Winning Practices of Adaptive Leadership Teams
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Winning Practices of Adaptive Leadership Teams

Roselinde Torres and Nneka Rimmer

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In a volatile, uncertain, and globally distributed business environment, leadership at the top is a team sport, not a heroic individual effort. A BCG study has found that adaptive leadership teams navigate this environment effectively with unique traits and practices that enable them to outperform their industry peers. The CEOs from these companies cultivate a collective team capacity to anticipate and shape the business environment to their advantage.

**The Qualities of an Adaptive Leadership Team**

Our study revealed that the basics of teamwork include maintaining distributed leadership, an optimal talent mix, a clear charter, and mutual trust. Beyond these basics, the highest-performing adaptive leadership teams have five added traits: *one voice, sense-and-respond capacity, information processing, freedom within a framework, and boundary fluidity.*

**How to Strengthen the Team’s Adaptive Capability**

To increase the level of adaptation within a leadership team and throughout the organization, leaders first need to assess their individual and collective adaptiveness. They can apply what they have learned as they consider the greatest constraints to increased adaptability. Then the team can determine how to mitigate them.
In a volatile, uncertain, and globally distributed business environment, executives are finding it harder than ever to keep up. Consider the following trends:

- Turbulence has undermined the effectiveness of long-range forecasting and traditional strategic planning in many industries.
- Companies are increasingly organized into interdependent, multicompany ecosystems.
- The pervasiveness and economics of the digital world have made every business an information business.
- The nature of competition has become more diverse, with some environments that are mature and predictable and others highly changeable.
- Leaders face new expectations from their more diverse, multigenerational workforces.

A leader cannot single-handedly manage such conditions. Leadership at the top is now a team effort. As we detailed in an earlier article, “The Five Traits of Highly Adaptive Leadership Teams,” top teams must be more than just high performing. They also need to adapt and thrive, regardless of the turbulence they face.

A new BCG study has explored how adaptive teams remain nimble in the face of rapid change. This Focus report explores our findings in more detail and digs deeper into the practices and philosophies behind the five traits to learn what differentiates the adaptive leadership teams that win consistently in the marketplace from their average-performing counterparts.

Adapt and Thrive

While it may require significant effort to cultivate a high-performing and adaptive leadership team, the payback is strong. An upcoming BCG Strategy Institute study titled “The Adaptive Advantage Index” shows that adaptive companies generate powerful economic and financial gains. These companies consistently outperform their industry peers during periods of market volatility. And their Adaptive Advantage Index scores show a strong correlation with their growth in market capitalization. (See Exhibit 1.)
In this new study, BCG complemented the Strategy Institute’s research by examining the link between the adaptive capacity of a company’s senior-leadership team and its financial performance versus that of its peers. We wanted to pinpoint the top-level teamwork characteristics that strongly differentiate average teams from the best teams. We also wanted to discern how teams that are merely adequate can stretch themselves to become outstanding teams.

To discover the traits that set adaptive teams apart, BCG conducted an in-depth study of a representative, statistically meaningful sample of executives at middle- to top-tier companies in terms of financial performance. Through their business performance in a variety of environments, all had demonstrated that agility and adaptation were, to a greater or lesser extent, part of their company DNA.

We surveyed and interviewed 93 executive men and women, including CEOs, business unit leaders, and functional leaders with a mix of tenures on the leadership teams. We performed both quantitative and qualitative assessments of nine intact leadership teams from a highly diverse mix of public and private companies across many industries, business sizes, regions, and company life cycles. The companies ranged in size from 300 to 130,000 employees and included both single-country and multinational organizations in developed and developing markets. (See Exhibit 2.)

Regardless of industry, size, location, and life cycle, the companies that scored higher on adaptive traits all beat their peers’ financial performance.

In addition, the results disproved some common fallacies about teamwork and adaptiveness. For instance, many observers claim that as companies get bigger, they...
get less adaptive. We found evidence to the contrary. Adaptability sometimes implies a lack of discipline, whereas we found just the opposite: adaptive teams have highly disciplined practices that give them the freedom to be more adaptive. Adaptiveness can no longer be seen as a nice-to-have skill required only in rare circumstances. In fact, almost none of the leaders interviewed could cite a situation in which adaptation was not necessary in today’s world.

The Qualities of an Adaptive Leadership Team

The study reaffirmed that the basics of effective teamwork still apply. Adaptive teams adhere to the following foundational principles.

- Distributed Leadership. The team leader believes in the value of sharing leadership at the top and developing leaders at every level—maintaining the will and courage to put the best people on the team. An executive at an investment management company said that his leadership team had an active set of discussions about the next generation of leaders: who will occupy these positions, what kind of runway will they have, and will they have the characteristics necessary for adaptation?
• **Optimal Talent Mix.** The team is not only composed of a balanced set of top talent representing strategic positions and disciplines but also must have the right chemistry. An executive at a pharmaceutical company described a high-performing team as one that has, among other characteristics, a diverse and complementary mix of backgrounds, styles, and management experience.

• **Clear Charter.** Team members have defined goals, roles, ground rules, and accountabilities. They have agreed on a common organizational purpose that is clearly defined and understood; found alignment on a strategic path in the face of complex circumstances; and defined clear accountabilities and decision rights for each of the members. An executive at a food company said, “Everyone on the team has great clarity around their role. We are able to avoid clashes because we each know our responsibilities and know where we want to go.”

• **Mutual Trust.** Team members are able to express divergent views and let down their guard to acknowledge when they need help. They fully trust each other to critique ideas within the team; they demonstrate a willingness to listen to opposing views and perspectives; and they are given equal space to express their own opinions. An executive at a financial services company said, “If you have a high quality of talent, then 90 percent of performance is based on trust. You can have high-quality people and low performance because of a lack of trust; but if you have high-quality people and high trust, then you really have high performance.”

Every individual interviewed mentioned a characteristic related to these team basics. But not every team studied was at the same level on the four basics. The most adaptive companies had average survey scores 20 to 25 percent higher on these characteristics than the least adaptive, suggesting that even our select sample of leadership teams had room to improve in the basics of teamwork. Still, all the teams studied exhibited these key characteristics of high performance; displayed them at higher levels than other attributes; and demonstrated a strong link between these principles of teamwork and their own assessments of team and company performance.

As important as these basics are, however, the study showed that high-performing, adaptive leadership teams have five added traits—the “special sauce,” so to speak—that set them apart from those teams that are only adequate at what they do. (See Exhibit 3.)

**One Voice.** Adaptive teams have a clarity and consistency of objectives. They take the time to get completely aligned about the organization’s vision, values, and vital priorities, while respecting individual differences of opinion and experience. Once a diverse team has reached agreement, all members can articulate that direction with a unified message.

The CEO at a hospitality company cited the importance of weekly meetings to agree on objectives. The team meets every Monday morning for up to four hours to discuss and reach some level of agreement on operational issues, even if it is not full consensus. The team leaves the room united about the company’s overall priorities.
Rather than demanding that employees follow a rules-based script that quickly grows out of date, leaders also focus on transmitting the expected outcomes that can help steer the organization through any eventuality and allow experimentation to occur. In addition, the team shares in successes but takes responsibility when things do not go well—focusing on solutions rather than finger-pointing.

Incentives for one-voice behavior are key. Consider the practices of one investment-management company. Individual business results have only a limited impact on compensation for senior leaders. Executives know that it is in their best interests financially and professionally to make sure that the company does well first. “If my division is successful, but another division is not, I would not regard that as a victory,” said an executive at the company. “The way you sit at the table with our CEO is with a one-company approach. We advocate for our areas, but we all mutually run the company. And that’s our objective: what’s best for the company.”

All the leadership teams addressed the one-voice trait in interviews. Overall, one out of every five descriptions of effective team characteristics related to the idea of having one voice. Given the pace of change, leaders also cited the need to be clear among themselves and the broader organization about the highest priorities and values underlying expected behaviors. (See the sidebar “Executives Discuss One Voice.”)

The top tier of teams distanced themselves quite distinctively from the average-adaptiveness survey score in the area of one voice, demonstrating how this attribute can separate moderately adaptive from highly adaptive teams. The top three
companies surveyed had scores that were 24 percent higher in this dimension than the bottom three organizations. By analyzing the survey results at the level of individual best practices, we found that the top three companies outperformed the bottom three by 30 percent in their ability to consistently and precisely communicate a unified message to the organization, and by 29 percent in their ability to manage alignment with and involvement of distributed team members effectively. (We considered anything higher than a 20 percent gap in scores significant.)

**Sense-and-Respond Capacity.** Adaptive teams systematically use multiple real-time filters and amplifiers of information to monitor the external forces that drive change in their business environment. They use the information to proactively question how external forces could affect the company’s business.

“It’s important for the executive team to be highly attuned to and driven by external market and competitive data, especially in a global environment,” said an executive from a pharmaceutical company. The company holds weekly market-briefing team meetings to specifically discuss the competitive environment and its impact on the core strategy. The team distributes a summary to the broader leadership team.

Filters often take the form of customized data mining, market research, dashboards, and war rooms. Such tools enable teams to excel at reading external signals, connecting disparate trends into meaningful patterns, and putting in place mechanisms that allow them to collectively separate the signal from the noise. When early-warning signs flash red, the teams are in a position either to consciously act differently or to choose not to act—ahead of the curve.
All nine teams in the study provided examples of how they used their ability to sense and respond to build adaptive capacity. For example, the leadership team at a company in the chemicals industry provides consistent investment in IT systems and consumer surveys to support the gathering of robust external data.

Sensing and responding was also mentioned frequently by the executives interviewed. (See the sidebar “Executives Discuss Sense-and-Respond Capacity.”) The highest scores in this area came from the leadership teams operating in global markets. Thirty-three percent of companies did not agree that they had effective enough sense-and-respond capacity, providing “neutral” answers on average to survey questions. The discrepancy between high awareness and relatively low self-assessment suggests that leadership teams may understand the value of an external orientation but face difficulties putting it into practice.

**EXECUTIVES DISCUSS SENSE-AND-RESPOND CAPACITY**

“Adaptation is about knowing how you are trying to adapt,” said an executive at a financial services company. “For example, how is the market changing relative to our behavior and experience? We are not reading about news after it’s occurred; instead, we are in the know before it is reported.”

“We should have a fairly good idea of what success and failure look like so that as much as possible, we can be prepared to react to things,” said an executive in the pharmaceutical industry. “I end up thinking about the 90 percent of things that may never happen, but when the 10 percent occur, I feel ready.”

“It’s not about consensus decision making, but consensus information gathering so that people are informed and can assess as many factors and pieces of information as are necessary,” said an executive in a financial services company. “Poor-performing teams react to internal versus ‘proact’ to external.”

“Things evolve so quickly, senior teams need to anticipate challenges and scenario-plan what may happen,” said an executive in the hospitality industry.

The top three companies in our sample had 27 percent higher scores in this dimension than the bottom three—the highest performance gap we recorded. Analyzing the survey results at the level of individual best practices, we found that the top three companies outperformed the bottom three by 46 percent in their ability to screen the external environment for events or trends that might affect the organization, and by 33 percent in their ability to set a course with degrees of freedom to account for external changes.

**Information Processing.** Adaptive teams are able not just to sense when change is needed; they are also able to synthesize complex insights and make high-quality decisions quickly. They identify leading and lagging metrics that enable everyone to monitor progress in a way that is transparent and aligned with the company’s strategy and performance objectives. In addition, adaptive teams excel at process-
ing information and making decisions at the junctures where different points of the matrix organization meet. Us-versus-them barriers do not block exchanges of material information.

Information and debate flow freely inside and outside the most adaptive teams. At one company in the hospitality industry, all direct reports regularly send an e-mail to peers and superiors detailing items accomplished and next steps, using such “overcommunication” across the organization. In addition, several teams reported developing highly disciplined meeting designs and agenda formats to ensure that they routinely exchange key information through a streamlined process that breaks down silos of communication.

At a company in the pharmaceutical industry, the senior leadership team holds two full days of meetings each month with staff and line leadership teams to go over each function and business unit against high-impact key performance indicators and to make important connections among the data. “This isn’t about transmitting or receiving information but synthesizing the information,” said an executive at the company. “When I use the word synthesis, I’m describing people and teams that aren’t just a passive vessel, but who are the ingredients going into a soup. When you combine them together, all of a sudden you have the world’s greatest gumbo.”

Seven of the nine teams described excellence at information processing as an important characteristic of adaptive teams. (See the sidebar “Executives Discuss Information Processing.”) Additionally, survey results reflect that, on average, leadership teams are processing information effectively. Information processing received the second-highest scores and showed the tightest range between top- and bottom-

EXECUTIVES DISCUSS INFORMATION PROCESSING

“It is critical to have the capability to receive and integrate information at the speed that it comes and also be able to deal with changes internally and externally,” said an executive at a pharmaceutical company. “The biggest thing that worries a leader is knowing that something can go wrong and that I am not thinking about it. To the extent we can embed a process to flag early warnings into the genetic code of the organization, it is helpful.”

“People are prepared for meetings, but no one comes with a PowerPoint presentation,” said an executive at a chemicals company. “Instead, people come with their ideas. All our meetings are hands-on working sessions, and no one is ever giving a formal presentation on their area.”

“Different information flows come from different parts of the organization at different times,” said an executive at a hospitality company. “The leadership team needs to be a collective—closely aligned, with open dialogue, apolitical, and with robust communication lines to receive inbound communication from customers, employees, or the market—which all have different timings.”
scoring teams. This suggests that independent of company size or industry, teams with adaptiveness in their DNA filter and process information effectively.

The scores of the top three companies in our sample were 15 percent higher in this dimension than those of the bottom three. Analyzing the results at the level of individual best practices, the study found that the top three companies outperformed the bottom three by 24 percent in their ability to listen to many stakeholders when defining strategy, and they outperformed them by 23 percent in their ability to quickly realign the organization to address shifting environmental information.

**Freedom Within a Framework.** In addition to setting a common direction, adaptive leadership teams establish a framework within which they can experiment. Team leaders are empowered to take bold risks within agreed-to parameters, with failure seen as a possible and an acceptable outcome. Failure is debilitating only if the lessons learned are not disseminated and applied quickly.

At one company in the food industry, risk taking has been incorporated into the formal performance evaluations of business-unit leaders, and “productive” experimentation gets rewarded financially. “There is a spirit of experimentation on the team, and there is very little fear of failure,” said an executive at the company. “Team members know that if the experiment doesn’t work for some reason, it will be OK. You don’t need to wait for permission to do something.”

At the company, local groups are given full P&L responsibility for products and markets over three- to five-year periods, with minimal oversight from the leadership team. They are rewarded with additional “earned” autonomy for meeting objectives. “We set aggressive targets and give ‘blank checks’ to teams to move forward with their own plan, and the teams have responded positively and met all of their objectives,” said an executive. Such projects have also enjoyed higher returns than traditionally managed efforts.

Adaptive leadership teams also show a willingness and ability to correct their course of action. Teams realize when mistakes have been made or when the organization requires a new direction. The most adaptive teams are open to new possibilities and are not caught up with how things used to be done.

Less than 50 percent of the companies interviewed focus on freedom within a framework as an adaptive capability. (See the sidebar “Executives Discuss Freedom Within a Framework.”) It may be a blind spot for leaders or a difficult trait to instill, since this principle had been effectively put into practice at only 33 percent of the companies we surveyed. Findings suggest that all companies may benefit from assessing how well they empower leaders across the organization to experiment with new approaches within established parameters.

Still, leading scorers on this trait clearly stood out in their specific practices. The scores of the top three companies in our survey were 21 percent higher in this dimension than those of the bottom three. Analyzing the survey results at the level of individual best practices, the study found that the top three organizations outperformed the bottom three by 39 percent in their ability to include risk takers,
EXECUTIVES DISCUSS FREEDOM WITHIN A FRAMEWORK

“Fundamentally, in our business, risk is everywhere,” said an executive of a pharmaceutical company. “The important question is not that it won’t go wrong, but how do we handle it when it does go wrong. It’s important to take educated risks to capture emerging opportunities, and risk taking is facilitated by support from the whole team.”

“We let good people do their things within the overall framework,” said an executive at a hospitality company. “Teams rely on experience—within guardrails. Guardrails are defined by our key strategic priorities; the big things we want to be about.”

“Course correction is an iterative process—recognizing that the first idea out of the gate should not be what you go with but is an idea you can build upon and can retool,” said an executive at a financial services company. “The culture should allow you to improve upon and make changes to ideas as you go.”

“The long-term objectives have to be very clear, and the team has to be able to modify its course by adapting to the environment—but always having in mind those objectives,” said an executive at a telecommunications company.

and they outperformed them by 31 percent in their ability to encourage experimentation with new ideas and nontraditional approaches.

Boundary Fluidity. Adaptive teams can move both horizontally across roles and vertically to connect with the next level of leadership reporting to them. Leadership team members are like “utility players” in sports—able to play out of position and pinch-hit for others at a moment’s notice, regardless of their role or how long they have been on the team. That ability gives them respect for other functions and perspectives. At a company in the hospitality industry, the CEO appoints senior leaders to new roles far across the organization to bring in diverse perspectives. For example, the head of a core business unit became the director of IT.

In addition, team members do not see themselves as “masters of the universe,” whose physical distance and behavioral norms somehow disconnect them from the organization. Senior-level leaders build a “neural network” of frequent conversations with the next level of leaders down, exchanging more accurate information and establishing a reservoir of trust necessary when a company needs to move rapidly in a new direction. In order to build cross-organizational bonds and collaboration, the senior-leadership team at an investment company assigns random teams of next-level leaders from different parts of the company to ten critical strategy initiatives. Empowering the lower level of leaders to make more decisions develops their ability to think strategically and be more than “implementers.” It improves team buy-in and creates more adaptive leaders in the field. It also gives leaders the context for adaptation, rather than starting from ground zero and having to reactively formulate a case for change.
Approximately half of the leadership teams studied discussed this value as an adaptive trait. (See the sidebar “Executives Discuss Boundary Fluidity.”) The leaders of those teams that demonstrated greater adaptiveness in the survey and sustained financial performance provided clear examples of actions they have taken, but they scored themselves low on these dimensions, still feeling the need to do more. We tested the hypothesis that leadership teams with long-standing membership have been more effective in developing boundary fluidity with each other and the next level of leaders. “Time on the team,” however, proved not to be an important indicator of strength. Rather, it takes a deliberate willingness to make horizontal and vertical boundary fluidity part of the executive leadership DNA.

The scores of the top three companies in our survey were 21 percent higher in this dimension than those of the bottom three companies. Analyzing the survey results at the level of individual best practices, the study found that the top three companies outperformed the bottom three by 52 percent in the ability of peers to sanction team members for uncooperative behavior in their work together as a team, and they outperformed them by 34 percent in their ability to collaborate effectively across organizational groups while optimizing decisions for the entire organization.

Looking Across the Five Traits

We found that, in addition to operating separately, the traits combine forces through powerful patterns of interrelation. For example, the one-voice trait, which gives teams alignment around objectives, makes possible the risk taking involved in the freedom-within-a-framework trait. Information-processing capabilities enhance
sense-and-respond capacity, and vice versa. And boundary fluidity allows team members to gather more wide-ranging information from across the organization around which to analyze and respond.

We also investigated the connection between teamwork basics and the five traits. We found strong evidence of a link between the adaptiveness scores on the four teamwork-basics dimensions and the adaptiveness scores on the five-traits dimensions. An R-squared score of 0.79 on a linear-regression analysis indicated that the adaptiveness score on the basics has a close relationship with the adaptiveness score on the traits. Teamwork basics really are the table stakes that a leadership team needs before it can place bigger adaptive bets.

Collectively, we found that the five traits add up to make a significant impact on financial performance, as well. A strong majority of high adaptiveness scores were earned by companies in the uppermost tier of financial performance. Low adaptiveness scores were earned mostly by companies in the lower tiers of financial performance. (See Exhibit 4.)

**What Adaptive Team Leaders Do Differently**

Although the teams in the study display varying degrees of shared leadership, the CEOs from the most adaptive teams play a distinctive role in creating the team context for adaptation. The top-three-scoring teams in our study ranked highest on survey questions related directly to leadership, suggesting a relationship between the adaptive capacity of the CEO and overall team performance. Our

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**EXHIBIT 4 | High Levels of Team Adaptiveness Are Linked to Top-Tier Financial Performance**

Team adaptiveness score versus financial performance

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<tr>
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<th>Tier 3 financial-performance companies</th>
<th>Tier 1 financial-performance companies</th>
<th>Tier 2 financial-performance companies</th>
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<tr>
<td><strong>High adaptiveness score (%)</strong></td>
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<tr>
<td>One voice</td>
<td>30 64</td>
<td>18 71</td>
<td>25 63</td>
</tr>
<tr>
<td>Sense-and-respond capacity</td>
<td>11 61</td>
<td>18 53</td>
<td>25 44</td>
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<td>Information processing</td>
<td>27 53</td>
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<td>25 31</td>
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<tr>
<td>Freedom within a framework</td>
<td>25 63</td>
<td>25 44</td>
<td>34 44</td>
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<tr>
<td>Boundary fluidity</td>
<td>7</td>
<td>7</td>
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</table>

Respondents by performance tier (%)

Total n = 88

Source: BCG analysis.

Note: Team adaptiveness scores are based on individual responses to BCG’s Adaptive Leadership Teams Survey; tiers of financial performance are based on five-year average net-income growth versus industry peers.
regression analysis also reflected an extremely strong relationship between the assessment of the team leader and the overall team score on the survey.

Ultimately, we found that the more discerning CEOs excel at a set of best practices that create a team context for successful adaptation. (See Exhibit 5.)

For instance, such CEOs have mastered the finer nuances of people management. “I spend a lot of time thinking about the personality types that we need,” said an executive at a hospitality company. “Every step I take, I realize what I have and what I need. A leader should also have a bifocal lens, looking at the collective strength of the team and at the same time connecting with every individual.”

These leaders also help people solve problems on their own and reward accomplishment with autonomy, giving individuals a way to engage in additional independent problem solving in the future. “My role is about destination- and standard-setting, not about dictating how everything happens,” said an executive of a financial services company.

In addition, the team leader is a role model who inspires through example and displays a deep commitment to the company’s vision. “I have tried to lead by example, specifically with regard to the layer of our senior management,” said the hospitality company executive. “If we don’t have alignment among the top ten leaders, we won’t be able to get alignment within the 100,000 employees.” And an executive at a financial services company said, “Norms will largely mirror my example. I need to set standards of what is valued and acceptable in terms of quality, behavior, and integrity. The tone is driven by me, whether I like it or not. The team looks for cues from the leader.”

**EXHIBIT 5 | CEOs Set the Team Context for Adaptation**

<table>
<thead>
<tr>
<th>Common CEO Practices</th>
<th>Adaptive CEO Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO picks the right people</td>
<td>CEO knows team members’ strengths, weaknesses, motivations, hot buttons, and passions and uses that knowledge to best leverage the team’s talents</td>
</tr>
<tr>
<td>CEO defines and communicates a strategic vision to the organization</td>
<td>CEO fosters a collective vision shaped by top company leaders that creates shared accountability for organizational success</td>
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<tr>
<td>CEO encourages open and respectful dialogue</td>
<td>CEO facilitates productive conflict to generate diverse opinions and a multiplicity of options</td>
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<tr>
<td>CEO waits for the team to achieve consensus</td>
<td>CEO encourages debate to build team commitment but intervenes decisively to capture windows of opportunity</td>
</tr>
<tr>
<td>CEO provides final input on key business decisions</td>
<td>CEO ensures that the team has a common understanding of the context to enable others to make the best decisions</td>
</tr>
<tr>
<td>CEO is a proponent of changes within the current business model</td>
<td>CEO creates a safe environment for risk taking, with new models and fast failures to accelerate learning</td>
</tr>
</tbody>
</table>

*Source: BCG analysis.*
How to Strengthen the Team’s Adaptive Capability

To increase the level of adaptation within a leadership team and throughout the organization, adaptive leaders must first assess their team’s performance on the five adaptive traits. They will learn where they are collectively strong and which dimensions they need to further cultivate for the benefit of the business.

Leaders can engage their team either through a self-reflective conversation or by taking BCG’s Adaptive Leadership Teams Survey (send an e-mail to altsurvey@bcg.com for more information).

Having understood their adaptive capability, leaders can apply these insights as they consider the following questions:

- Which actions and initiatives will enable a more adaptive leadership team and also increase the organization’s adaptive capacity?
- What happens if the leadership team just continues what it is doing and does nothing new?
- What are the greatest constraints to increased organizational adaptability, and how can the leadership team mitigate them?
- Will a specific trait help boost a current business priority, key initiative, or cultural shift?

Regardless of the focus, the goal is to hone the team’s collective adaptive capability. Leaders who bolster their performance in this critical area can build teams that adapt, thrive, and consistently outperform their industry peers.
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