

Assessing your Adaptive Capability: Where Do You “Stand Out” within Your Industry

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If the world around us is changing so dramatically, why is it that the organizational practices and capabilities of companies increasingly resemble those of others? We use the term resemblance here to refer to a situation where a company within an industry mimics another. Institutional resemblance refers to the gradual adoption of common practices across companies through consultancy firms such as McKinsey or Boston Consulting Group, and the accelerating speed of information exchange progressively playing a key role in this process.

Institutional resemblance is a problem for business leaders as “strategists” because it runs counter to the idea of differentiation and maintaining a competitive advantage by building capability. As a Taiwanese OWP 2012 participant said: “Among manufacturing peers, it is all about cost reduction. We share the same vision; the only difference is in the execution – who can do it better than the others.” For a firm to develop a competitive advantage in the marketplace, it has to be unique or have an advantage over others within the same industry. If every firm in the marketplace is similar, how do they go about capturing value?

A classic reason why firms mimic others is uncertainty. The more uncertainty there is, the more organizations are likely to model

themselves on others in the same environment to avoid falling behind. Other reasons are that disruptive innovations do not happen every day and consumers eventually force companies to mirror others just to survive. In addition, capabilities and practices may spread indirectly through employee transfer or turnover.

Yet, in a fast-changing world, how can organizations pull ahead from the competition? The answer lies in the firm’s ability to not only discover complex and new information, but also to integrate this new knowledge and commercialize it as new products faster than their competitors. This is known as a firm’s “adaptive capability.” The better a firm’s adaptive capability, the more likely it is to break away from institutional resemblance.

At this year’s OWP, we wanted to explore the idea that organizations were facing challenges differentiating themselves and understanding how adaptive capability leads to success. We surveyed over 155 senior executives from 35 countries and 28 different industries. Most of the executives held Director or VP positions and had, on average, over 18 years of professional experience. The results revealed that organizations are likely to resemble one another in both capabilities and practices and that the BRICs are putting more pressure on companies to succeed with differing local consumer demands. Surprisingly we found that although leaders are good at discovering new information and knowledge, they have found it difficult to fully integrate and commercialize this new knowledge and information. A key challenge seems to be moving from awareness to insight and action. Before focusing on the concept of “adaptive capability” we would like to share with you the results of this year’s OWP participants’ assessment of institutional resemblance.

In June 2012, around 500 executives gathered at IMD for the week-long Orchestrating Winning Performance (OWP) program. OWP stimulates participants by challenging beliefs and existing practices. It provides a platform for the exchange of insights on global trends and how these will impact organizations and individuals in the future.

To find out more about OWP, go to www.imd.org/programs/owp/owp.

We asked executives attending OWP two questions regarding capability and practice resemblance:

Over the last 5 years, have the capabilities of competitors in your industry become more similar?	
Capabilities have become similar	54%
Neutral	19%
Capabilities are less similar	37%

Over the last 5 years, have the management practices and strategies of competitors in your industry been converging?	
Management practices are converging	41%
Neutral	29%
Management practices are diverging	30%

The general trend was that firms were converging in terms of practices and capabilities. This is not surprising. A recent McKinsey Quarterly article discussed the pattern of mimicking. “It’s no mystery why companies emulate their most successful peers.” The article states: “Tried-and-true approaches often

seem preferable to starting from scratch, whether developing new products or running efficient supply chains.”¹

While practices and capabilities appear to be similar across firms, countries and industries, market forces are becoming more complex, which probably explains the responses from those participants that answered that they saw diverging practices and capabilities. The expansion of companies into the BRICs is one potential source for this. One Brazilian OWP participant stated: “It is not easy to copy and paste the same tools in BRICs. Language is a problem, though not the biggest problem. Language can always be translated albeit with slight changes in meaning. What is more difficult is that certain BRICs are not open to doing things the European way. And we are still exploring the Chinese way or the Brazilian way of doing things.” Another participant commented that “customer requirements and demands are going up.”

Executives attending OWP were asked a customer-related question:

Over the last 5 years, have the tastes and preferences of customers in your industry become less predictable?	
Have become more predictable	29%
Neutral	21%
Have become less predictable	50%

This is against a backdrop of increasing competition in the BRIC markets. As one European participant said: “The speed of globalization has made it easier for

competitors to learn about and match quoted prices, especially in China. This was different more than a year ago. Globalization has shortened the time it takes competition to learn.”

Participants also responded to questions on competition:

In your industry, has competition for market share in the BRIC countries become more intense?	
Competition more intense	59%
Neutral	24%
Competition less intense	17%

Have the market activities of your key competitors in the emerging markets become more aggressive over the last 5 years?	
Have become far more aggressive	76%
Neutral	15%
Have become far less aggressive	9%

So how do organizations respond in a context of increasing resemblance of practices and capabilities, more customer demand and growing competition in the BRICs?

Looking at performance differences across companies we found that these differences are explained by their “Adaptive Capability.”

Adaptive Capability (Discover, Integrate and Commercialize)

Adaptive capability represents the firm's ability to discover external knowledge and integrate it with its current knowledge to commercialize new products or services. It is both an individual and an organizational characteristic. As an organizational characteristic, adaptive capability represents the firm's ability to share and transfer knowledge: "it is not resident in any single individual but depends on the links across a mosaic of individual capabilities."² Thus, adaptive capability represents not only the organization's ability to interact with the external environment but also – and more importantly – it represents the firm's ability to integrate the knowledge across the organization, recognize its potential, and commercialize the knowledge into new products or services. In this respect,

adaptive capability is both developed and maintained by the organization.

What does this mean for leaders? How can leaders engage in managing the discovery, integration and commercialization processes? We looked at differences across higher and lower performing firms in terms of their adaptive capability. The higher performing firms were consistently better at discovering, integrating and commercializing.³ Discovering is defined as acquiring knowledge from the outside, integrating refers to sharing knowledge within the organization, and commercializing means developing products and services as a result of the new knowledge. At OWP, we were interested in understanding how leaders think about their adaptive capability. We found that executives mentioned strengths particularly in the area of discovery and commercialization.

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Adaptive Capability Strengths

Adaptive capability	Statement	Strongly agree
Discover	We frequently scan for new technologies, knowledge, processes and opportunities	28%
Discover	We observe in detail external sources of new technologies, knowledge, processes and opportunities	14%
Commercialize	We regularly apply technologies and knowledge in new products	12%

More importantly, we found weaknesses in the ability to integrate knowledge although the discovery ability also appeared under the weaknesses category.

Adaptive Capability Weaknesses

Measure	Statement	Strongly agree
Discover	Employees regularly approach external institutions to acquire new technology, knowledge and processes	2%
Integrate	When we recognize a business opportunity, we can quickly rely on our existing knowledge and processes	3%
Integrate	We are proficient in reactivating existing knowledge and processes for new uses	3%
Integrate	Knowledge management is functioning well in our company	3%
Integrate	New opportunities to serve customers with existing technologies, knowledge and processes are quickly understood	5%

Adaptive capability was discussed from multiple perspectives during OWP. Martha Maznevski, Professor of Organizational Behavior and International Management, talked about the need to multiply the power of the organization by empowering its ability to respond to and create opportunities. It is important to enhance people's capabilities for systems thinking

and collaboration, increase informal networks in your organization and lead by empowering people. One participant said, "We have an R&D team that is in charge of finding the newest material in the chemistry industry, create relationships and reduce cost. We have design centers in the US and Europe where we send people to learn the newest designs."

The best leaders develop enough trust to ensure their teams feel safe and supported to take risks and “play to win.”

George Kohlrieser, Professor of Organizational Behavior and Leadership, talked about encouraging others to take risks. The human brain is, by default, defensive and risk averse. Yet with intention, practice and, most importantly, positive role models, people can shift their mind to embrace risks and challenge. Too many leaders encourage people to stay in their safety zone, or as George would say, “play not to lose.” The best leaders develop trust by authentically caring and thus ensuring their teams feel safe and supported to dare to take risks and “play to win.” This is an active, positive behavior that drives change, innovation, creativity and ultimately achievement.

Don Marchand, Professor of Strategy Execution and Information Management talked about the leader’s ability to leverage the knowledge and information of people in the organization to carry out three key activities: (1) magnify business intelligence; (2) mobilize people to experience, share and use their knowledge and the information that the organization provides; and (3) make sure the infrastructure and formal (IT) tools are in place to leverage information and knowledge practice. A knowledge leader has a passion for the

knowledge, information and IT used to impact the performance of individuals, teams and organization. An OWP participant added: “We try to have discussions in our company. We work to get the broadest viewpoints and perspectives from people in the company. We encourage it. We give people the opportunity to question. This allows people to freely see the problems. The models we purchase from other companies need to be validated by internal staff.”

Conclusion

Based on these findings, organizations need to be aware of their own external context – customer demand and competition. Is your organization diverging across geographies? Is it looking increasingly similar to its competitors? Assess your adaptive capabilities (see diagnostic): Is your company able to discover, integrate and commercialize knowledge more quickly than its competitors? To assess your adaptive capability, review your organization’s ability in relation to these three dimensions. This will provide you with a starting point to develop your ability to pull ahead of your competitors and stand out within your industry.

Adaptive Capability Assessment Tool						
(1=strongly disagree, 5 = strongly agree)						
		1	2	3	4	5
DISCOVER						
1	We frequently scan the environment for new technologies, knowledge, processes and opportunities.					
2	We thoroughly observe global trends.					
3	We observe in detail external sources of new technologies, knowledge, processes, and opportunities.					
4	We thoroughly collect industry and country information.					
5	We have information on the state-of-the-art external technologies					
6	We frequently acquire technologies and knowledge from external sources.					
7	We periodically organize special meetings with external partners to acquire new technologies and knowledge.					
8	Employees regularly approach external institutions to acquire new technology, knowledge and processes.					
9	We often transfer knowledge and technology to our firm in response to acquisition opportunities.					
INTEGRATE						
10	We thoroughly maintain relevant knowledge over time.					
11	Employees store technological knowledge for future reference.					
12	We communicate relevant knowledge across the units of our firm.					
13	Knowledge management is functioning well in our company.					
14	When recognizing a business opportunity, we can quickly rely on our existing knowledge and processes.					
15	We are proficient in reactivating existing knowledge and processes for new uses.					
16	We quickly analyze and interpret changing market demands for our existing technologies, knowledge and processes.					
17	New opportunities to serve our customers with existing technologies, knowledge and processes are quickly understood.					
COMMERCIALIZE						
18	We are proficient in transforming new technology and knowledge into new products.					
19	We regularly match new technologies and knowledge with existing ideas for new products.					
20	We quickly recognize the usefulness of new technologies and knowledge for existing technology and products.					
21	Our employees are capable of sharing their expertise to develop new products.					
22	We regularly apply technologies and knowledge in new products.					
23	We constantly consider how to better exploit technology and knowledge.					
24	We easily implement technologies in new products.					
25	It is well known who can best exploit new technologies and knowledge inside our firm.					

Endnotes:

¹ Capozzi, Marla M., Ari Kellen, and Sven Smit. The perils of best practice: Should you emulate Apple? McKinsey Quarterly, September 2012.
² DiMaggio, Paul J., and Walter W. Powell. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. American Sociological Review, Vol 28, No 2, 1983: 147–160.
³ The results mentioned here are based on a structural equation model analysis of the 155 surveys completed during OWP 2012. The model examined firm performance in relation to adaptive capability and the external environment.