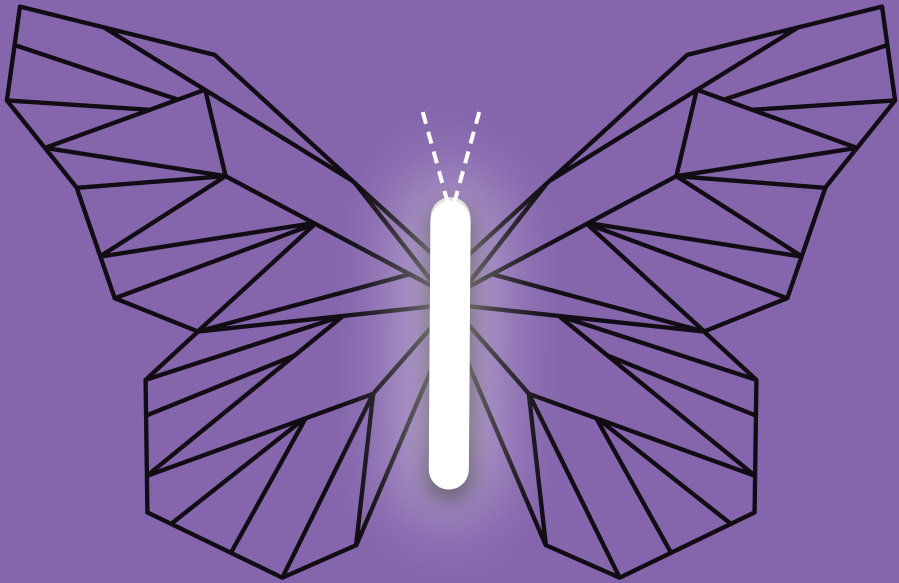




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THE TRANSFORMATION PLAYBOOK

INSIGHTS, WISDOM AND BEST PRACTICES
TO MAKE TRANSFORMATION REALITY



THE VERY BEST THINKING AND INSIGHTS
IN THE FIELD OF STRATEGY AND BEYOND

THINKERS

50

**‘Think like a designer
and see your
transformation as a
series of increasingly
higher-resolution
prototypes.’**

ROGER MARTIN

TONY O'DRISCOLL

From transformation insanity to enterprise instancy: catalyzing an adaptive leadership system

Technological innovations such as the printing press, the steam engine, and the transistor were catalysts in creating disruption and discontinuity during their respective eras, permanently altering the global playing field upon which the game of life is currently playing out.

Today, humanity is facing a digital-divide of a different kind, where technology is proliferating, information is exploding, time is compressing, and change is evolving. Our species finds itself in a prolonged period of permaflux, as successive waves of disruptive technologies are emerging, converging, and evolving into a synthetic digital ecosystem that is redefining how we connect, communicate, coordinate, collaborate, and take collective action.

Change is nothing new to human beings. In fact, our innate ability to adapt to ever evolving environmental circumstances is the reason we have – so far – avoided extinction. This time around, however, the pace, scope, and nature of the change we are collectively experiencing differ markedly from any other period in our history.

Mathematics can shed some light on our collective plight. In calculus, the first derivative of distance is termed velocity and the second derivative is termed acceleration. Today's synthetic digital ecosystem is evolving at a third derivative rate-of-change that physicists appropriately term "Jerk."

The time signature of life in the 21st century is no longer synchronized with velocity and acceleration: instead, it is syncopating with jerk. We have reached an inflection point in history where technology is literally jerking humanity around (see Figure 1).

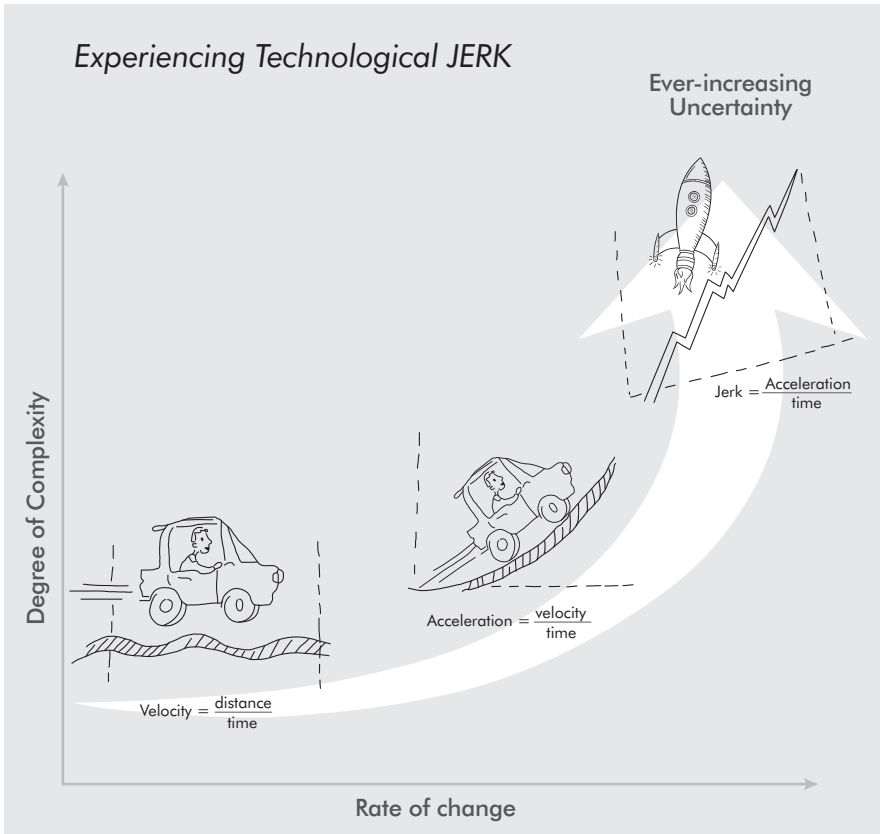


Figure 1: Experiencing technological “jerk”

In this new world of discontinuous jerk, change is baked into the synthetic digital ecosystem itself, and it is giving off tensions and tradeoffs that must be dealt with in real time, all the time. We are living in a state of continuous disequilibrium where the “new normal” is one where nothing ever returns to normal.

Dealing with digital Darwinism

The fact that the average lifespan of a publicly traded company in the United States today is almost two-and-a-half times shorter than the average lifespan of a typical employee is disturbing evidence that the modern day enterprise is struggling to survive in this “new normal” of continuous disequilibrium.

More than half of the Fortune 500 companies have been wiped out since the year 2000. Those that remain are literally fighting for their lives in an era of digital Darwinism: where market expectations are evolving and morphing at

such an astonishing rate, businesses simply can't keep up.

To survive and thrive in this synthetic digital ecosystem where the only constant is change, organizations must become more responsive to unanticipated ecosystem shifts, more resilient to unpredicted technological disruptions, and more adaptable to unforeseen needs to deviate from conventional norms.

The need for organizations to adapt to changing business conditions is not new. Nearly two decades ago, in GE's 2000 Annual Report, Jack Welch warned, "When the rate of change on the inside becomes slower than the rate of change on the outside, the end is near." Today, however, the ever-accelerating rate at which goods, information, and capital flow around the world creates extraordinary levels of opportunity and threat for the modern-day enterprise. To avoid extinction, organizations must cultivate the capability to syncopate with the third derivative rate-of-change.

Likewise, as the digital connections within this synthetic ecosystem compound exponentially, a higher level of interdependency and an ever-increasing degree of complexity emerge. To avoid demise, organizations must cultivate the capability to navigate this ever-increasing degree of complexity.

To survive and thrive in the era of digital Darwinism, organizations must evolve into responsive, resilient, and adaptive "instant enterprises," that maintain a perpetual state of readiness to respond to the unforeseen. The capability of instancy empowers organizations to simultaneously navigate the complexity and syncopate with the jerk that characterizes their existing operating environment.

Overcoming organizational orthodoxy

In our quest to achieve enterprise instancy, biology can provide some perspective. In nature, organisms that fail to develop the capability to interpret data from their surroundings and take immediate evasive action in the interest of their own survival become extinct. They either adapt or they die.

Organizations typically evolve through a maturation cycle where they successfully see and seize a new market opportunity and develop structures, practices, and routines to improve productivity and maximize profitability around that opportunity. Over time, however, as ecosystem shifts occur, these core capabilities calcify into core rigidities that limit the organization's ability to see and seize the next market opportunity.

These core rigidities ultimately degenerate into a destructive set of cultural orthodoxies that unconsciously undermine the organization's ability to respond to change. Most organizations today are suffering from a severe case of

“responsiveness lag,” where their structures, procedures, routines, and time signatures are increasingly out of sync with the external pace and scale of change. What began as the pursuit of building capability to capitalize on a new business opportunity culminates in the unconscious adoption of crippling orthodoxies that undermine the organization’s ability to respond to uncertainty.

Today, organizations are disappearing at alarming rates because they are failing to adapt to the complexity and jerkiness of the environment they inhabit. So, the modern-day organization can be envisioned as an organism that exists within a synthetic digital ecosystem, where data is its source of sustenance and analysis and learning are the metabolic mechanisms it employs to guide its agency to ensure survival and growth (see Figure 2).

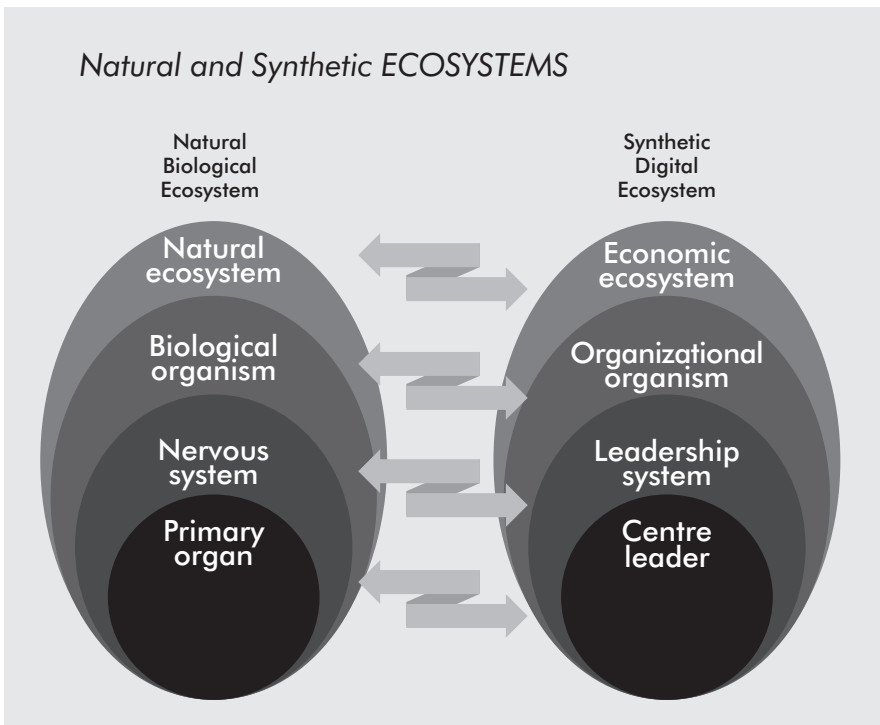


Figure 2: Natural and synthetic ecosystems

Just like organisms in nature, instant enterprises must evolve a perpetual state of readiness to respond to the unexpected. Within the enterprise organism, value is created by individual organizational agents that sense shifts within their ecosystem and self-organize to harmonize with them in real time to seize an opportunity or thwart a threat. These adaptive actions at the individual level are

propagated via feedback loops to dynamically reconfigure the organizational response in real time. The organization's evolved structure, in turn, influences the actions of the individual agents creating a dynamic "response ability" capability within the organization organism. This is a complex adaptive property called emergence.

As these individual agents continue to connect, communicate, collaborate, coordinate, and take collective action in response to unanticipated shifts in their environment, the organization evolves a collective intuitive ability to ride the waves of disruption and discontinuity rather than become crushed by them.

Reframing enterprise transformation

History is replete with organizations that have struggled mightily to transform themselves to overcome organizational orthodoxy. Less than one-third of organizations have produced any meaningful improvement in performance as a result of their transformation efforts.

Despite this unfortunate reality, the transformation train continues to gather steam as it chugs along the rails of organization and change. Nearly half of all CEOs launch a reorganization during their first two years on the job, and over 95 percent of organizations report being engaged in some phase of transformation at any one time.

Today, the key to avoiding digital Darwinism does not lie in transforming the organization from one static state to another. By the time the transformation is complete, it is already obsolete, and the cycle begins anew. Einstein defined insanity as "Doing the same thing over and over again and expecting different results." Here, it appears, we are experiencing a severe case of "transformation insanity" that is distracting organizations from creating the responsiveness, resilience and adaptability they so desperately need to survive.

Einstein is also widely credited with the quip, "Everything should be as simple as possible, but no simpler." A key reason why most transformation efforts fail is that they do not adhere to the Law of Requisite Complexity, which states that organizations must achieve complexity-parity with their environment in order to survive. Most organization transformation efforts are suboptimized from the outset because they fail to acknowledge the inherent complexity that characterizes the modern day digital enterprise.

Survival can no longer be achieved by discretely transforming the organization's structure, systems, processes, and technology from one state to another. Instead, we must overcome our proclivity towards transformation insanity and develop a holistic

and systemic human-centered capability building approach that enables the organization organism to respond to uncertainty in perpetuity.

Envisioning leadership as an adaptive system

In times of disruptive change, leadership has consistently emerged to bridge the gap between an untenable present and an uncertain future. As our planet careens towards a future that is increasingly data rich but certainty poor, the need for leadership becomes increasingly acute. The primary leadership challenge today is to develop the responsiveness, resilience, and adaptability required by the organization to avoid extinction.

Paradoxically, to better understand how leadership can be leveraged to cultivate enterprise instancy, we must first critically examine the phenomenon of leadership itself.

For too long, we have errantly assumed that leadership is a noun and not a verb. In so doing, we have unconsciously separated the leader from the system within which leadership itself is being exercised. As a result, we tend to overvalue the impact of individual leadership actions while ignoring the reality that leadership is an integral part of the organization system. In short, we have failed to recognize that leadership is not simply a person, position, or role, but a complex and interconnected set of relationships that is a property of the organization, not of the individual.

Today's reality is that organizations are complex amalgamations of people, structures, systems, processes, technologies, and behaviours. The organizational capability required to avoid digital Darwinism lies well beyond the ability of any single leader, no matter where they sit in the hierarchy. Individual leaders simply do not possess the competence or capacity to sense – let alone make sense of – the complexity and jerkiness whirling around organizations today.

So, we find ourselves in a paradoxical situation where our dependence on leadership is greater than ever before, but what will be required of leadership in the future is markedly different from how it has been conceived of and leveraged in the past. To begin this journey, we must conceive of “leadership as an adaptive system,” that has the requisite complexity and response ability to enable the organization to avoid digital Darwinism. This shift will require unlearning much of what we have previously believed about what it means to lead.

Leading from the middle-out

An “adaptive leadership system” requires that leaders at every level engage

disparate and diverse sets of people, systems, processes and technologies in real time to increase the likelihood of survival.

Perhaps contrary to popular opinion, the leaders operating in the middle of the current hierarchy are the greatest source of leverage to build the responsiveness, resilience, and adaptability that the modern day enterprise so desperately needs. Leaders at the center of the organization operate at the confluence of a new normal of constant disequilibrium where unanticipated change is constantly giving off tensions and tradeoffs that require immediate response. We call them Centre-Leaders.

Center-Leaders work from the “middle-out,” to tackle these tradeoffs and tensions by playing a critical role in navigating two perennial organizational polarities (see Figure 3):

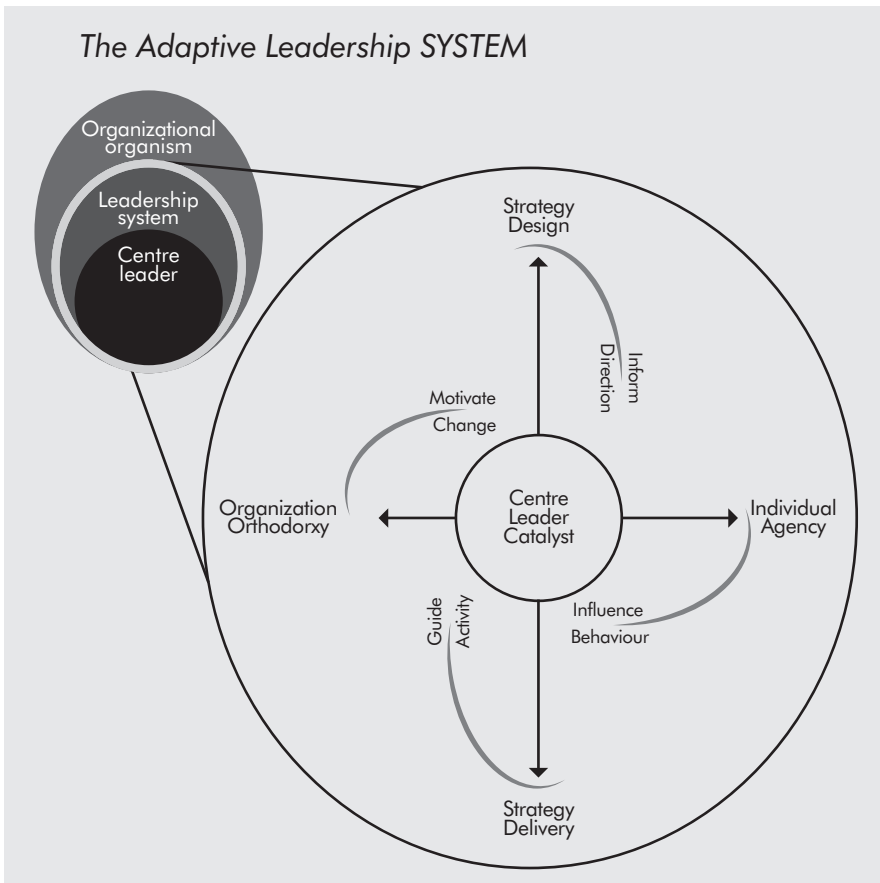


Figure 3: The adaptive leadership system

The strategy design/delivery polarity

A perennial challenge for every organization is to ensure that its strategy is designed and delivered in a way that maximizes value creation, delivery, and capture. Today, the interdependencies between strategy design and delivery are far more fluid and dynamic than ever before. Strategy design and delivery are no longer discrete problems to be solved at the top and bottom of the traditional leadership hierarchy. Instead, they are polarities that must be navigated from the center of the adaptive leadership system.

In proactively navigating the design/delivery polarity, Centre-Leaders play a critical role in ensuring the leadership system effectively balances and iterates around a top-down directive approach and bottom-up participatory approach to dynamically formulate, execute, and adjust strategy.

The organization orthodoxy/individual agency polarity

Today, evolving a culture that fosters innovation, collaboration, learning, and adaptability is fundamental to enterprise survival. Centre-Leaders play a critical role in increasing the ability of others to respond to unanticipated change by creating conditions that encourage people to lead, follow, experiment, learn, and adapt.

In proactively navigating the orthodoxy/agency polarity, Centre-Leaders play a critical role in ensuring that people are fully engaged and motivated to adopt the next waves of practices, routines, and behaviours required to ensure organizational survival and encourage ongoing renewal.

Catalyzing Centre-Leaders

The first step on the journey to developing an adaptive leadership system requires a lesson from chemistry. A catalyst is defined as “a substance that enables a chemical reaction to proceed at a faster rate or under different conditions than otherwise possible.”

So, Centre-Leaders function as catalysts within an adaptive leadership system to accelerate the responsiveness, resilience and adaptability of the organization under increasingly uncertain conditions. By working from the “middle-out” to inform strategic direction, motivate cultural change, guide key work activity, and influence individual behaviour, they orchestrate the capability required to respond instantly to uncertainty.

To move from “transformation insanity” to “enterprise instancy,” leaders at every level will have to fundamentally reframe what they see, rewire how they

think, and reconfigure what they do when faced with uncertainty. Anything short of this sweeping and seismic shift in leadership behaviour will ensure that the laws of mathematics, physics, biology, and chemistry conspire to bring about the demise of their enterprise.

About the author

Tony O'Driscoll is an adjunct professor at Duke University's Fuqua School of Business and a Research Fellow at Duke Corporate Education.



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THE TRANSFORMATION PLAYBOOK

INSIGHTS, WISDOM AND BEST PRACTICES TO MAKE
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“Transformation is not a neat theory, but a human imperative in our fast-changing times. Transformation has never been more important and the human side of transformation is now, at long last, being fully appreciated,” says Ricardo Viana Vargas, executive director of the Brightline Initiative in his Preface to *The Transformation Playbook*.

The book – the third in a series by the Brightline Initiative in partnership with Thinkers50 – brings together some of the world’s leading thinkers with stories from the transformational frontline.

Among the great transformation journeys recounted in the book are those of Michelin, Li & Fung, CenturyLink and the Department of Planning and Development in California’s Santa Clara County.

The contributors to *The Transformation Playbook* include Tiffani Bova, Behnam Tabrizi, Mark Esposito and Terence Tse, Isaac Getz, Roger Martin, and Tony O’Driscoll as well as experts from the Project Management Institute, Boston Consulting Group, Lee Hecht Harrison, Insper and the Technical University of Denmark.

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