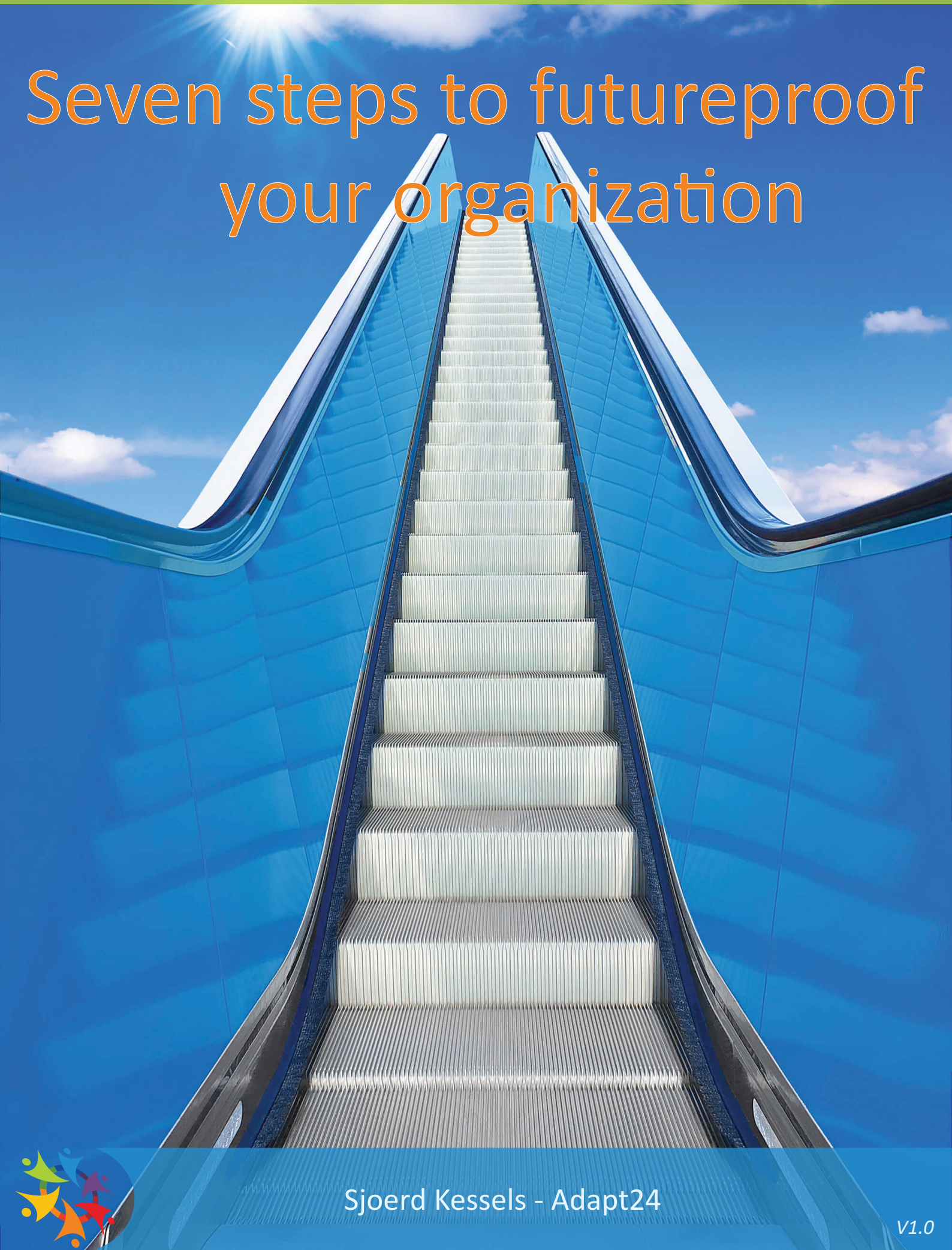
THE ADAPTIVE ORGANIZATION

Seven steps to futureproof your organization



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V1.0

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INTRODUCTION

There is no denying anymore that the world is getting increasingly complex and change occurs faster than ever, resulting in an open theater of new opportunities for challengers and threats for those being challenged. Entire industries have been disrupted and the worldwide business graveyard is full of companies who saw change coming too late. There may be some business leaders left who think the disruption beast will spare them, but most are getting anxious how to guide their companies towards a sustainable and thriving future. If you are one of the latter, this whitepaper is for you.

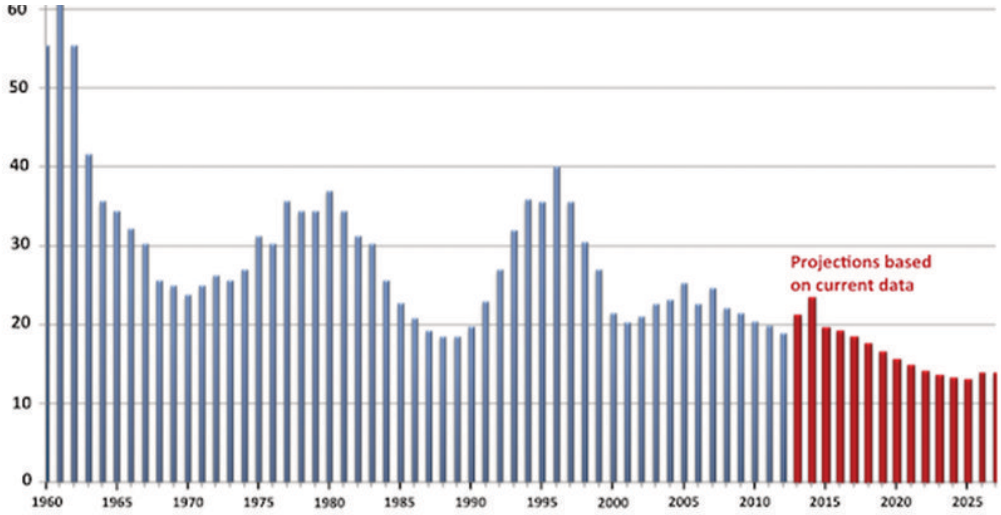
We will layout seven steps you can take to future-proof your organization. Now, from a perspective of marketing myself I should of course state that the steps are clear, precise, and easy to implement. But the truth is they are not. They are general guides you need to adjust to the context of your own organization. They also lead to quite some fundamental change, so 'easy' is definitely the wrong word. But they will inspire you to the kind of changes that are needed to build an adaptive organization that thrives in complexity and high paced change. And for those who are willing to undertake such a transformative journey, we are always willing to help.

Wat can you expect from this whitepaper?

- Information on the background and causes of increasing complexity and change.
- Insight in a fundamental consequence that will make you see your competitive market position in a whole new light.
- Seven guiding steps you can take to redesign your organization for complexity and change.

CAUSE AND CONSEQUENCES

One indicator for a changing world is the life expectancy of organizations which is declining at an alarming rate. Professor Richard Foster of Yale University led a Innosight study in 2012[1] that shows that a 61-year tenure for the average firm in the S&P 500 index in 1958 narrowed to 25 years in 1980, to only 18 years now. Even more, at this rate by 2027, over 75% of the S&P 500 will be companies you have never heard of. That is pretty alarming, isn't it?



Year (each data point represents a rolling 7-year average of average lifespan)

Of course there is more than one explanation, and some causes are not related to increasing complexity and change at all. Some spikes in the graph are caused by economic highs and lows. Some companies disappear because of mergers and acquisitions. But even so, the overall trend is clear and alarming. It is hard for companies to remain relevant for a long time. There are many examples of once leaders who have disappeared or lost most of their relevance because they did not see change coming or could not react fast enough. Many examples are companies that once had deep pockets, which gave them ample opportunity to adapt. Upon the introduction of the iPhone, RIM's CEO Jim Balsillie, told a Reuters reporter that the launch of Apple's iPhone wasn't a major threat, simply the entry of yet another competitor into the smartphone market[2]. Just a few years later, RIM was in big trouble, and nowadays the company is just a shadow of its former self. Toys 'R US file for bankruptcy in 2017 after being a rock solid brand for decades. But it just did not see the world of online sales, and especially Amazon,

coming fast enough. And when it finally did, it did not have the recourses any more to build a successful online business. Other names like Kodak, Dell, Sprint, Radioshack come to mind. In my own country, The Netherlands, one after another big retail store chain disappears from the city center. They all blame onlines sales, but that's too easy for me: they've had years to react.

Digital Disruption

All kinds of changes have occurred the last decades, but none have has such a major impact as developments in technology. Digital has disrupted entire industries and supply chains. For example Uber disrupted the taxi industry, and Airbnb disrupted the hospitality business. These examples point out that newcomers may come from everywhere, not necessarily the industry they are entering. And they are not doing the same better or cheaper, they reinvent the position of the customer in the value chain. They rely heavily on information technology top be successful.

Digital is a catalyst of change. But this goes beyond the rise of companies that have technology at their core. It is true that the lists of most valuable companies used to be dominated by names like Exxon Mobile, General Electric, Royal Dutch Shell and the like, and now contains brands like Apple, Alphabet, Amazon, and Facebook[3]. But it is more than that. Digital has disrupted entire industries, business models, and customer interaction. Digital has changed the rules of the game where many thought the rules were kind of fixed.

One of the major consequences of digital disruption is that is has dramatically **lowered barriers of entry** for newcomers. There has never been a time where it was so easy to launch a business and poke at long-time established players. This is a golden age for entrepreneurship. This is a time where David can actually take on Goliath by being disruptive. Barriers are lowered in a number of ways:

- Access to information is now almost equal for anyone.
- Access to talent is easier.
- Capital is more easily obtainable, and what's more, you typically need much less of it to start a company.
- Finally, according to startup guru Ash Maurya, you can launch and grow a business from almost anywhere these days.

Digital has **disrupted markets en customer access to markets**: Intermediate distribution layers have been removed, allowing easy and direct access to consumers[4]. For instance, Amazon has given sellers direct access to customers. Many manufacturers sell directly to consumers using Ebay, Amazon, and other online marketplaces. Customers have way more options to buy than they used to have, which has given them more power. The easy access to information by customers also has another effect: the services that customers use to compare energy rates for example now have become the main gateway to customers. Takeaway.com, provides easy access to all takeaway restaurants in your neighborhood. But they also are the portal through which you buy your pizza to be delivered. Customer experience has become a major differentiator. The increasing power of customers and easy information access has caused a dramatic increase in the importance of customer experience. A final phenomenon worth mentioning is products becoming services, and the integration of products augmented by services[5]. Think of voice-controlled access to existing products, or the smart home. Or imagine a book being sold by the chapter or being constantly updated after launch backed by a subscription model.

Transient Competitive Advantage

The most noticeable and far-reaching consequence of digital disruption is that sustainable competitive advantages no longer seem to exist, or at least they exist for much shorter time periods than before. A defensible long-term competitive advantage is the cornerstone of modern business strategy. The idea is you more or less choose the industry you can gain a competitive advantage in, either based on cost leadership or differentiation, and then successfully defend that advantage for long periods of time. But as we have seen, organizations nowadays struggle to remain relevant for a long period, and disruption and lowered barriers of entry have dramatically changed the playing field. The danger of still pursuing this strategy is the desire for stability which is an indispensable condition for sustainable competitive advantage. The desire for stability and the way organizations are designed for this are major obstacles for the ability to reinvent oneself in time. As a result many organizations react too late to threats. For too long the existing business models are squeezed for the last drop of profitability. By that time it is often too late for a fundamental change of course. Take the example of Toys ‘R US. A leveraged buy out in 2005 led to a high level of debt. The assumption of

the new owners was that they could cut costs (of the existing business model) fast enough to pay for the extra debt. But this assumed that market conditions would stay relatively stable in order to have enough time to execute this strategy. Well, market conditions didn't remain stable. Although Walmart already surpassed Toys 'R US at that time, they once again did not recognize a new threat in time: Amazon. And when they did wake up the company was too severely under-capitalized to come up with an effective response.

> *In times of high complexity and change the aim for stability is lethal*

In times of high complexity and change, the aim for stability is lethal. Constant change should be the default state. It should be normal to be constantly starting AND stopping business models. In most cases stopping a business model is done at the very last moment, and it usually has dramatic consequences, like massive layoffs, selling off entire business units, and painful reorganizations. And even then it is often too late. A continuous flow of new value propositions being explored automatically leads to stopping other ones as resources of any organization are limited. This is what Rita Gunther McGrath calls Transient Competitive Advantage. A value proposition, or business model, is not stopped when it reaches the very end of its life-cycle, but when more favorable ones are being discovered. This does not sound very efficient, and it isn't. It isn't supposed to be either. It is an effective tool to remain relevant at the cost of some additional inefficiency. But hey, I'd choose some inefficiency now for long-term survival any time. The problem is organizations are build for stability and efficiency, and that mindset is so deeply entrenched, it is hard to change.

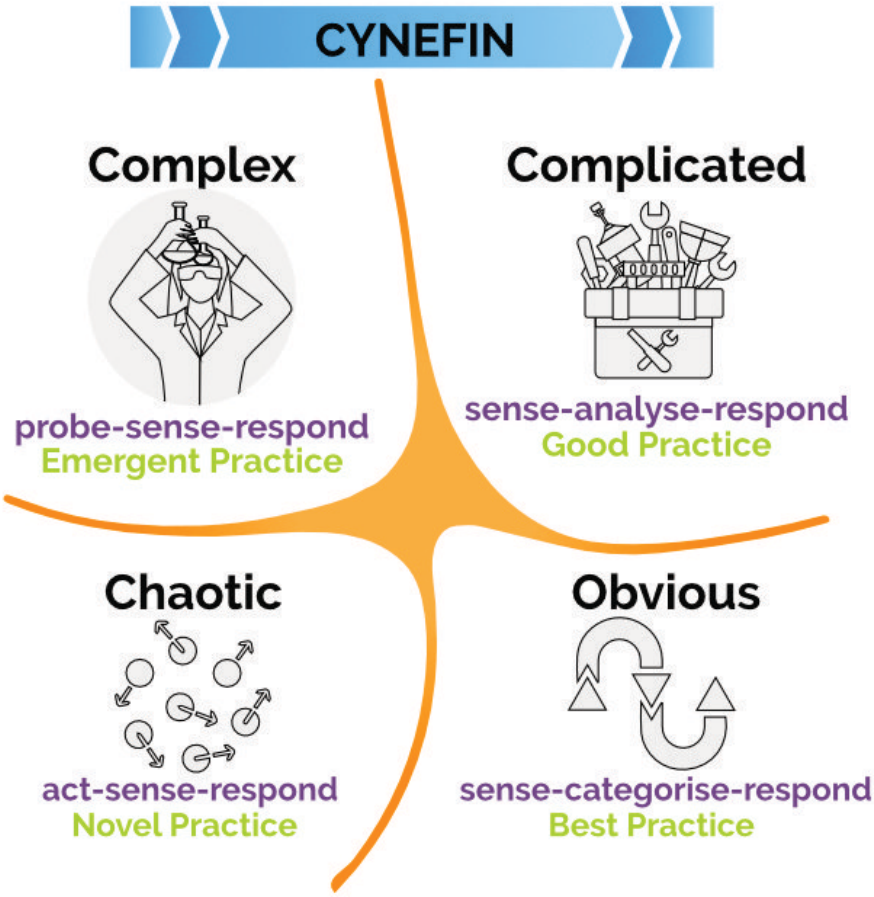
> *We need to make a shift towards Transient Competitive Advantage*

STEP 1. WHAT DOMAIN ARE YOU IN?

Organizations still largely use the same management tools as over one hundred years ago. The structures, methods, and beliefs that are still deeply entrenched in most of our current organizations are a direct heritage from the likes of Taylor, Weber, and Fayol. But the world has changed a lot since then, in ways that the grandfathers of our modern companies could never have imagined. It is naïve to think those methods and beliefs still fit the challenges of today. So it is important to find some way of assessing the kind of challenges imposed on our organization, or parts of it, and the fit with the tools used to face those challenges.

One of the most useful models that support such an assessment is the Cynefin framework by Dave Snowden. Cynefin is a sense-making framework intended to make sense of complexity. The framework recognizes situational dependency of the most appropriate method for decision-making, meaning we should know the situation we are in and then choose the appropriate tools accordingly.

Cynefin model



Cynefin distinguishes four domains called Simple, Complicated, Complex, and Chaotic. The idea is that you (your team, department, process, project, organization) is in either one of these domains at a moment in time and that determines the appropriate tools to use.

Simple

The *Simple* domain is renamed Obvious by Snowden but I still find the old name to be more appropriate. This is the first of the ordered, or predictable, domains, in which the relation between cause and effect is easy to see for everybody. The outcome of a process is predictable and stable, and therefore *best practice*s can be used to guide appropriate actions.

The decision model here is *sense-categorize-respond*: We sense the type of problem at hand, classify it, and then select the appropriate work instructions. A simple loan approval process might fall into this category: we look at the application, asses in what category it falls, and follow the prescribed steps that lead to the outcome of either approval or rejection.

Complicated

The *Complicated* domain is still ordered and somewhat predictable but harder to understand. We need experts. For example, designing a car is complicated. Most of us wouldn't know where to start. But a group of experts, each in their own field, together know what to do. The variables in designing a new car are known.

This is the domain of the *known-unknown*: there might be things we don't know, but we are aware of those and can call in experts to makes sense of it. Therefore, we can use *good practices* which are not as obvious and reliable as best practices but nevertheless usable.

The decision model here is *sense-analyze-respond*: We can sense what we don't know or understand, and then call in experts to analyze the situation.

The relation between cause and effect is much harder to see in this domain, and here we start to see some design flaws in the classic organization. There can be a time delay between cause and effect which makes us miss the relation. This is amplified by the short-term focus of classic organizations. Cause-effect relationships can also be separated in space, meaning we see some effect in one department but the cause lies somewhere else. The classic silo structure where each silo has its own management, targets, and processes, amplifies this. For example, the

sales department might inadvertently cause a problem for operations, but as the effect is not captured in the KPI of the Sales department, they tend to miss the connection. What's typical for the classic silo organization is the blame and 'us against them' culture, where people and departments don't realize they are part of a bigger system and their actions are interrelated.

Complex

Moving to the Complex domain changes the game. Now we enter an unordered, unpredictable world. A complex system simply has too many variables and potential patterns between them to control or predict. Traditional forecasting and big-upfront-plans do not work here. An example is the stock-market. Anyone able to reliably predict it would be filthy rich by now.

This is the domain of the *unknown-unknown*: there is definitely a lot we do not know, but what's worse is we do not realize what we don't know. So calling in experts is not the solution. Calculating in contingencies in our plan won't do it either, since we are not aware of what we don't know. Software development typically falls in this realm, which explains the rise Agile software development methodologies which are designed to deal with complexity. I was a software project manager before I came into contact with agile. I was aware I didn't know much of the project at the time we were required to make a calculation for a customer. But at the time my only method to deal with this was to spend a couple of hours in a room with my lead developer, where we would loosely estimate all the work we were aware of, and then I multiplied the outcome by a factor two and put that in the customer quote. It sounds crazy, but the quotes were actually a lot more accurate using this method compared to just estimating the known parts. But it does proof that in a complex system upfront estimates are very unreliable.

The decision model here is *probe-send-respond*, meaning we need to discover the future through safe-fail experiments. The outcome of the experiments determine what to do next. This also means we cannot use good or best practices in advance. Practices *emerge* as we learn by experimenting. The relation between cause and effect is very difficult or impossible to identify upfront. As a matter of fact, relations between events do not even have to be causal at all. Where the complicated domain relies on experts, the complex domain needs creative minds that fair well under uncertainty and can think out of the box and approach

problems in novel ways.

In our western economy many systems tend to be complex. But the consequences are hard to accept for management because most organizations are still designed for stability and predictability.

Chaotic

The Chaotic domain is not a desirable place to be unless we do a shallow dive into chaos for innovation. We don‘t have any practices to fall back to, because every practice is novel. Disasters like earth quakes fall into this category and a sudden crisis in an organization. Hell breaks loose, and there is no time to figure out what is causing the problem. Cause and effect relations can not be identified anyway. We need to act fast to stabilize the situation. Therefore, the decision model is: *act-sense-respond*. We act now, sense what happens and respond accordingly. This strategy is used by emergency response teams. They do not start with experts analyzing the situation, nor do they conduct a series of experiments to learn from. There is no time for that. The first action is to stabilize the situation. It’s like someone having a heart attack. The medics do not start with finding the cause, they quickly try to stabilize the patient first.

The public and press are usually not very understanding towards these tactics in case of a natural disaster. Whenever a disaster strikes somewhere in the world I can reliably predict the newspaper headlines criticizing the speed of the response and the clearly visible chaos, like the emergency response teams have no clue what to do. But actually there is no order until they manage to stabilize the situation first. No scenario can fully prepare you for that first chaotic phase because any practice is novel. No disaster is alike. Chaos happens in companies as well: the dramatic reorganizations and layoffs we mentioned earlier because of responding to change too late. Like I said: not a desirable place to be.

Using Cynefin

Cynefin has a fifth domain which is called *disorder*. You are in disorder if you are not aware in which domain your are, which is usually the case without a sense-making process. And here lies the most important lesson of the framework: If you are not aware in which domain you are, you tend to use the tools of the domain you are most familiar or comfortable with. Which might not be the most appropriate ones for the job. For many managers who have ‘grown up’ in hierarchal command &

control organizations the natural domain is Simple and its tools of best practices, checklists and procedures. But a complexity is much more prevalent in western organizations leaving a potential mismatch between the challenges we face and the tools we use.

> *If you are not aware in which problem domain you are, you tend to use the tools of the domain you are most familiar or comfortable with, which are not necessarily the appropriate ones.*

Making sense of your situation is not a onetime only task. Especially complex systems are very dynamic and prone to change. Moreover, processes can cross the Cynefin domains, requiring a different approach when they do. For example, innovation of a new business model starts with exploration in the Complex domain, whereas scaling the new business model means a move to the Complicated domain.

It is worthwhile to pay special attention to the border between Simple and Chaotic: The enemy of the Simple domain is complacency. We start taking predictable outcomes for granted. We blindly follow procedures. We start to believe that past success is a guarantee for the future. And then suddenly we face a crisis and fall into chaos. This is exactly the situation we described earlier in which organizations hold on to their competitive advantage for too long, assuming it is sustainable, until it is all but too late. We then fall into the chaos of the dramatic reorganizations and massive layoffs we so often see in the examples of companies that didn't notice a change in time.

Snowden suggests that management should take place mostly in the Complicated and Complex domains, leaving only a small portion of processes in the Simple domain.

STEP 2 EMBRACE COMPLEXITY TOOLS

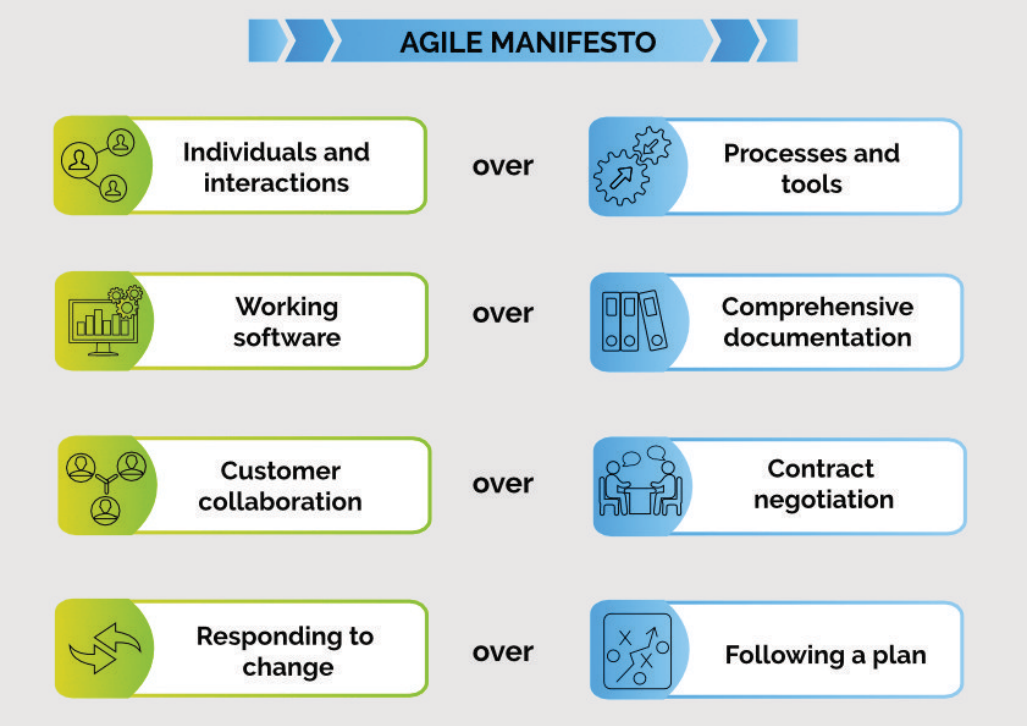
The previous step taught us that tools are context aware. And because we mostly are not aware of our context, or the Cynefin domain, we tend to use tools we are familiar with. Most organizations and managers know and use the tools of the ordered domains, especially the simple domain. Most classic methods date back to the industrial revolution that fit the simple domain really well. Many modern organizations have also become aware their employees are their most precious assets, and experts, or knowledge workers, need a fair amount of autonomy to function well. This is a step up towards the complicated domain that also is the home of methods like Business Process Redesign, and Total Quality Management. Lean process improvement methods like Lean Six Sigma are also used in the complicated domain.

A complex system however requires different tools than the ordered domains do. There are two challenges we face here. First, most managers are not as familiar nor comfortable with complexity tools as they are with ordered tools. And second, we are definitely moving more towards the complex domain. The increase of complexity and fast change is the reason for this whitepaper in the first place. So there definitely is a need for managers and business leaders to get more acquainted with tools designed for complexity.

All the next steps in this whitepaper assume, like Snowden suggests, that most management in organizations that want to adapt to complexity and fast change, is done within the complicated and complex domains, with some exceptions in the simple domain, and the occasional shallow dive into chaos to spur innovation. But in the rest of this section we will cover a few tools tailored for dealing with complexity.

Agile

Agile is by no doubt the most well-known of the tools we like to discuss here. Agile is actually not a method itself but an umbrella of mythologies that share some common values and principles which are recorded in the Agile Manifesto[6]. Agile originates from software development and is still most widely used in that area. However, more recently it gained some traction in other business areas like sales and marketing, and many of its principles and values can easily be adapted to other business functions.



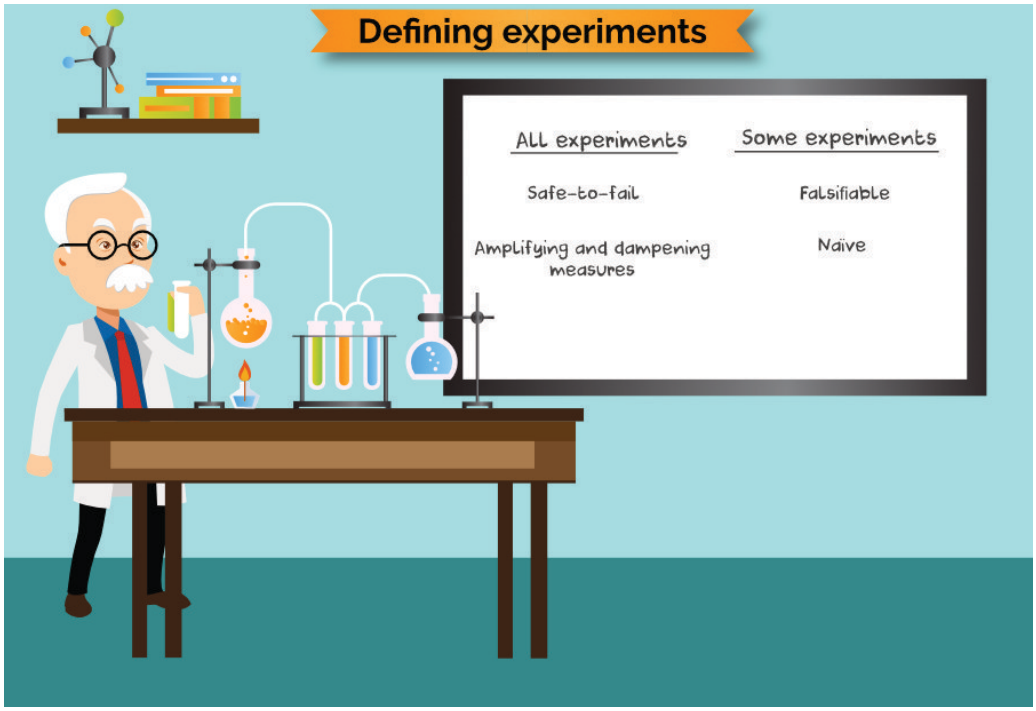
Agile assumes we cannot know everything upfront and that requirements will keep changing. It deals with this by building in rapid feedback loops, and a rigorous and continuous prioritizing of requirements. This way flexibility to react to changes is kept open.

Agile relies heavily on the concept of self-organizing teams. A team as a whole is responsible for results which requires collaboration beyond one's individual job title. The Agile team is an appropriate base for the decentralization that is covered later in this whitepaper.

There are some challenges with the adoption of agile organization wide, and most originate from the agile community being its own enemy. For one, the agile community is still dominated by software experts which limits its expansion across other business functions. Second, the agile community has difficulties seeing past the self-organizing team level and is even displaying some anti-management attitude that will surely not help in it's broader adoption. Yet, agile is an important method in complex domains, and it's importance can still grow as long as the agile community starts to realize that most of it's goals, like faster time-to-market, can only be fulfilled if an agile way of working is implemented across an entire value chain and not just IT.

Safe-fail experiments

In a complex system the number of variables and the potential patterns are just too big to predict and control. You therefore need to discover rather than forecast. We adopt a practice of conducting experiments to test assumptions or even to just probe the system and see what happens. Experimenting ensures short feedback loops and fast learning thereby reducing costs and risks.



Here are some characteristics of experiments:

Experiments need to be *safe fail*, meaning they do not sink the boat when they go wrong. This matches the Decentralization step we will discuss later in which we suggest that employees can make any decision that is *below the waterline*. This allows employees to freely experiment as long as they are above the waterline. It helps to identify how to measure the expected outcome to prevent being surprised by consequences of results.

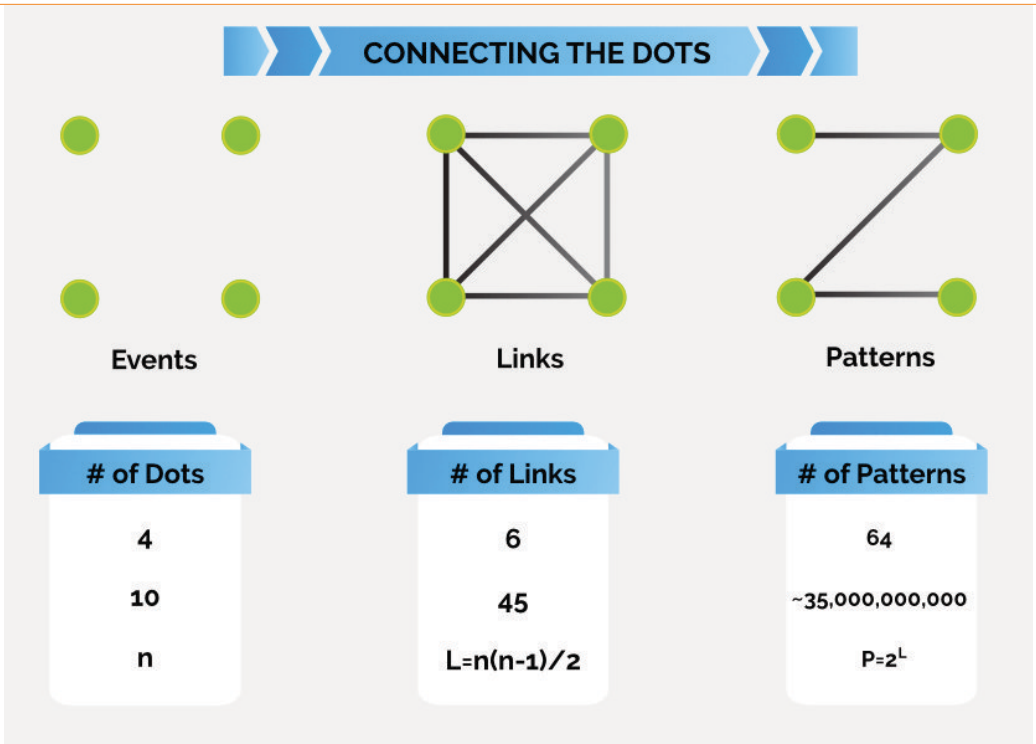
We have *falsifiable* experiments which require a falsifiable hypothesis, in a format like: We think that by doing THIS, we get an outcome of THAT, which will be measured by METRICS. This is the most common experiment. Because of uncertainty we make assumptions. These assumptions need to be validated as quickly as possible. To be able to assert the outcome and not just guess, we define the falsifiable hypotheses.

But conducting only falsifiable experiments is dangerous. We run the risk of becoming a victim of the confirmation bias, which causes us to favor information that confirm our assumptions and ignore information that doesn't. So, some experiments need to be what Snowden calls *naïve*. Define them in terms of outcomes that you don't expect to happen, that are wild or crazy, or exaggerated versions of reasonable outcomes. You can also define experiments that are opposites of each-other.

Snowden also suggests defining *amplifying and dampening measures* when setting up your experiment. We take an amplifying measure if the result is as expected or positive. It reinforces the positive effect. We take a dampening measure if the result of the experiment is negative. It suppresses the negative consequences of the outcome. Defining these upfront helps ensure experiments are safe-fail.

Connecting the dots

'Nice try, but my stakeholder will want certainty. In a plan. So we will gather some experts and figure it out'



Let's say you have a system with just four potential events that can determine the future. That makes six potential links/connections between the events. And 64 potential patterns to connect the events, following the links. That looks doable…

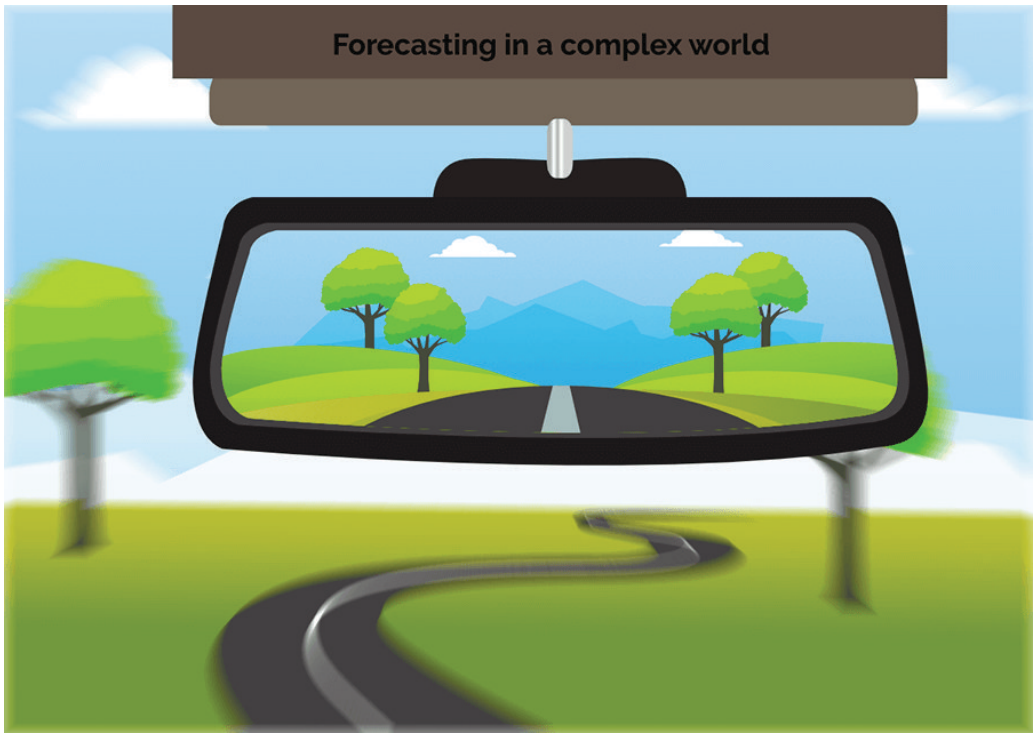
But now we just as six more events, up to a total of ten. The number of links becomes 45. But the number of patterns now becomes no less than 3.5 trillion! Add another two events: the number of links becomes 66,

the number of potential patterns:: 4700 quadrillion! Any idea how many zeros that is? That's 4700.000.000.000.000.000.000.000.000

Go figure it out. You stand no chance whatsoever to predict the outcome.

Backcasting & Sidecasting

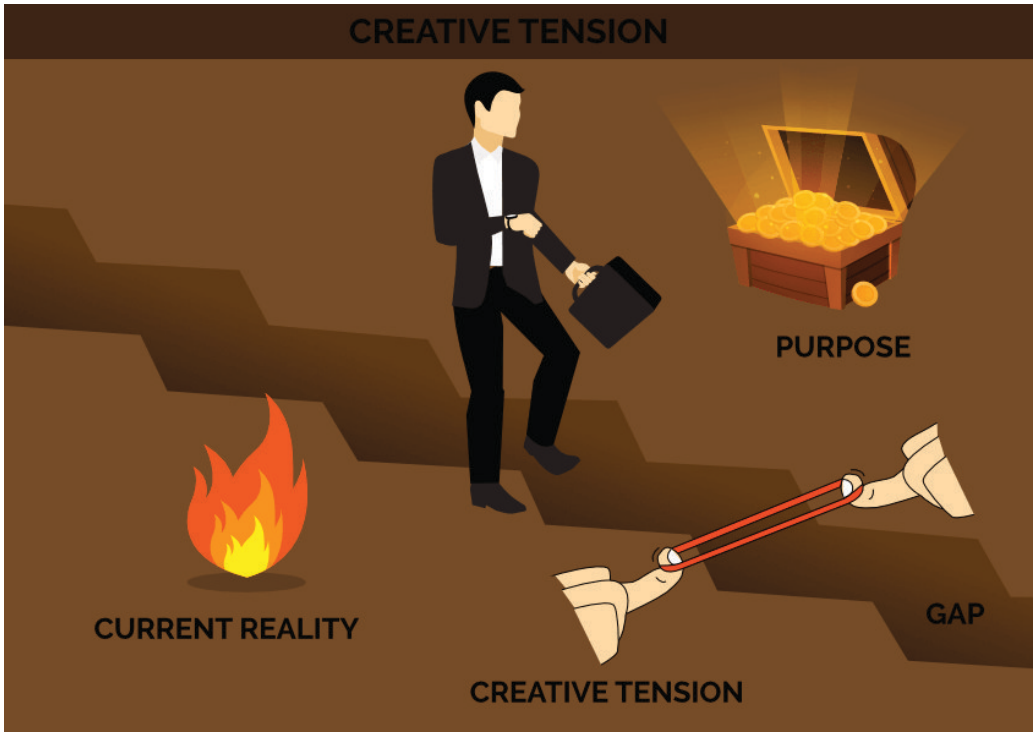
The dominant strategic planning method used today is Forecasting. I think everyone in management has used forecasts in some way. In forecasting we look at past data and project these into the future in an attempt to predict the most likely future state. Now, this works fine if we live in a stable system, because it is very likely that past events carry over into the future. It fits the Cynefin Simple domain. However, if we move towards the Complicated and Complex domains, it becomes less usable. Forecasting is like navigating using just a rear-view mirror, hoping the future road will follow the same direction as the road behind you[7]. Pretty dangerous. In a complex system the number of potential patterns is so high we cannot hope for an extrapolation of the past and current trends to reveal the insight we need to base decisions on.



And what if we actually want to change course? Forecasting worked in a time of sustainable competitive advantage where we can build on past success, but no longer works well in transient competitive advantage, because there we need to be continuously exploring new futures that

are not just continuations of past success. By definition forecasting recreates problems in the future that we already have today, which is very limiting in realizing a desired future. Past experiences, politics, current issues are all carried over into the future. It can be hard to get past the current state because of convicting opinions and mental models. You will often hear people says things like “That won’t work. We tried that two years ago. Remember?” Mental models, formed by past experience will reject what does not fit our current beliefs and assumptions. This limits the number of potential outcomes. Therefore, forecasting is said to be deterministic.

Back casting in contrast starts with a desired future, and then works backwards towards the present, discovering the steps needed to realize the desired future. It does not try to predict the future. It liberates us from current and past constraints. Where forecasting usually leads to last year’s goals plus or minus a little bit, Back casting allows us to dream of disruptive changes and find ways to fulfill it. Back casting relies on the creative tension between the desired and present state. It’s that creative tension that gets us moving.



Karl Dreborg defines a number of conditions in which backcasting is favorable[8]:

- when the problem to be studied is complex;
- when there is a need for major change, ie when marginal changes within the prevailing order will not be sufficient;
- when dominant trends are part of the problem. These trends are often the cornerstones of forecasts;
- when the time horizon is long enough to allow considerable scope for deliberate choice.

Backcasting is very useful when done in a workshop format with a diverse group of stakeholders. A short summary of the technique is: The participants try to agree on the current state of the organization, what the organizations stands for, it's values. After dreaming of the desired future states individually, the participants collectively agree on a desired future state. Then they decide on actions and indicators that help realize the desired end state, as well as identity potential threats and challenges.

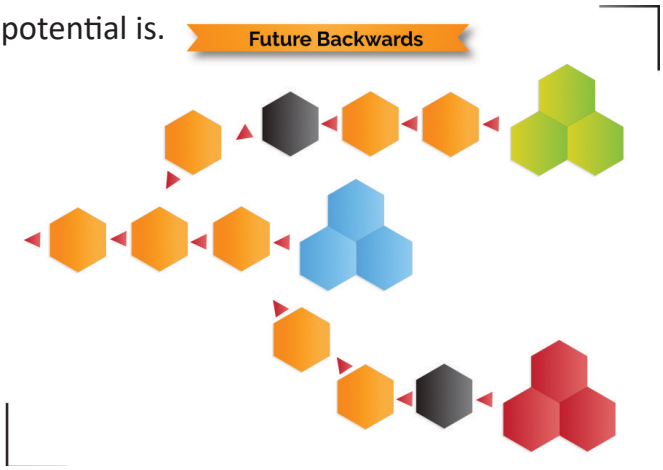
You can also do the workshop with multiple groups which also leads to a better understanding of the diversity of opinions, perspectives on what a desired future looks like and how to get there. This also matches our Adaptive Strategy principle to involve everyone in strategy formation as

Backcasting & Sidecasting

Dave Snowden coined the term sidecasting to differentiate from backcasting. Both are tools better suited in complexity compared to forecasting. Both work their way back from the future. The main difference is Backcasting is focused on a desired future state, whereas sidecasting focuses on unlocking the potential of the present working back from an impossible good and bad future. Backcasting is about believing you have a choice how to shape the future, whereas sidecasting assumes a specific end state cannot be defined in a complex system, but we can unlock the potential of the present to discover future directions. One could argue that backcasting fits the Complicated domain better, while sidecasting fits the Complex domain. I argue that both are useful in complexity: even it may not be possible to define a clear end state and go there is a complex system, backcasting techniques can learn the organization a lot on the different perspectives of a desired future in the first place and which current conditions prohibit going in that direction.

- Use backcasting for ideation and planning of disruptive new business models
- Use sidecasting for a situational assessment of the organization and to gain insights in the current potential of the organization towards its future
- Use both for adaptive strategic planning

The best known sidecasting tool is *Future Backwards*, developed by Snowden's Cognitive Edge. The real power of this tool in unlocked when it is done with multiple groups and results are compared. Valuable insight can then be gathered on differences of perspective on what the best and worst imaginable future could be, on what past events might already have set the course for and best or worst future; and on what the organization's potential is.



STEP 3 CONTINUOUS INNOVATION

We have seen that the appropriate tools and methods depend on context. Moreover, we have seen that managing modern organizations should mainly take place in the Complicated and Complex domain, meaning many of the tools we are used to don't fit that well anymore. I also introduced a few tools specifically designed for complexity. The next step is to look at strategy. It shouldn't come as a surprise by now that things have to change in that area as well.

Linear vs adaptive strategy

The traditional form of a *linear strategy* means a few people, mostly top management, define the strategy, and the rest of the organization executes it. There is a clear distinction between the plan and the execution. Linear strategy assumes you can predict and control the future, which as we have seen, is no longer true in a complex fast moving world. Not only is it impossible to predict and control the future, separating planning and execution is also too slow. It takes a long time to find out if your plan works. Therefore, strategy must be defined as it unfolds, which is a more *emergent kind of strategy* formation we call adaptive strategy. This means you do not create a plan and then execute it, you make assumptions and then validate them, using safe-fail experiments. Quickly. It also means we do not separate those who create the plan from those that execute it. Of course, top management has to set a context and constraints, but then anyone can come up with a good idea. As a matter of fact, we explicitly want to unlock the collective brainpower of the entire organization, that will vastly outclass that of top management. No doubt.

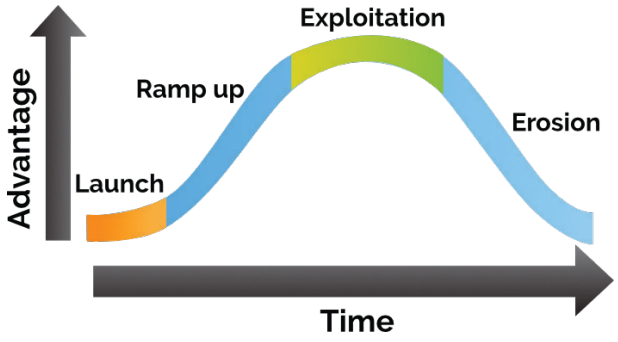
Adaptive strategy differs fundamentally from linear strategy. Let's sum up the main differences between the two:

Linear strategy	Adaptive strategy
Aims to predict an control the future	Aims to discover the future by experimenting and validating
Explicitly separates planning from execution	Uses the collective brainpower of the entire organization
Strategy formation involves top management only	Strategy formation involves everyone
Based on data collection	Based on pattern recognition
Aimed at defending a long term competitive advantage	Aimed at thriving in a world of transient competitive advantage
Is deterministic	Is emergent

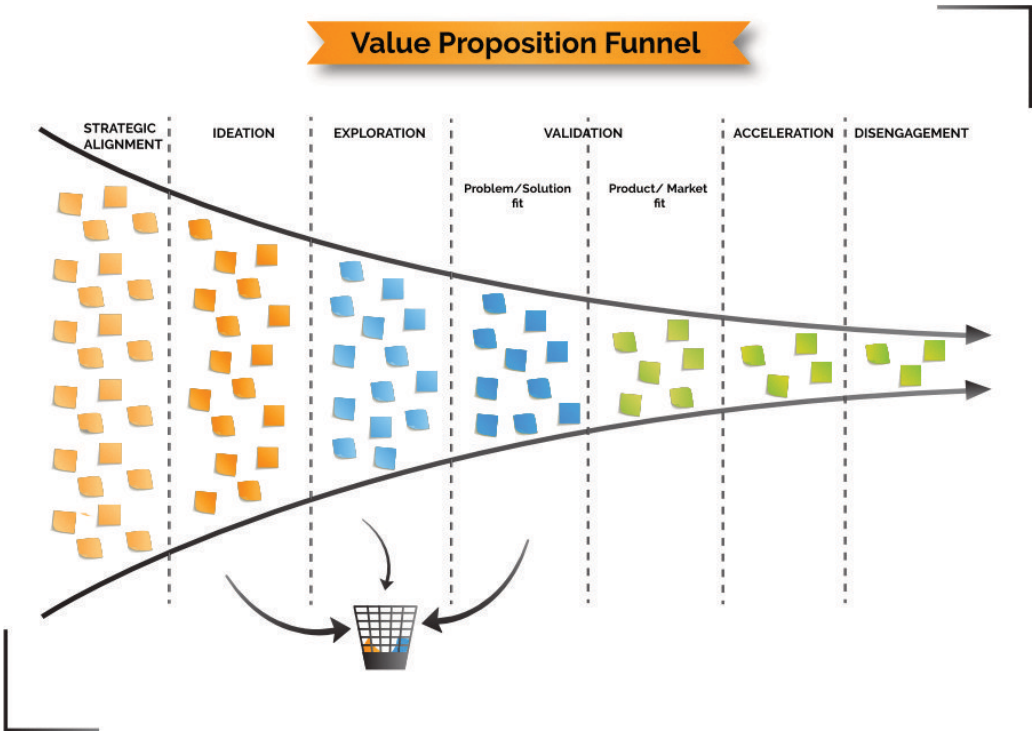
Continuous Innovation

As the traditional notion of a sustainable competitive advantage gets replaced by one of transient competitive advantage, incremental innovation is not sufficient to remain relevant. Innovation also needs be disruptive, and it needs to be continuous. Strategy and innovation get very interconnected. Continuous Innovation is the method we propose to realize an adaptive strategy.

Continuous Innovation is the facilitation of a continuous flow of new ideas which are transformed into value propositions. During that transformation ideas are validated, meaning some will make into full-fledged value propositions, but most will fail. The ones that are successfully validated in early stages can be scaled up and become an integral part of the organization's business. Crucial is the step of disengagement: as we continuously come up with new favorable value propositions, and resources are limited, we also continuously deliberately need to disengage from existing value propositions in favor or more promising ones.



The exact process is of course context-dependent, but we propose a value proposition funnel like the one below[9].



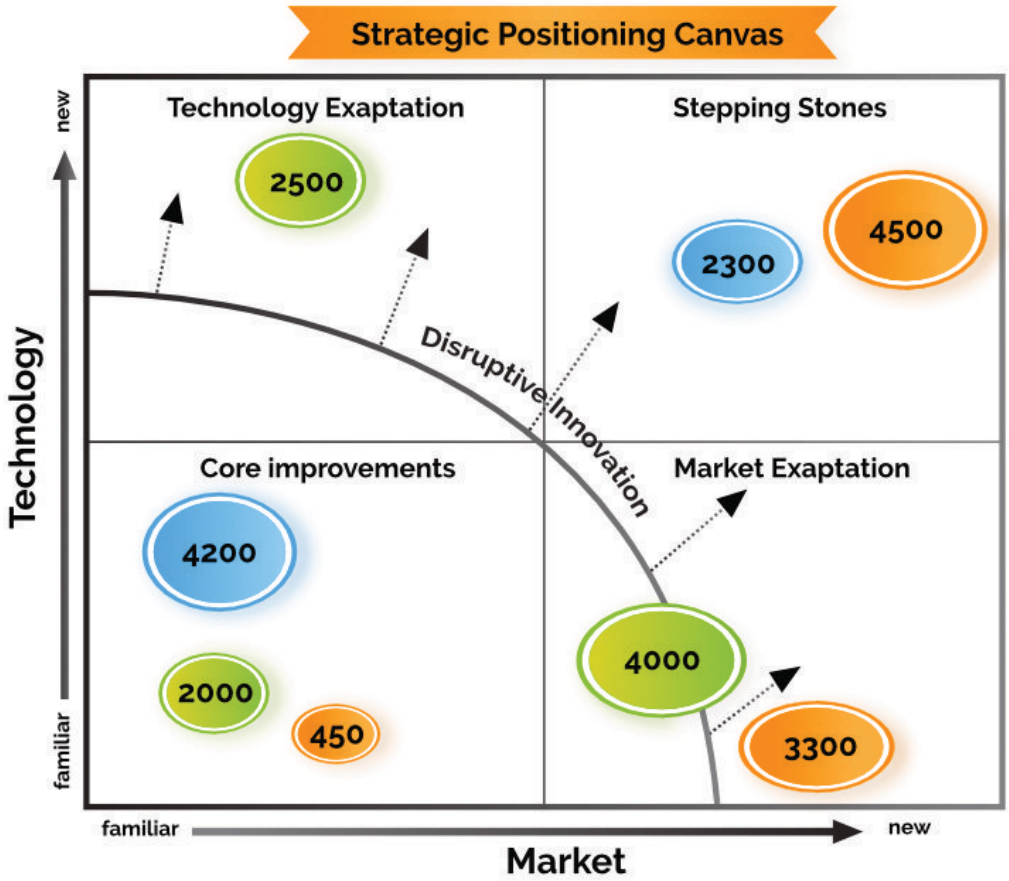
Strategic alignment sets context and constraints to the flow of new ideas. Any idea from anyone is welcome, as long as it fits in the criteria set in strategic alignment. Ideation is the phase where new ideas come in. During the Exploration phase the idea is captured into a business model, vs a business plan. The business model is lightweight but rich enough to validate. During the validation phase the business model is validates in two stages:

- Problem / Solution fit: Is our solution a valuable solution for the problem it tries to solve?
- Product / Market fit: Is there a sufficiently large enough market for our solution?

During this phase we also asses the customer / problem fit to find out if we actually have a problem worth solving. Acceleration is the phase where the value proposition is scaled to rapidly increase the revenues gained from it. Disengagement is the crucial last phase of an idea, where we withdraw from a business model before it is at then and of its traditional life-cycle.

A characteristic of continuous innovation is the continuous flow of new

ideas. Traditionally, an organization is active in a few areas at a time and tries to stabilize its position in those areas and defend its position as long as possible. But in the adaptive organization the portfolio of business models is in constant flux. To manage and balance this portfolio a Strategic Positioning Canvas is proposed that can be both used to monitor the type of value propositions and their state, as well as to steer the portfolio towards a balanced composition.



The canvas is used in Strategic Alignment: we can create a balanced 'to be' portfolio canvas that ensures we do more than just incremental improvement, but also not put all the money on high risk stepping stones. We then continuously plot and monitor all new ideas going through the funnel, making sure the actual portfolio follows the 'to be' portfolio.

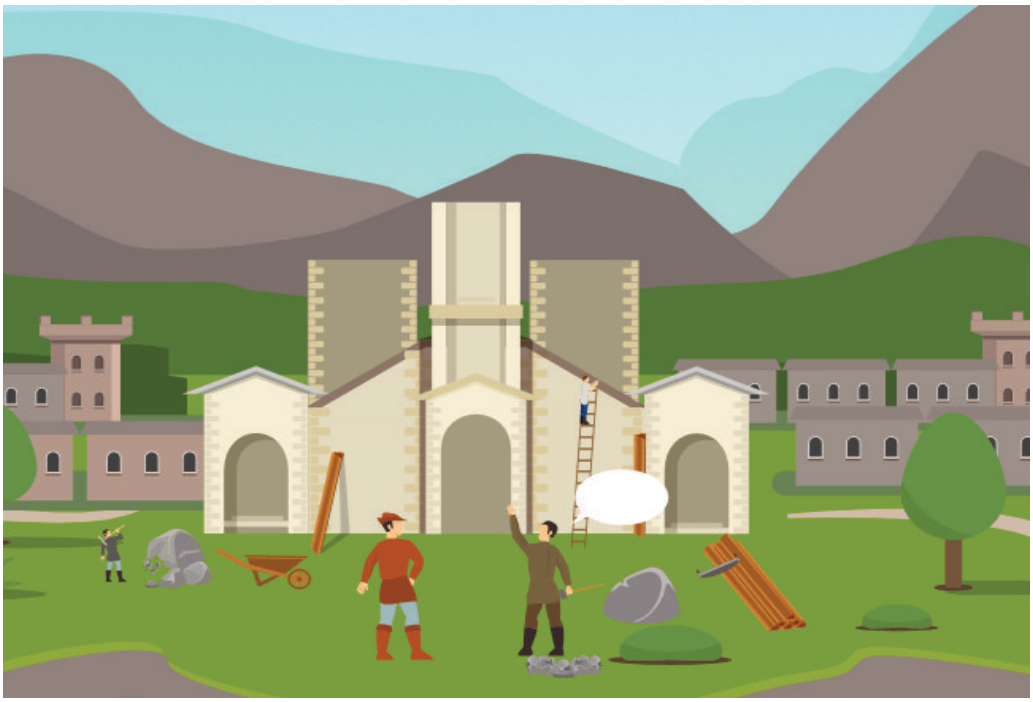
STEP 4 LET PURPOSE AND VALUES GUIDE YOU

Building cathedrals

A traveler came upon a large work site in the center of a village. He had been traveling for many days, and he was eager to talk to anyone who would engage with him. He walked up to a worker at the site and asked, "Sir, may I ask what you are doing?" The worker scowled a bit and said tersely, "I am cutting stones."

The traveler decided he would find little conversation there, so he moved on to another worker. When he asked the same question, the worker paused for a moment and explained that he was cutting stones so he could support his family. He had a wonderful wife and two small children who depended on him to provide them with food and shelter. They chatted about the project and the village for a few minutes, and the worker turned back to his large pile of stones.

The traveler moved to a third worker and asked the same question: "Sir, may I ask what you are doing?" The worker put down his tools, stood quite tall, looked the traveler in the eye and said with a warm smile, "I am building a cathedral! It will be the tallest and most magnificent structure for miles around. Its beauty will delight people for centuries to come. The stone I am now working on will go near the front door where people will enter for shelter and kinship. I will probably not see the final product, but I know my work is part of something very important."



The strategy of Continuous Innovation is an important step to remain relevant. But to find the next big idea you will need to test many ideas, because most will fail. Yet, you don't want to spend time on any idea. Time & resources are limited. Strategic alignment is the place to put constraints on new ideas. One tool used in strategic alignment is the strategic positioning canvas, we discussed earlier. Another is the organization's Purpose & Values: they both inspire and constraint the flow of new ideas. Especially as new ideas can come from anyone, it is crucial for everyone to know what the organizations stands for, what its purpose on earth is, and how one can contribute.

Purpose

Being guided by a purpose is important for the adaptive organization. As discussed above, *it inspires and at the same time constraints the flow of new ideas* we need for a Continuous Innovation strategy to work. It also is *the glue in a highly decentralized organization*. The traditional hierarchy is meant to control the flow of information and decisions. The hierarchy structure determines who can decide what. But what if we start delegating more and more decisions? How can we ensure decisions are made in line with the strategy and in the best interest of the organization? Purpose provide a long-term guide for decision making, where values function as a daily checklist. Together they ensure everybody knows which decisions are acceptable. A third reason why purpose and values are so important is they *help attract and keep talent*. Talented people have options. Why would they want to work for us? People have personal visions of what matters to them, and they have personal values that direct their lives. If we provide a clear, worthy purpose and a set of values, they can evaluate these against their personal vision and values. They can then consciously choose whether to become part of our organization.

A worthy purpose can inspire people, and provide a shared cause to which people can really commit. The purpose of an organization describes what business the organization is really in: Cutting stones; building cathedrals; or even better: providing shelter and kinship. It tells us why we are here. It reminds us of our contribution to the whole. It guides us towards new opportunities to explore. While the organizations' purpose provides long-term guidance it's values that guide us in daily decision making that help realize the purpose. They guide us how to fulfill our purpose.

Values

Values are deeply held beliefs of desired behavior, principles, and qualities that guide actions and decisions in fulfilling the organization's purpose. They cannot be compromised and are the core of the organizational culture.

Why should we care about values? Isn't only results that matter in the end? Yes, a focus on results is crucial, but aligned values should accompany it. Without the combination people will get results no matter what. You will inevitably invite bad behavior and what's worse, tolerate it for the sake of results. People will go for their personal target, even if that is working against the interest of coworkers, the team, or even the organization. I strongly believe that overall results will benefit from aligned behavior. And that is exactly what values do: they align desirable behavior.

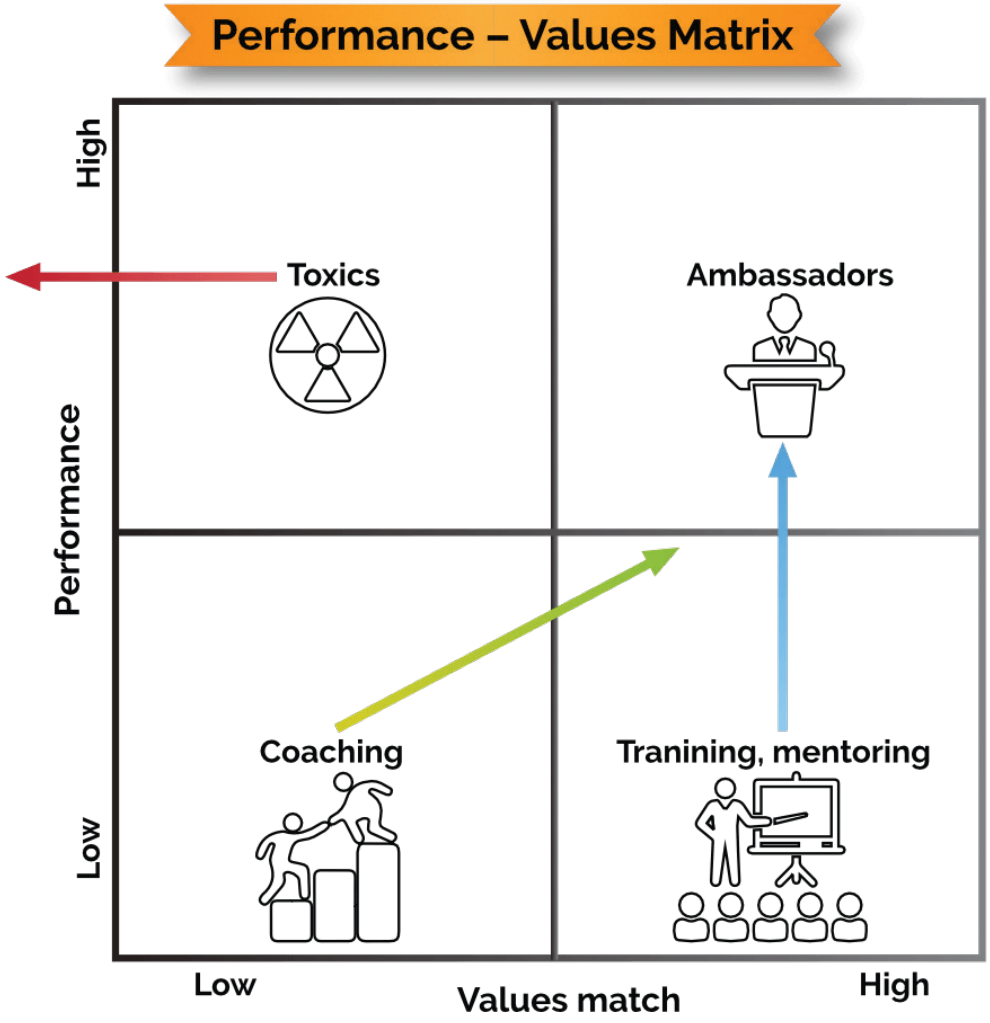
Values are best clearly described in terms of the behavior that demonstrates they are being lived[10]. This makes it much clearer to everyone what the value actually means and what behavior is expected to be able to live up to the value. An example of this is the Coco Cola's value *Focus on the market* that is among others described as *Get out into the market and listen, observe and learn*.

It is important to understand that once you start using values, you better take them seriously. From now on you cannot substitute results for desired behavior anymore. You, and the values, will quickly lose credibility if you tolerate behavior or decisions that are not aligned to the company values, just because this person has great results. Core values will influence both hiring and appraisal processes. This is explained by the Performance Values matrix.

- It won't be a surprise that we are aiming at people who both meet our outperform their targets, as well as display consistent behavior in line with the core values. These are the ambassadors we must treasure.
- For employees who under perform and also don't behave according to the values yet, coaching might help to get them to a high values match first.
- Those who's behavior is exemplar of the core values are valuable to the organization as it is harder to change someone's behavior then to

teach someone new skills. Skills are volatile anyway in a complex fast changing world. But of course, we do want them to perform up to standard as well, so use training and mentoring to improve their skills and expertise.

- But what about those that exceed their targets, but don't seem to care at all about the values? It would be a mistake to be forgiving because of the results. These peole are toxic. They will do whatever it takes to get the results. For themselves. They might get you results, but you have to ask yourself whether the collective results of the entire team would not have been higher if this person hadn't potentially undermined them. The best thing to do is to lovingly donate these people to the competition…

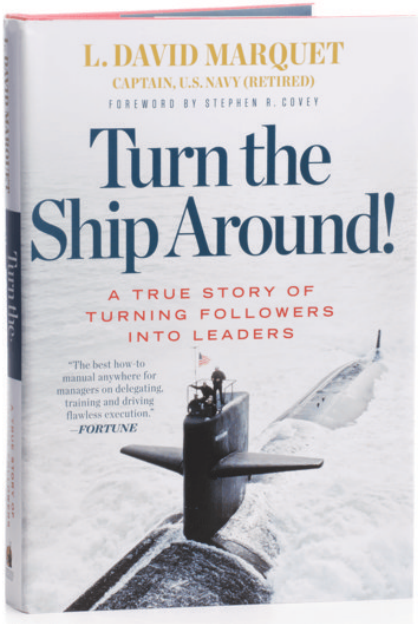


STEP 5 DECENTRALIZE AS FAR AS RESPONSIBLE

An inspiring purpose and a set of core values is one of the preconditions for successful delegation of authority as we discussed earlier. But why would we want to decentralize, anyway? The short answer is speed of decision making. In a fast moving world we need speed, and decision making is painfully slow in most traditional hierarchal organizations. What's worse, decisions are made by top management based on information that gets highly aggregated, filtered, unreliable, and inaccurate as it slowly creeps up the chain of command. And to top it off, those that are working at the periphery of the organization are often better informed and equipped to make rapid decisions. In many organizations, managers get hired or promoted based on their knowledge and expertize. But as complexity grows, it is impossible for a manager to keep up and know everything. A manager can easily become a bottleneck in decision making this way.

David Marquet

Nuclear submarine commander



Turn the ship around is the inspiring story of nuclear submarine commander David Marquet. After spending almost a year training for his first command of a nuclear submarine, the Olympia, he was suddenly told to take command of another ship, the Santa Fee. The Santa Fe turned out to be one of the worst performing subs in the navy. When Marquet took command he had the same mental model all navy officers had: as a captain you need to know better than the rest of the crew in order to give good orders. But he already had a problem there as he was trained for the Olympia which was another class of vessel.

During an exercise at full sea the nuclear reactor was shut down, and it was the crew's job to turn it back on. In the meanwhile the ship ran on batteries. He then gave an order to increase speed so the batteries

would drain faster, in to put more pressure on the exercise. The order was repeated by the first officer towards the helmsman, but nothing happened. When Marquet informed at the nervous buy why nothing happened, he was answered there was no such speed on that ship. Marquet didn't know this. Later he asked the first officer whether he knew that, 'Of course Sir', was the answer. 'Then why didn't you say so?' 'Because you gave the order, sir' And that's when he realized: his crew was trained to do anything he said, but he didn't know everything. That was a deadly combination on board of a nuclear submarine.

He then vowed to never give another order. He replaced in with the concept of *intent*. He would ask a crew member for their intention, and they would tell him what they intended to do instead of requesting permission. This shifted ownership of the decision to them. Instead of one man thinking and the rest executing, he turned his ship into a group of 135 thinking, acting, pro-active, initiative taking people. He further refined his revolutionary style leadership, at least in the navy, until the ship got the highest grade ever.

For me the story is so inspiring, because if this is possible in the military, then no business leader can ever get away anymore with saying that decentralization can never work in their organization.

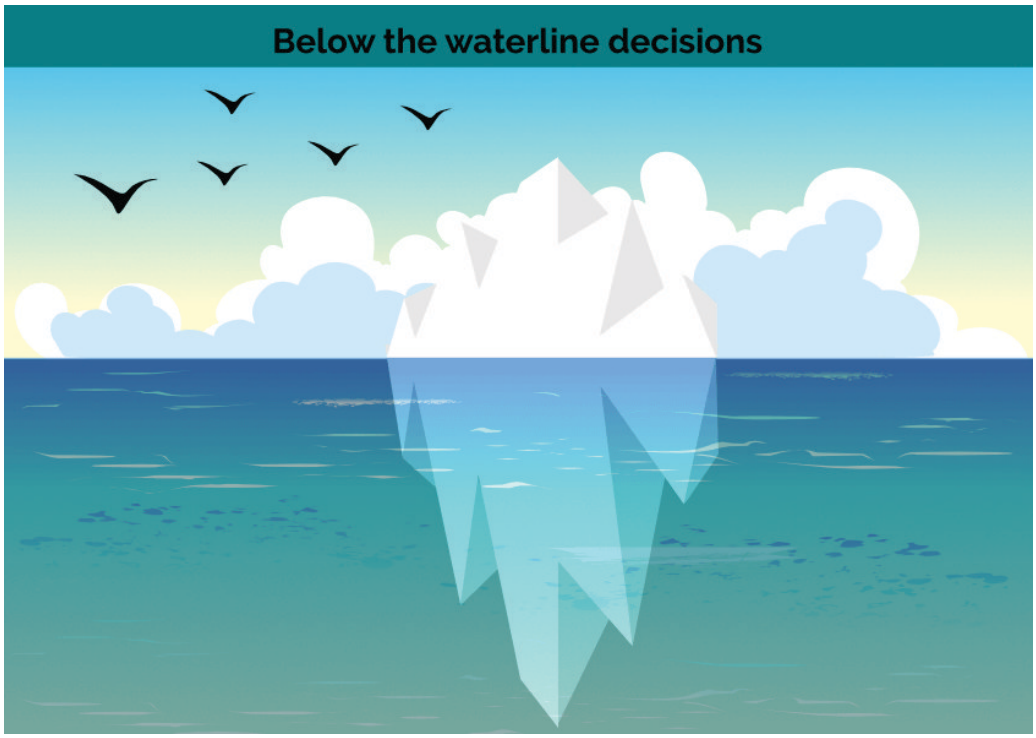
Reverse Delegation

With radical decentralization I actually mean: Decentralize as far as responsible. There will always be a few things a (top) manager needs to decide, but everything else can in principle be delegated. This goes further than many organizations are willing or daring to go at the moment who are experimenting with decentralization, or empowerment, or agile leadership. A useful term for this concept would be Reverse Delegation: all authority lies at the front-line workers except what they wish to delegate upwards. That sounds radical but think about it for a minute: regular delegation might sound good in theory but it does mean that managers only delegate what they wish to delegate. And if that principle is traversed down the hierarchal chain, the question is how much is actually delegated to the front-line worker in the end.

Below the waterline

A concept adopted by Gore, the makers of Gore-tex is that of Below the waterline decisions[11], meaning decisions that can sink the boat, to stay in marine terms a bit longer. Any employee can

take every other decision, but for below the waterline decisions, that can seriously harm the company, they are required to council a leader who might be better informed. In a similar concept, workers can make any decision but if the decision has an impact on others you are required to get advice from those colleagues that would be effected. This kind of principles, together with purpose and values, make it possible to create a system of radical decentralization that does not lead to anarchy.



Delegation levels

It also helps to realize that delegation does not have to be binary: either we delegate something, or we don't. There are multiple levels of delegation that enable a more nuanced implementation of delegation: for every decision area a different level can be selected. The most well-known definition of delegation levels is that of Jurgen Appelo. He differentiates seven levels of delegation:

- Tell: The managers decides. Period. This is actually not delegation at all.
- Sell: The manager still decides but he does attempt to explain the rationale behind his decision.
- Consult: The managers asks advice which he considers in his decision, but the decision is still his.

- Agree: This is decision making based on consensus.
- Advise: The manager offers his advise, but the decision is that of the employee or team.
- Inquire: The employee makes the decision but informs the manager.
- Delegate: The employee makes the decision and you don't even have to know about.

The seven delegation model of Appelo is very useful as it also comes with physical playing cards that can be used to visually support the process on determining delegation levels. Some criticism from my side: For me, Sell is not really delegation, as no authority is passed from the manager to the employee. Only from Consult on, the employee can influence the decision. And I argue that, although popular in agile, Agree or consensus based decision making is not very effective if we want to empower individuals to decide.

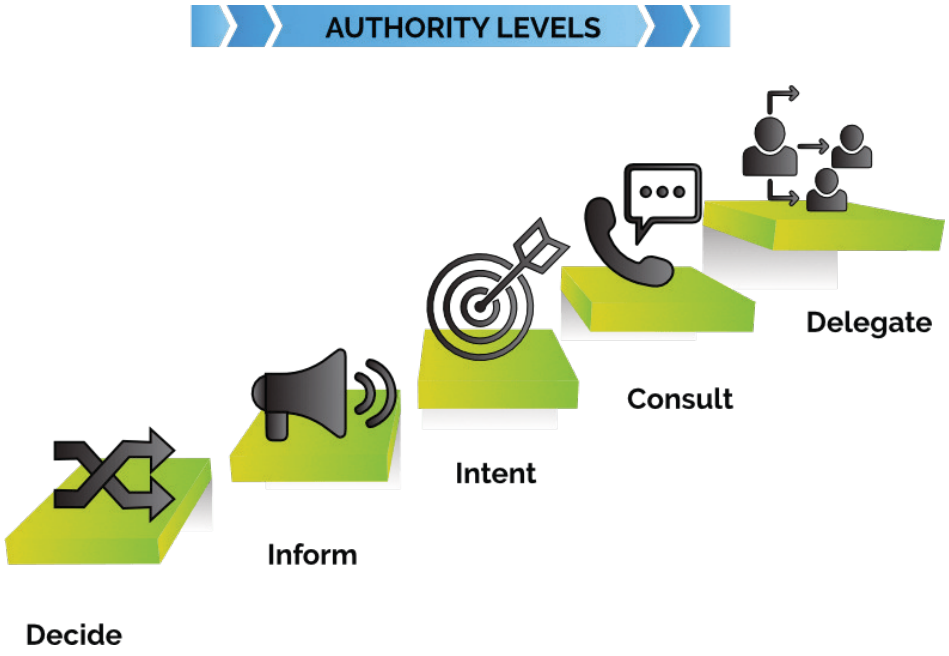
Authority levels

Although Appelo points out that delegation goes both ways, meaning employees can decide to leave decisions at the manager as well, the seven levels do work top-down from the manager towards employee. Otherwise, tell and delegate are exactly the same, as are sell and inquire, and consult and agree. So, the seven delegation levels only make sense if the hierarchal relation still exists after delegation of authority. As such, the seven levels of delegation seem predominantly useful to ease the transition from a hierarchal towards a decentralized decision-making model. But the intention of the adaptive organization is to reduce the actual hierarchy in the organization. As soon a critical mass level of decentralization is reached, we still need an effective decision-making model that regulates decision making between people, whether they have a (former) hierarchal relation or not. A group of peers are collectively responsible for a certain process and need a way to

determine who and how they are going to make decisions.

So my advice would be to use the seven levels of delegation to start experimenting with decentralization and get it going. But at some point a non-hierarchal decision-making model needs to be implemented like Gore's waterline decisions. It can still be useful to have some levels to clarify the role everyone involved has in certain decision areas. Delegation levels then become authority levels, as they describe the reach of the authority one has in certain decision areas. The authority levels we propose are:

- *Decide*: One person can make the decision. No need to inform anyone.
- *Inform*: One person can make the decision but he is required to inform those who are effected or involved.
- *Intent*: One person expresses his intent towards those that will be effected, or, others can ask what someone intents to do. This way (unsolicited) advise can be offered, before a decision is made.
- *Consult*: One person can only make a decision after consulting those that will be effected by the decision, and after he has demonstrated how the the advise has influenced the decision to be made.
- *Delegate*: the decision in this area has been delegated to one specific person (or institution) which may or may not be a higher hierarchal level.



Authority levels can differ per decision area. So a group of people responsible for a certain process will first collectively define all kinds of decisions involved in the process. Next, they will decide upon the appropriate authority level for every decision.

Together with purpose and values these form the decision-making model. Note that an organization can choose to use any or all of the authority levels proposed. An organization that is very strong in core values, might just need the *consult* authority level for below the waterline decisions, and maybe *delegate* for some decisions that for some legal reason cannot be taken by somebody else. But other organizations might profit from using the full stack.

Decentralization & continuous innovation

There's a connection between continuous innovation and decentralization as well: strategy is no longer the task of a few at the top of the chain. It is everyone's responsibility. Decentralization allows everyone to come up with ideas for the continuous innovation funnel. They both have the authority and the information to come up with an idea and pursue it.

STEP 6 ORGANIZE AROUND OPPORTUNITIES

Once we start decentralizing, it is time to restructure the actual organization. This step has potentially the most impact because it means breaking down both the traditional hierarchy and the functional silos.

Continuous innovation brings us a better strategy to reinvent ourselves as a business and remain relevant. But the value propositions need to be validated, scaled, and eventually disengaged from by the organization, and the traditional silo structure is not necessarily the best one for the job.

Traditionally the organization is divided into departments, or silos, where people are grouped based on functional specialization. Marketing people sit together, as well as financial people, sales, IT, etc. The idea is that grouping people together based on their functional specialization is efficient and makes it easier to share knowledge and create best practices. And that makes sense…for an ordered world at least. But not so much for the complex domain. And it certainly is not the best way to support execution of a strategy of continuous innovation. The flow of customer value for each value propositions is broken into as many parts as there are silos, and each adds its own handover. Handovers between departments typically cause a radical increase in waiting times, or total lead time, of the value flow. This is because each department has optimized its own local processes, which usually goes, unintentionally, at the expense of the total flow of work. This is not strange as each department has it own local goals, targets, and KPIs. If you are responsible for the sales department, and you get a KPI based on total sales per period, then you will try to optimize your process to meet the KPI. Makes sense. But, as Systems Thinking learns us: local optimization leads to sub-optimization of the whole, because all parts of the system are connected.

Local Optimization

local optimization leads to sub-optimization of the whole

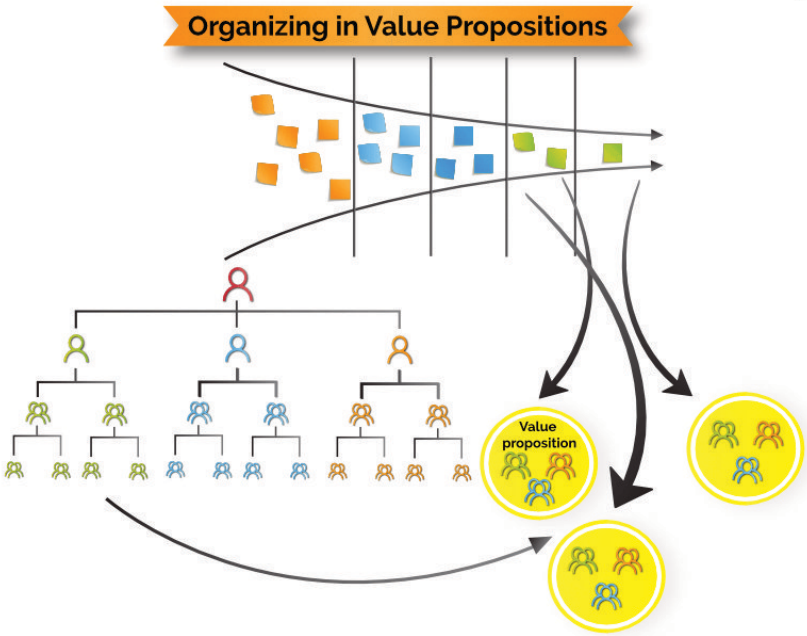
Local optimization can for example lead to batching: for one department it's more efficient to batch work: for example you collect a number of requests and then process them each Wednesday. But this means every

subsequent step in the value stream now has to wait longer. Waiting for information. Waiting for approval. Waiting for sign-offs. Local optimization can also lead to unintended effects for other departments. For example, a sales decision to bundle widgets into packages can be beneficial for the sales department, but it might lead to quality or capacity problems for the logistics department if we do not align the decision.

Each department has its part to play in the flow of value to the customer, but as each department has its own goals, managers, and processes, this can lead to a lot of politics, meetings, and bureaucracy. Something we cannot use, because speed is off the essence if we want to thrive in a complex environment.

Organizing in value propositions

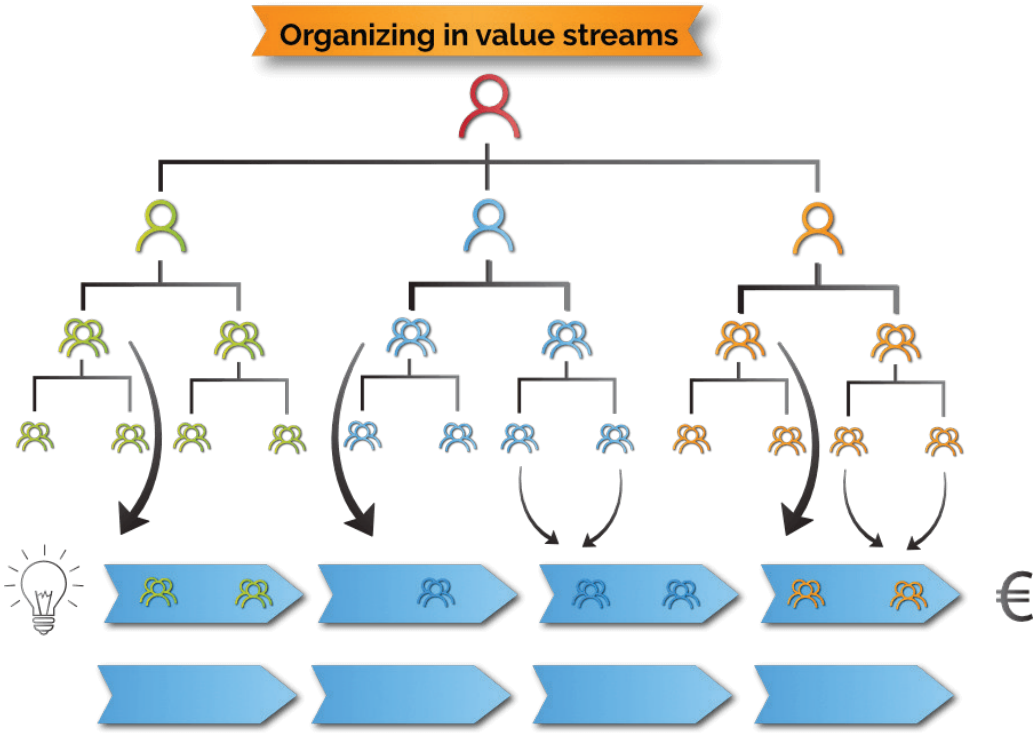
A better way of organizing is to group together all disciplines, which are necessary to serve a specific value proposition or value stream, into autonomous multidisciplinary units. If this unit gets too large, we will divide them into multiple self-organizing multidisciplinary teams. But the main point is everybody in the unit is working at the same customer proposition, and they all have the same goals and targets. The unit is highly self-sufficient as it contains representatives from sales, marketing, logistics, production, finance, etc. So a marketing specialist is not serving the targets of a marketing department, but that of a value proposition, together with colleagues from other departments. So, now all these disciplines in one unit have to work together to meet their shared goals.



Organizing in value Streams

If you don't have a continuous innovation strategy in place (yet), you can still adopt this way of working. Instead of defining multidisciplinary units for each value proposition coming out of the continuous innovation funnel, you start with defining the value-streams you already have in your organization. A value-stream, is the end-to-end process from order to cash, or concept to cash. It might for example map to the line of products or services you offer. Or to customer segments. Or even geographical segments.

You then divide people from the functional departments over the value-stream units, making sure each value-stream has all the disciplines on board to successfully serve their customers.



Value stream

Virtual or Psychical

The above calls for a radical restructuring of the organization. The hierarchal silo structure has been the backbone of any large organization for over a hundred years. Saying goodbye to this is no easy feat. So it needs to be prepared well to prevent old politics and former hierarchal positions to pop back up. As Peter Drucker once said: *Culture eats strategy for breakfast*. But then it will have *structure for lunch*. If mindsets are not changed, if values are not aligned, the old structure will for sure find its way back.

There is a way to ease the adoption of organizing into value-streams or value propositions, which is to make them virtual at first and leave the hierarchal silo structure largely in place. This means people will be a member of a value proposition and a functional department. It is less threatening, especially for middle management, and easier to implement. However, it will eventually lead to some pains. For example, how can a manager be responsible for a worker, and appraisals for that matter, when he hardly sees the person and has no control over his work? The idea is to make these pains transparent, address them as good as you can, up until a point where it becomes clear that this dual structure does not make sense anymore. Then start the move to a more permanent physical structure of value-streams and value-propositions. But by then there should be a lot more by-in for this step, as people feel the pain of the dual structure.

Disengagement

It is also crucial that everybody realizes that value proposition units are temporary. They could last for years, but they are designed to eventually disband. Remember, change is the default state in the complex domain. In a world of transient competitive advantage no business model is forever, and the trick is not to squeeze the last drop of money out of it, but disengage in time to make room for other more favorable value propositions. Disengagement is not a dramatic event in the adaptive organization. It is normal. There are no lay-offs, no dramatic restructuring of the organization. None of that. The unit has an exit strategy prepared. There is a strategy to ensure that gained expertize in markets and/or technology does not get lost. Technology might be moved to another unit. And the members break op only to take on another challenge in other value proposition units.

STEP 7 ADOPT LEAN-AGILE BUDGETING

The restructuring of the organization also leads to a new way of budgeting. There are a number of reasons why budgeting needs to change.

Traditional budgeting is prone to politics

In the traditional organization the silos each have their own budget. But as each department is only involved in a part of each value-stream or value proposition, the actual budget needed to serve a value-stream is fragmented. This typically leads to a lot of politics. The leaders of each department want to control their own budget, meaning that a real improvement of a value-steam requires budget from several departments.

Traditional budgeting leads to suboptimal prioritizing

As budgets are fragmented and spread over vertical functional departments, prioritizing of new initiatives will always be suboptimal. We should do the most important thing for the entire organization first, then the second most important thing, etc. What are the odds that this overall priority exactly follows the budgets as they are divided over the departments? Especially since the budgeting process itself is usually far from optimal either. For example, departments know that if they don't spend their budget, they will probably get a lower budget next year. So, if we could prioritize for the entire organization, it could very well be that the next most important initiative is in department X that does not have enough budget. Can you imagine the effort involved in your organization to get other departments to sacrifice some of their budget and give it to department X?

Traditional budgeting leads to local optimization

Most organizations have some shared resources that are needed by multiple departments. IT is a good example. Most business departments have projects that require IT effort. If budgets are fragmented, then so are interests. So all departments compete with each-other to get priority. They will do everything they can to secure enough scarce IT resources for their own projects. This will eventually lead to a suboptimal use of IT resources for everyone, as we can learn from the Systems Thinking Tragedy of the Commons pattern. It is like fishing in the North Sea: if all fishing boats and involved countries are selfish and try to maximize their own returns, this will lead to overfishing and reduced fish

stocks. Eventually all parties involved will have lower returns than if they would have worked together to maintain sustainable fish stock levels.

Traditional budgeting stands in the way of innovation

In most organizations most budget is held by those responsible for the current business models that are currently most profitable. This makes innovation very vulnerable. There usually is some budget reserved for the initial stages of innovation. But to scale a new proposition can require considerable resources before it gets structurally profitable. If in this stage the current business model, that might already be on the decline, needs money, it is usually at the expense of innovative projects. This is reinforced by most organization's bias for the short term.

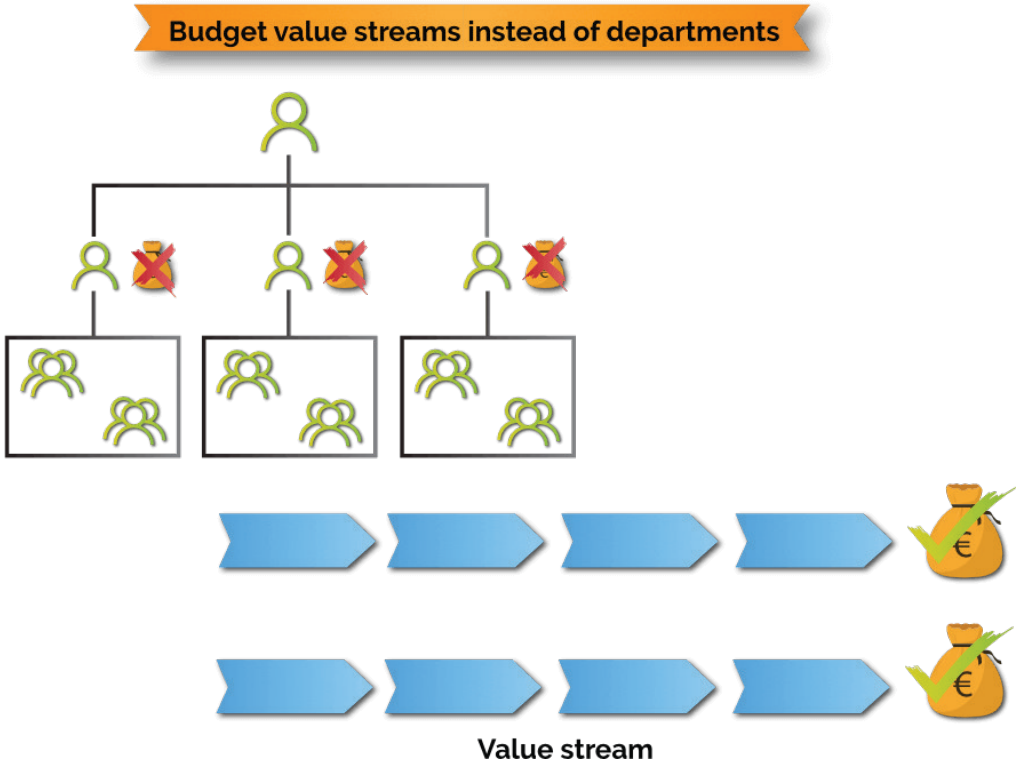
Traditional budgeting of projects is problematic

Organizations usually budget projects. In the initial stage of a project the scope is defined, and the required budget, people, and time is estimated. But we know by now that traditional forecasts don't work well in a complex environment. This leads to all kinds of problems. First, the budget will be very inaccurate because it is based on what we know, while complexity is marked by unknown-unknowns: we don't know what we don't know. Second, these projects are feature magnets: As we get approval for a budget now, and we don't know when or if we could get additional budget, everybody involved tries to add their features to the project. As a result, the project gets bloated, while we should do only the most important stuff first. Lots of features in the project have a lower priority than features of other projects that cannot start yet because of budget limitations. Third, these kinds of projects seldom go according to plan, it eventually leads to a power struggle for people: One project is late, but doesn't want to lose its people because that would delay the project even further. But the people involved are already 'promised' to another project.

Anew way of budgeting

From the disadvantages of traditional budgeting it is easy to derive some requirements of budgeting:

- Budgeting should be apolitical
- Budgeting should encourage optimization of the whole (vs local optimization)
- Budgeting should enable doing the most important things first



If you restructure the organization into autonomous multi-disciplinary value-streams or value propositions, then that should be the level to budget. We fund horizontal value streams or value propositions, instead of vertical silo departments. And instead of funding individual projects, we fund a long-lived group of people that collaborate serving one value-stream or value proposition. By structurally prioritizing the work they take on we ensure the most important work gets done for the money available. The people in the group all have the same goals and targets which removes a lot of the politics involved. It allows optimizing the whole value stream(s) instead of locally optimizing parts, because the budget is at the level of the whole value-stream instead of divided over the involved departments.

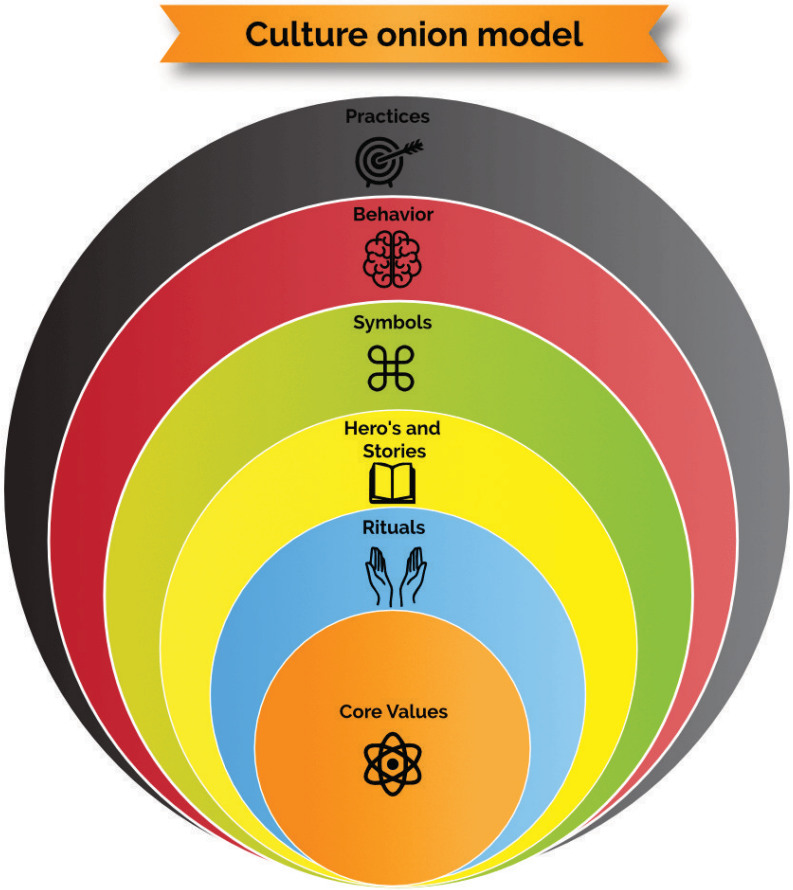
Because the horizontal units are highly autonomous, they choose how to spend the budget based on strict value-based prioritizing. On top of all value-streams and/or value propositions there might still be a portfolio level that defines initiatives that will need to be implemented by multiple value streams. But those initiatives don't necessarily have their own budget: each value stream takes on their part out of their budget. For example, on an enterprise level we might decide to adopt a mobile first strategy. Multiple value-streams or value propositions need to do

something for that, but more or less independent of each-other. So, they each fund their own contributions to the portfolio level initiative.

We briefly mentioned value based prioritizing which means we give priority to work that provides most value. But how do we define value? One way is to use *Cost of Delay*, or in other words: the cost associated with delaying an initiative. Usually, the longer we wait, the higher the cost of delay. But it is not equal for all initiatives. We can also define cost of delay as *lost opportunity costs*: the later we deliver an opportunity the longer it takes before we make money, gain market share, and get customer feedback.

BEHAVIOR AND CULTURE VS INSTRUMENTAL

Most of the steps discussed in this whitepaper might sound instrumental, but don't be fooled: they all have huge cultural and behavioral aspects to them. However, I don't believe in a direct change of culture. Culture and behavior are so deeply entrenched in organizations that an attempt to directly manipulate the core of the culture is setting yourself up for failure. You can look at organizational culture as an onion: it is made out of layers which you need to peel off one by one to get to the core of it. The outer layers are easier to identify and change than the inner layers. So I recommend starting at the outer layers.



The culture onion model, adapted from Geert Hofstede, has six layers:

1. Core Values
2. Rituals
3. Hero's and Stories
4. Symbols
5. Behavior
6. Practices

One could argue that practices are not an integral part of the culture itself, but they do influence the culture. That's why we incorporated them into the model.

Culture follows structure

It is true. Culture follows structure. Culture is the product of the organizational structure and practices. By changing the structure and practices, you can influence the culture, starting at the outer layers. This is the reason we propose to express values in terms of the behavior you would like people to demonstrate. Because by discussing and valuing behavior, we start at the outer layers of the union model.

Practices influence the culture. A policy that no meeting last longer than ten minutes before the hour, can have a huge impact on behavior during meetings, traffic in between meetings, etc. Thoughtfully incorporating practices that are symbolic of the values and associated behavior we want, are a next step. For example, values of *openness* and *approachable* can be stimulated by open office doors, or actually removing them, which is symbolic for the actual value and desired behavior.

Storytelling is a very powerful tool to slowly influence culture. Stories of hero's that are exemplar of the desired values can circulate for years until they slowly become the actual values. The bottom line is any cultural change starts with practices that change the structure. But in designing and experimenting with those practices you need to keep the culture onion model in mind. Make them (especially the outer layers) part of your experiment design.

SUMMARY & CONCLUSION

There is no denying that today's business environment is marked by complexity and fast change. The biggest cause of this is digital disruption, but what's more important is the impact it has: the end of sustainable competitive advantage. It is no longer possible to defend a single business model and market it for a long period. Instead, we have moved to a world of transient competitive advantage that involves reinventing yourself as a business constantly. So how do we design a business that thrives in this environment?

We started with discussing the fact that business is moving more and more towards the complex domain which needs its own tools and methods. It is crucial to realize that you cannot use tools that fit an ordered and predictable world in a complex world and expect success.

We handled strategy first: an adaptive strategy of continuous innovation ensures a constant flow of new ideas which are quickly validated and scaled into profitable value propositions. Two key points here: Maintain a constant flow of ideas to test, and second, make sure you disengage from value propositions in time.

We then discussed a different way of managing by radical decentralization, empowered by an inspiring purpose and a set of core values. Radical decentralization is necessary to speed up decision making in a complex domain. We discussed tools to aid in decentralization like reverse delegation, and the five authority levels. But foundational is the definition and propagation of purpose and values which provide both long-term and daily aids in decision-making.

These allows us to eventually replace the hierarchal silo organization with a more fluid organizational design where small autonomous entities rally around new value propositions coining out of the continuous innovation flow.

Whether you dare to psychically change the organizational structure at once, or prefer to start in virtual value streams, the accompanying step is to radically change budgeting. No longer do we budget functional silo's and individual projects, we budget horizontal cross-functional value-

streams and/or value propositions. This removes a lot of the crippling politics around budgeting. It also moves the focus from efficiency, in the form of scale effects and central budget decisions towards a focus on effectiveness. Or stated otherwise: we rather focus on getting the most value for the money we spend than focusing on spending as little as possible.

We focus on getting the most value for the money we spend rather than focus on spending as little as possible.

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