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# **THE ROLE OF LEADERSHIP IN ORGANIZATIONAL ADAPTATION PROCESS**

JEL classification: M21

### ***Abstract***

*In this paper, we intend to theorize how leadership affects organizational adaptation to its external environment by applying the concepts of learning organizations. We contend that the adaptation success is positively related with the dimensions of learning organization such as; continuous learning, inquiry and dialogue, team learning, empowerment, embedded system, system connection and strategic leadership. In addition, we identify the executive leadership role in fostering the desired corporate culture conducive to organizational adaptation process. The theoretical contributions and managerial implication of this study are discussed.*

***Key words: leadership, organizational adaptation, learning organization***

## **1. INTRODUCTION**

The success of any business is reliant upon how the business's purpose fits into a constantly changing environment. In order to adapt and remain resilient in business, leaders must be continuously mindful of the changes in the environment in which they operate. We intend to theorize how leadership affects organizational adaptation to its external environment by applying the concepts of learning organizations. We do not attempt a comprehensive or exhaustive discussion here. Rather, we offer initial direction and propositions to spur research efforts. In particular, we study the dimensions of learning organization

including continuous learning, inquiry and dialogue, team learning, empowerment, embedded system, system connection and strategic leadership. We argue that adaptation success is positively related with these dimensions of learning organization. In addition, focusing on the leadership at the top management level, we identify their crucial role in initiation and implementation of the adaptation process. The success of any business is reliant upon how the business's purpose fits into a constantly changing environment. In order to adapt and remain resilient in business, leaders must be continuously mindful of the changes in the environment in which they operate.

## **2. THEORETICAL FRAMEWORK**

Contingency theorists argue (Burton and Obel, 1998), and the empirical studies concur (Entin, 1999), that the effectiveness of an organization is influenced by the "degree of fit" between the requirements of the environment and the characteristics of an organization. The effort to achieve dynamic congruency in the face of changing environments forces organizations to adapt while they continue to operate (Mackenzie et al., 1996). Not only an organization must evaluate its design against the environment to know when to adapt, but also, for an organization to succeed, the adaptation process must be smooth, efficient, and cost-effective.

Managing an adaptive company requires nontraditional vision and skills. Organizations, like organisms, have to keep evolving if they are to survive. And each change in the landscape brings the process to that dire junction: adapt or die. Over a longer period of time, major changes in the external environment create emerging threats or opportunities for the organization, and changes in strategies or tactics are often needed to ensure effective performance and continued survival for the organization. The extent to which a leader makes appropriate changes in strategies and tactics provides another indicator of flexible and adaptive leadership (Yukl, Mahsud, 2010., pp. 81-93.) The challenge facing managers today is to make the effort needed to learn some of the new skill and techniques, and to put in processes that engage their workforce in programmes of continuous capability development. Learning should be integrated into the doing, as part and parcel of everyday work. It is only possible so that the organization becomes a learning organizations (Senge, 1990). More and more organizational researchers realize that an organization's learning capability and its adaptation capability will be the only sustainable competitive advantage in the future.

## **3. ORGANIZATION OF THE PAPER**

This paper is organized as follows. First, we briefly review the literature relevant to the concept of organizational adaptation, learning organization and leadership. Then we describe the theoretical framework and articulate our

propositions on the relationships between leadership role in implementing learning organization concepts and adaptation process. We place emphasis on the managerial skills required to build a learning organization. The last is our discussion and conclusion.

#### 4. LITERATURE REVIEW

Change is an ever-present feature and has become a constant in organizational life. It is a common thread that runs through all organizations regardless of industry, location, size and age (Kin, T.M., Kareem, O.A. 2015). Since publishing *The Adaptive Corporation* in 1985, Alvin and Heidi Toffler have theorized about what organizations must do not only to survive but to prosper in a social-economic environment that is fundamentally different from the industrial era in which they were born. As part of their mission to provide clients a path to a profitable, sustainable future through actions to be executed today, Toffler Associates recently brought together a small group of executives to discuss organizational adaptiveness. Looking across both commercial and government organizations, they considered what lessons they can learn from organizations that have proven themselves “adaptive” in the fast-paced environment. The participants considered two critical questions:

1. What are the vital attributes of an adaptive organization?
2. How do you make your organization more adaptive to the challenges and opportunities of the knowledge age?

In their discussion of different organizations - their own and others they have observed - they identified several attributes that seem to enable these organizations to adapt to the economic, social, and other shifts that routinely occur around them. These attributes include:

- The ability for all employees, departments, and groups within an organization to collaborate effectively.
- The ability for all employees at all levels to network with others outside the organization, gaining new sources of useful information and helpful perspectives in the process. This includes networking with customers and other stakeholders, external industry experts, even with competitors or rivals.
- The ability for all employees at all levels to innovate and experiment without fear of “reprisal” or marginalization. Instead, where the culture of the organization is to reward those who think innovatively, participants saw the greatest success in adapting to solve the pressing issues the organization faces.

Finally, integrating learning with changes in policy is possible only if the policies already implemented can be changed. The transition to adaptive management relies on increasing the adaptive capacity of the system by meshing management and policy with learning. The research clearly see the key role played by the organizational culture in organizational adaptation process.

Table 1

Table 1. Comparison of different approaches to the learning organization

Systems perspective (Senge 1990)	Learning perspective (Pedler et al. 1991)	Strategic perspective (Goh 1998)	Integrative perspective (Watkins and Marsick 1993, 1996)	Building blocks (Garvin et al. 2008)
Team learning	A learning approach to strategy	Clarity and support for mission and vision	Continuous learning	Psychological safety
Shared visions	Participative policy making	Shared leadership and involvement	Inquiry and dialogue	Appreciation of differences
Mental models	Informating	A culture that encourages experimentation	Team learning	Openness to new ideas
Personal mastery	Formative accounting and control	The ability to transfer knowledge across organizational boundaries	Empowerment	Time for reflection
Systems thinking	Internal exchange	Teamwork and cooperation	Embedded system	Experimentation
	Reward flexibility	Aligned organization design	System connection	Information collection
	Enabling structures	Appropriate employee skills and competencies	Strategic leadership	Analysis
	Intercompany learning			Information transfer
	Learning climate			Leadership that reinforces learning
	Self development for everyone			

Source: Kirwan, C. *Making Sense of Organizational Learning - Putting Theory into Practice*, <http://www.gowerpublishing.com/isbn/9781409441861>

### 4.1. Adaptive Leadership

In 1994, Heifetz's adaptive leadership was introduced to the world of leadership studies. One of the most important framings of adaptive leadership is the idea that leadership is not positional or based on authority but rather a practice that can be pursued by anyone. The authors explain that while leadership is not based on authority, it is also "radically different from doing your job really, really well" (p. 23). Adaptive leadership focuses on the need for change within organizations and encourages actions that disrupt the status-quo in order to incite forward momentum. Adaptive leadership is rooted in leadership theory but also has significant links to scientific theory. As the authors explain, the focus on adaptation is drawn from biology and evolution where plants and animals evolve (or adapt) over time in order to survive and thrive. The authors explain that successful adaptation requires building on the past and observing what is expendable or extraneous as changes are made while still recognizing the "heritage" of an organization. Moreover, adaptation relies on experimentation and diversity in order to succeed.

Successful adaptation also recognizes the need for loss and that such changes require time. The authors also make use of biological terminology in their analogies. They instruct readers to "diagnose" the challenges before them before acting and compare organizations to ecosystems. Effective leadership makes the difference. The CEO must manage the constant balancing act between organizational structures which channel innovation whilst managing risk, and a cultural openness which seizes new opportunities and looks beyond day-to-day business parameters. A CEO should recognise where innovation comes from and different approaches to promote it. A prerequisite for employees to freely experiment is that they need be empowered.

The main rule concerning empowerment is to recognise that it is about creating the environment that enables all colleagues to empower themselves. Therefore, it is not about the leader empowering colleagues. It is more about the leader finding how to appropriately encourage colleagues to grow and develop their capability in ways that fit with their needs and the needs of their roles. The goal is to create a dynamic environment that is achievement focused by encouraging colleagues to work as a team rather than as an individual. This would result in rewards systems being based on the team result with possibly a small element given for exceptional individual contribution. Giving colleagues the opportunity to grow and develop together can provide the basis for exceptional achievement. It gives opportunity to colleagues to do their best whilst knowing the when needed they will support other colleagues or receive support from them.

Leaders need to have mental models that facilitate understanding about the complex effects of their behaviors on multiple objectives, and the importance of balancing competing values. Mental models are representations of reality that people use to understand specific phenomena (Johnson-Laird, 1983). They represent deeply ingrained assumptions or generalizations that influence how we

understand the world and how we take action (Magzan, 2012, p.57-63). Since mental models represent the assumptions held by organizations and individuals which determine how an organization thinks and acts, they can be a barrier for organizational learning. Leaders need to appreciate and take advantage of opportunities to increase their self awareness of relevant traits, skills, and behaviors, and to develop necessary skills before they are needed. Leaders should also recognize their responsibility for helping subordinates develop and use the skills and behaviors required for flexible and adaptive leadership (Yukl, 2010, p.81-93). Finally, to be flexible and adaptive in a world full of change and uncertainty is difficult and stressful and leaders need to have a high level of commitment to do what is necessary and ethical.

## **4.2. Learning organization**

Although there are different approaches to and definitions of a learning organization, some common characteristics can be identified. First, all approaches to the construct of a learning organization assume that organizations are organic entities and therefore they have the capacity to learn and to adapt. The Learning Organization is seen as a response to an increasingly unpredictable and dynamic business environment. Here are some definitions by key writers:

"The essence of organizational learning is the organization's ability to use the amazing mental capacity of all its members to create the kind of processes that will improve its own" (Dixon, 1994).

"A Learning Company is an organization that facilitates the learning of all its members and continually transforms itself" (Pedler et al. 1991).

"Organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to learn together" (Senge, 1990).

Learning organizations are those that have in place systems, mechanisms and processes, that are used to continually enhance their capabilities and those who work with it or for it (Nonaka, 2007), to achieve sustainable objectives - for themselves and the communities in which they participate.

The important points to note about this definition are that learning organizations:

- are adaptive to their external environment.
- continually enhance their capability to change/adapt.
- develop collective as well as individual learning.
- use the results of learning to achieve better results.

They describe four organizational capabilities that are necessary to foster rapid adaptation. These characteristics are the following:

- the ability to read and act on signals of change;
- the ability to manage complex and interconnected systems of multiple stakeholders;
- the ability to experiment rapidly and frequently - not only with products and services but also with business models, processes, and strategies; and
- the ability to motivate employees and partners.

The basic rationale for such organizations is that in situations of rapid change only those that are flexible, adaptive and productive will excel.

#### 4.2.1. Barriers to becoming a Learning Organization

Although Senge's conceptual works provide ideal scenery for the management, putting concepts into action is not so easy. Senge believes that all companies should possess the characteristic of a learning organization in order to achieve continuous success. According to Senge, a learning organization can be achieved by practicing five disciplines: a shared vision, personal mastery, strong mental models, group learning, and system thinking (Senge, 1990, 1991). The assumption is quite rational and inexpugnable, but we can soon realize that there is a knowing-doing gap.

Table 2

Table 2. Factors working against being a learning organization

Factor	Description
Leadership does not set the example for learning.	The idea of organizational learning is not championed, and lessons from previous experience are not incorporated.
Management is insular.	Management is isolated from the rest of organization and the external environment
Management is arrogant, ignorant and complacent.	Strong egos and previous success cause managers not to be willing to recognize or admit their mistakes.
Poor top-down communication.	Information is provided on a need-to-know basis, with little explanation.
Not soliciting ideas.	Management is unwilling to seek good ideas from employees.
Lack of upward communication.	Upward communication is ignored or channels are blocked, and management considers constructive criticism to be an insult to existing processes.
Lack of empowerment to learn and	Lower-level employees are not encouraged to

change.	experiment with new approaches or initiate change.
Ineffective mental models.	Management is not up to date with current realities and is unwilling to consider new possibilities and try different approaches.
Preoccupation with the short term and bottom Line.	Management focuses on cutting costs to enhance current profitability rather than taking the time to learn and invest in the future.
Lack of holistic approach to change.	Changes are either too few, too many, too late or not implemented well.
Lack of communication about change.	Management does not provide sufficient communication before, during, or after change fear and anxiety about change.
Management's fear of looking bad causes it not to ask for advice from others.	Change in leadership turnover, rotation, restructuring and the general lack of continuity causes employees to resist change.
Inadequate training.	Top management does not provide sufficient time and funding for job-specific and advancement-related training.
Inadequate system for knowledge acquisition and sharing.	There is no common database to contribute, store, access and disseminate information.
Unwillingness to use appropriate technology.	Managers and employees do not embrace new technology, including capitalizing on the full value of the Internet.
Lack of multidirectional communication.	Departments are not communicating with each other.
Lack of performance measurement and accountability for poor performance.	People who do exceptional work are not rewarded and those who do poor work continue doing poor work.

Source: Kirwan, C. *Making Sense of Organizational Learning - Putting Theory into Practice*, <http://www.gowerpublishing.com/isbn/9781409441861>

We can see that a lack of communication, lack of shared vision and unsupported corporate climate seems to be one of the main obstacles in building a learning organization. All these are problems that could be solved by an effective leadership.

## 5. THE LEADERSHIP ROLE IN CREATING ADAPTIVE ORGANIZATIONS

The role of mid- and senior-level leaders in making change happen is critical (Dinwoodie, D. et.al. 2015). Romanelli and Tushman (1985) stress that the most extreme forms of organizational change require top management involvement: „Only executive leadership can initiate and implement the set of discontinuous changes require to affect a strategic reorientation“ (p.180). A study from the University of Hawaii found that teams in an adaptive organizational



structure enjoyed participating in the group tasks assigned to them much more than teams organized in a hierarchical structure enjoyed identical assignments. Increased job satisfaction tends to lead to greater motivation. High motivation is necessary in an adaptive organization, because managers must rely on employees to perform without active direction or micromanagement. Key to success is for leadership to build and nurture an internal corporate culture, which supports innovation, change, and adaptability to a changing external environment.

Leadership in learning organizations centers on subtler and ultimately more important work. In a learning organization, leaders roles differ dramatically from that of the charismatic decision maker (Raelin, 2003). Leaders are designers, teachers, and stewards. These roles require new skills: the ability to build shared vision, to bring to the surface and challenge prevailing mental models, and to foster more systemic patterns of thinking. In short, leaders in learning organizations are responsible for building organizations where people are continually expanding their capabilities to shape their future – that is, leaders are responsible for learning (Senge, 1990, p.9).

### **5.1. Creating supportive Corporate culture**

Corporate culture is defined typically in terms of the way people think, which has a direct influence on the ways in which they behave. For example, recognizing that culture manifests itself in terms of behavior and espoused values, Schein (1998) suggests that the essence of culture lies in the set of “underlying assumptions.” Similarly, Deshpande and Webster (1989, p.4) define corporate culture as a “set of shared assumptions and understanding about organization functioning.” The theoretical argument about culture is that it is a complex system of norms and values that is shaped over time (Schein, 1985). It is generally understood as the social glue that holds organizational members together and expresses the values, social ideals, and beliefs that members share. A firm’s culture therefore, through its values and operating beliefs, exerts commanding influences on how its employees perceive events (Denison and Mishra, 1995) and how they behave (Schein, 1985, Barney, 1986). Corporate culture is known to be important for the success of projects involving organizational changes. Corporate culture encompasses values and behaviors that “contribute to the unique social and psychological environment of an organization.

According to Needle (2004), corporate culture represents the collective values, beliefs and principles of organizational members and is a product of such factors as history, product, market, technology, and strategy, type of employees, management style, and national culture. Culture includes the organization's vision, values, norms, systems, symbols, language, assumptions, beliefs, and habits. Ravasi and Schultz (2006, pp. 433–458) wrote that corporate culture is a set of shared assumptions that guide what happens in organizations by defining

appropriate behavior for various situations. It is also the pattern of such collective behaviors and assumptions that are taught to new organizational members as a way of perceiving and, even, thinking and feeling. Thus, corporate culture affects the way people and groups interact with each other, with clients, and with stakeholders. In addition, corporate culture may affect how much employees identify with an organization (Schrodt, P. 2002, pp.189-292).

It is necessary to build such a corporate culture that will encourage and stimulate changes. There is a strong body of opinion that corporate culture can be consciously designed and manipulated (e.g. Schein 1985; Block 2003) and leadership is a necessary factor in this process (Senge, 1990; Vera and Crossan, 2004., pp. 222–240. Waldman et al., 2001). Therefore, the top executive task is to create the kind of corporate climate which will support their changing efforts.

Table 3

## Corporate Culture: Adaptive vs. Unadaptive Corporate Cultures

<b>Corporate Culture</b>		
<b>Adaptive versus Unadaptive Corporate Cultures</b>		
	<b>Adaptive</b>	<b>Unadaptive</b>
<b>Core Values</b>	Most managers care deeply about customers, stockholders and employees. They also strongly value people and processes that can create useful change.	Most managers care mainly about themselves, their immediate workgroup or their product. They value the orderly and risk-reducing management process much more highly than leadership initiatives.
<b>Common Behavior</b>	Managers pay close attention to all their constituencies, especially customers, and initiate change when necessary to serve their legitimate interest, even if that entails taking some risk.	Managers tend to behave somewhat insularly, politically and bureaucratically. As a result, they do not change their strategies quickly to adjust to or take advantage of changes in their business environments.

Source: „Corporate Culture and Performance“, Kotter, J.P. and Heskett, J.L.

Traditional predictive management would institute strict procedures and policies, and use this to drive interaction in place of what was really happening. But to achieve an adaptive organization, anything might change, so thus top executive managers don't specify the policy. Instead they need to be a lot more transparent about what is really happening.

## 5.2. Creating a Shared Vision

Identifying and communicating a clear vision is one of the most important functions a business leader can perform. All business leaders should understand the basic elements of visioning and how to communicate a clear

vision. A shared vision not only will drive and guide the organization, but it will increase the effectiveness of the organization in terms of productivity and more efficient decision making. In order to create a vision, business leaders provide a meaningful plan to succeed and define their purpose and core values in a way that is meaningful, easy to remember, and transparent - without any hidden agendas. In order to adapt, a company must have its antennae tuned to signals of change from the external environment, decode them, and quickly act to refine or reinvent its business model and even reshape the information landscape of its industry.

To be adaptable, it is necessary to think more holistically (Wheatley, 2005): Signal detection and experimentation require a company to think beyond its own boundaries and perhaps to work more closely and smartly with customers and suppliers. This flies somewhat in the face of the unspoken assumption that the unit of analysis for strategy is a single company or business unit. A shared vision also helps unite and inspire all the parts of an organization to adapt together toward a common purpose.

### **5.3. Communicating the Shared Vision**

After establishing a vision, communicating it becomes an important final step. James O'Toole, author of *Leadership from A to Z*, describes this communication in broad terms, "The task of leadership is to communicate clearly and repeatedly the organization's vision...all with the intent of helping every person involved understand what work needs to be done and why, and what part the individual plays in the overall effort." The vision can be incorporated into objective setting and performance review standards as well as interdepartmental projects. These steps serve to energize and direct the group's actions as stakeholders and advertise their efforts to upper management.

An Effective Communication is the key to success of adaptive organizations. The speed and flexibility with which manufacturing leaders can effectively respond to rapid and often complex market and business change will increasingly determine their organization's success. Whether they face unexpected business disruption, sudden competitive attack, or major market shifts, both large and SMB manufacturers need to ensure their enterprises are in a constant state of readiness by developing highly adaptive processes and working cultures that can meet the multitude of business challenges today and tomorrow. In particular, adaptive organizations are information intensive and require task bundling and intensive communication to ensure coordination *ex post*. In contrast, rigid organizations can rely on rules and task guidelines to coordinate tasks *ex ante*, allowing such organizations to reap the benefits of specialization. In particular, the better the coordination between employees, the more flexibility they receive and hence the higher the returns to further improving coordination. In the presence of better communication, organization pays to be more adaptive, which in turn increases the need for additional coordination.

An organization cannot adapt to new circumstances if vital information is hoarded by any group. Only an unfettered exchange of insights and ideas among all the groups and sub-groups within the organization can build a comprehensive understanding of the environment and generate the right adaptations and solutions. One approach is to develop “open standards for teams” to build trust, collaboration, and share ideas across the organization. Common methods of communication, approaches to problem solving, and modes of behavior are necessary to remove restrictions on the effective flow of knowledge and ideas that is so important to truly understanding a rapidly changing environment and adapting to its challenges and opportunities. These methods and standards should encompass all teams within the company and transcend all organizational boundaries. We believe top executives share the same organizational goal is a necessary first step in achieving successful adaptation process.

## 6. CONCLUSION

For business leaders struggling to keep their companies lean, innovative, and competitive, the situation today is marked most of all by uncertainty and unpredictability. The economic world is growing more and more chaotic and unpredictable. Adaptiveness suggests a diversity of means available to address this challenge. One of the approaches is for the company to become a learning organization. Previous researches show that any change in organization depends on managers' transformation. In the context of learning organization implementation and adaptation of organization to its external environment, the reason for so many failures might be that top executive managers pay insufficient attention to the corporate culture and personal skills in developing and sharing a common vision. A fit between corporate culture and the leaders assumption embedded in learning organization concept is critical for success of adaptation implementation process. Unfortunately, there is a lack of study on how corporate culture and leadership personal competences (expecially in creating and sharing common vision) affect on adaptation implementation process and how the organization can foster a corporate culture conducive to becoming an adaptive organization. We believe that the reason for the deficiency of a larger number of companies implementing learning organization's concepts is simple the lack of successful leadership who have no real comprehension of the type of commitment it requires to build such an organization.

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