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Adaptive capacity: A guide for leaders

In a rapidly evolving landscape, organizations stand at a critical crossroads: evolve with the changing tide of information and technology or risk fading into obscurity. It's a stark choice that highlights the urgency of adaptation for survival and success.
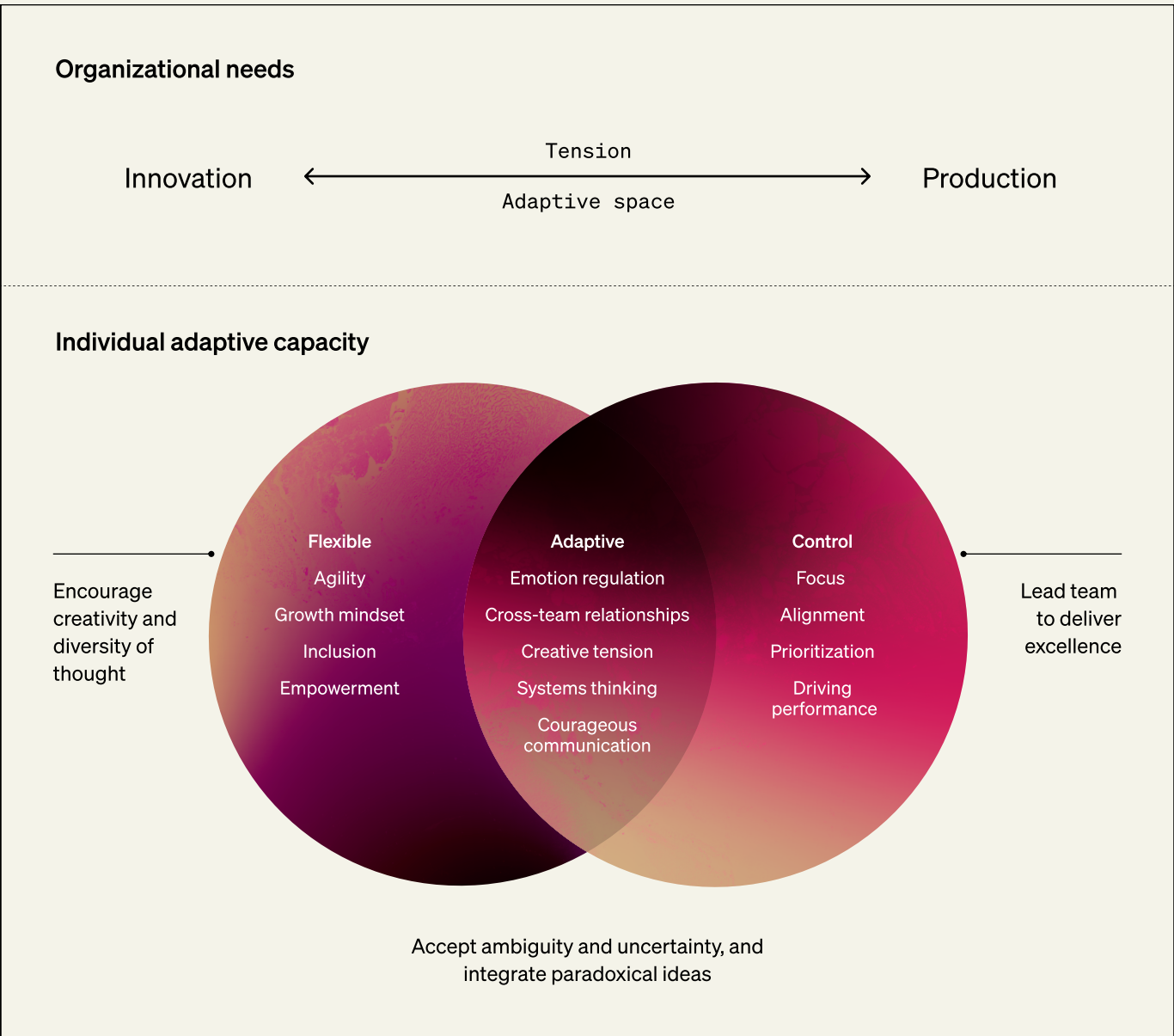
This guide highlights the critical role of **adaptive capacity — an organizational and individual capability where one embraces and seeks out both innovation and production.**

While innovation requires flexibility, variation, and risk-taking, production demands control, efficiency, and implementation. The paradoxical mindset to alternate between the two, and the ability to do both well, is a necessary skill for people at all levels of an organization. Read on for actionable solutions to develop this essential trait within people, teams, and organizational cultures.

Requirements for:

INNOVATION	PRODUCTION
Flexibility	Control
Variation	Efficiency
Risk-taking	Implementation

Organizational needs

Innovation ◄——————————— Tension ———————————► Production

Adaptive space

Individual adaptive capacity

Encourage creativity and diversity of thought

Flexible
Agility
Growth mindset
Inclusion
Empowerment

Adaptive
Emotion regulation
Cross-team relationships
Creative tension
Systems thinking
Courageous communication

Control
Focus
Alignment
Prioritization
Driving performance

Lead team to deliver excellence

Accept ambiguity and uncertainty, and integrate paradoxical ideas

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Why adaptive capacity matters

McKinsey revealed a stark decrease in the life expectancy of S&P 500 firms from 90 years in 1935 to just 14 years in 2010.[1] This dramatic shift underscores the accelerating pace of change and the imperative for organizations to adapt or face obsolescence. **To keep up as the world evolves, leadership needs to change too.**

The question becomes, how can one be more controlled and flexible at the same time?

Adaptive capacity represents the balance between exploring new opportunities (innovation) and controlling existing ones (production). This balance is crucial for organizations to stay relevant, competitive, and high-performing in a complex environment.

The state of adaptive capacity today

Current data indicates that only **20% of employees demonstrate high adaptive capacity,** with a notable decline over recent years. This decline correlates with increased burnout rates, highlighting a pressing need for organizations to foster a culture and environment conducive to adaptability.

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Solutions for building adaptive capacity

Organizational transformation is no longer solely the responsibility of executives and managers. Real adaptive capacity is achieved only when every function, office, strategy, goal, and process — essentially, every person — is capable and eager to meet every challenge and lead across boundaries.

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Build a strong foundation of employee well-being for adaptive capacity

Investing in developing people's flexibility

Building adaptive capacity requires an investment in employee well-being. Decades of psychological research shows that well-being is the foundation of performance, but also our ability to adapt, think creatively, and stay resilient. Similarly, **BetterUp research shows that employees with high levels of well-being are 29% more resilient and 32% more productive. Compared to their high-burnout counterparts, employees with low burnout are 3X as likely to possess high adaptive capacity.** To improve adaptive capacity, people need support for developing individual skills, recovering from burnout from constant change and uncertainty, and building a strong foundation of well-being.

Flexibility stems from cultivating a growth mindset of continuous learning and improvement, the agility to approach challenges through multiple pathways, and an optimistic, positive mindset that engenders expansive, creative thinking and behavior.

For managers, it means developing empowering and coaching skills to unlock direct reports' autonomy, engagement, and creative potential. By evolving into inspiring leaders — adept in inclusivity, encouragement, motivation, guidance, and coaching — leaders can significantly boost direct report team outcomes. **Data from BetterUp demonstrates that empowering leadership increases employees' feelings of empowerment, increasing direct report confidence by 20% and team engagement by 24%. These improvements contribute to a 35% increase in team agility, +22% in team performance, and +22% in team innovation.** The number one leader strength that drives team innovation is the ability to elevate direct reports by creating plenty of opportunities for people to do their best work.

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Support control to deliver tangible results

Build adaptive strength to embrace and navigate the innovation-production paradox

Innovation is not enough. At the end of the day, organizations and individuals need to deliver tangible results. To do this smoothly, everyone needs clarity and focus on how to channel their effort and energy effectively to be productive.

Organizations need to invest in everyone's "navigation" capabilities, especially managers, including focus, alignment, and strategic planning. These three skills are top contributors to manager effectiveness post-pandemic. Managers play a crucial role in helping employees approach their tasks differently, focusing on the right work for optimized business impact instead of doing more busy work. That is **why managers who help their teams focus, align, and engage in strategic planning are perceived as highly effective by others and can improve team performance by 24%.**

During organizational changes, employees not only have to embrace change and stay flexible, but they're also expected to be productive, focusing on delivering outputs with speed and efficiency. These are fundamentally opposite focuses. Embracing this paradox is crucial and challenging for people, requiring a high tolerance for ambiguity, conflict, uncertainty, and stress.

Emotion regulation allows people to manage stress and uncertainty, build cross-team working relationships to align strategy, and convert innovation into operational efficiency. **Managers need system thinking, creative tension, courageous conversation, and cross-team relationship facilitation.** They play an important role in creating an adaptive space where new ideas are encouraged, cross-pollinated, tested, and converted to productivity.

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Provide personalized, timely support for employees, especially critical talent and change agents

The adaptive demand is complex, challenging, and unique to individuals and situations. Traditional learning and development (L&D) often proves ineffective in supporting individuals in this challenge, as approximately 75% of acquired knowledge is forgotten. Effective support should be personalized and integrated into the daily workflow, grounded in behavioral science to optimize the translation of knowledge into behavior, and supported by humans who hold individuals accountable for driving change.

BetterUp research has shown that, compared to employees who participated in workshops, those who received personalized coaching experienced a 32% increase in internal, psychological resources (i.e., emotion regulation), an 18% increase in critical leadership capabilities (i.e., coaching behavior), a 24% increase in retention, and a 37% increase in engagement. In addition, our **Whole Person™ coaching, which addresses both well-being and work capabilities, has proven effective in boosting adaptive capacity by 39% within approximately four months for those with initially low levels of this capacity.**

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Embed cultural safeguards for sustained organizational adaptability

Besides building individual adaptive capacity, organizations also need to foster a culture of continuous transformation and adaptation to create self-reinforcing adaptability at the system level. This culture should encourage coaching behaviors and mindsets among experts, leaders, and peers, fostering growth and development for all employees. **When the workplace embodies a high Coaching Culture, people's performance increases by 24%, team innovation increases by 21%, and team risk-taking by 19%.** Importantly, a Coaching Culture impacts the bottom line, increasing revenue five-year average growth by 131% and return on equity by 94%.[2]

When a workplace embodies a high Coaching Culture, they see:

24%

Increase in people's performance

21%

Increase in team innovation

19%

Increase in team risk-taking

131%

Increase in revenue growth (5-year average)

94%

Return on equity

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The bottom line

Developing adaptive capacity is not optional; it's imperative for organizations to successfully navigate the uncertainties of today's business environment. HR leaders play a critical role in this process, guiding their organizations through the complexities of change and ensuring their long-term success and resilience. Through targeted solutions, including personalized coaching, leadership development, and cultural transformation, organizations can overcome the challenges of change and emerge stronger.

Develop the adaptive capacity of your people, teams, and organization

Learn more →

Sources: 1. Handscomb, Christopher. Thaker, Sahil. "Activate agility: the five avenues to success." McKinsey, 2018. 2. "Unlocking performance: transform your people and teams with a Coaching Culture." BetterUp, 2023.

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