# *The Practice of* ADAPTIVE LEADERSHIP

TOOLS AND TACTICS *for Changing Your Organization and the World*

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CHAPTER 12

# Build an Adaptive Culture

FOSTERING AN ADAPTIVE culture will enable your organization or community to meet an ongoing series of adaptive challenges into the future, a future that is almost guaranteed in our day to keep pitching new challenges toward us. Although building adaptive capacity is a medium- and long-term goal, it can only happen by moving on it today and the next. Indeed, every challenge you currently face is another opportunity to both work the immediate problem and institute ways of operating that can become norms for taking on whatever comes next.

In chapter 7, we discussed five distinguishing characteristics of an adaptive culture, based on our experience working with all types of organizations from every corner of the globe.

- Elephants on the table are named.
- Responsibility for the organization is shared.
- Independent judgment is expected.
- Leadership capacity is developed.
- Reflection and continuous learning are institutionalized.

In chapter 7, you assessed how well your organization stacks up against each of these criteria. In the sections that follow, we will explore a few things you can do to improve your organization's rating on each criterion.

## Make Naming Elephants the Norm

The capacity for naming elephants in the room, tough issues that no one talks about, is a common and defining characteristic of an organization with extraordinary adaptability. At Toyota, as we've mentioned, anyone on the production line can critique and suggest improvements to the production process. Courageous conversations require far less courage there because critical ideas have become normalized, whereas that is far less the case on other production lines in other companies.

Of course, naming tough issues can be excruciatingly difficult in any organization. "Ignoring the Merger Elephant" gives one example.

What does it take to strengthen an organization's ability to name its elephants? Here are some techniques.

### Ignoring the Merger Elephant

A few years ago, we spent some time talking with a global energy company based in South America that was only a year out from a huge merger with a very different firm of almost equal size. Our last meeting with the top team was scheduled for two hours, with the CEO joining us for the last hour.

During the first hour, two members of the team spoke openly and intensely about the unresolved cultural clashes generated by the merger that were preventing the corporation from moving forward. The rest of the team members agreed that cultural differences presented a serious problem. Then the CEO entered. We asked him how he felt the merger issues were going. He said there were no issues left over from the merger. We looked around the table. Heads were looking down. Watching the two most outspoken members, we asked whether anyone wanted to add anything to the CEO's comments. Silence. A few weeks later, we decided to recount this story in our formal proposal to consult to the firm. The resistance was nearly overwhelming.

### *Model the Behavior*

People at the top of an organization are always sending out clues that indicate what behavior is acceptable. And that is nowhere more critical than in naming elephants.

Not long ago, we consulted to a global bank. During an early meeting with the firm's ten-member top team, one of the most junior members of the team made a passing reference by name to a project managed by one of the most senior people in the room. Even though we had done a slew of due diligence interviews, this project had never come up. At a meeting the following day, another member of the team, also one of the most junior, mentioned the project again, once more in an almost offhand way. Afterward, we discovered that this project was a very large elephant in the room. Many members of the team thought that the project was draining resources at an alarming rate, resources that could be used for critical investments in the firm's future. Moreover, everyone (including the project's sponsor) knew that the project had no chance of delivering as promised. The range of possible outcomes from the project had gone from modest benefit (disproportionately small, given the costs involved) to utter failure. But the sponsor was a candidate to succeed the CEO, who had an aversion to conflict and wanted to believe the sponsor's reassurances that the project would work out fine. But no one on the team was going to name that elephant unless the CEO signaled clearly that he wanted it discussed.

Beginning in childhood, people take their cues from authority. Therefore, when you are the authority, you have to model the simple act of naming the sensitive issues simmering under the surface, because if you do not, the odds are high that no one else will.

### *Protect Troublemakers*

As we have suggested, almost every organization we have worked with has a few troublemakers, those we called dissenters, people who are experienced as "difficult." They are contrarians, often pointing out an entirely different perspective or viewpoint when the momentum seems to be swinging in one direction. They come up with ideas that appear impractical or unrealistic. They make suggestions that others see as off-point. They ask questions that seem tangential. They often claim the moral high ground when most everyone else is just trying to solve the day's problems. But some of the time, they are the only ones asking the questions that need to be asked and raising the issues that no one wants to talk about. Your task is to preserve their willingness to intervene and speak up.

This is not easy. If you're in a position of authority, you will undoubtedly come under pressure to silence troublemakers. But if you want to signal that unpopular thoughts deserve a hearing, you must resist that pressure.

If you are not in a position of authority, then you can help protect troublemakers by making sure they are invited to meetings. And when they do say something that creates disequilibrium, you can choose to be curious: ask them to say more about their idea rather than allow everyone else in the room to ignore them.

## Nurture Shared Responsibility for the Organization

To what degree do people feel responsible for the whole organization where you work, as distinguished from their own piece of that whole (such as their team, department, business unit, or division)? Here are some signals suggesting that people feel a shared sense of responsibility for the organization overall:

- Rewards (financial and otherwise) are based at least in part on the performance of the entire organization and not solely on an individual employee's or unit's performance.
- People lend some of their own resources (personnel, time, budget, equipment, office space) to help others in the organization who need it.
- People share new ideas, insights, and lessons across functional and other boundaries in the organization.
- Individuals who advance to positions of authority have worked in a wide range of departments or divisions in the organization.

- People take time to "job shadow," following colleagues around to understand what those in other parts of the organization do all day, to see what kinds of challenges they are dealing with, and to identify practices and norms that could help them in their own part of the company.

## Encourage Independent Judgment

In an organization with an adaptive culture, people in authority do what only they can do and make decisions only they can make. Other tasks and decisions are handled by others capable of doing so. Those in authority are constantly asking whether the task or decision they are about to take on could be handled by someone else and, if so, how they will delegate it to that person. This is not about palming off unpleasant chores to underlings. It is about investing in people's independent judgment and resourcefulness, in addition to their technical skills.

Too many people in authority work to make those under them dependent on them. The more dependent the followers, the more indispensable the authority figure feels. Your job in exercising adaptive leadership is to make yourself *dispensable*. The only way you can do that is to constantly give work back to others so you can develop their abilities and calibrate their current and potential talent for skills such as critical thinking and smart decision making. However gratifying it may be in the short term, you don't want followers at all. You want distributed leadership in which everyone, as a citizen of the organization, seizes opportunities to take initiative in mobilizing adaptive work in their locale. In other words, adaptive leadership generates leadership so that people routinely go beyond their job descriptions.

You need to prepare your people to develop a tolerance for the ambiguity that comes with understanding that individuals in positions of authority do not have all the answers and that the easy answers are not necessarily the right ones.

In organizations that encourage independent judgment, people ask before making a decision, "What is the right thing to do to advance the mission of the organization?" rather than, "What would the boss want me to do here?"

### ON THE BALCONY

- At what level in your organization do people begin to feel and act as if they are valued more for their judgment than for their technical expertise?

### ON THE PRACTICE FIELD

- Most people dislike ambiguity and gravitate toward clarity, predictability, and certainty. And this can manifest itself in a premature push for closure on an adaptive challenge, rushing to a solution before the diagnosis is complete. You can help people strengthen their tolerance for ambiguity by watching for signs of a premature push for closure, for example, complaining about not moving to action, jumping over basic diagnostic questions to focus on solutions, or reaching for a work avoidance mechanism (displacing responsibility or diverting attention from the tough issues). The next time you are at a meeting, look for these signs. If you see them, try asking questions such as "What bad things could happen if we did not make this decision today?" "What else might we learn if we waited another day [or week or month]?"

## Develop Leadership Capacity

The development of leadership talent is a line manager's job. Although training, coaching, and support from human resources and external sources can be invaluable, nothing can replace the development potential of high-quality day-to-day supervision. Building a leadership pipeline is essential to long-term adaptability because the key bottleneck to growth is so often the quantity and quality of leadership available in the organization. People learn to lead on the job. Managers who have made a real commitment to individualized leadership development give their employees a clear sense of their own potential in the organization, review how they are operating and stretching week to week, and help them develop plans for reaching farther.

One way to foster line responsibility for leadership development is to establish a norm of developing succession plans. A manager with a good succession plan will often look for her replacement from the talent close at hand and will be developing that talent.

**ON THE BALCONY**

- Do you have a plan for your succession?
- Do you and your boss have a clear and shared sense of your potential in the organization and a clear strategy for how you will maximize your chances of getting there?

## Institutionalize Reflection and Continuous Learning

Several practices can help you institutionalize reflection and continuous learning in your organization or team. Below we take a look at some of these practices.

### *Ask Difficult Reflective Questions*

To build a more adaptive culture, you might regularly explore questions such as these:

- How is our external environment (including government regulations, competitors' actions, and customers' priorities) changing?
- What internal challenges are mirroring those external changes?
- What are the gaps between where we are (for example, in terms of profit, sustainability, or the diversity of our workforce) and where we want to be?
- How will we know that we are successful?
- What challenge might be just beyond the horizon?

None of these questions is easy to answer. But we believe they are essential if your organization is to thrive amid a constantly changing and challenging world. When people discuss these questions as a normal part of their jobs throughout the organization—whether it is in the board room, staff meetings, performance reviews, or elsewhere—they enhance the enterprise's ability to secure long-term success; deepen commitment from employees, customers, and other stakeholders; and stimulate innovation. Such organizations are much more likely to be around in sixty years than organizations that have ignored these questions. And that is because they have strengthened their people's capacity and will to identify and deal with emerging challenges, no matter how disturbing these may be.

In many organizations, it is extremely difficult to institutionalize time for reflection and continuous learning. For many successful action-oriented, task-driven, outcome-focused people, taking time out to reflect feels like a waste: "There is so much to do and so little time to do it." But in our experience, creating and maintaining time for checking in with people, teasing out the lessons of recent experiences, and sharing those lessons widely in the organization is critical to adaptability in a changing world.

### *Honor Risk Taking and Experimentation*

Another way to foster reflection and continuous learning is not only to run experiments, but also to reward learning from them, particularly when the experiments fail. Experiment widely enough, and you increase the odds of hitting on some great new ideas. For example, at the beginning of Jack Welch's tenure as CEO of General Electric, he did not know that GE Capital would become the company's major engine of profitability. GE Capital was just one of many experiments with new services and managerial processes conducted in Welch's years as CEO.

To survive and grow, economies, societies, and organizations alike depend on an abundance of risk takers: private-sector entrepreneurs who sink their life savings into an invention, people who set out to ease a social problem by creating a nonprofit without secure funding, parents and teachers who devise alternative education platforms, farmers who gamble on new seeds and agricultural technologies, and political activists who make public nuisances of themselves to draw attention to an egregious social inequity.

Running many small risks is less risky than running a few big ones. So encouraging widespread risk taking, particularly with small experiments from which lessons are captured quickly, is in the medium run a safer strategy. But most people do not enjoy taking risks—and for good reason. By definition, risks are dangerous and often fail, and failure is rarely rewarded in organizations and politics. "The Case of the Risk-Averse Retailer" shows one example.

### *Send the Right Signals to Your People*

One way to think about smart risk taking is that people are willing to extract lessons from whatever results or nonresults they produce, getting smarter because they took the risk. Each successive experiment thus becomes informed and smarter because of the previous effort. Try some of the following techniques to signal to your subordinates that it is okay to take smart risks:

- Ask subordinates to think of several small experiments in new ways of doing things that support the organization's mission.

### The Case of the Risk-Averse Retailer

At an international retailer, executives and store managers dreamed of seeing the company become number one in its industry and number one in each of its major markets. But they were also under immense pressure to meet quarterly projections. One year, anticipating the big Christmas shopping season, store managers struggled with a dilemma: should they do what they had always done to meet their numbers? Or should they try to make some changes in their stores, such as offering more aggressive customer service and entertainment to see whether the firm's position improved? They knew that experimenting with some changes could help them learn a lot about what might make a real difference going forward. But it could also put their jobs at risk if it meant they could not meet short-term goals. Headquarters, of course, wanted both: "Try your experiments, but not at the expense of current revenues." Not surprisingly, most store managers chose to play it safe because it had worked fairly well before. They shelved their experiments, even though they knew that sticking with the tried and true would not enable them to catch their biggest competitor.

- When you approve an experiment that could generate new knowledge, give it time and resources by clearing something else from the to-do list of those responsible for conducting the experiment and extracting its lessons.
- When people are struggling with an experiment, acknowledge how hard it is to learn from failure and success. Give them resources to figure out the lessons.
- During regular performance reviews, evaluate employees' ability to take smart risks (low-cost, high-learning). Make increases in smart risk taking a goal for the coming year, encouraging some specific experiments that employees could run.
- Take risks yourself, and report your failures as well as your successes to your people.

### *Reward Smart Risk Taking*

How do you reward risk taking? You need to base rewards on criteria other than measurable outcomes, such as how committed people are to experimentation, how many small experiments they have run, and how well they extract lessons from the efforts, their risk assessments, and the mistakes they have made. Otherwise, only successful experiments are rewarded, and people will go underground with the ones that are not, and take fewer risks altogether.

These kinds of reward practices take courage and careful thought: Will you give a raise to or promote someone who conducted an experiment that failed, but who learned and disseminated a valuable lesson from the experience? Will you reward such individuals more than people who scored successes (for example, making their quarterly sales goals) by playing it safe? If you do not reward smart risk taking, you may lose those team members to other organizations where their courage and creativity might be better valued. Indeed, your competitors may be looking for just these folks.

Like turtles, people need to stick their neck out to move forward. One company we know gives a Turtle Award each year to the initiative that generates the most lessons for the organization, even when the initiative bombs.

### *Foster a Taste for Action*

Anyone contemplating a risky experiment may feel compelled to mitigate the risk by spending too much time meticulously planning the experiment. But often, the outcomes, however well planned, are unpredictable because the experiment engages a complex world in a new way. So action is the only way forward. One just has to run the experiment to find out. Often, then, it is better to sidestep analysis paralysis in planning and move forward on extracting lessons from taking action. This goes hand in hand, of course, with the idea of running many small experiments, each of which has less to lose, than a few larger ones.

### *Run Parallel Experiments*

To maximize knowledge gained from risk taking, run parallel experiments. For example, suppose you have an idea for a new marketing strategy that you think will help your firm trounce a powerful new rival. Instead of testing that one strategy through an experiment, try out several different marketing strategies, in different regions or with different target markets where both strategies hold some promise and have some drawbacks. Testing several strategies at the same time generates much more data than experimenting with just one idea at a time. But more important, it also helps you demonstrate that you're committed to ongoing adaptability and that today's plan is always just today's best guess.

## ON THE BALCONY

- Look around at your team, and think about those who have been there for more than three years. Think of those who have left. Are more of the risk takers still around, or are they working somewhere else? What does this suggest about your culture's ability to foster smart risk taking in your organization? Are you still around because you're a smart risk taker or risk averse?