," and more like collaborative networks that conduct rapid test and learn cycles to "sense and respond" ***(see Figure 2).***

Classical vs. Adaptive Organizations

	Classical Organization Design "plan and do"	Adaptive Organization Design "sense and respond"
Role of Leaders	Define destination, develop strategy, and coordinate action	Define direction, establish guardrails, and cultivate capability
Structure	Hierarchical, command and control structures	Cross-boundary networks
Governance	Top down decision-making	Autonomous teams
Processes	Linear, waterfall processes	Rapid check and learn cycles
Talent Management	Episodic and intuitive	Continuous and data-based
Systems	Optimize business models and ways of working	Reinvent business models and ways of working

(McChrystal, Silverman, Fussell, & Collins, 2015; McKinsey & Company, 2017)

Figure 2

In this context, the leader's role is to serve as a catalyst. Like a substance that stimulates a chemical reaction, leaders in adaptive organizations ignite action in others. While leaders remain responsible for defining the organization's purpose, their role in achieving it shifts. In adaptive organizations, leaders are responsible for bringing the right employees

together, creating a shared vision, and defining the guard rails within which employees themselves figure out what they need to do and how to do it *(Torres, Reeves, & Love, 2010)*. To the extent that leaders intervene, it is not to issue instructions, or even to solve problems, but to enhance the system's overall capabilities by supplying resources, developing talent, and improving the quality of interactions.

Adopting this new leadership role is challenging. In adaptive organizations, many traditional leadership responsibilities are distributed across the organization. As a result, leaders must give up control, the traditional base of their authority.

Leaders who are successful making this transition, however, reap significant benefits for their organizations. By distributing leadership, adaptive organizations make faster decisions, foster innovation, improve customer-centricity, and increase employee engagement *(Bazigos, De Smet, & Gagnon, 2015)*, not to mention demonstrate better market capitalization and total shareholder return over time *(Reeves, Love, & Mathur, 2012)*.

Engaging

As leaders let go of traditional command-and-control mechanisms, they must leverage different types of social influence. Consequently, leaders' ability to build trustful, constructive relationships with others becomes increasingly important in complex environments *(Garcia, 2014)*. Recognizing the importance of this, experts in recent years have gone so far as to define leadership as the relationship between leader and follower rather than as a set of individual abilities or competencies *(Garcia, Gullette, & Fisher, 2017; Carter, DeChurch, Braun, & Contractor, 2015; McCauley, 2014)*. Applying a network perspective to leadership has uncovered multiple insights about the nature of connections that successful leaders build and maintain within and outside their organizations ***(see Figure 3)***.

Network Characteristics of High-Performing Leaders

Bonding Relationships	12 – 18 strong, reciprocal connections to non-redundant individuals
Network Diversity	Relationships with people from different functions, geographies, levels, across the organizations
Brokerage Position	Serves as bridge between different groups (e.g., marketing and R&D)
Network Centrality	Central in both task-focused (e.g., decision making, problem solving) and social-emotional (e.g., trust, personal support, energy) networks
External Orientation	Multiple connections to external individuals, groups, and organizations that provide access to new ideas
Network Participation	Engaged in multiple networks, including networks focused on operational tasks, strategy, innovation, career development, and personal support

Figure 3

Unfortunately, many leaders favor analytical tasks over the relational ones needed to forge and maintain strong, trustful connections *(Ibarra & Hunger, 2007)*. This is not surprising when you consider that leaders often rise through the ranks based on technical (functional) competence. It turns out, however, that the ability to build trust is more important for leadership than technical competence. Putting competence first can actually undermine leadership. According to former Harvard Business School professor, Amy Cuddy, "Most important, trust provides the opportunity to change people's attitudes and beliefs, not just their outward behavior. That's the sweet spot when it comes to influence and the ability to get people to fully accept your message" *(Cuddy, Kohut, & Neffinger, 2013)*.

Building high-quality relationships can be difficult, though, particularly with those with whom we do not see "eye to eye." It involves letting down barriers and allowing ourselves to be imperfect, even vulnerable. This is complicated by our innate desire to be capable and "right," not to mention by the traditional view of leaders as supremely confident.

Leaders who are good at engaging draw on several capabilities. One is empathy, the ability to experience and relate to the thoughts and emotions of others *(Gentry, Weber, & Sadri, 2016)*. Empathy enables leaders to demonstrate to followers, partners, and customers that they understand their needs and can share their perspective. It fosters a sense of inclusion and allows leaders to anticipate reactions to decisions, messages, plans, and even negotiation stances. A second capability is inquiry. Engaging leaders don't simply advocate for their own agenda; they actively listen and ask powerful questions to understand others' point of view. Authors Vogt, Brown & Isaacs illustrate the importance of asking the "right" questions by contrasting two examples: "What did we do wrong and who is responsible?" versus "What can we learn from what's happened and what possibilities do we now see?" They point out that "the first question assumes error and blame; it is a safe bet that whoever is responding will feel defensive. The second question encourages reflection and is much more likely than the first query to stimulate learning and collaboration among those involved" *(2003, p. 5)*.

Taking time to develop the right network of connections is well worth the effort. The relational network that leaders build not only provides influence outside of formal structures, but also access to new ideas, feedback, and greater opportunities for collaboration. Moreover, in adaptive organizations where learning is a competitive advantage and teams morph on an ongoing basis, a network of strong relationships enhances the ability to coach others and build high-performing teams.

Sensemaking

As described, leadership requires the application of social influence to maximize others' efforts toward achievement of a goal. But how do leaders establish goals in a complex environment where outcomes are unpredictable? The answer is sensemaking.

Sensemaking was first introduced by organizational theorist, Karl Weick (1995). MIT Sloan Professor Deborah Ancona identifies sensemaking as a critical leadership skill that enables action in the face of the unknown. According to Ancona, sensemaking involves using intuition, experience, and logic to come up with "a plausible understanding – a map – of a shifting world; testing this map with others through data collection, action, and conversation; and then refining, or abandoning, the map depending on how credible it is" (2012, p. 3). While Ancona refers to maps, other researchers use different terms – paradigms, mindsets, worldviews, cognitive lenses – to describe the output of sensemaking, a useful simplification of the complex that provides directional guidance. Organizational scholars Lee Bolman and Terrence Deal prefer the term frame. "A frame is a set of beliefs and assumptions that you carry in your head to help you understand and negotiate some part of your world. A good frame makes it easier to know what's happening, see more options, and make better choices," (2014, p. 11).

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Captain Chelsey "Sully" Sullenberger's experience piloting a completely disabled Airbus 320 at 3,200 feet above New York's Hudson River in the winter of 2009 represents a dramatic example of sensemaking through (re)framing. No pilot had ever experienced dual-engine failure at that altitude, much less over one of the world's most populated cities. There was simply no training for the scenario. During seemingly overwhelming circumstances, Captain

Sully suddenly recognized he was no longer flying a commercial aircraft, he was piloting a 70-ton glider *(O'Driscoll, 2018)*. Making sense of the situation in this new way enabled him to take action. Drawing on his experience flying gliders in the U.S. Air Force, Captain Sully changed the aircraft's pitch to maintain optimal air speed. The realization and subsequent action provided the critical seconds needed to clear the George Washington Bridge and ultimately allowed him to land the plane on the Hudson, saving all 155 passengers.

One way to understand sensemaking is as an iterative process of what researchers call "theory-building" *(Dubin, 1978; Lynham, 2002)* – coming up with an explanation for observations along the lines of what causes what and why *(Christensen, 2006)*. Leaders who wish to make sense of complex circumstances – shifting markets, changing regulations, disruptive technologies, and new competitive threats – must determine which factors are relevant, define the relationships between them, develop hypotheses, test them to determine validity, and refine the theory accordingly. In this way, sensemaking – developing models or frameworks – is as much an act of creativity as it is an act of analysis; leaders must choose where to focus their attention, what factors to consider, and how to represent their resulting mental map *(Ancona, Malone, Orlikowski, & Senge, 2007)*.

An important benefit of sensemaking is its use as a tool to build shared understanding and collective action.

An important benefit of sensemaking is its use as a tool to build shared understanding and collective action. *Ancona (2012)* shares the story of a small military unit that got lost during a snow storm in the Swiss Alps. The men were cold and hungry and panic had begun to set in when one of them found a map, which they used to navigate back to their base. Not surprisingly, due to the snow, they didn't always find the landmarks they anticipated and they had to ask villagers for help along the way. It wasn't until they made it back safely that they realized they had been using a map of the Pyrenees rather than the Alps. The moral: In a crisis, any map, even the wrong one, is better than none.

Ultimately, in complex situations, sensemaking allows us to make sense of the world and provides a basis for action. Leaders who are good at it can rapidly distill complex situations and explain their perspective to others in simple terms. This helps ensure everyone shares the same understanding, making it much easier to work together *(Ancona, Malone, Orlikowski, & Senge, 2007)*.

Grounding

The three practices discussed so far – catalyzing, engaging, and sensemaking – all focus on what leaders "do." Even more important is who leaders "are." Activity that's not grounded in who we are as individuals can be misguided, lacking in coherence, or exhausting for a leader.

Grounding refers to being aware in the present moment, being clear about one's values, and having the strength to act accordingly. It is the antidote to the challenging work of leadership. In today's complex environment, leaders are pulled in multiple directions and subject to constant, and often competing, demands. There is simply not enough time for leaders to focus on everything that needs attention. Consequently, the question is not, "How can leaders avoid stress?" but "How can they manage it to maintain energy and a sense of equilibrium?" *(George, 2019)*. Grounding provides leaders with a "North Star" they can use to make decisions and prioritize actions in overwhelming and uncertain settings.

Ironically, for leaders to successfully navigate the tremendous demands they face, they often must slow down and admit they are not super-human. For example, grounded leaders take time for reflection. David Peterson, Head of Google's Center of Expertise on Leadership Development and Coaching and the Institute for Contemporary Leadership's Executive Director, recommends that leaders pause to ask themselves four sets of questions, each of which is associated with a different "direction of learning" ***(see Figure 4)***.

Reflection Questions

Direction of Learning	Reflection Questions
Inward Looking	• Who do I want to be? • What do I want to accomplish? • What principles and values matter most?
Outward Looking	• What does it take to be successful? • What matters to others? • How do others see me?
Backward Looking	• What new things have I tried? • What has and hasn't worked before? • What have I learned so far?
Forward Looking	• What haven't I tried? • What will I do differently? • What do I still need to learn?

Figure 4

Grounded leaders are also mindful. They maintain a nonjudgmental state of heightened awareness of their own thoughts, emotions, and experiences on a moment-to-moment basis. This awareness, which takes practice and discipline, allows grounded leaders to: disengage from their everyday "auto-pilot" to examine circumstances with fresh eyes; examine and mitigate their own biases and tendency toward defensiveness; and intentionally choose how to respond in difficult situations.

In addition to reflection and mindfulness, grounded leaders demonstrate authenticity. In this context, authenticity does not refer to rigid adherence to your way or saying the first thing that comes to mind in every situation. Instead, it refers to the depth of leaders' self-awareness, willingness to admit imperfection, and courage to stick to their convictions in the face of adversity.

Finally, grounded leaders cultivate resilience – the physical, mental, and emotional capacity to cope with, adapt to, and bounce back from stressors. Market shifts, competitive threats, organizational restructuring, ethical dilemmas, and other pressures can elicit knee-jerk reactions from those who are not at their best. Resilience, however, enables listening, humility, and courage in even the most difficult circumstances. Building resilience is not rocket-science, but it does require discipline: taking care of oneself physically; engaging in pursuits, such as spiritual or creative immersions, that keep us enriched and inspired; and putting ourselves in novel situations that stretch our capacity to deal with the unknown.

Conclusion

Organizations increasingly face the need to become more adaptive in the face of exponential change and increased complexity. This requires a profound shift in the way organizations operate and the nature of leadership. Leaders who wish to succeed in building and leading adaptive organizations must cultivate four key practices. Leaders must act as a catalyst, establishing shared purpose and creating the conditions in which employees take ownership and responsibility for achieving it. Giving up traditional, command-and-control hierarchies means leaders must find new ways of influencing. Thus, leaders must focus on engaging, building deeper networks of relationships across and beyond the organization. Knowing what to do amidst uncertainty and volatility means leaders must also be effective sensemakers, able to synthesize the complex into simple maps that provide direction and motivation for those around

them. Finally, leaders must be grounded. Awareness in the present moment and clarity about one's values provides leaders with a "North Star" by which to navigate and serves as a foundation for the other practices. Adopting these practices is a journey, and at times a difficult one, but leaders who set out on this journey will find themselves far better off no matter the disruption that lies ahead. ■

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