
The Adaptive Organisation

The rationale and steps to navigating an unknowable future

2024

A report from the
Intelligent Leadership Hub

ILH



Ade McCormack, Founder, Intelligent Leadership Hub

Introduction.....	3
The case for building an adaptive organisation.....	4
Efficiency idolatry.....	4
Worker shock.....	4
Playing the wrong game.....	5
Transformation fatigue	6
Understand what is important	7
A focus on assets	7
Embrace innovation.....	9
Rethink leadership.....	11
Avoid transformation	11
What does good look like?	13
Let's get going	15
But first.....	15
Awareness	15
Exploration.....	15
Education.....	16
Communication.....	16
Implementation	16
Conclusion.....	17
About Ade McCormack	17
How can I help?.....	18
Next step	18

Introduction

Today is a cause for celebration. Such is the nature of exponential growth in technology innovation that today is the fastest pace of growth that we have ever experienced. But on the other hand it is the slowest day we will witness again. Businesses and governments cannot keep up with how AI will transform the nature of work and society.

Keep in mind that technology is only one of several macroenvironmental forces that are both compounding and conflating to essentially make our world unknowable. Some of these forces are natural, eg. pandemics and weather. Some are manmade, eg. geopolitical tensions and social media. Our societies have never been more complex and unpredictable.

This report highlights the implications of this rapid change. It also explores how our organisations need to evolve in order to 'stay in play'.



The case for building an adaptive organisation

Efficiency idolatry

Organisations today generally operate as process factories underpinned by Taylor's scientific management approach, where system come first and people second. At a more fundamental level, efficiency is deified. A focus on efficiency leads to greater profits and in the public sector delivering better services at less cost. Whilst nature values efficiency, it values survival even more. This focus on efficiency leads to a short-termism and gaining benefits today with no provision for what might lie ahead. This was okay during the industrial age, and era when the powers that be were largely successful at cultivating predictability in society. Having nothing put aside for a rainy day is now a problem as each day becomes rainier than the next.

Worker shock

We are all in uncharted territory. Leaders often do not have time to step back and reflect on the major changes that are taking place and the implications for their organisations. Thus post-Covid, rather than seeing this as a once in a lifetime opportunity to reinvent the organisation, leaders typically returned to pre-Covid practices. This comfort blanket reaction is now causing organisations to spiral downwards.



Worse still, these leaders think that if they double down on efficiency, they will be able to ride out the storm, without considering that the storm if anything is only going to become more intense.

The consequence of this approach is that it puts inordinate pressure on the workers. They are expected to do more with less resources, including time, and thus we are

seeing an increase in mental ill-health.

This is compounded by the fact that many workers used Covid to reassess their relationship with work, in particular what their time was worth. Handsome remuneration did not offset the daily grind of the long commute, the lack of autonomy or the loss of freedom in respect of work-life integration. In many cases, the work was inhumane, tedious, process work unbecoming of our cognitive capacity.

However whilst some workers are reassessing their work-life priorities, there is the spectre of AI and its capacity to do what we do, only better and at less cost. Thus a sense of empowerment, 'work on my terms', is tempered with anxiety about the future. Anxious workers unfortunately are less effective workers.

Thus we have employer-employee tensions coupled with the anxiety of an unknowable future from an economic value perspective.

Playing the wrong game

Increasing disruption gives rise to an increasing number of novel situations. Such situations feel threatening, particularly if you have enjoyed a predictable, steady state existence, up until now. The industrial era might be classified as a finite game in that the rules were very clear as was the scoring mechanism. There was typically only one ball and the pitch boundaries were clearly marked.



Disruption has nudged us into what might be called the infinite game. A game where there are no rules and no obvious scoring mechanism. There is an indeterminate number of different shaped balls at any given time and there is no pitch boundary. This is invariably going to be unsettling.

The good news is that this is a game our pre-industrial ancestors played well. We know they played well, because we are here. You might say that the objective of the infinite game is to simply stay in the game. We are in fact wired to play the infinite game, it is just that the associated capabilities became dormant as a result of industrial society.

The question becomes how we reignite this capability and scale it up to ensure our organisations can similarly play the game well.

Transformation fatigue

There is much talk about transformation. Clearly we need to transform our organisations so why are so many transformations failing? The first point is that transformation is big business and 'big ticket' business. The tech vendors want to sell you digital transformation as if sprinkling an old school business model will somehow transform it into an organisation fit for an unknowable future. The HR vendors want to sell you culture transformation, which will magically lead to your people being delighted that they are having to run faster on a meaningless hamster wheel. These transformations are sold along the lines of – your organisation is at point A (bad) and you need to get to point B (good). The problem is that in a rapidly changing world, point B won't sit still. The vendor may well get you to point B as commercially agreed, but it no longer represents 'good'. Thus neither of these 'linear' approaches address how the organisation deals with a rapidly changing world.

Understand what is important

The principles on which the industrial era process model is based are no longer fit for purpose. We must embrace a new set of principles.

A focus on assets

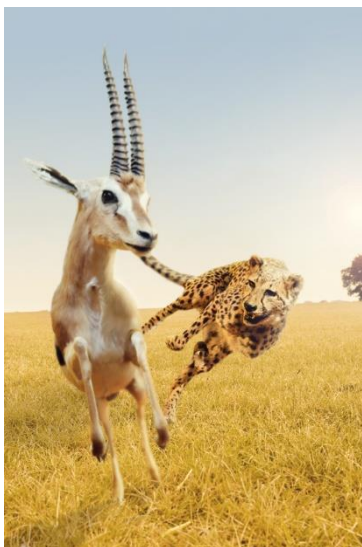
We have established that a focus on efficiency provides little buffer against an increasingly turbulent world. It would be wiser to focus on growing assets. The beauty of assets is that they are creating value just by their very existence. So assets in effect create perpetual profits.

Balance sheets today split assets into financial and the rest. The former comprising cash or assets that could be easily converted to cash if needed. Everything else is bundled into just one bucket.

Thus recognised assets such as brand capital (eg. why people will pay us more than other organisations for offerings with similar functional benefits) and physical capital (eg. property and land) are bundled together. Products, services and subsidiary companies are also assets, unless they are draining the organisation's resources.

Human capital, the extent to which our people create value, and data capital, the extent to which we can turn our data into value, are more often than not even considered. Even though these are what will give your organisation the greatest chances of survival. Let's explore these.

Data capital



Living organisms survive (ie play the infinite game) by sensing what is happening in their environment, deciding what to do based on what they sense and then acting in line with their decision. This is happening continuously. Living organisms operate in real-time. Most organisations typically have a clock cycle of one year or more, which is clearly unsuitable in a chaotic world.

Data is critical to sensing, deciding and acting. The quality of the data will determine how your

organisation perceives its environment and thus on the quality of the associated decisions and actions. Similarly, the effectiveness of your AI investment will be determined by the quality of your data. The vendor adverts imply that organisations have a pristine data lake, when in reality they have something more akin to a data cesspit.

Cognitive capital

I prefer to think of human capital as cognitive capital. As technology advances, the need for humans to do meaningless process work is diminishing. Our value proposition sits between our ears.

The focus today is on artificial intelligence with little regard to the natural



intelligence of our people. An intelligence that has had millions of years of programming in the harshest of environments. An intelligence that was squandered by the industrial era factory model.

Harnessing this natural intelligence will benefit both the organisation and the individual. Your workers are no longer cogs in the machine. They are cognitive athletes and your workplace is the cognitive gymnasium.

Organisations that wake up to this will:

- a) Be more likely to survive
- b) Release a tremendous amount of trapped value
- c) Attract and retain the best people.

It is tempting to ignore this and just drift along with the AI hype because the latter, mistakenly, feels like a bolt on to the existing model and thus not too intellectually demanding from a strategic perspective.

I would encourage you to come to terms with the fact that if you are too play the infinite game well, you need to realise that you are in the cognition management business. It's people and tech. Natural and artificial intelligence.

Embrace innovation

You might be thinking that this all sounds good, but what in practice but how do you apply this cognitive horsepower to the infinite game.

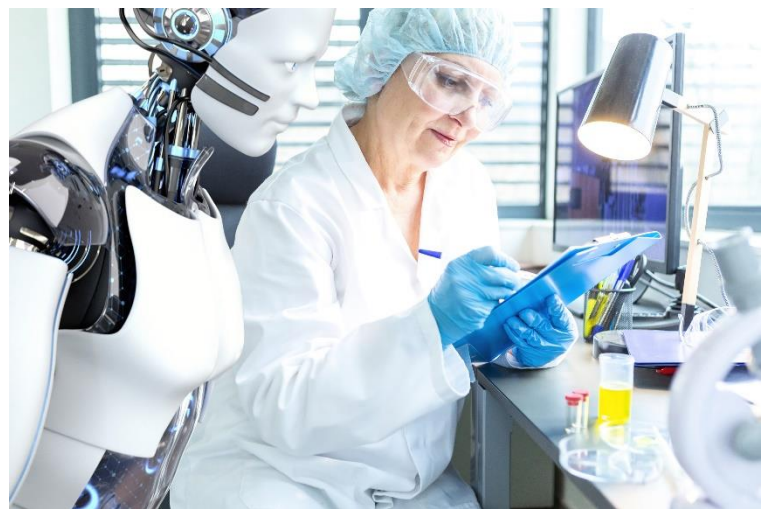
We are moving into a more complex world. In the industrial era the link between cause and effect was quite clear. Not so in complex systems. Thus complex systems are unpredictable, and unpredictability leads to increasingly novel situations.



Most organisations are rigidly structured around a clear understanding of the link between cause and effect. If you spend X on marketing, you will receive Y in sales. Conversely if you know there will be a sustained demand for a certain product, then it is worth investing in a factory to make that product.

Fine tuning the associated processes is big business for service providers. Who doesn't want to maximise profit or do more with less? Unfortunately novel situations require a novel response. Organisations that comprise a collection of hard baked processes will be unable to deal with such novelty. Eventually the offerings that made the organisation so successful are no longer required. This decoupling from reality or a lack of responsiveness to the environment brings about the demise of the organisation.

Innovation is how we address novel situations. It requires experimentation, a comfort with failure and a healthy supply of cognition. Whilst technology has a role to play, and people to an increasingly lesser extent, in the running of your existing processes, they come into their own when it comes to innovation. You might feel you have this covered as you have a research and development function. But we are not just talking about new products and services.

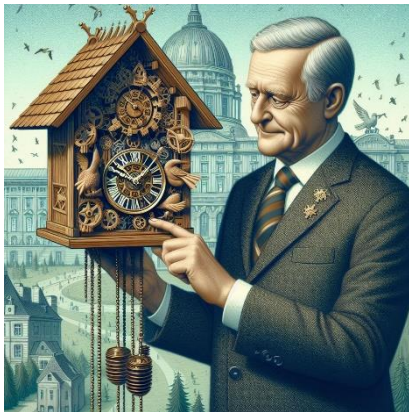


There needs to be innovation at the business model level, ie. new products and services in non-adjacent markets, with new financial models and go-to-market approaches.

Imagine you are a large pharmaceutical company, spending a fortune on innovation. But through perhaps government policy, people managing their health more effectively and are now less concerned about illness and more focused on wellness. Drug dollars are drifting towards healthy lifestyle offerings.

As novel situations outpace business as usual operations, your organisation needs to become more akin to a living organism that continuously adapts to its environment. This is why we have an innate sense, of curiosity, creativity and courage. It is these traits that kept us alive on the savanna and will continue to do so in this post-industrial world.

Rethink leadership



The industrial era leadership model is very centralised. Imagine a living organism where a mere handful of cells wielded authority over the trillions of other cells that constitute its being. There is a good reason why this doesn't work. Thankfully my hand does not need permission from my brain should I accidentally pick up a hit poke.

We need a more decentralised approach to leadership. The player closest to the ball (or even balls) is the captain at that point in time. Think organisational nervous system rather than heroic leader. This requires a high degree of trust and a willingness for your people to carry the associated responsibility.

Avoid transformation

You might now be thinking that this makes good sense so how do we effect this transformation. The last thing you actually need is a transformation. Transformations typically result in:

- Creating anxiety amongst the work force. Your best people pursue other avenues, leaving you with the people who are less attractive to the wider market.
- Quite naturally your organisation will have its share of antibodies. People who are threatened by the change and will do all in their power to thwart it. This serves to further ramp up the anxiety and toxify your culture.
- Threatening your existing cashflow. Whilst there is a possibility that your organisation is on its last legs, it is at least generating cash. Focusing on the shiny future and ignoring today's operational necessities will accelerate the organisational path to intensive care / demise.

As implied earlier, transformations are sold as programmes. Some organisations to show their commitment to the journey, appoint a Chief Transformation Officer. Firstly, this is an enhanced operating model and not a programme. By appointing a CTO, the CEO has effectively abdicated this existential exercise and thus departmentalised it, which in turn puts it into competition with the other business functions in respect of funding.

I am advocating a model that is less about pulling up the floorboards, usually in vain, and more about salvaging what continues to work and extending it to improve adaptiveness. This is no trivial exercise. It needs to be led from the top of the organisation.

What does good look like?

Your existing business runs as it has done. It may continue to do this for many more years or it may come to an abrupt halt next week. On the off-chance that your current business still has some mileage, you press on your efficiency drive. Digitalising the processes in order to squeeze out more profit. Whilst people will be naturally concerned about being swapped out for a robot or algorithm, they feel some degree of familiarity-fuelled comfort.

Because you recognise that there is an inherent risk in having only one source of cash or at least in having multiple sources of cash underpinned by a market assumption, you start to experiment with new business models. These models extend the organisations reach beyond your current market and into adjacent and non-adjacent markets. Think Taco Bell selling chess sets or Harvard Business School offering spread betting services.

These new models may be acquired businesses, startups and scaleups. Or they may be home grown, starting off as an employee idea, that evolves into a concept paper, then a prototype and then a fully-fledged source of cash. Most ideas never make it to the market. That is a natural consequence of experimentation and the innovation process.



Overtime these fledging businesses will mature to a point where they are developing their own new businesses. Your organisation is akin to the roots, or even branches, of a tree seeking nourishment. Your organisation is continually seeking ways to create value and that is taking it in directions that could never have been anticipating. You now have an adaptive organisation.

You now have a portfolio of businesses generating cash from a diverse array of markets. You no longer have a cashflow single point of failure. Again this requires your organisation to always be on the alert for opportunities and acting quickly on the best ones. Again, sense, decide and act.

You can operate these new businesses inline with a more people-centric and agile approach. Some of your existing employees will be baffled by this startup vibe, but some will relish the opportunity to move from process drudgery to a role that make them feel more human. So rather than pushing a transformation onto your people, you have created a pull dynamic.

Let's get going

But first

The challenge that most organisations face is that whilst everyone has a sense that things are no longer working, nobody knows how to move forward. This results in one of the following:

- Choosing to ignore reality and just pressing on in the hope that 'normality' will return.
- Going all in on AI, digital transformation or any other theme du jour because they see others doing it and hope that this herd approach will work out well.
- Making superficial changes such as introducing hybrid working, 4-day weeks and employee wellness apps.



These will not end well. Their difference being on the extent to which they accelerate the organisation's demise.

Awareness

Initially we need to ensure that our leaders understand the extent to which increasing disruption will impact their organisations and how it is possible to embrace this disruption.

Exploration

The leadership needs to consider:

- The implications of this disruption on how the organisation moves forward.

- How resources will be allocated.
- How this will be communicated to the workforce.

Education

Ensure everyone in the organisation understands what lies ahead and how that will impact their role. This would be a mixture of briefing and ideation.

Communication

Work with your external communications people to ensure all stakeholders are aware of the organisation's course of action. It is likely that they will be nervously optimistic and so will need reassurance that the approach is working. You need to ensure that board of directors are not only onboard but are driving this.

Implementation

Build an innovation engine that effectively captures business model ideas and turns them into value either through acquisition or homegrown initiatives. Put processes in place to:

- Acquire talent better suited to a more cognitive working model.
- Share central services with the acquisitions and home-grown initiatives.
- Select ideas for experimentation.
- Evaluate progress and eventually value realisation.



Please note public sector organisations benefit from having a locked-in customer base. However they cannot waltz into non-adjacent markets unless it can be shown to be a better use of funds than providing the usual services. Nonetheless, this approach can be used to develop a more innovative approach to improving existing services, in particular making them better integrated so that the citizen experience and journey has less friction.

Conclusion

The exercise here is to create a new operating model that can better adapt to a rapidly changing world. Moving from the industrial model to a more living, sense organism type approach does require a transformation of thinking, but a relatively simple modification to the existing operating model. Transforming what currently works is a recipe for disaster.

Keep in mind that innovation is key to adapting and both natural and artificial cognition are the fuel. This will require organisations to take a radically different approach to talent management.

About Ade McCormack



Ade McCormack is founder of the Intelligent Leadership Hub. His focus is on helping organisations adapt to an increasingly unknowable world. The problem Ade solves - How organisations can navigate an increasingly disrupted and thus unknowable world.

Ade:

- Is a former technologist who today advises leaders on adaptiveness.
- Is a former Financial Times columnist.
- Has lectured at MIT Sloan on leadership matters.

- Works with Cambridge University (Moller Institute) on leadership development.
- Trained in astrophysics and has worked for the European Space Agency.
- Has worked in over forty countries across the world across multiple sectors with many of the world's most prominent brands.
- Has written six books on topics related to disruption and adaptiveness.

How can I help?

I can support your organisational journey in a number of ways:

1. Awareness raising – Eg. Presenting at leadership gatherings and company events.
2. Exploration – Eg. Facilitating ideation workshops.
3. Education – Work with your L&D function to build a company wide education programme.
4. Implementation – Work with your leaders to put the self-governance machinery in place.

Next step

[Contact us](#) to explore options.

Alternatively drop me a message on ade@auridian.com.