

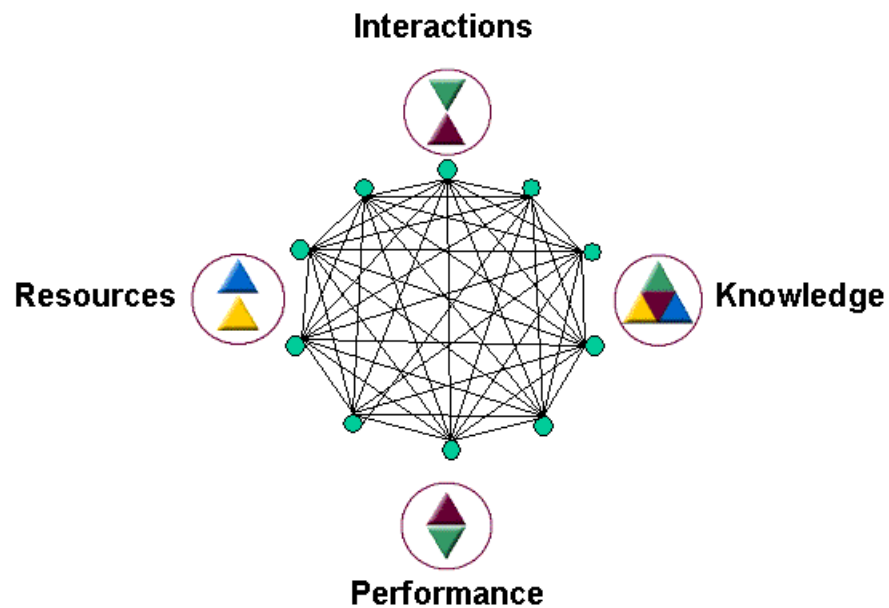


CONSORTIUM FOR  
SERVICE INNOVATION™

# The Adaptive Organization Operational Model

Version 2.0

## *The Practices*



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# Introduction

The Adaptive Organization model (also known as Betty) is a business strategy developed by the members of the Consortium for Service Innovation. It is based on research, conversation and reflection on shared experiences. The “Betty team” has taken the initial concepts and theories and organized them into an operational model. At the time of publishing version 2.0 of this document the model represents a work in progress.

Why an Adaptive Organization? In December of 2000 in New Orleans, 22 Consortium members engaged in an unstructured conversation about the business challenges we face. The conversation centered on the issues of knowledge management and building effective, sustainable relationships; and began to explore the interference between the two. Since then the Betty team has been exploring and developing the concepts of the Adaptive Organization (AO) model. Through the work two key issues have emerged as to why a new approach is necessary:

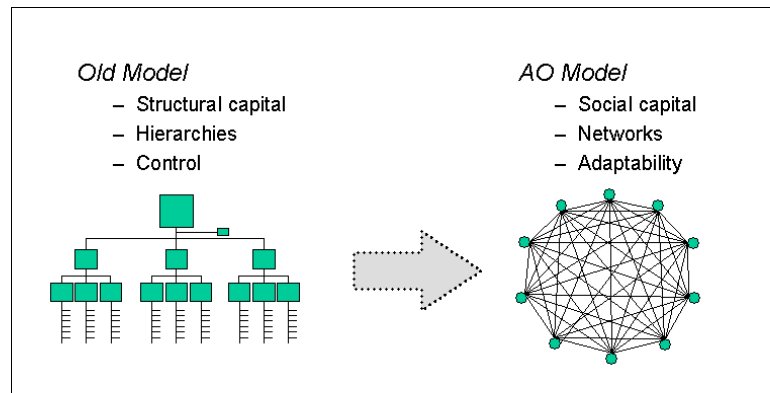
- o Shift in the source of value – for most companies the source of value has shifted from tangible assets (physical goods) to intangible assets (services, information and relationships)
- o Our business structures and practices are obsolete - our traditional hierarchical structures and command and control practices have evolved over the past hundred years based on a model of tangible assets and are ineffective at producing and evolving knowledge.

The first year of discussions are documented in the Consortium publication “Betty – Version 1.0”. We will not re-iterate the concepts and insights discussed in that work other than to say that we explored what makes relationships work (or not) at the individual level and what has to happen for relationships to be meaningful at the organizational level. The original work is discussed in terms of the Id (identity), relationships and communities. It is insightful and conceptual and formed the basis for building an operational model.

This paper outlines the operational elements of the Adaptive Organization. The AO environment is a knowledge-enabled network. It is optimized for the creation and evolution of knowledge. It acknowledges how things get done in an organization and the value of productive relationships and how they promote continuous innovation.

## Adaptive Organization – Operational Model

AO environments are less like hierarchies and more like networks. They are based on a new set of principles and practices.



# The Principles

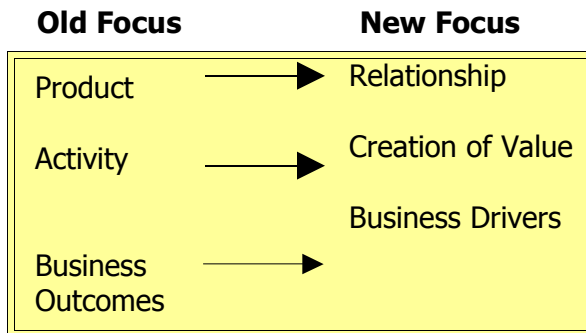
Sustained success in a dynamic environment requires an ability to learn and innovate – a process of re-generation. The complexity of the operational environment mandates that regeneration be based on experience and insight. Most organizations become so entrenched in past successes; they lack the ability to see beyond the events. They do not recognize the patterns and insights that enable learning and innovation. The AO model is a sustainable business strategy focused on building new levels of value that is not inhibited by past success.

We talk about principles and practices as being the organizing framework for the model. The principles for the most part define some key elements of leadership that are the macro-factors of the organization. The practices define the processes and activities and represents the micro-factor. First we will review the principles of Alignment, Agility and Awareness.

## Alignment – to an essential purpose

Sustained success is driven by a persistent alignment to evolving values - not just ours, but our customers'. New products in themselves do not create this persistent alignment of value. However, a relationship that aligns product development and service strategies to the emerging needs of a market can produce this value.

The AO model represents a shift in focus.



The new focus enables long-term, sustained market development. The AO model positions the company's employees to interact with customers and partners in new ways, focusing on relevant connections and knowledge flows.

Customers are encouraged to interact with each other as well as with appropriate employees of the company. They help each other be successful in the use of technology, raise concerns and identify opportunities that will affect their relationship with the company. Persistent customer involvement enables the organization to continuously align its strategies and products to the customers and markets being served.

## Community Health

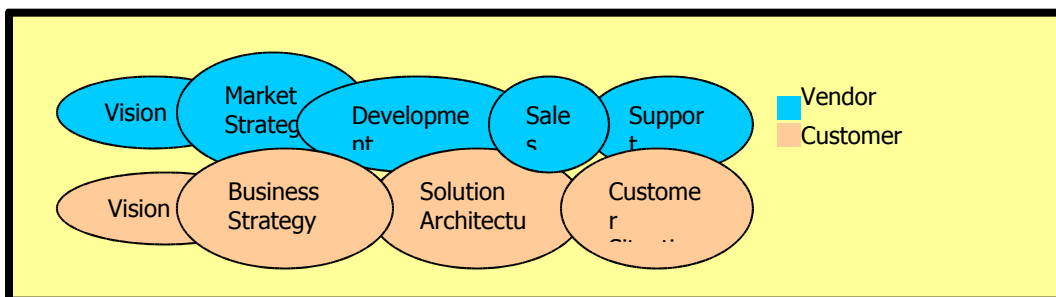
Most organizations measure their business with event level, activity-based metrics. They compare measures over time – they track history. In an AO environment we seek to understand patterns that connote "health". From this, we infer a view that exposes the patterns and reveals the drivers of results. It is only from a perspective that learns these patterns that we determine how to drive business improvements. The qualitative aspects of a "service" business introduce performance dimensions that can only be understood by studying the interactions over time – not by isolating events. While measures about events and interactions in the environment are being monitored, they are used for studying the dynamics and identifying patterns - not for creating goals and incentives at the activity level. The health of the environment is a function of the diversity and richness of the interactions taking place over time and the value being created as a result of the interactions not the level of activity.

## The Strategy – modeled through a framework

Businesses struggle to link high-level strategic goals to the operational levels of the organization. It is critical to build and communicate a strategic framework that aligns the vision and strategy with the infrastructure and processes needed in the environment. These frameworks drill down to define key initiatives and related results. This approach enables leadership to influence performance through results while allowing the people doing the work to figure out how best to achieve the results. The integration of the executive view of the "what" with the workers view of the "how" is critical and represents the difference between leadership and management. The AO environment requires more leadership and less management.

## Agility – removing boundaries

The community initiative establishes point-to-point connections between key parts of the demand chain. The overall effectiveness of the relationship between the vendor and the customer depends on the ability to map offerings into the understanding of the customer. So, the customer experience starts before the point of sale and before the support interaction. The interactions that connect expectations with results need to happen at strategic levels. Strategies start to converge into common actions when executives participate in the discussions (not presentations but conversations). They influence customer expectations and vice versa. And, those conversations ripple through other parts of the community.



## Adaptive Organization – Operational Model

This network-based interaction model aligns those with common purposes (e.g. market and business strategy, development with the customer's solution architecture, support with the customers' situation, etc.) so they can interact and develop common perspectives and understanding. The customer becomes integral to the business.

The traditional hierarchical and linear model creates silos of interactions and organizational layers that buffer the customer from decision makers (i.e. the people at the vision layers would be at opposite ends of the chain). The demand network does not facilitate interactions at common points of interest.

In the traditional/old model, the support organization comes to understand the customers' perspective, but that perspective has minimal influence with the development groups because their direction comes primarily from product management and marketing. Thus, support experiences "enlightened frustration" in dealing with development. The development groups, while well intentioned, are very product and technology focused. They have limited visibility to the customers' experiences or the customer's internal strategies. Development and product management are often focused on competitive products and this causes "competitive sub-optimization" (i.e. they seek to create features that map to the market trend but may not align to the needs of current customers). Development often experiences frustration with customer time to adoption. The product is functionally complete but for the customer the "value to disruption" ratio of adoption is not compelling.

The network engages Vice Presidents with customer Vice Presidents and developers with developers. These interactions are not managed. They are invited and stimulated. As a result, perceptions, decisions and directions are influenced by a company's most valuable asset - its customers.

### **Awareness – value creation through recognition**

In the Adaptive Organization, people engage according to their interests and needs. Relevance, reputation, relationship and resonance become the critical drivers. The effects are indirect; they are felt by the participants based on their experiences and their sense of belonging. These are personal and emotional responses.

Enabling the right interactions through awareness creates the value of the community. Through it, people will:

- Engage resources (e.g. people or content) based on what seems relevant to them
- Contribute value because it aligns with their values and intentions - about the relationship and the experience
- Perceive others based on their reputations because it reflects demonstrated value and creates a sense of confidence

## **The Approach – a matter of finesse**

The AO environment requires nurturing not directing. Connections are made and knowledge and value is created and shared because the players feel a sense of belonging. A sense of choice and a sense of purpose are also critical ingredients.

Intangible assets are not stored in a warehouse, they exist first in the minds of the players in the network; those who are interacting are gaining knowledge and perspectives. They may or may not choose to offer their experiences or understanding in a form that can be accessed by others.

Knowledge is personal and while the business may feel they own it the employees know otherwise. Our knowledge is a huge part of who we are as individuals, our identity, our value. There has to be an emotional connection for us to offer it up to others. That connection is an alignment to a common purpose (an emotional connection) and trust. Neither of which are competencies commonly found in today's corporations.

This means that "the company" cannot play the role of owner or director or even manager of their business network, they must strike a balance between leadership through the development and articulation of a purpose that people can relate to and a willingness to acknowledge and compensate people for the creation of value in achieving that purpose.

### **The AO principles are about:**

**strong leadership,**

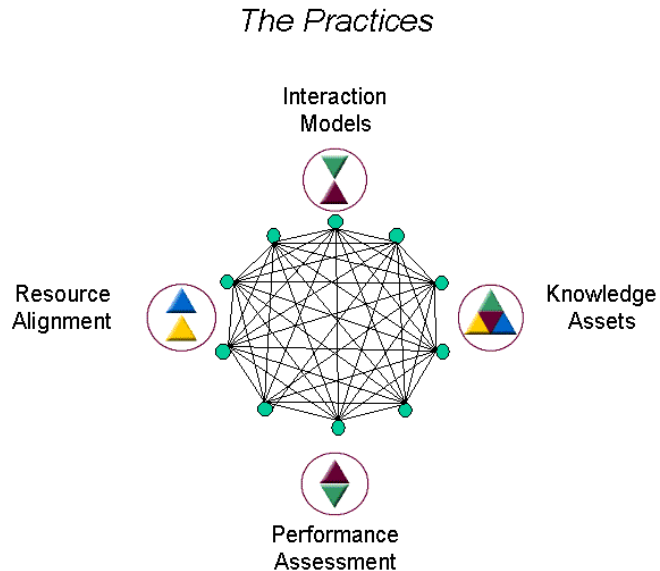
**alignment to a purpose and**

**creating an environment that is self-organizing and**

**self-regulating in achieving that purpose.**

# The AO Operational Elements

The Adaptive Organization model defines the practice dimensions that are required to create and sustain value. We have organized what we have learned about interactions, relationships, knowledge, and business performance, into an operational framework (pictured below).



While it is helpful to explore them as distinct elements, it is important to note that the elements of this framework are highly interdependent.

We will start with the Knowledge Assets Element, as it is a critical building block for the AO environment's other three elements. It strongly influences the capabilities of the other three practice dimensions.



## Knowledge Assets

The AO Knowledge Assets concepts are much broader than just content management. The scope of KM includes content, people, the context for people and content and the patterns that emerge from collections of content and collections of interactions between people. These are powerful notions in the AO model that enable continuous learning and perpetual relevance.

### The AO Practices for Knowledge Assets

- Connect people to content and people based on relevant context
- Create multiple layers of context to enable flexibility and refinement
- Integrate content and context through interactions – to drive organizational learning

The AO environment enables those who need to know to interact with the knowing. The effectiveness of the network is improved by orders of magnitude when the interactions between the members are captured in such a way as to be findable and usable by others. While capturing the interactions produces interesting content, we are learning that the driver for relevance and value is context. The ability of the infrastructure to enable relevant connections is a function of the ability to develop and evolve context. Context is the magic sauce in a knowledge management practice; it establishes relevance for the content as well as for the people involved.

Knowledge is created through interaction, whether it is a conversation or reading a book or visiting web site, we learn as a by-product of interaction. And, what we learn from an interaction, what we take away from it, is a concept or new understanding - not the verbatim words and sentences of the interaction.

A process that creates context layers is needed. It should not be a categorization effort, but a dynamic association of related concepts. Just as biological systems organize cells, within tissues, within organs, within organisms, the community can organize entities into increasing levels of relationships such that those relationships drive effective discussions and processes. This contextual organization is critical to drive efficiencies of access and more importantly to drive organizational learning.

Through effective association of context, the organization can correlate topics, with issues, with problems, with causes and new solutions. A context thread can associate contributors with value across topics and relationships.

As the organization adopts new processes to manage context, we must consider how the context can be used to assess the value of the contribution of the players, as that is important input to the Performance Assessment system.



## Performance Assessment

Assessing contribution in a knowledge-centered network is different from our traditional approach to performance evaluation. Contribution is not defined by activities, events, or the time spent but by the pattern that is created by interactions over time. This is an assessment of value creation not of activity.

### AO Practices for Performance Assessment

- ◆ Performance is linked to the creation of value and results
- ◆ How an individual impacts others in the network is more important than their activities
- ◆ Measures integrate objective and subjective feedback
- ◆ Individuals have visibility to the impact they create – as they create it. They build a reputation over time

While it is important to monitor activity it is not the indicator of value. The performance pattern that emerges over time is made up of both objective (activity) and subjective (how people feel) feedback. The objective feedback is captured by the system and can be monitored through the reporting system. The subjective feedback must be integrated with the interaction model such that it is collected at the time of the interaction. While people can currently give feedback, it is not designed in a way that encourages optimized performance through interactions. The exception-based feedback processes that are largely used in the service industry promote fragmentation of performance such that a small fraction of the population become entrenched experts and the larger majority become “avoiders” or in the case of the community “shirkers”. The feedback system must be designed to promote an expanding level of engagement and optimization/promotion. This happens when feedback is systemic and aligned with the dynamics of collaborative and competitive forces that already exist. This could be a valuable consideration for the evolution of the system.

What an individual does must be balanced with the impact they have on others. If we combine the correlation across the activities, using the activity reports, with the associated feedback from the players involved in the activities, we would have a view of contribution and value.

The health and growth of the community over time is dependant on all the players having access to feedback about their participation. Feedback at the individual level is the continuous performance improvement loop in the system. The culture of the organization must embrace an expectation or responsibility on the part of the players to provide meaningful feedback. The players’ participation in the feedback system becomes part of their profile. This, along with the subjective and objective feedback is the basis for the reputation system.



## Resource Alignment

The goal of Resource Alignment is to engage resources in an optimal way. By “optimal”, we mean in ways that produce the best possible results and develop or preserve capacity for future requirements. This requires a system that includes inherent motivation and enables contributions to be made according to the best fit between the need and the resource.

### AO Practices for Resource Alignment:

- ◆ Reputation – the most significant motivator is made part of the system as an indicator of meaningful contribution over time and produces panoramic attention.
- ◆ Engagement – people are mapped to work according to their preferred areas of skill, knowledge and ability – they choose the work they can best do
- ◆ Structures – The system provides visibility to appropriate and relevant resources based on evolving roles – through permeable organizational boundaries

Because people are motivated by doing things that are perceived as meaningful, how they are perceived in the system becomes a primary motivator for contribution. As expertise becomes part of the system through captured content, people's reputation can be determined by their interactions and the content with which their expertise is associated. Realms of expertise and the results produced (either through content or direct interaction) can produce quantified measures of business value that become part of people's reputation and eventually their compensation. The Performance Assessment system will feed and incorporate personal and team reputations that influence future interactions. People's reputations determine their value within the system and influence how others within the system will engage them.

What kind of structure enables effective Resource Alignment? The Adaptive Organization model defines practices that allow for a very fluid use of resources where the enterprise becomes a network that includes partners and customers. The increase in outsourcing and other creative employment practices over the past five years is evidence that businesses are moving to variable workforce models.

The AO effort will help knock down the walls between divisions, partners and most importantly customers and create greater understanding – that is the goal. As this emerges, it will mean that there is persistent shared understanding as well as an even larger opportunity to create a variable workforce through the network of players. This workforce can engage in graduated levels of work focus and commitment (i.e. jobs don't have to be one-size fits all). Involved and committed customers are then a part of the enterprise – the network is not outside or separate from the enterprise it is the enterprise!



## Interaction Models

Meaningful interactions are relevant and productive. The system for Interaction Models seeks to drive these factors by integrating past patterns with strategic purpose. It recognizes that the most effective forms of interaction are not usually regimented and that the same things can appear very differently when viewed from different perspectives. Therefore, those who interact to create value must be engaged according to what they know, how they most effectively can accomplish their tasks, and how their perspectives are positioned within the system.

### AO Practices for Interaction Models

- Interactions are driven by multi-dimensional context profiles
- The workflow media supports a continuum of collaborative interaction types – as appropriate
- Systemic maintenance and improvement is enabled through interaction loops

Generally the level of profile personalization in place today is fairly one-dimensional in that the profiling relates to skills around products/technologies. The AO model requires

the profiles to be expanded to include more aspects to enable more serendipity of connections and closer levels of relatedness between people. As this evolves, and incorporates more aspects of the reputation system, the profiles of players can be more visible and explicit.

Interactions are treated equally - critical and curiosity issues may get the same level of attention. The mode of interaction is primarily as discussion threads. There is no larger context applied to the interaction to define what the take-aways from the interactions were. Browsing, problem-solving and asking questions, which are different types of interactions, are not enabled differently. These could be optimized through tailored workflow paths that emerge from a single point of entry.

Patterns of interactions sometimes produce good results and sometimes they don't. People can repeat unproductive patterns as well as productive ones. Each meaningful interaction should show the type of result produced so that good patterns can be encouraged by the system – and so that new patterns can be identified when they emerge.

## Benefits

The AO model enables:

- o Expanded capacity, capabilities and reach
- o Continuous and just-in-time learning
- o Inspired innovation
- o Persistent relevance
- o Increased economic value
  - Customer, employee and partner loyalty

## Evolving operational efficiency

The AO environment enables many-to-many interactions and engages resources outside of its internal cost structure to contribute value. This nature of collaborative interaction produces a dramatic increase in capacity and capability when compared to the traditional models.

Resolutions of problems in most medium to high-complexity support organizations average less than 2 incidents a day per employee. In the AO models that we have studied at Novell and Microsoft, people are responding to hundreds of issues every month. There is well over a 10-fold greater capability to perform.

The results of the AO environment can be mapped against the traditional model of engaging customers to assess the difference in operating costs and value.

## Developing social capital

Social capital is the depth and value of the collective relationships with respect to their capacity to generate earnings. This includes retention and profitability of the relationships supported by the business. As economic models are being revisited by businesses today, the fundamental ability to generate profits is at the forefront. Profitability is driven by customers. In *Loyalty Rules* Frederick Riechheld makes an impressive case for the link between profitability, customer retention and relationships. By engaging customers within the enterprise's business processes, we are at once creating greater intimacy in the relationship and driving efficiency at an operational level. Relationships begin to drive efficiency and efficiency fuels the relationship.

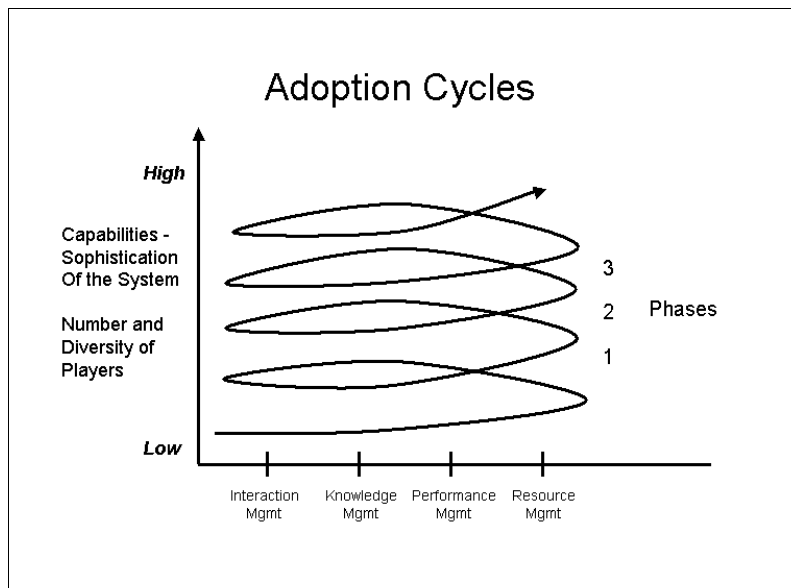
The value of social capital is quantifiable through market indices. The AO model can demonstrate market value to the business as an on-going business metric.

## Expanding market relevance

Regardless of the current success and depth of relationships across the community, the organization must be able to change and innovate. Patricia Seybold says in her book, *The Customer Revolution*, the enterprise must be "built to morph". Through the context layers in which knowledge is captured and the distillation process, Microsoft will be able to identify root causes of issues and make correlations between customer needs and the drivers of those needs – these fuel relevant, breakthrough technologies.

## Closing thoughts

The Adaptive Organization spirals through stages of evolution. While Knowledge Assets forms a basis for the other three elements they are all intertwined, one element can not stand alone. The players involved and the environment's capabilities increase with each iteration. The trick to implementing the AO model lies in finding place to start and having sufficient and complementary capabilities in each of the four dimensions and then cycling through a continuous improvement process to enrich the capabilities in each element.



**An Adaptive organization never stops organizing . . .  
. . . therefore it never stops to re-organize.**

A word of caution:

We know that some of what we have proposed here is wrong, we don't yet have enough operational experience to know which parts will need to be tuned or re-defined. The power of the Consortium's collective experience is in benefiting from each other's learning, this accelerates the evolution of the model and helps avoid wasted time pursuing dead ends that others have explored.

A word of optimism:

From our experience in developing the KCS model we also know that some of what we have outlined here is more right than we realize, for reasons we don't yet understand.

Getting things done:

We know that the benefits gained from the community approaches that are in place today are dramatic. However, most have been implemented as separate entities, not integrated with the business processes. They have been attached to the existing structures and are looked at in the context of traditional management practices. An AO environment is based on a new set of principles and practices, it is focused on the creation of intangible assets and embraces the power of the human spirit as the source of value in the new economy. The Adaptive Organization optimizes how value is produced; it is the way things get done today - in spite of the manufacturing based structures.

The journey continues:

AO is a frontier; the Consortium is the base camp from which the members are exploring the frontier. If you would like to be part of the exploration, we are always looking for a few good thinkers; a few brave scouts. Membership information is available at [www.serviceinnovation.org](http://www.serviceinnovation.org). Join us.

## **Acknowledgements**

While it is hard to identify all the contributors to the perspectives represented in the AO operational model, some stand out in their contribution.

Livia Wilson – Livia is the visionary and architect behind much of the AO work and she has contributed significantly to the creation of this document. Livia has nurtured and facilitated the Betty team since its inception. She is the founder and principal of OutSights Inc., a consulting organization focused on the development and implementation of leading edge practices to enable knowledge management and the AO model.

## Adaptive Organization – Operational Model

Novell and Microsoft have been unfaltering in their support of the work by consistently supporting the participation of their best and brightest in the development of the model as members of the Betty team. Additionally they have opened their doors to the Consortium staff and enable us to study and be part of their respective adoption programs. This has provided us with the opportunity to validate the framework and refine the model based on an operational perspective.

### The Betty team

Following is a list of those who have contributed to the evolution of this work. The dedication of these individuals to this work has been awesome and an inspiration to us on the staff. In some cases members of the team have taken vacation time and personally covered their travel expenses in order to stay involved. Fortunately this was the exception not the rule. The individuals are listed with the companies that supported their work on the team.

Peter Beatley – BancTec  
Greg Liverman – Compaq  
Tom Elwood - EMC  
Sarah Nunke – ePeople  
Elizabeth Goumas – eTranslate  
John Chmaj – Kanisa  
Russ Resslerhuber – Kanisa  
Tom McMail – Microsoft

Tom Ford – Microsoft  
Corey Heerrman – Microsoft  
Gig Griffith – Novell  
Lisa Manchester - Oracle  
Shelley Benton – Primus  
Bob DeBold – Primus  
Kartik Ramakrishnan – QUIQ  
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