

Making Change: How to Build Adaptive Capacity

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Editors' Note: *This article is excerpted from a paper produced for Management Consulting Services (MCS) in Boston. The author and MCS wish to acknowledge the Barr Foundation's generous financial and intellectual support. Watch for the whole paper, which constructs its case for adaptive capacity from a comprehensive capacity building model based on both an organization's internal and its external settings.*

Elsewhere in this issue of the Nonprofit Quarterly are stories of organizations that have grappled with a deteriorating funding environment. Some of these organizations feel victimized by new circumstances and struggle disconcertedly to accommodate to their quickly changing landscape. Others experience these turbulent times as a challenge, a golden opportunity to rethink what they do and how they do it. Moreover, the process itself has helped them realize that their growing comfort with ferment may actually be a long-term asset, making them stronger, more resilient and higher performing.

What has made the difference?

Adaptive capacity: The skill to take the initiative in making adjustments for improved performance, relevance and impact. Fundamentally, it is the ability to respond to and instigate change. The importance of this aptitude for change grows as organizations appreciate the breadth, complexity and dynamism of their organizational ambitions and operating environments. As used here, adaptive capacity includes the ability to generate or initiate change—challenging the organization's external circumstances. This level of change, particularly, may require the organization to forge relationships that extend beyond its organizational borders.

Synthesizing general concepts such as adaptive capacity into organizational practice is a challenge, though in this case the following four qualities capture the essence of adaptive organizations:

1. External focus,
2. Network connectedness,
3. Inquisitiveness, and
4. Innovation.

These attributes embody familiar management themes. Inquisitiveness, for example, refers to well established ideas about learning and knowledge management, concepts many nonprofit organizations espouse. Yet it is still rare to find their evidence in organizational culture—the gestalt of structures, procedures, processes and everyday actions that mold organizational behavior. The reasons for this gulf between the presumed value of these ideas and their sustained use are familiar. Resource scarcity, the perceived opportunity cost and the business origins of certain concepts are enormous barriers preventing nonprofits from applying these management practices more consistently and energetically. Building adaptive capacity is hard work; it shakes things up and it takes resources.

External Focus

We generally view capacity building as something that happens internally, involving the reengineering of core organizational processes. But to be adaptive and to further strengthen programs, organizations need to be acutely focused on the dynamism and complexity that exist in their operating environments. The dynamism—the rapidly changing conditions that exist outside of the organization—and complexity—the

many forces operating simultaneously to affect programmatic outcomes—provide a compelling rationale for treating external focus as a key attribute of adaptive organizations. Adaptive organizations are acutely conscious of their interdependence with their environment and their need to leverage capacity, resources and allies from outside the organization. They look not only to adapt nimbly to their environments but also, when possible, to adapt their environments to them.

In today's world, "Most events and phenomena are connected, caused by, and interact with a huge number of other pieces of a complex universal puzzle."¹ Yet, we tend to neglect this profound realization when it comes to organizational capacity building, and the result is over-attendance to internal capacity building. Organizations constantly interact with their environment; a primal ecosystem consisting of associations, government agencies, foundations, economic market forces, colleagues and competitors, the media—the list could go on indefinitely. Through their interactions with these agents, organizations are influenced and can influence. Looked at on a macro scale, these interactions create systemwide behavior—the way a field is funded or a particular kind of work is regulated or the way an issue is understood and discussed, for instance. The presence of this kind of powerful systemwide behavior makes consciousness about the external environment an essential attribute of adaptive capacity.

There is a further reason for organizations to be externally focused. Joan Magretta and Nan Stone remind us that with the exception of membership associations, "...organizations are means to ends, not ends in themselves. They exist to serve the needs of people who are outside of them." As a result, "One of management's chief responsibilities is to remember this external orientation and to remind others about it constantly." Otherwise, "it is natural for people who live inside an organization to get wrapped up in what they do."² So being adaptive means resisting the natural tendency to become organizationally introverted by incessantly pushing the organization to be outwardly directed. It also means ensuring that the organization is sufficiently porous to permit information, ideas and perspectives from outside to find a welcoming passage into the organization.

Like much about capacity, being externally focused is a trajectory, not a destination. Thus adaptive organizations push themselves to be connected and engaged, and they resist impulses to become isolated and insular. They cultivate and maintain a wide variety of extra-organizational contacts with individuals, organizations and communities to ensure a rich flow of information. These contacts are established through the activation of the board, through painstakingly constructed strategic partnerships and through casual personal, professional and organizational affiliations. In terms of adaptability, the action is outside the organization. But the capacity to relate to and interact with the external environment is internal: It is an orientation manifest in the organization's day-to-day operations.

Network Connectedness

Organizational performance—the "ability to allocate resources, innovate, adapt, and solve problems, both routine and radical—is related to ... organizational architecture."³ Those who have studied complex systems, such as the social and institutional ecology that revolves around organizations, have discovered that these systems have a specific architecture: Unlike organizations, that architecture does not take a corporate form. It often isn't even formally structured. That architecture is networks."⁴

Organizations are neither the only nor necessarily the best containers in which to locate certain tasks. Consider these examples:

- In Lawrence, Massachusetts, a community development organization, Lawrence CommunityWorks (LCW), concluded its goal is not affordable housing or economic development: It is networks of people who are active in efforts to improve the city, regardless of whether the activities are LCW's. Its mission has become building "the power of the network," not LCW, the corporate entity (see sidebar).
- The chief financial officers of 55 Boston-area nonprofits belong to an informal, nine-year-old network that holds monthly luncheon meetings to address topics such as "Sarbanes-Oxley Act" and "Managing in Tight Times: Cost-Sharing Arrangements." The group has a mailing list of 300 and a listserv where

members query their colleagues about things as practical as where to find good deals on used furniture or as technical as how to interpret an accounting standard. The CFOs have created a community of practice.

- Ten years ago four community development organizations formed the National Children's Facilities Network to advocate for financial resources to spur the development of childcare centers in low-income communities. Today, despite never having been staffed, the Network has 24 organizational members, has secured a \$2.5 million federal appropriation and is now pushing for a \$250 million outlay.

Each of these examples of extra-organizational forms serves a different purpose. And each relies on a network, rather than a corporate, structure, although one is a hybrid network of incorporate entities.

Like Lawrence CommunityWorks, some believe organizations—legally defined corporations—too often become the end goal or can impede the mission. In other cases, because of the mission, organizations cannot succeed without other organizations working in parallel or, in effect, operating as part of an immense and difficult to visualize value chain—healthcare providers, builders of affordable housing, parenting education programs—whose combined efforts contribute to stable and healthy communities of self-sufficient families. Perhaps the fullest realization of organizational potential occurs when nonprofits occupying their special niches, either by conscious design such as through strategic alliances or simply through the aggregation of independent efforts, create the potential for system-level effects that advance their missions more effectively than would be possible in isolation. This is all the more true for the small or medium-sized nonprofits, which can further advance their mission and expand their influence and reach through interdependent relationships and network structures that produce the advantages of organizations of larger scale and scope.

Inquisitiveness

An emphasis on organizational learning meanders through educational, organizational development and management literature starting with John Dewey and continuing with Kurt Lewin, Douglas McGregor, Chris Argyris and Donald Schon. Half a century after Dewey, Peter Senge earned management guru ranking with his bestselling treatise on learning organizations, *The Fifth Discipline*. When management concepts reach pop-status, the nonprofit sector is appropriately skeptical. Yet, some ideas, stripped of their promotional packaging, have enormous value. Under the moniker inquisitiveness we can include “outcome measurement,” “learning organization” and “knowledge management” because they are about generating and applying knowledge. High-performing nonprofit organizations, those demonstrating adaptive capacity, are voracious learners. They are inquisitive in that they seek out data and information; they use it to learn, and then they apply and share their newfound knowledge.

Feeling that their work does not easily translate into quantitative terms, many nonprofits are resistant to the funding community's embrace of outcomes measurement: They don't want to be held to reductionist standards of accountability. Others, however, have seen it as a tool for improving programs and performance. So it is not surprising that the evaluators of a James Irvine Foundation capacity building initiative that focused on measurement processes found that “the project's success had less to do with whether measurement systems were developed and more to do with whether the organizations were able to create a culture that valued the process of self-evaluation.” They dubbed this state a “culture of inquiry.”⁵ Knowledge management practitioners distinguish between raw data, information, which has acquired some meaning through analysis, and knowledge, which is substantial enough to inform action.⁶ That process of collecting data and transforming it into knowledge is a serviceable definition of learning.

Organizations that have developed this appetite for inquiry are able to initiate change to improve performance and to embrace it in response to new circumstances. Organizations increasingly recognize that information and knowledge are programmatic and organizational resources, just like grant income and endowment funds. Adaptive organizations approach data collection and knowledge development much as they approach fundraising: They are recognized, valued and supported functions. Just as members of the development staff are accountable for meeting fundraising targets, staff should be

accountable for generating data and distilling lessons that can inform the organization's work and enrich the field. However, to a far greater degree than fund development, learning is a broadly shared organizational activity. As the Irvine Foundation evaluators discovered, in adaptive organizations inquisitiveness—the appetite for being better informed and applying knowledge to advance the organization's core business—must be evident in the organizational culture, not just its structures and processes

Innovation

The term adaptive capacity refers to an organization's ability to change:

- in response to changed circumstances— survival—and
- in pursuit of enhanced results—creation.

Peter Senge asserts that a learning organization “is continually expanding its capacity to create its future. For such an organization it is not enough merely to survive. ‘Survival learning’ ... is important—indeed it is necessary.” But it “must be joined by ‘generative learning,’ learning that enhances our capacity to create.”⁷ Learning, a mostly linear left brain process, is important because it fuels the less linear, right brain creative process and hence drives innovation. Thus, the fourth attribute of adaptive capacity is the creation and implementation of new ideas—innovation.

Innovation embraces dramatic new programs and services as well as modest improvements to existing processes, procedures, policies, structures and systems. Innovations can even be, as they most often are, a “novel recombination of old ideas.”⁸ Innovation is an important characteristic of adaptive capacity both because it suggests the generative process of creating something new or different and because it entails the critical complementary facility of challenging accepted wisdom. Innovation is the generative component of adaptive capacity; the ability to initiate, not just react.

Because over time organizations tend to become established in their ways—more structured, regimented, routinized in their thinking— it is natural that they also become less resilient and less able to adapt. Adaptive nonprofits consciously promote innovation to ensure that they continue to change and remain relevant and effective.

Organizations can create conditions that promote innovation, including:

- committing staff time and financial resources to thoughtful experimentation, being sure to reward both the successes and the failures;
- promoting organizational diversity;
- articulating new challenges that force the staff to collaborate with others and stretch their thinking; and
- seeding the organizational environment with new ideas and influences.⁹

“Homogeneity causes insularity,” a team of business writers warns. “Cultivating heterogeneity within a system is essential.”¹⁰ To broaden and deepen the range of organizational experience and perspectives, to fuel learning, problem solving, innovation and creativity, diversity should push beyond the obvious categories of race, class and gender and embrace different personality types, ages, training, backgrounds, and so forth. Creativity and innovation thrive in less restrictive settings that support open, critical and diverse thinking fertilized with fresh ideas and knowledge. Organizations that internalize the diversity that exists outside them become more flexible and open to new ways of seeing and doing things.

Resolving the Capacity Building Dilemma

Generally, the best-lubricated part of the nonprofit capacity building machinery is initiatives to build durable organizations with the infrastructure, systems and practices that make them less vulnerable to risks such as mismanagement and staff succession. At first blush, however, adaptive capacity throws a wrench into this machinery, because instead of the imagery of sturdy, predictable, well-ordered, self-contained and well-behaved organizations, adaptive capacity advances the virtues of an unruly extrovert on a heart-stopping rollercoaster ride in pursuit of change and flux. But that is the point. As we wrestle with how the nonprofit sector can enhance its effectiveness, we realize organizations need to be both sturdy and resilient, cultivating both stability-endowing and change promoting capacities as complementary, not competing, ideals.

Like other capacity building efforts, adaptive capacity is not a summit that can be conquered and a flag planted. It is something organizations pursue in an ongoing manner through measures that embed the four attributes of adaptive capacity —external focus, network connectedness, inquisitiveness and innovation—inextricably in the corporate culture.

Endnotes

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