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BUILDING ADAPTIVE CAPACITY

Individuals, Groups and Society

Andrew Brown

“In a time of drastic change, it is the learners who inherit the future. The learned usually find themselves equipped to live in a world that no longer exists.” - **Eric Hoffer**

Much has been written about the disruptive changes that are continually assailing organisations and markets. Organisations that have been unable to adapt appropriately are being severely affected, including their failure to meet community expectations.

Many failures have been highlighted in findings emerging from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (‘The Royal Commission’), and from the APRA prudential review into CBA (‘the APRA report’). The failings essentially fall into two categories:

1. Putting self-interest and shareholder interest ahead of customer interests, and
2. Despite long term efforts to regulate and enforce appropriate conduct, issues continue.

Two key questions that arise are:

- What are the limitations in our current thinking and ways of working that mean organisations have been ineffective in enforcing reasonable behaviour? What needs to be different to overcome these limitations?
- What needs to happen, individually and across society, to develop a much deeper awareness of our impact on others and take

much greater responsibility to “do the right thing”, even when no one is watching?

The APRA report explored organisational failings in addressing conduct issues. While the themes apply to one financial services organisation, they are relevant across industry (and to many organisations in other industries). Key themes included:

1. People saw themselves as responsible to a process rather than responsible to an outcome.
2. While organisational values were broadly promoted, there was insufficient focus on embedding these in day-to-day behaviours and actions.
3. There were ‘overly complex and bureaucratic decision-making processes that favoured collaboration over timely and effective outcomes’ – (p3).
4. Excessive reliance was placed on ‘high IQ’ over deeper analysis and questioning. This was exemplified by ‘inadequate oversight and challenge by the Board’ – (p96).

The APRA Report made several recommendations to address these challenges, including ‘address negative behaviours (for example complacency, reactivity) which contribute to the gap between intent and action.’ It also highlighted the importance of adaptive capacity as a key lever to shape an effective risk culture.

While these findings and recommendations are common, what is not common is a holistic way of addressing these types of challenges. This requires a much greater capacity to be aware of the consequences of our actions, and a much deeper capacity to con-



The quote

To develop individual adaptive capacity requires a re-evaluation and expansion of our identity, self-efficacy and sense of responsibility.

tinually learn and adapt our approaches. This requires greater adaptive capacity and more adaptive cultures.

The challenge of building more adaptive cultures today

“If the rate of change on the outside exceeds the rate of change on the inside, the end is near.” - **Jack Welch**

Culture is often described as ‘what really goes on around here’, or the behaviours and actions that happen when no one is looking. These behaviours are heavily influenced by another aspect of culture, the deeper shared beliefs and attitudes of people across the organisation.

To enable more adaptive organisations means evolving these deeper shared beliefs and attitudes. This can be extremely difficult, particularly in large organisations with long histories, often with multiple tiers of hierarchy, and great complexity.

Organisations have traditionally attempted to transform culture by promoting and supporting change through communications, processes, policies and measures that reinforce desired values and behaviours. These have often been supplemented with social influence initiatives— requiring those in positions of authority or with strong social influence to demonstrate the desired behaviours and champion the change.

While these methods may be effective in stable, certain environments, they become much less effective in a state of flux. Outcomes are much less clear, and people in positions of authority or social influence are often unable to role model what they expect of others. These methods are also based on the belief that people will follow role models and do what they are told is good for them and the organisation; these methods don’t adequately consider a person’s intrinsic motivations or their confidence and desire to take appropriate action. This is particularly so when an individual’s security needs, including their power or authority, are at risk.

While social influence can be effective in enabling short-term behaviour change, research has shown that when social influencers move on, behaviours quickly revert. When an individual’s security needs are at risk, they often revert to self-preservation, and the consequences of that include putting their own needs ahead of customers and others.

Recognising these limitations, some organisations have focused more on intrinsic motivation - enabling people to engage with their sense of purpose, mastery, autonomy and social connection. From time to time this has also been supplemented with enabling personal agency – developing people’s capability to originate and direct actions for given purposes. This requires developing a person’s belief in their ability to make choices (self-efficacy) and their willingness and ability to do so.

While this is a step forward, intrinsic motivations can

be much more easily undermined during significant change, and personal agency more easily suppressed. Roles may be reshaped before we have time for mastery and it is much harder to confidently act when there is no known solution and we are not sure if our efforts will make a difference or even be acknowledged.

At the very time that greater adaptability is required, the conditions that demand change are also inhibiting people’s capacities to adapt and evolve.

Given these challenges, it is no surprise that so many cultural transformations fail to enable organisations to adapt and flourish today. New approaches are necessary for the ongoing development of individuals and ways of working for an organisation to adapt and evolve at least as quickly as its outside world.

Key requirements to building an adaptive organisation

The combination of individual, social and structural capacity determines an organisation’s adaptive capacity.

There are no easy answers. To build adaptive capacity in this environment requires a multi-faceted approach. It requires organisations to consider how it evolves its people, its ways of working and its structures, processes and policies.

Individual capacity

An adaptive organisation can only be built through people with adequate levels of personal agency and self-awareness. To be able to exercise personal agency in a rapidly changing world demands a much greater level of capacity than has been traditionally demanded. Individuals are required to deepen their:

- Awareness and insight into how they conduct themselves, what holds them back; what motivates them, what beliefs and world views they carry that inhibit or expand them;
- Understanding of and compassion for people including customers, team members, stakeholders and themselves; and
- Understanding of and ability to effectively navigate the complex systems and moral dilemmas they face daily.

Social capacity

Building more adaptive cultures requires deeper organisational insight into how we can collectively learn and take aligned action according to our circumstances. This requires individuals and groups of individuals to work together to:

- Understand other perspectives and collectively bring shared insights into decision making and action;
- Seek out and incorporate diverse and / or opposing points of view;
- Challenge each other respectfully for the greater good of the organisation. This includes external stakeholders, such as customers, providers and regulators.

Structural capacity

Structures and policies also need to be implemented in a way that enables rather than inhibits adaptation. This requires organisations to be able to consider the potential consequences or limitations inherent in any system, and design in a way that recognises the need for ongoing evolution.

Figure 1 outlines the key levers for change that enable organisations to adapt.

The rest of this section describes the four most significant ideas we have found that can enable organisations to adapt and evolve.

1. Individuals to embark on an intentional development journey

“When we experience the world as too complex... there are only two ways to mend this mismatch – reduce the world’s complexity or increase our own.” - **Robert Kegan**

How can adults adapt and evolve more rapidly in such a challenging environment? According to Robert Kegan, Harvard University Professor of Adult Learning and Professional Development, adults have the potential to continue to adapt and evolve over our entire lives. In other words, we have the potential to continually increase our complexity to be able to deal with emerging challenges. But how?

Kegan and other developmental psychologists have found that the development of our mental complexity occurs in a sequential order. In the same way that adding or subtracting are foundational for more advanced mathematics, each stage of human evolution forms an important foundation for the next stage. This insight opens a potential pathway for transformation.

Transformation occurs through stepping back and reflecting on our challenges, observing the situation and ourselves objectively, making informed decisions, taking actions and refining and iterating based on learnings from the results of these actions. This capacity to observe and learn about our systems, selves and current limitations allows us to grow and develop, even in the harshest of environments.

Using an example from the APRA report, we often stifle learning when there is such strong respect for expertise that people unquestion-

ably accept the views of experts in fields unfamiliar to them. When we allow ourselves to step back and reflect, we can begin to see the limitations, assumptions and boundaries to a single source of expertise. Only then are we more able to enquire, learn and look beyond the expertise, while still incorporating the wisdom that expertise provides.

While greater mental complexity is not a solution to self-interest, people at later stages of mental complexity are much more able to hold multiple perspectives simultaneously, and see the longer term consequences of their actions. And, they are more able to put in place solutions that balance stakeholder needs and rights.

To develop individual adaptive capacity requires a re-evaluation and expansion of our identity, self-efficacy and sense of responsibility.

When people are asked what has allowed them to develop new ways of seeing the world, with greater capacities and perspectives, it is rare that their development was intentional. Mostly, their worldviews have evolved through facing hardship, challenge or an existential crisis.

For people to adapt and evolve at the pace required to meet rapid environmental changes, they must take an intentional developmental approach and evolve their practises beyond traditional learning. It is imperative for the modern organisational development function to shift the emphasis from skill and competency building to continuous learning and development.

Table 1. Embarking on an intentional development journey

From traditional practices of:	To ongoing developmental practices of:
Achieving set outcomes	Safe-fail tests and prototyping.
Developing skills to do the task	Continuous observation of self, others, industry, community and customer.
Receiving feedback from manager	Two-way developmental conversations up, down and across the organisation.
Building singular expertise	Holding multiple perspectives including exposure to diverse and counter intuitive people, frameworks and practices.
Honing existing skills	Stretch assignments which expand comfort zones and capacities.
Increasing knowledge	Deliberately developing self and others (mentoring, coaching, reverse mentoring, knowledge sharing).
Working individually	Exploring complex challenges in groups and bringing together the collective wisdom.

Figure 1. Levers for building adaptive capacity

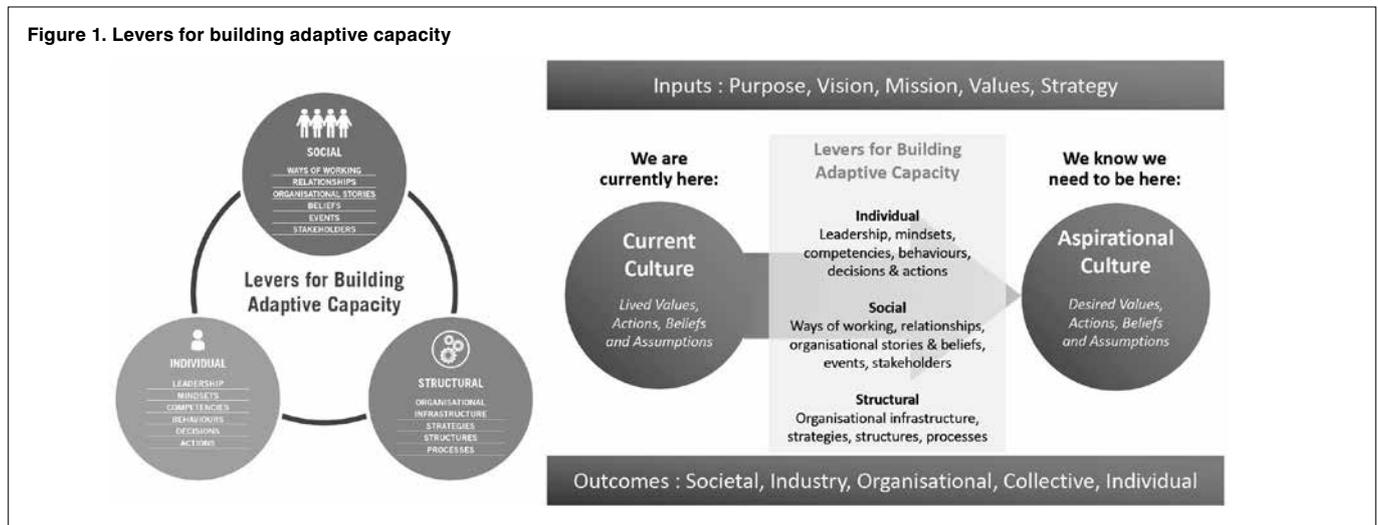
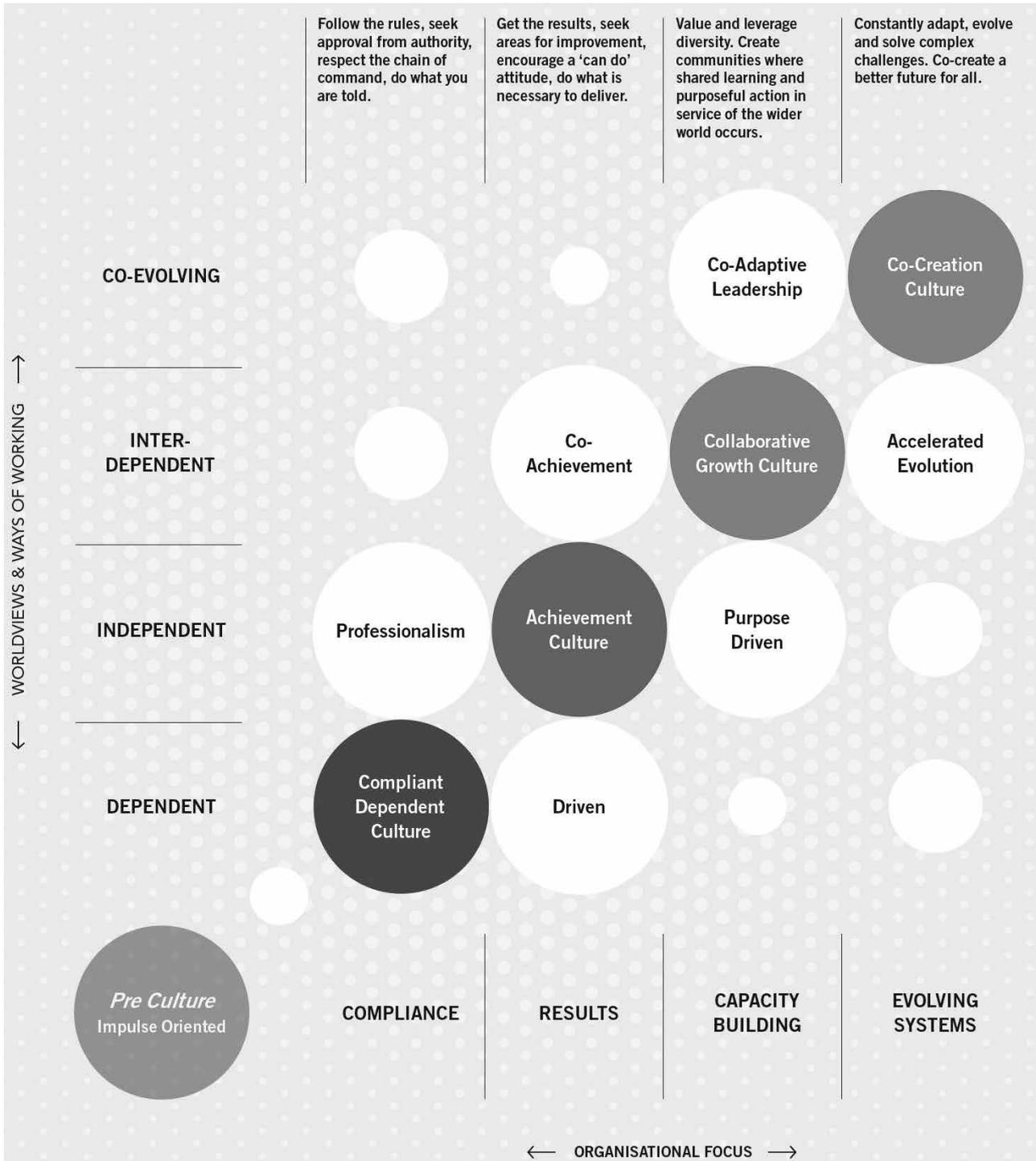


Figure 2. Stages of cultural evolution



Source: Adaptive Cultures

2. Stages of evolution as a deliberate approach

In the same way that individuals can continue to grow and evolve over their lives, organisational culture can continue to evolve to enable organisational purpose and achievement. This requires a long-term commitment, as habits formed over a long time cannot be overturned in a day.

The notion of ‘continual evolution’ is not new and has been used successfully in the context of safety culture. Cultural evolution frameworks explicitly consider stages of individual, social and structural evolution. This enables an organisation to consider what culture is required in order to deliver on its current strategy, and what would that mean for its people, its teams and its systems and processes.

An important feature of this approach is that when an organisation effectively transitions from one stage to another, it retains and builds on the foundations of the previous stages. For example, in an organisation at ‘compliant dependent’ stage of development, people would typically feel responsible to follow a process. As the culture

evolves towards achievement, the focus broadens to encompass both following a process and being accountable for the achievement of outcomes, including risk outcomes. The following framework outlines the key stages of cultural evolution (see Figure 2).

In the vast proportion of organisations, there is not one single culture, and the roles and priorities of varying areas will also differ. Despite the challenges, it is critical to have one overarching cultural aspiration, to build coherence and alignment towards a common purpose and common expectations of each other. This does not mean ignoring or suppressing the unique offerings of an area; it means allowing that unique offering to flourish in a way that is aligned to and in support of the larger organisational purpose. Neither does it mean having the same cultural initiatives. The current state of cultural evolution may vary, and the time needed, and the pathway forward may also vary.

Figure 3 sets out critical aspects of each stage of evolution, including mindsets, beliefs and enacted values.

Figure 3. Stages of cultural evolution

This table sets out critical aspects of each stage of evolution including mindsets, beliefs and enacted values

	Impulse Oriented	Compliant Dependent Culture	Achievement Culture	Collaborative Growth Culture	Co-Creation Culture
Management Style	Highly reactive or command and control	Hierarchical and parental	Driving results	Collaborative and developmental	Creative, empowering and disruptive
Environment	Impulsive and reactionary	Procedure driven and traditional	Competitive and fast paced	Inclusive and growth oriented	Highly adaptive and future oriented
Expectations of my people	React quickly, put out fires and focus on quick wins	Loyal, compliant and diplomatic	Pragmatic, accountable and responsible	Strategic and stakeholder oriented with a focus on personal growth	Futuristic thinking to enable continuous evolution
What is important?	Survival and immediate action	Position, stability and expertise	Professionalism, outcomes and resilience	Harnessing collective insights and purpose	Co-creating a better future for humanity through building adaptive capacity
What is rewarded and celebrated?	Acting on opportunities, taking charge and winning against others	Experience, compliance and loyalty	Initiative, difficult decisions and results	Developing self and others, strategic thinking and sustainable growth	Enlightened insight, evolutionary milestones and superior agility
What is not safe?	Waiting, procrastinating or taking time to reflect	Challenging authority, challenging the status quo or non-compliance	Under-achievement or blaming others	Narrow or short term thinking or image management	Not considering multiple consequences of actions

3. Moving diversity from a fairness initiative to a strategic advantage

“Diversity is the outcome of high, consistently applied standards.” -
Atlassian

Research on collective intelligence has demonstrated that teams with significant diversity in thought as well as work and life experiences are much more able to solve complex adaptive challenges, challenges that are beyond the ability of any single person to solve. In the context of ongoing rapid change, the importance of diversity as a strategic initiative continues to increase.

Few organisations have been successful at truly embracing the potential in diversity to progress these complex challenges. It is one thing to recruit for diversity and to have diverse perspectives across working groups. It is another thing for all members of that working group to be able to truly respect, learn from and build on different perspectives. The following are critical for realising the potential in diversity:

- Shared time speaking – no one person dominating
- Social sensitivity – being able to sense into how others are feeling
- Deep inquiry – into beliefs, assumptions, worldviews
- Respectful challenge – focus on the issue, not the person
- Able to hear, evaluate and synthesise multiple perspectives, and hold own perspective lightly
- Belief in the unique wisdom and contribution each person can make
- Process to move from unresolved disagreements to agreements based on merit

To build these capacities requires willingness for each team member to examine and take responsibility for their own unconscious biases. It requires ongoing practice of listening, advocacy and enquiry. And it requires compassion for self and other team members over the learning journey, celebrating the moments of progress despite the moments of imperfection.

4. Expanding organisational perspectives of stakeholders, systems and the future

“Shareholder primacy has been a major driver of short-termism... and reduces long-term sustainable investments – indeed, it promotes inequality and strikes at the very heart of our society.” -
Martin Lipton

When organisations excessively focus on one area of the business or one key stakeholder, they run the significant risk of losing sight of the how their actions impact other parts of the business or other stakeholders. Examples abound from the Royal Commission of the consequences of insufficient attention being paid to quality customer outcomes.

What is required is a much more holistic approach that considers the broader environment in which the organisation operates in. This includes considering the consequences to the organisation of developments in the external world, such as the economy, legislation, competition, customer needs and so on.

As organisations expand their systems perspectives, they develop

a much deeper understanding of the consequences that decisions or actions have across multiple stakeholders, systems and time spans. The broader and longer term the focus, the more likely an organisation is to understand and strive for the kind of adaptive capacity necessary to create a sustainable future.

For example, as organisations become more aware of the impact of their actions on key stakeholders, they begin to see how these impacts affect their brand, reputation and ultimately their own success. It therefore makes profound sense to develop a more customer-centric organisation. As the sense of customer and other stakeholders expands, decisions begin to consider the contribution the organisation can make much longer into the future, and the benefits of this to all stakeholders.

Many of the systems that constrain us today were a solution to a challenge or ‘a great leap forward’ at the time they were created. How much more expansive could our present have been if the past generation of innovators, regulators and leaders had fully thought through or properly considered the future consequences?

Conclusion and next steps

Many culture change ‘solutions’ have focused on putting in place systems and structures to solve a particular problem or to meet a specific need; organisations have often focused on ‘future proofing’ rather than ‘future adapting’ or ‘future leading’.

The challenges articulated in the APRA report and the Interim Report to the Royal Commission require thinking beyond the immediate solution to a much deeper understanding of the longer-term consequences of actions. It requires greater adaptive capacity in individuals, teams and systems. The implications are not only for organisations but also for their shareholders, regulatory bodies and community. This requires a significant uplift in investment in building adaptive capacity.

The following recommendations are all essential activities for building adaptive cultures. The recommendations are common sense. However, the promise of adaptive organisations will only become a reality when these become common practices:

1. Much stronger emphasis on personal evolution – understanding the longer term and systemic consequences of our mindsets, beliefs and actions, on our own effectiveness, on the experience and effectiveness of our teams, colleagues and customers, and on the outcomes of our enterprise.
2. A much stronger emphasis on personal responsibility / accountability. This requires a greater focus on continually building self-efficacy and personal agency. This requires an environment where learning and experimentation are encouraged.
3. Intentionally enabling intrinsic motivation. This requires a rethink of classic extrinsic motivators such as incentives, reward and recognition.
4. An approach to cultural evolution that recognises and enables individual, group and organisational evolution. Embedding structures and practices that enable this. Given the impact culture has on financial outcomes, significantly greater levels of investment are required in cultural evolution, which will lead to greater adaptive capacity.
5. A much more strategic approach to diversity, where diversity is leveraged as a core ingredient to increasing organisational capacity and resilience.
6. A longer-term view of the potential impact the organisation can have on its customers, community and markets it operates in. **FS**