LEADERSHIP IN COMPLEX TIMES*

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Business leaders have always faced a certain degree of uncertainty, risk, and complexity. In recent years, however, the strength of these forces has grown dramatically, challenging even the most seasoned leaders to keep pace. Extreme market volatility has become routine. Innovations continue to accelerate, impacting the pace and shape of business. Sustainability has matured from a fringe idea into a major business issue. The Millennial generation is entering the workforce and bringing a new set of values and priorities. Meanwhile, the rate of technological, geopolitical, and economic change continues to accelerate (Kelly, 2005).

Adapting to these new forces is today's foremost challenge for senior executives. How can the leaders of General Motors ensure their company's survival while motivating their 260,000-plus employees to change and adapt to this new set of competitive realities? How will Bank of America's leaders integrate both Countrywide Financial and Merrill Lynch into their 200,000-plus employee base while getting the combined organization to pull in the same direction amid unprecedented financial pressures?

These major business challenges are not limited to the corporations headlining *The Wall Street Journal*. Virtually all business leaders today recognize an urgent

need to increase the speed, adaptability, market-sensing ability, and competitiveness of their organizations.

To achieve these goals, executives will have to move beyond traditional approaches to leadership and change that were developed in a simpler era of fewer variables and longer decision making lead times.

These days, business leaders do not confront managing one or two kinds of change at a time; they must constantly adapt to an array of complex and uncertain conditions. This new competitive environment requires that executives adopt new leadership practices. By using the adaptive approaches described below, we have found that leaders can improve their chances of achieving sustainable growth, increasing customer responsiveness, and re-energizing their workforce while also gaining greater clarity on their own new roles as leaders.

There are three ways leaders can be more adaptive, and therefore more successful, in their approach to implementation and change:

1. *Adapt your approach to fit the challenge*. One-size-fits-all doesn't work any more. Diagnose the organizational challenge and tailor your approach to change and implementation so that it precisely fits the scope of the organizational challenge.
2. *Approach every strategic initiative as an opportunity to enhance adaptive skills*. Change and implementation efforts typically require a meaningful investment of organizational time and energy. Seek to enhance the adaptive capabilities of your organization whenever you undertake a major change initiative. Focus on building the organization's ability to adapt and change to ensure the investment reaps dividends in the future.
3. *Shift leadership behaviors today to prepare for greater future complexity*. In such a complex world, one business leader cannot have all the answers. Develop a wider range of leadership approaches to engage people both inside and outside your organization. As uncertainties get larger and the stakes get higher, tap into the intelligence and energy of all your people, not just a critical few.

Adapt Your Approach to Fit the Challenge

Many organizations get off on the wrong foot when implementing a new strategy or large-scale change initiative by overlooking the crucial need to match their unique challenge with an appropriate implementation approach. Most leaders think there is one "best" way to implement a major change initiative. The reality is that every change initiative requires important choices on goals and methods *before* embarking on the execution phase.

There are many ways to characterize different types of challenges leaders face when creating change in their organizations. Ron Heifetz (1994), in his book *Leadership Without Easy Answers*, distinguishes between technical challenges, which we will call operational challenges, and adaptive challenges. The approach used to create the change differs depending on the nature of the challenge. Being intentional about defining the challenge as *adaptive* or *operational* ensures the right approach and the right level of resources are deployed to achieve the intended results.

Operational Challenges

Operational challenges are ones that require flawless execution. The organization has most of the capabilities needed to make the change happen, but designing the change and managing the resources well are the keys to success. Both the problem and solution are relatively clear; it is how the change is managed that is critical. Heifetz calls these Type 1 situations. The desired end-result may be a significant change from today, but the success of such an implementation challenge depends primarily on putting the right resources in place and executing according to plan.

Operational approaches work best in situations in which a company wants to restructure the layers of its organization, put a new information system in place, or embed new functional capabilities. Companies applying the operational approach use well-understood change management practices to ensure the end-state is clear, stakeholders understand how it will benefit them, and communication plans are in place to keep everyone well informed. Companies that excel in these operational types of approaches develop governance structures that ensure quick decision making and metrics to guide necessary course corrections. Ideally, these approaches to change and implementation also include incentives, rewards, and consequences to ensure the long-term viability of the end-results.

Adaptive Challenges

In contrast, *adaptive* approaches are needed when the challenge the organization faces requires fundamentally different capabilities than the organization has today. Leaders typically define the challenge they are facing as adaptive when they have tried all the approaches and methods they know and have still not obtained the results they want. They feel their leadership team needs different skills, or they have not been able to make the change stick, or the change is so big that the organization as a whole needs to be able to work in a fundamentally different way. These are adaptive challenges. In these cases the problem may be clear, but the

solution is not. In our definition of adaptive, these challenges span what Heifetz calls Type 2 and Type 3 situations. The solution requires learning and doing things differently, often in ways that are not immediately apparent to the leader.

Frequently, adaptive challenges require greater levels of engagement from both leaders and the broader organization. Engagement is what is needed when leaders recognize a problem but lack clarity on the best solution. By tapping into their organizations' collective intelligence, leaders can identify possible ways to overcome the challenge at hand. An adaptive approach is also useful when a leader recognizes that the organization will need higher-than-normal levels of employee commitment and ownership to succeed. Leaders who choose an adaptive approach usually realize that their old ways of creating change in the organization will not suffice and that they need to do things differently than in the past.

Choosing an Approach

A leader could choose to use either an operational or an adaptive approach to the challenges he or she is facing. The approach chosen will in part determine the result. For example, if a leader wants not just a *business* change, such as cost reduction, structural change, or greater customer focus, but also a *capability* change, then a leader would choose an adaptive approach instead of an operational approach. Adaptive challenges require higher levels of engagement and collaboration to generate positive results, which in turn creates higher levels of employee commitment and ownership.

Adaptive approaches also begin to build an organization's ability for sustained change and agility. Ambitious leaders can use adaptive approaches in order to challenge their organizations to reinvent themselves. Leaders who choose this approach work on creating the internal conditions, incentives, and organizational structures that enable the continuous adaptive evolution of their companies.

Most Fortune 500 companies struggle with how to think about the uncertainty and complexity we face, let alone how to lead through it. Leaders at large organizations tend to ask "How can I *manage* this complex change in such a large and dispersed organization?" Such a question is based on the assumption you can *control* change in the large global enterprises that exist today. An adaptive approach would direct leaders to ask, "How can I create the conditions that make it easier to continuously *adapt* and grow over time?"

For example, consider a large U.S.-based industrial manufacturer with a global customer base and four successful, but distinct product-oriented business units. The CEO was convinced that the company was leaving value on the table by neglecting to exploit opportunities for synergy across business units. He was

not 100 percent sure of how best to frame the problem and had tried everything to get his senior team to work better together—to no avail. Not having any pre-defined solution to the challenge, the CEO engaged his senior team and, ultimately, the top seventy-five senior leaders from the four business units. Their task was to co-create a new vision and strategic purpose for the organization that could drive profitable growth for the firm over the long term. Five sub-teams were created and given three months to generate solutions by analyzing data, reviewing opportunities, and developing proposals.

In addition to developing the proposals, the five sub-teams were asked to focus on creating new ways of thinking and working together while they produced their results. To support this goal, they had a coach at each of their meetings, and participants challenged each other's assumptions in a way that hadn't been culturally accepted in the past. They held group discussions about the company's issues during the meetings, instead of holding one-on-one conversations before and after the meetings. This process also eventually incorporated contributions from many others in the organization. Ultimately the teams identified and realized more than $500 million in new opportunities that helped the company double sales in a flat market.

Note the CEO's choice in this approach to change. He could have defined this situation as an operational challenge. He could have asked each business unit for ideas, collected these ideas at corporate headquarters, made some centralized decisions, and then implemented the ideas from the center outward. (Worse, the CEO could have sought to impose a direction from above.) Instead, the CEO made a decision to engage a broader group of senior business unit leaders in a more fundamental and participatory way, building their skills in interacting and engaging others, co-creating a better solution, and establishing a deeper commitment and sense of ownership.

Companies that use such an adaptive approach to organizational change may be focusing on solving some very specific business issues in the present, but they do so with an eye toward improving their future capacity to sense and respond and sustain change.

Pitfalls to Avoid By matching the approach to change with the organizational challenge, business leaders can avoid these three main pitfalls:

- *Expecting Adaptive Results from an Operational Approach.* Leaders must set the right expectations for the change they seek and the approach they have chosen. Business leaders cannot reasonably expect to generate the types of solutions and levels of commitment typical in adaptive approaches while employing operational methods. It may sound like common sense, but we have seen

countless organizations make this unnecessary blunder. When executives create unrealistic expectations, organizations suffer from the employee cynicism that results and makes future changes more difficult.

- *Using More Ambitious Approaches Unnecessarily*. Leaders may be tempted to engage greater numbers of people in developing and implementing all sorts of solutions, but should only do so when the challenge they are facing truly warrants an ambitious adaptive approach. If an operational approach will suffice, using more complex methods only wastes valuable time and energy. In complex business environments (global organizations with diverse national cultures), there may be situations in which an engagement approach will run into trouble. In several types of situations mentioned above, an operational approach can produce exactly the necessary results to solve a specific organizational challenge.
- *Assuming Only One Approach Can Be Used at a Time*. Organizations typically have many different types of changes going on simultaneously. Different types of approaches can coexist or even nest within each other. For instance, once a company uses engagement techniques characteristic of an adaptive approach to enlist managers and help define appropriate solutions to a certain challenge, it will then most likely need to employ some operational tools to implement the solutions emerging from its adaptive process.

Build Adaptive Capabilities

Volatile times call for adaptive leadership. We have found that leaders must strive to build new individual and organizational capabilities that help drive lasting change. Many organizations have started to build elements of these adaptive capabilities, prompted by progressive leaders who recognize that adaptive capabilities will allow their organizations to more easily implement change and growth initiatives. These adaptive leaders build the capability to do the following:

Sense and Respond to Change

Leaders need to adopt a futures-based approach to decision-making and leading that integrates tools such as scenario-planning, game theory, and disciplines such as sensing and responding (Haeckel, 1999; Scharmer, 2007). By developing rapid feedback mechanisms, organizations can better anticipate and respond to unexpected, complex changes in the business environment.

For example, Wal-Mart Stores, Inc., established an emergency operations center to help track significant weather emergencies and natural disasters so the retail giant could anticipate problems for its stores and supply chain networks.

The company found the emergency operations center was a strategic asset after Hurricane Katrina in 2005. The communications and logistics systems Wal-Mart established not only enabled the retail giant to account for all of its 34,000 employees in the Gulf Coast region but also elevated Wal-Mart as a key provider of goods (2,500 trailers of merchandise and supplies) and services such as health clinics to affected populations.

Sustain a Shared Vision at All Levels of an Organization

Leaders must create and sustain a compelling shared vision that reaches beyond the senior management to align *all* levels in their organization. To enable fast, coordinated action across widely distributed resources, entire organizations must internalize strategies with greater levels of precision and depth so their actions support and advance any necessary course corrections and shifts in strategy. For example, Whole Foods empowers grassroots leadership by providing tremendous autonomy to store-level managers, thus giving local management the ability to adapt quickly on a store-by-store basis to immediate customer needs in a way that is consistent with the company's overall strategy.

Build Business Literacy and Clear Lines of Sight

Business leaders need to educate as well as lead. Creating an adaptive organization means instilling a complete system view of the business, so that all employees have an intricate understanding of how the business works and creates value (Pascale, Milleman, & Gioja, 2001). Such awareness enables employees at all organizational levels to make good choices on decisions that cannot or should not be centrally controlled. A large paper manufacturer conducted "line of sight" sessions with its top fifty leaders over two or three months to ensure they all understood the strategic goals of the company and how all their strategic initiatives connected to those goals. They identified key business drivers, decided which initiatives to eliminate, and equipped their leaders to extend this line of sight to lower levels in the organization.

Create Permeable Boundaries and Connections

Leaders need to build healthy interfaces across organizational boundaries, while developing fluid and adaptable networks that offer multiple paths for individual and group contributions. Such flexibility enables the free flow of information, people, and resources across boundaries and facilitates co-creation across the organization. For example, the social networking website Facebook reacts to user

needs in real time by embracing an open-source model that allows proactive Millennial users to modify and enhance its site on a daily basis.

Nurture Constructive Individual and Organizational Behavior

Business leaders can lead by example here, nurturing individual collaboration skills and developing a culture of self-awareness and mutual support. Leaders should make explicit commitments to encourage the full expression of different ideas and build the skills needed for rapid conflict identification and resolution. Google encourages creativity and innovation in its entire workforce by basing 20 percent of each employee's evaluation on that employee's ability to generate new ideas. The power then comes not from just the generation of the ideas, but in creating a culture that makes it possible to work through the inevitable conflicts and take the ideas to completion.

Shift Leadership Behaviors

Many of today's corporate leaders are frankly unprepared to lead the necessary co-creative, adaptive approaches to change necessary in our volatile environment. Aged in their mid-forties and fifties, Fortune 500 leaders cut their management teeth when business change was hard—but not so fast, complex, and risky. Their notion of change, their instincts, and their personal leadership toolkits are now in need of a major overhaul. Many leaders face an uncomfortable paradox in which they must relinquish a portion of the control underlying their previous success in order to help drive corporate growth and enable their organization to thrive in a volatile business climate.

Executives can improve their companies' ability to adapt and change in these complex times by shifting their own mindset and activities: from a hierarchical, control based style to a style that emphasizes commitment, employee collaboration, and involvement (see Table 1).

The Shift from Control to Commitment

Traditional approaches to change management and implementation are based on the view that with the right tools and techniques leaders can "manage" or "orchestrate" change. This assumption is often true when faced with operational challenges. But in adaptive situations, leaders begin shifting their mindsets and behaviors from a focus on controlling the actions in their organization to a focus on fostering a sense of shared commitment and purpose across the organization.

TABLE 1. SHIFTS IN LEADERSHIP MINDSETS AND BEHAVIORS

Historically, leadership depended on . . .	Adaptive leadership capabilities require . . .
Control. Leaders strive to drive the change and associated actions in the organization.	**Commitment.** Leaders seek to build the shared commitment and ownership that fosters aligned action.
Answers. Leaders are expected to have the answers, make tough decisions, and provide direction.	**Engagement.** Leaders frame the issues and tap into the collective wisdom and energy of their diverse global network to make things happen.
Organizational Units. Leaders focus on managing their own organization or business unit to drive performance.	**Organizational Boundaries.** Leaders focus on managing the intersections between organizational units to drive performance.

Consider the example of IBM, which sought to unite its global workforce behind a uniform set of values and beliefs (Kanter, n.d.). Rather than imposing these values from the center outward and from the top down, IBM wished to develop this set of values using a co-creative, bottom-up approach. IBM embarked on an incredibly ambitious program to engage 140,000 employees around the world through web-chat sessions. All employees were encouraged to articulate and agree on the most important shared values. Eventually, a set of uniform values emerged from this process: dedication to clients, innovation, trust, and personal responsibility. IBM then set a goal of empowering local managers throughout the world to make real-time decisions based on local considerations. The co-created value set would help ensure that the decisions made by local managers were consistent with the company's overall strategic objectives.

With the organization aligned around this set of values, IBM changed both its structure and its culture. Managers who once felt compelled to operate out of IBM headquarters in Armonk, New York, were encouraged to work in their home countries and take ownership of regional client relationships. The company advanced its new commitment to decentralization by partnering with companies and governments in countries around the world on both business projects and socially focused initiatives.

IBM not only received positive feedback from clients on the performance of the newly empowered mid-level managers, the company also benefited by increasing its adaptability. Local managers responding to on-the-ground conditions could move faster and more knowledgeably than top executives thousands of miles away. Thanks to all of its local partnerships, IBM also benefited from an

intelligence perspective, letting the company stay ahead of the curve on global business issues and the latest trends in social change. By striving to align the organization rather than focusing on controlling managers half a world away, IBM was able to achieve the type of customer service it needs to compete in the global economy.

An excerpt from the 2007 letter to shareholders by Samuel J. Palmisano, IBM's chairman, president and CEO, summed up the company's vision of collective leadership: "The underlying idea here is that individuals are in the best position to make decisions about their own work, learning and careers," Palmisano writes. "This shift of control and decision-making to the IBMer represents a very new relationship between enterprises and individuals—and that involves a certain degree of risk. Sharing power always does. But if you trust your strategy, your capabilities and your people—and if you are confident that all are grounded in a set of shared values—then this is the kind of innovation you pursue. It's one more example of playing offense in a very new game."

The Shift from Answers to Engagement

In the industrial age, the leadership model was based on an assumption that leaders at the top of the hierarchy knew more than people at the lower levels. By virtue of their experience, leaders were expected to make difficult decisions based on their deep knowledge. Even today, in many situations and industries, this model still holds true. But in other cases, a new paradigm of leadership is emerging. Leaders increasingly recognize that they can no longer have all the answers. Organizations are getting too large, too global, and too complex. The role of the leader is shifting. More and more leaders have realized that an important part of their job involves accessing and unleashing the collective intelligence and energy in their organizations.

This realization is crucial for those companies seeking to enhance their adaptability. As the IBM example illustrates, companies that want to become more adaptive must sometimes loosen the reins of central control in order to get better information and focus their energy in the right places. Of course, leaders are still emphatically at the head of their organizations, but they can no longer simply rely on their own instincts and the advice of a trusted group of advisors. In some ways, the new leadership tasks are much more challenging. Now leaders must lead diverse global workforces through the intellectually demanding process of co-creation to uncover the collective wisdom within their employees and their organizational networks.

How does this new focus on engagement work in practice? Consider the choices that Best Buy made when CEO Bradbury H. Anderson decided to fully

utilize one of the company's strongest resources—the local, ground-level expertise of its workforce. Rather than giving employees specific directions on how to sell electronics to customers, Best Buy gave its workers the ability to go "off script." At the same time, the company encouraged new stores to partner with local residents in developing retail spaces that would include features attractive to them. For example, in October 2008, Best Buy announced that its Aurora, Colorado, store near Denver would include details that appealed to women: store furnishings that reflected local tastes, neutral-tone colors for product displays, softer lighting, and toddler-level sinks in the restrooms to help shoppers with young children. The company cited the involvement of its Women's Leadership Forum, or WoLF pack, a group of Best Buy employees who promote women's interests in stores.

Rather than giving orders from above, Anderson chose to use the collective wisdom of his organization and his customer base. In fact, Anderson told shareholders in May 2008 that Best Buy would rely on the co-creative wisdom of its workforce to continue its growth and outpace retail rivals in a down economy:

"The most important opportunity we see is the repurposing of the talented people in our stores," Anderson wrote. "We want our employees to engage with our customers and bring to bear a wide menu of capabilities to serve our customers' individual wants and needs. Our enterprise's unique, core capabilities live in the ability of our line-level staff to recognize customers' desires and our support teams' ability to tailor new offers and to provide skill sets based on those customer needs."

Anderson has encouraged bottom-up decision making. It's an approach that incidentally resonates well with the new Millennial generation's preference for transparency and flexibility. Empowering these young workers has yielded not only better employee retention, but better answers for Best Buy.

The Shift from Organizational Units to Organizational Boundaries

Leaders are always looking for ways to help make their current organizations work better. Consider matrix organizations, in which managers allocate resources and employees across multiple company functions, projects, and needs. In the past, critics panned the matrix design for being overly complicated. But today, complex global organizations could not function without using matrix structures.

In this volatile environment, the problem is that matrix structures rarely achieve their intended flexibility or speed of action. They suffer from slow decision making and unclear responsibilities that allow important choices to fall through the cracks. Conflicts at the boundaries between different organizational units take their toll on shareholder value. In the face of such overwhelming

complexity, leaders resort to focusing on the pieces of the organization that they can control—specific business units, regions, or functions.

In adaptive organizations, leaders shift their primary focus from the specific unit they manage to the boundaries *between* organizational units—those business hotspots where both conflict and opportunity reside. Leaders in all organizations have a responsibility to look beyond their own boundaries to see how they can defuse the potential friction points that exist among organizational units. The need to eliminate these points of friction is particularly keen in adaptive organizations attempting to solve long-term challenges through collaborative means. After all, leaders cannot hope to engage people in the process of co-creation if the organization is being held back by conflict.

Interestingly, the very process of implementing a major change effort often can help reduce tension and solve problems between organizational units. With the right preparations, a face-to-face gathering of marketing, manufacturing, and sales people can serve as the catalyst for better understanding and communication throughout the organization. By their nature, adaptive processes encourage collaboration among large groups of employees and managers. The misunderstandings and lack of shared perspective that characterize business silos tend to diminish in such settings.

Conclusion

In these volatile times, business leaders cannot think generically about change. In fact, leaders do not face a single generic change, but rather a multitude of global, unexpected, and multivariable changes that demand a new form of leadership.

In a world of constant and ubiquitous change, executives must think differently about the immediate challenges they face, diagnose how to deal with them, and decide how to lead their organizations to become more collaborative and co-creative in solving them. Such an endeavor requires personal growth in leaders as well as new capabilities in organizations.

In this article, we have described the actions of companies such as IBM, a long-standing global technology leader, and Best Buy, a growing retailer. These two companies have started down the co-creative path in different ways, but both of their leaders made one very importation decision: Each placed his organization's workers at the center of collective decision making and customer relationship building as keys to future growth.

When tackling more difficult business changes, executive leaders need to elevate their ways of operating and behaving. They have to be willing to admit they

don't have all the answers and use methods that tap into the collective wisdom of the organization. In order to break down workforce boundaries, companies will need to teach employees how to work productively despite competing priorities, diverse cultural perspectives, or different points of view.

The very process of undertaking a major implementation challenge today presents a great opportunity to begin building the important skill and disciplines organizations will need to compete to win in the next decade. Those who take on the challenge now, instead of clinging to the comfortable but outdated approaches of the past, will enjoy a significant head start over their competitive rivals.

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