ADAPTIVE SPACE

How GM and Other Companies Are Positively Disrupting Themselves and Transforming into Agile Organizations

MICHAEL J. ARENA, PH.D.

Chief Talent Officer of General Motors Corporation

FOREWORD BY BRAD ANDERSON, RETIRED CEO AND CHAIRMAN OF BEST BUY

More Praise for *Adaptive Space*

"With *Adaptive Space*, Arena masterfully takes us where few authors have been able to, seamlessly integrating research with application in some of the most respected organizations today. It is a rare treat to enjoy a profound point of view on innovation that is also actionable."

—Rob Cross, network expert and author of *Driving Results Through Social Networks*

"*Adaptive Space* provides an innovative and important look at what it really takes to drive innovation and performance in today's disruptive business environment. There is a lot to learn here."

—Josh Bersin, industry analyst and founder, Bersin by Deloitte

"*Adaptive Space* provides us with a modern-day cypher that unlocks the often elusive and increasingly important world of innovation and agility. The 4D Framework is simply brilliant. Arena seamlessly mixes deep social-science research with practical solutions into an intoxicating cocktail that goes down smooth while packing an intellectual punch."

—Greg Pryor, Vice President of Leadership and Organization Effectiveness at Workday

"*Adaptive Space* is a book that sheds a bright light on the hidden social interactions that exist within every organization. Using the mantra 'Adapt or Die,' Arena crisply articulates how an organization can positively disrupt itself by enabling adaptive space and facilitating innovative interactions. With vivid examples and a straight forward approach this book is a must-read for everyone from executives to individual contributors."

—Joseph Folkman, coauthor of *The Extraordinary Leader* and *The Inspiring Leader*

"A company doesn't survive over a hundred years without being adaptive. GM is a great illustration of a company in transition yet again. Arena's book tells how it and other companies are embracing new ideas, new technologies, and new business models. Your company needs to do the same."

—Thomas H. Davenport, Distinguished Professor, Babson College; Fellow, MIT Initiative on the Digital Economy

"Innovation is a social endeavor. *Adaptive Space* outlines four different network dimensions to unleash the adaptive potential of an organization, and highlights five principles to enable agility in a rapidly changing world."

—Kenneth Freeman, Dean at Boston University Questrom School of Business

"Every organization and every business function must answer the question: How do I become more agile? *Adaptive Space* is a fascinating look at how General Motors and other companies are rewriting the rules of business so they can proactively disrupt themselves. Brimming with research and practical experience, Michael Arena is challenging all of us to disrupt or be disrupted! Drop what you are reading now and make this a must-read for your entire team!"

—Jeanne C. Meister, coauthor, *The Future Workplace Experience*

"This book should be on the device of anyone who needs to accelerate and scale agility in large organizations. Michael has masterfully articulated years of experience and results in building agile organizations, and wrapped them in contemporary and futuristic cases and examples. *Adaptive Space* brings clarity to essential principles of continuous organization adaptability amid disruption."

—Roger L. Cude, Senior Vice President, Human Resources, Humana, Inc.

"It is rare when science discovers a simple concept such as critical connections. They are so practically powerful that they resolve the most pressing challenge of our time. *Adaptive Space* will be at the center of business conversations for the next decade."

—Robert Quinn, author of bestselling *Deep Change*

"Michael Arena is what I call a 'practitioner thought-leader.' He personally embodies 'Adaptive Space' and has a gift that allows him to clearly synthesize theory and practice and have this fusion make sense to us mere mortals. I highly recommend *Adaptive Space*. . . . It's a groundbreaking book that provides a compelling framework and a set of practical tools for creating an agile organization."

—Michael Dulworth, CEO of Executive Networks, Inc.;
Founder/Chairman of Flerish, Inc.; and author of *The Connect Effect*

"Benjamin Franklin wrote, 'Look before, or you will find yourself behind,' while Russell L. Ackoff wrote an important book entitled *Creating the Corporate Future: Plan or Be Planned For*. In *Adaptive Space*, Michael Arena conveys that 'looking' and 'planning' are not enough. He argues you must also change the game. You must positively disrupt or be disrupted."

—Alan Barstow, Director of Organizational Dynamics
Program at the University of Pennsylvania

"An engaging and accessible book that combines practical experience with scientific knowledge to yield deep insights into positive organizational transformation. Written by an expert practitioner of the art, *Adaptive Space* shows you how to tap the invisible network of brokers, connectors, positive energizers, and challengers to disrupt your industry and come out on top."

—Wayne Baker, Robert P. Thome Professor of Business Administration,
University of Michigan Ross School of Business

"Most people sense that we live in the most intense time of change in the history of our species—and they're right. Those same people nearly always sense that their own organizations are changing way too slowly. They're right about that too. And it's scary.

"Now Michael Arena mines the remarkable transformation at GM led by Mary Barra to show the rest of us the key mechanisms and principles that make bold change easier, faster, more reliable, and more robust. His insights about *Adaptive Space* help you move transformation from a vague hope to a practical reality. Read it. Use his concepts. Shift from being afraid of the future to getting it to show up somewhat ahead of its regularly scheduled arrival."

—Larry Keeley, innovation expert, Doblin

"*Adaptive Space* is a terrific achievement. Arena's book creates a very simple model that leaders of innovation can use. The book delivers tactics for leaders to help teams innovate, as well as guidance on creating the more subtle and important social connections that a leader must both be building and attuned to in their organizations."

—Perry Klebahn, Adjunct Professor, Mechanical Engineering,
(the d.school) Stanford University

"Michael Arena's *Adaptive Space* is an important book on a critical issue for many organizations. His firsthand knowledge of GM combined with extensive research provides relevant, accessible, and thought-provoking insights and is a must-read for anyone struggling to increase the speed and agility of their organization."

—David Gillespie, Partner, Oliver Wyman Group

"*Adaptive Space* takes agility and innovation to the next level. This is the future. Actually this is how companies should be managing now. It truly is a must-read for business leaders, from the CEO to the line leader to the HR professional, in all industries."

—Cynthia J. Brinkley, President and Chief Operating Officer, Centene Corporation

"Adaptability has never been more critical, and this book takes a practical look at what it takes to build that capability in your organization."

—Adam Grant, *New York Times* bestselling author of *Give and Take,*
Originals, and *Option B* with Sheryl Sandberg

"I have known, and coached, for years that relationships are essential to organizational success. *Adaptive Space* will help you elevate this understanding to a whole new level by masterfully articulating how specific network connections facilitate innovation and agility. This book is an essential read for anyone who's business is facing disruption."

—Keith Ferrazzi, *New York Times* #1 bestselling author of
Who's Got Your Back and *Never Eat Alone*

"*Adaptive Space* is the best book I've read about what it takes for big organizations to innovate as a way of life. Michael Arena blends rigorous research, success and failure stories, and his experience as a senior executive to show how to build companies where people uncover and weave together the best ideas, challenge conventional thinking and methods, and develop promising innovations in focused and energized teams. Even better than that, Arena shows how companies can keep releasing new and better offerings into the marketplace—rather than developing promising innovations that are crushed by dysfunctional people and internal politics."

—Robert Sutton, Stanford professor and author of bestsellers including *Scaling Up Excellence* and *Good Boss, Bad Boss*

"Perfectly stated by Michael Arena, 'In today's rapidly changing environment, lack of agility is the kiss of death.' *Adaptive Space* gives real insight into how mammoth companies such as General Motors were able to disrupt their strategy paradigm to thrive in a rapidly changing marketplace. His insights are based on extensive research, as well as real-life, roll-up-your-sleeves work experiences. A great read for leaders looking to disrupt and innovate."

—Melissa Howell, Senior Vice President, Global Human Resources, Kellogg Company

"Over the past few years, networks have changed the way we live our lives. Arena makes a compelling argument about how they are also radically altering organizational practices. *Adaptive Space* reveals the power of networks in generating, sharing, and scaling ideas. It is a must-read."

—Alex "Sandy" Pentland, Director of Human Dynamics Laboratory within the MIT Media Lab and author of *Social Physics*

"Reading this book is like swapping out an old, scratched, dirty pair of glasses that once saw hierarchies for an entirely new set of lenses that make both visible and actionable the radically, positively disruptive power of networks."

—Chris Ernst, PhD, Head of People and Organization Potential, Bill & Melinda Gates Foundation

"Incisive and immediately impactful! Michael Arena's book is that rare gem, applying sharp analytical insights from state-of-the-art science to some of the most pressing managerial and organizational issues of the day. Delivered in highly lucid prose with a heavy dose of practicality, digesting this book will enhance every executive's knowledge base and toolkit."

—Glenn R. Carroll, Laurence W. Lane Professor of Organizations, Stanford Graduate School of Business

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"Speed, agility, and responsiveness are the keys to future success."

Anita Roddick

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Foreword

I wonder if this story resonates with you. The organization you work for is producing some of the best products and services it ever has, and it is doing so far more efficiently. At the same time, revenues look great and profits are solid. Yet the company can't seem to attract new customers. And when you look out on the horizon, you see an array of non-traditional competitors flocking into your space, threatening to bring to market products and services that challenge your very core. This is my story as CEO at Best Buy.

My experience at Best Buy is an example of what nearly every organization faces today. In a dramatically changing world, we are all poised for disruption. Yet, if you run one of these companies, it's not an awareness problem; you're a skilled, intelligent leader and you can see these challenges out on the horizon. However, when you try to steer the organization in response to these challenges, it's like you're trying to steer an ocean liner, while the would-be disruptors are swiftly navigating the whitewaters in an agile manner.

Since retiring from Best Buy, I have served on several boards, both public and private, for profit and nonprofit. These institutions cover a wide range of fields, including medicine, food, entertainment and media, and waste management. However, they all seem to have one thing in common. They too have

an array of would-be disruptors lurking out on the horizon. It seems to be a universal challenge these days.

The reason leaders feel like they are steering an ocean liner is due to their organizational structure and culture. Their very company was built for the industrial age and we are now operating in the digital world. The challenges have been well chronicled in books like *Built to Last* and *Creative Destruction*. Yet, the solutions are not so easily found.

When I was at Best Buy, I found that people deep in the organization, that is, in the stores, had more relevant and better ideas and solutions than I had as CEO. I could illustrate this with countless examples if this weren't a foreword to a book! The core reasons why they had better ideas are easy to understand. First, they were closer to the customer. They were on the edge. They had grown up using the digital tools, which I had to learn to use as an adult. They had immediate access to almost any information on their phones that I had to wait to get in the boardroom. And they had different life experiences and skill sets. So the solution would seem obvious: use their insight to run the company. The methodology to do that is not so obvious. If you can solve this puzzle, not only are you going to be working with better ideas, but the employee who is engaged in the process of reinventing the company is going to have a much more fulfilling work experience, while helping to attract new customers.

For nearly a decade, I've worked with a team of academic researchers, organizational leaders, and skilled practitioners that have empirically researched this challenge with the intention of creating practical solutions that could be used within any organization. Michael Arena, a core member of this team, along with his compatriots at General Motors, have produced

a breakthrough methodology which can be used to solve this puzzle. They extend beyond chronicling the challenge and have moved into solving it. The methodology of *Adaptive Space* provides the insight and tools that can be used to bring almost any idea to life, even in long-standing enterprises that need fundamental adaptation.

You don't have to be the CEO of a company to apply these methods. As a matter of fact, you might have an advantage in terms of using these tools and principles if you're not at the top of the organization. If you want to grow your career and facilitate meaningful impact, I suggest you try this wherever you are today. See if you can positively disrupt your organization into a more agile organization, much like General Motors has.

Brad Anderson
Retired CEO and Chairman of Best Buy

Uncovering the Power of Networks

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The Need for Adaptive Space

You've got to disrupt or be disrupted.

—John Chambers of Cisco

Organizations are under assault. If they don't adapt, they will die. We see this happening all around us. We are in a time of tremendous transformation, unlike anything we have seen in over a century. In this environment we need to do something that most of us have not been trained to do and our organizations have not been designed for: we must learn to adapt. As John Chambers, executive chairman of Cisco, says: "If you don't reinvent yourself, change your organization structure; if you don't talk about speed of innovation—you're going to get disrupted. And it'll be a brutal disruption, where the majority of companies will not exist in a meaningful way 10 to 15 years from now."[1]

The inability to adapt or to even recognize the need to do so is what brought companies like Blockbuster down. When Marc Randolph and Reed Hastings had the idea to start Netflix,

Blockbuster was the major player. Blockbuster had a lock on the market, and its leaders were satisfied with how things were working. But Randolph and Hastings were entrepreneurs. They didn't like that if you wanted to rent a movie you had to drive to Blockbuster, hope the video you wanted was available, and then rush to return it to avoid exorbitant late fees. Instead they imagined allowing customers to order a movie online, receive a DVD in the mail, and return it at their convenience, *with no late fee*. With this idea they launched Netflix in 1997.[2]

Blockbuster responded as many organizations do: it ignored Netflix. Executives continued to focus on their core business and never imagined that it could go away. Even worse, when Reed Hastings flew to Dallas in 1990 to propose a partnership between Blockbuster and Netflix, Blockbuster executives laughed him out of the room. Their CEO, John Antioco, was considered a retail genius, known for his operational acumen and long history of success. His model for Blockbuster was working brilliantly, and he and his team couldn't imagine sharing the brand they had worked so hard to build.

In the end, Netflix was the dominant player and Blockbuster was in bankruptcy.

Positively Disrupt or Be Disrupted

Netflix beat Blockbuster for one simple reason: it was agile. Contrary to Blockbuster, Netflix embraced the mantra "You've got to disrupt or be disrupted." And that meant not only staying ahead of the game, but also *changing* it.

From the beginning, Netflix executives continually read market conditions and showed the willingness to take bold moves.

The original idea of a pure rental-by-mail service allowed them to get off the ground, but as demands changed, they changed along with them. Seeing that the pure mail service was having limited success, they morphed to a more radical approach, a subscription-based model. The new approach was launched on September 23, 1999, with a free month trial, and the response was overwhelming. Less than 20 percent of the subscribers canceled after the trial period, and Netflix grew to one million subscribers by 2003. Blockbuster responded with its own online service in 2004, but it was too little, too late. Netflix continued to adapt by moving into streaming video in 2007. However, that created new challenges. As Netflix quickly discovered, the cost structures and value propositions for mail versus streaming were creating inefficiencies and a lack of focus. It needed another solution.

This came in a bold move in 2010: the announcement of a split in the video streaming and DVD-by-mail businesses. Like all bold moves, this was a risk, and the result wasn't desirable. Rather than being embraced, the split was widely criticized by customers, and higher prices made things worse, leading to widespread customer dissatisfaction. Recognizing the mistake, Netflix decided to shelve the plan and continue operating through a single website, but the company didn't give up. It quietly pursued the transition into streaming video, and by 2016 it had successfully rebranded the DVD-by-mail service into DVD.com, a Netflix company.

Shocking the entertainment industry, Netflix changed the game once again when it plunged into original content. In 2013 it released its first original television series, *House of Cards*, offering the entire season upon release to satisfy customer demand for binge viewing. Nominated for an astounding nine Emmy

awards, *House of Cards* was a phenomenal success—rivaling the best that traditional television had to offer. Its victory with viewers was repeated with *Orange Is the New Black*, *Luke Cage*, *Stranger Things*, and *13 Reasons Why*. As a result, the company is no longer just a streaming service. Its expansion to millions of consumers around the world has now made it a dominant player in the entertainment industry.

The secret behind Netflix's success was its ability to be agile, positively disrupting before being disrupted by others—that is, taking an iterative approach and acting swiftly to proactively change the game. Netflix had the willingness and capability to explore, move quickly, and then adapt when needed to engage in future possibilities. In the words of Reed Hastings:

> *Most companies that are great at something—like AOL dialup or Borders bookstores—do not become great at new things people want (streaming for us) because they are afraid to hurt their initial business. Eventually these companies realize their error of not focusing enough on the new thing, and then the company fights desperately and hopelessly to recover. Companies rarely die from moving too fast, and they frequently die from moving too slowly.[3]*

The Need for Agility

In today's rapidly changing environments, lack of agility is the kiss of death. A study from Washington University shows that an estimated 40 percent of today's S&P 500 companies will no longer exist a decade from now.[4] According to *Innosight*, the average tenure on the S&P 500 will shrink to 14 years in the

next decade, down from 33 years in 1965.[5] Indeed, we have seen this phenomenon bear out in the demise of behemoth companies such as Eastman Kodak, Yahoo, Motorola, and Research In Motion (BlackBerry) and the woeful diminishment of Sears.

Potential disruptors are everywhere. Knowledge workers are being displaced by advanced technology and artificial intelligence that is changing the nature of their professions. Free calling apps are challenging telecom, financial services are being put at risk with free trading platforms, and automotive companies are being pressured by ride-sharing companies like Uber and Lyft. Even technology darlings like Twitter have experienced the attack as new, fresher platforms like Snapchat and Instagram gain popularity. The extent of the devastation is currently playing out in the retail sector. Once-prominent retailers, such as Barnes & Noble, JC Penney, and Office Depot, are clinging to life while Amazon is thriving—swallowing up market share and driving unprecedented revenue growth by continually extending and shifting into new areas of business.

The key refrains are "we are operating in a radically changing world," and "we are not equipped to respond to it." We know we must do something different, but what? We see people working as hard as they can, using what they have been taught to do, and yet no longer getting the results they want. We see companies struggling to change but not able to keep up with the constant disruptions being thrown at them.

What has been missing until now is an understanding of what the winners are doing and how they are managing. How are companies like Netflix able to succeed by positively disrupting while companies like Blockbuster go down? And can Netflix's success be replicated in large, established organizations with pressing demands for short-term success from shareholders?

The answer is a resounding yes, but it takes a new way of thinking about what it means to generate results. Results are not only about current success; they are also about future success. And that requires forward thinking and a great deal of agility.

That is the focus of this book. *Adaptive Space* helps companies see how they can enhance agility in a complex world. Based on a decade of research and my personal experience as the chief talent officer at General Motors, it will reveal how companies like GM are now aggressively positioning themselves for inevitable disruptions, such as the oncoming mobility revolution, while at the same time driving daily performance by shipping trucks out the back door. It will reveal how organizations like IBM and Amazon have continually reinvented themselves through proactively responding to potential disruptions, and it will look at how companies like Pixar and W.L. Gore and Associates have enabled agility.

The insights offered in this book come from a decade-long research practice partnership in which a core research team set out to understand why some organizations succeed at adapting in a radically changing world and others do not. After hundreds of interviews and the intensive study of dozens of organizations spanning a variety of industries, the discoveries were surprising even to the research team (see Research Summary at the back of this book). The key to success in today's disruptive environment is enabling agility through a concept named Adaptive Space.

Positively Disrupting Through Adaptive Space

Adaptive Space is, quite simply, the freedom for ideas to flow into and throughout an organization. It operates as a sort of free

trade zone for ideas within large complex organizations. Adaptive Space can be thought of as the relational, emotional, and sometimes physical space necessary for people to freely explore, exchange, and debate ideas. It involves opening up connections for people, ideas, information, and resources to come together and interact in ways that enhance organizational agility. Adaptive Space enables organizations to be positively disruptive so they can control their own destiny before someone else does. It facilitates the connections necessary to provide a social bridge to transport ideas from entrepreneurial pockets found throughout the organization into the more formal operational system.

Sociologist Ray Oldenburg pioneered the concept of a "third place."[6] He argued that the "first place" for individuals is their home and the "second place" is the office. The "third place" however is a café, coffee shop, church, community center, parlor, or other hangout. Oldenburg argues that third places are important for civil society, democracy, and social engagement. They provide people with a sense of connectivity and facilitate and foster broader, more creative interactions. A "third place" is crucial for expression, connection, and growth. It operates as a free trade zone. Adaptive Space functions like a "third place" within organizations. Organizations are driven by the operational system that drives formality, standardization, and business performance. They are also represented by many local groups, often acting as entrepreneurial pockets that strive for greater innovation, learning, and growth. However, not all organizations have a third element, Adaptive Space. Adaptive Space works at the intersection of the operational system and entrepreneurial pockets within an organization (Figure 1.1). It provides the connections necessary to facilitate and foster broader, more creative interactions.

FIGURE 1.1 Adaptive Space Model
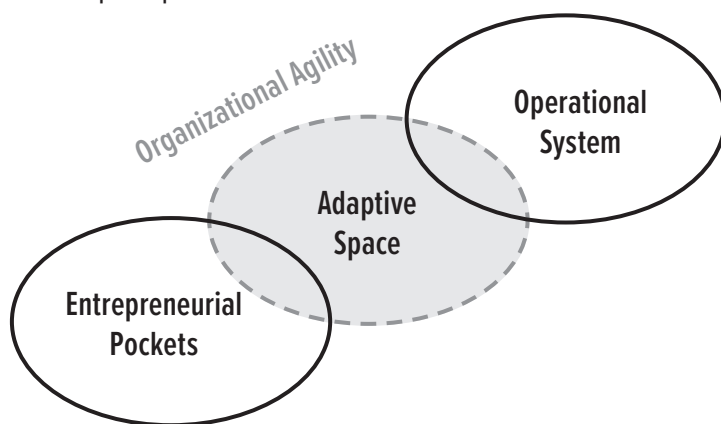
Adaptive Space is like Oldenberg's "third place": it provides the emotional freedom for individuals to openly express themselves and engage in creative endeavors. It offers the autonomy necessary for employees to navigate throughout and beyond the organizational boundaries to explore. Adaptive Space encourages employees to pursue their passions and engage in creative interactions beyond the confines of their local groups, following their hunches with the intent of generating future organizational benefit. It provides the relational freedom for individuals to proactively build broad-based relationships before they are needed. Adaptive Space also challenges leaders to deliberately facilitate interconnectivity from pocket to pocket. It encourages them to open up free trade zones, so that the organization is more prepared to respond to external pressures. When people are free to openly exchange, new possibilities arise.

Although this might sound simple, it is arguably one of the most complex and greatest challenges facing leaders and

organizations today. Most organizations are designed to facilitate, motivate, or constrain an individual's behavior toward driving its core purpose. This was a successful strategy when organizations were operating in relatively stable environments. However, in today's dynamic environment, organizations need to be more liquid than static. Yet many organizations stubbornly cling to outdated control models that will eventually lead to their demise.

From an intuitive perspective, organizations can't help themselves. They have been designed to drive operational efficiencies, and their purpose is to manage, coordinate, and control activities. Although times have changed dramatically, many organizations have failed to follow suit. Instead, they have doubled down on the creation of advanced operational systems, focusing intensely on data, analytics, and automated systems that strive for greater order and efficiency over adaptation and creativity. They have perfected operations at the expense of agility.

In contrast, agile organizations are doing something different. They recognize the need for both internal entrepreneurial activity and short-term operational efficiencies. They know that the key lies in the tension between the two: agility is generated in the tension between pressures to adapt and pressures to produce. This is where Adaptive Space comes into play. Adaptive Space creates connections that serve to discover, develop, and diffuse new ideas across an organization. Agile organizations encourage individuals to morph and modify original ideas, much in the same manner that Netflix did by ensuring critical connections were established both within and outside of the organization. These connections ensure a constant flow of new learning, strategies, and solutions in response to emerging organizational challenges. Adaptive Space enables organizations to become more agile.

Adaptive Space helps organizations gather and distribute information in ways that promote positive disruption in order to enable organizational agility—that is, to proactively disrupt themselves in anticipation of external pressures. It encourages the interplay of entrepreneurial and operational capabilities. They must be connected. One without the other causes the system to fall out of sync: too much attention on the entrepreneurial can generate ideas that cannot be converted to results; too much focus on results can lead to a loss of innovation. Adaptive Space overcomes these problems by nurturing and protecting entrepreneurial initiatives in the face of stifling operational forces. It creates conditions for entrepreneurial ideas to trigger and develop and loosens up the operational system to make it more accommodating of changes coming from entrepreneurial pockets.

We can see this in the case of Netflix and Blockbuster. Netflix clearly had Adaptive Space that allowed ideas to trigger and flow into adaptive outcomes. Its leaders were able to take entrepreneurial ideas—at first from Randolph and Hastings but later from the broader organization—and figure out ways to develop and scale them into the operational system to increase agility. In some cases this worked smoothly, such as the move into original content. In other cases there were bumps, such as when the addition of streaming led to operational inefficiencies and customer dissatisfaction. But the decision makers did not consider this a failure that forced them to return to the previous order. Instead they learned from their mistakes. They responded by fixing the operational problems and continued to use Adaptive Space to find ways to accomplish what they knew to be the most agile strategy.

Blockbuster took a very different approach. The company did not have Adaptive Space. Instead it focused on the ability

of the operational system in generating short-term results. Any innovation was incremental and positioned in the context of the current operating environment. More important, its executives never considered how an entrepreneurial idea could combine with their operational expertise to generate agility. Indeed, when Hastings brought them an entrepreneurial idea, they quickly rejected it. Because they were not able to think beyond their current success or strategy, Blockbuster decision makers overlooked the flaw that ultimately brought them down: over-reliance on the late fees that constituted a large part of their revenue stream. As described by Greg Satell in *Forbes*: "The ugly truth—and the company's Achilles' heel—was that the company's profits were highly dependent on penalizing its patrons."[7] When Netflix offered an alternative, and word spread about the more convenient way to rent movies, customers flocked to its new operating model. In short, Netflix's agility disrupted Block-buster's rigidity.

Playing in the Pressures

Adaptive Space is the secret behind the success of highly agile organizations. Like Netflix, these organizations generate both future innovations and current results. They do this through Adaptive Space.

Agility is critical for survival in changing environments. Organizations that are not agile in response to their environment are poised to be disrupted. While they might continue to produce in the short run, they will not survive over time. Agility is the key to Netflix's transformation from a focus on DVD-by-mail to streaming to a provider of original content. As the

environment shifted, Netflix positively disrupted itself by pro-actively moving. It succeeded by "playing in the pressures."

Enabling Adaptive Space and responding effectively to environmental pressures is not easy. Generally organizations, like Blockbuster, are much more prone to shutting Adaptive Space down rather than opening it up because they don't like the ambiguity naturally associated with shifting toward new possibilities. They would much rather maintain a limited amount of control over the current realities, even if it is shortsighted. Organizations and leaders that are good at enabling Adaptive Space, however, know that pressures are needed to loosen these otherwise rigid systems for change. They "play in the pressures" by leveraging the encountered difficulties to enable Adaptive Space. That is, they create connections to seek out the opportunities associated with inevitable disruptions. This is exactly what is happening at General Motors (GM) under Mary Barra. Barra, GM's CEO, knows that the pressures facing the automobile industry are disruptive. Therefore she is "playing in the pressures" to help GM "positively disrupt before being disrupted."

To do this, Barra and her team are taking bold actions to enable Adaptive Space and facilitate organizational agility. Like all automotive companies, GM is facing increasing demands and pressures from its environment, threatening the industry as we know it. These demands are arising from a combination of forces coming from the convergence of shared mobility, emerging technologies, hyperconnectivity, and new business models. The changes are expected to expand the total revenue pool of the industry significantly over the next decade, with advancement in on-demand mobility and data-driven services as the primary impetus. The disruptors are already positioning themselves, with tech giants like Google, Apple, and Intel

flocking in for their share of the revenue pool. Ride-sharing businesses like Uber are transforming the automobile from a consumer product to a service platform, while electric vehicle advancements and autonomous technology are ushering in a revolution toward self-driving vehicles that will change mobility forever.

In an attempt to break the incumbent paradigm, GM has taken bold actions, activating Adaptive Space around multiple entrepreneurial pockets to get ahead of the mobility disruptors. First GM invested a half-billion dollars in Lyft, the ride-sharing rival to Uber. A month after that, GM bought a Silicon Valley start-up, Cruise Automation, to catapult forward on the autonomous vehicle frontier. The company then unveiled the Chevy Bolt, the industry's first affordable long-range electric vehicle. Following this, GM launched its own car-sharing platform, Maven, to compete in the urban mobility space and aggressively scaled it in the first 12 months of operation.[8] Each of these activities alone is critical, but it is the Adaptive Space that surrounds them that has the potential to help GM positively disrupt itself. That is, it will be the way people, ideas, information, and resources come together and interact across these pockets that will enhance organizational agility.

Although each of these activities helped position GM for success on the new entrepreneurial frontier, perhaps the company's boldest moves were completed within its operations space. Moving away from unprofitable or unpromising businesses indicates the automotive giant's willingness to shrink a company that once prided itself on being the industry's largest and has helped loosen operational systems to become more agile. GM made critical strategic decisions in the legacy business to free up the resources to invest in the high-tech future

of mobility. For example, in 2015 Russia showed no sign of improving sales as an emerging automotive market, and amidst the collapse of the Russian ruble, escalating interest rates, and deepening political turmoil, General Motors did the unthinkable: although GM owned 9 percent of the country's market share, the company announced it would stop selling vehicles in the Russian market and indefinitely idle the six-year-old plant in St. Petersburg.

In 2017 the company made an even bolder move in selling off its entire European business, Opel Vauxhall, which had lost nearly $20 billion over the previous two decades.[9] This was part of GM's effort to scrutinize investments on a case-by-case basis. The goal was to identify any operations that didn't have a significant chance of being a dominant player with sustained profitability and redeploy resources into the future of mobility. This led to other decisions in international markets. For example, in 2017 GM also declared that it would exit the India market. Despite India being projected to become the world's third-largest auto market, GM was having difficulty turning a profit there. GM also announced that it would pull entirely out of South Africa, selling its manufacturing operations to Isuzu Motors. In a statement about the move, Barra said, "We are committed to deploying capital to higher-return initiatives that will enable us to lead in our core business and in the future of personal mobility."[10] Barra and GM are thus investing in a multitude of entrepreneurial activities and freeing up critical operational resources to open up Adaptive Space. The company has demonstrated the discipline necessary to become more agile by shedding unprofitable businesses to become more fluid and responsive. GM recognized that these legacy businesses would consume resources and limit agility. However, GM's ultimate

success within the emerging high-tech mobility frontier will be determined at the interface of these entrepreneurial pockets and their operational system, within its Adaptive Space. Adaptive Space is where the potential to enable ongoing idea discovery, development, and diffusion across the organization can be found. In the end, triumph is not about the strategic bets placed. It is about enabling social connections for Adaptive Space.

4D Connections of Adaptive Space

Unlike traditional organizations that rely predominantly on human capital strategies for innovation and growth, Adaptive Space leans on social capital strategies. Human capital represents the talent, experiences, and competencies that are present within an organization. Social capital can be thought of as the competitive advantage that is created based on the way an individual is connected to others. It represents the relationships and interactions within an organization. Therefore, human capital is about what someone knows, while social capital is about how well someone is positioned to leverage what he or she knows. Both are essential, yet organizations have overemphasized the former at the expense of the latter. Consider an analogy from physics. You may recall that particles and waves are two properties of the same thing. For example, with light we have photons and we have the flow of photons respectively. A particle has specific mass, volume, and density, while a wave has velocity and frequency characteristics. Both particles and waves are important, but traditionally, only one could be evaluated at any given point in time. The same is true of human and social capital. Both of these are critical in organizations, but up until now

we have only measured and evaluated human capital. Adaptive Space challenges us to see the complementary value of both. As with particles and waves, one provides potential and the other velocity. Human capital provides organizations with the intellectual capacity or potential to drive change, while social capital focuses on deliberately positioning this capacity so that it can be swiftly leveraged. By opening up Adaptive Space, organizations are able to tap into existing intellectual capacity, while also moving with speed. They are able to increase the velocity of idea flow into and across the firm, therefore increasing agility. Most organizations don't suffer from a deficit of ideas or human capital potential. They just need to create more deliberate connections. Organizations need to focus on the flow of these ideas by paying more attention to the waves that are being generated on the social front.

Adaptive Space works by facilitating connections to enable information flow for the discovery, development, diffusion, and disruption needed for organizations to innovate and adapt. Let's call these the 4D connections of Adaptive Space. Discovery and development connections are represented by an individual's network position as either a broker or connector, while diffusion and disruption connections represent the emotional shift in energy within a network facilitated by either energizers or challengers. Together, the 4D connections provide the velocity necessary to allow innovative ideas and operational constraints to collide and combine and form novel solutions and outcomes that respond to pressures from the environment. Adaptive Space thus acts as a conduit to more fully leverage social capital and actively transport ideas from the entrepreneurial pockets throughout the organization into the operational system by enabling 4D connections.

1. Discovery Connections

Adaptive Space fosters connections that trigger novel ideas, new insights, and learning that lead to adaptation. The discovery process is often inhibited by siloed structures that limit access to new insights. Deliberate interactions open up access to generate novel ideas. Adaptive Space encourages individuals to navigate beyond their local subgroups and follow their innate curiosity to explore.

Brokerage is key. Brokerage facilitates the discovery process through the generation of creativity and the flow of novel ideas. Brokerage represents the bridge connections between groups. It occurs as individuals act as links from one group to another. The result is a generative conduit of fresh ideas and information that increase the probability for adaptation. In one organization the research team studied, this was accomplished using open forum "pitch days" that allowed any individual to secure a 10-minute slot and present a transformative idea to a cross-functional panel of leaders. If their idea was selected, participants were encouraged to recruit an ad hoc team of colleagues with diverse perspectives to continue the discovery process and flesh out the broader concept.

Brokerage triggers the emergence of new insights at the intersection of existing groups. As heterogeneous groups interact, new insights and discoveries emerge. These interactions provide the thought diversity and ideological variety needed to spark creative thinking. When everyone thinks the same way, it is hard to identify alternative approaches to existing ways of operating. Brokerage provides discovery connections in which people, information, resources, and technology can link up and generate novelty, innovation, learning, and growth for an organization.

2. Development Connections

Adaptive Space also enables connections within local teams to facilitate idea enhancement. Individuals limited to cohesive subgroups are less likely to come up with bold ideas, but they are highly proficient at developing ideas. Isolated discovery is inadequate without further development and application. Ideas alone are cheap—to be useful they need to be socialized, developed, and applied. This is where development connections are so critical. Local entrepreneurial groups are more likely to have higher cohesion, meaning they are more likely to have individuals who are connected to one another. Therefore they provide a more appropriate context for idea elaboration and refinement.

Research shows that cohesive groups typically demonstrate higher levels of trust and are able to quickly share information across the group. This makes them ideal for the processes needed to develop, refine, and elaborate novel ideas in ways that make them more amenable to scaling. In particular, high levels of trust within cohesive groups facilitated positive affect, learning, and risk taking—all considered to be crucial components of creativity and development. Ideas socialized in cohesive subgroups are more likely to be accepted and ultimately applied because they can be shared more easily, and local application appears to enrich early learning and enable continuous enhancement through multiple iterations. In a large technology organization we researched, local teams were encouraged to build prototypes of ideas they had considered throughout the week. On Friday afternoons, the groups would then hold tryout sessions to test these new prototypes with each other. The most successful ones would be tested repeatedly during the following week. Then the refinements were shared once again the following Friday. The

result was a steady flow of new products and services locally. Development connections provide a climate to get things implemented locally.

3. Diffusion Connections

Adaptive Space enables interactions to move concepts from development across the broader organization to enable broader diffusion. These connections facilitate a linking-up process in which ideas move beyond local development into the broader organization to aggregate for scaling. Local implementation provides only limited value to the broader enterprise. Cohesive subgroups that are isolated from other groups are more likely to have their ideas dismissed by the broader organization. Moreover, although cohesive groups work well at implementing incremental changes, they are far more limited in promoting bold change. This is because individuals within a cohesive group are less likely to trade off their status within the network for risky ideas. Fortunately, Adaptive Space enables diffusion connections to advance ideas beyond local networks so they can flow easily into the broader organization.

Adaptive Space helps drive diffusion by engaging network energy. People in the network who are energizers amplify ideas across the organization because they are also motivators. They have a unique ability to attract others to an initiative and convince them to take action—people seek out energizers for information. The energy generated then motivates others to engage in interactions and devote more discretionary time or resources to an initiative. Energizers, often in partnership with brokers, thus enable new possibilities by integrating different expertise or backgrounds.

Furthermore, high-energy networks create positive connections that enable ideas and concepts to spread quickly. We saw evidence of this in a large medical devices company we studied. The company had assembled a powerhouse of superstars into a centralized innovation team to disrupt itself from within. A team of nearly 30 high-skilled individuals gathered daily to build new concepts and business models. They even engaged the device users through design thinking and prototype testing. The result after three years of existence was zero commercial products. Management had no choice but to disband the team and redeploy the resources throughout the broader organization. Then something remarkable happened. The very same concepts that had been created by the central team started to gain internal traction. It turns out these individuals didn't lose their conviction about reinventing the organization from within when the team dissolved. Instead they continued informally. What was different, however, was that they now had broader access to the resources and promotional energy necessary to get their ideas diffused. The outcome was a set of bold new products introduced to the market.

4. Disruption Connections

Adaptive Space enables connections to overcome the stifling effects of formal structure and facilitates network closure—that is, the spreading of an idea through an organization where key influencers are more likely to hear about it. Formalization is the final step in agility, representing the endorsement of new solutions into the formal operational system. This can also be the hardest stage. Within traditional organizational structures and processes, formal leaders can act as a roadblock for new ideas and innovation. This should not be a surprise. The very nature

of their role is to make strategic decisions about resource optimization—and as a result they are inundated with numerous ideas and suggestions daily, creating a natural propensity to be conservative. Because managers are not able to provide a favorable response to all of these requests (even the solid ideas), positive network buzz and more fully developed concepts become critical in determining which ideas get selected for implementation. This is the power of challenger interactions. Challengers disrupt existing structures to enable the ongoing consideration of new ideas.

Consider one of the many examples from our research study. Two financial service companies were in the midst of a major integration. The acquired company was much smaller than its parent organization and was known for its entrepreneurial spirit. The company encouraged active participation from its employees and operated as a tightly knit, family-like team. It had enjoyed tremendous success through a series of innovative products that were quickly introduced to the market. In contrast, the much larger parent company was a disciplined machine with a highly focused operational system. At first glance, the marriage felt like a disaster to the smaller entrepreneurial company. However, over time the disruptive interactions began to loosen up the power structures of the larger parent company. By deploying Adaptive Space, a series of local successes from the smaller company were morphed and modified so they would be considered for additional product lines by the parent company and then scaled across a vastly larger distribution channel. What initially seemed like a marriage doomed for failure ultimately became a catalyst for a series of resounding market successes.

Ideas that have been developed and iterated through pressure testing against critical risks are more likely to be supported by the operational system. It is rarely a wise thing to pitch an

idea blindly to a leader. The formalization process is as much a social phenomenon as it is a business decision. Therefore, if an individual pitches an idea that has not generated social momentum, it is less likely to be considered. Network closure is thus another connection that enables both disruption and acceptance. Network closure is the closing in around a potential sponsor of information flowing across multiple networks. When it occurs, individuals begin to hear information from multiple sources, increasing the potential for the idea to attract notice, be heard, and gain support. Gossip, social ownership of an idea, and network closure allows ideas to amplify and spread, ultimately creating network buzz that can positively influence an operational leader to make the decision for formal endorsement.

Together, the 4D connections act as the fuel for agility. Adaptive Space can therefore be thought of as social interconnectivity that facilitates the active interplay of discovery, development, diffusion, and disruption. Perhaps it is best described as an organizational playground, much like that at a school recess. Children charge out from the various cohesive classrooms of study—mathematics, social studies, or art class—and engage in creative exchanges. Driven by energy and interest, children participate in semi-structured activities such as kickball, hopscotch, tag, or just good old-fashioned gossip. These interactions result in brokerage exchanges of children that come from the bridging of classroom clusters. The playground provides an opportunity for connecting based on common interest and passions. These exchanges also result in high-energy interactions as groups come together and feud over their differences. This is exactly what happens inside agile organizations. Adaptive Space provides the relational freedom for people to openly explore and exchange ideas. It enables connections so that people, ideas, information, and resources

can be linked up for greater impact. Adaptive Space also enables the connections necessary for debate and disruptive interactions to emerge, often resulting in formal endorsement. The outcome is a generative energy that fuels agility.

Adapt or Die

Most organizations don't suffer from a deficit of ideas. Plenty of people have innovative and entrepreneurial ideas that can benefit the organization's ability to adapt and adjust. Ideas are cheap, and people are excited to share them. But we also know that when new ideas are offered, the most common response is to shut them down. People feel like they hit a brick wall when they present their ideas and are stopped in their tracks by those who don't want the change or who see too many obstacles. And unfortunately, this doesn't come just from managers—it occurs at all levels within the organization.

Organizations can't help themselves. They do what they are designed to do—they are set up to drive operational efficiencies. Although times have changed dramatically, many organizations struggle with change. They have doubled down on investing in advanced operational systems, focusing intensely on concepts like data analytics, machine learning, and artificial intelligence to strive for greater efficiency and order while underinvesting in creativity and agility. In fact, many of them have perfected the operational system at the expense of agility. And when we do this, we are exposing ourselves to tremendous risk. In today's environment, the old adage is increasingly true: *adapt or die*.

Adaptive Space is the answer. It is the key marker of agile organizations. To enable Adaptive Space and make organizations

more agile, we need to leverage certain types of interactions that promote and support the 4D connections of Adaptive Space. In the chapters that follow, *Adaptive Space* will consider ways to do just this. This book is broken into two primary parts. The first part focuses on explaining the 4D connections of Adaptive Space by first highlighting the discovery and development potential of brokers and connecters respectively. It goes on to illustrate the power of energizers and challengers in facilitating diffusion and disruption. The second part of the book outlines five easy-to-remember principles necessary to open up Adaptive Space within any organization: Engage the Edges, Find a Friend, Follow the Energy, Embrace the Conflict, and Close the Network.

About the Author

Michael J. Arena, PhD, is an acclaimed speaker and author of the groundbreaking research on Adaptive Space that won the 2017 Walker Prize from People + Strategy. He is a leading expert in organizational network analysis, and his work has been cited in the *Wall Street Journal*, *Harvard Business Review*, *Business Insider*, *Sloan Management Review*, and *Chief Executive* magazine. Arena is also the Chief Talent Officer for General Motors (GM) and has played a critical role in the company's transformation. He launched GM2020, a grassroots initiative designed to enable employees to positively disrupt the way they work, which was highlighted in *Fast Company*. Arena also teaches in Penn's Masters in Organizational Dynamics program and acts as a design thinking coach within the Stanford d.school. Prior to joining GM, he spent two years as a visiting scientist within MIT's Media Lab where he studied networks and served as a Senior Vice President of Leadership Development at Bank of America.