The importance of adaptability in an increasingly complex world

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In an increasingly complex and uncertain world, businesses can take a page from nature's deep book of innovations to become more adaptable.

Most of us are familiar with Charles Darwin’s evolutionary theory of natural selection¹, which explains that nature “selects” favorable traits to pass from one generation of a species to its offspring to give them a better chance to survive and reproduce. Evolution through natural selection works over multiple generations, but Earth’s species now face unprecedented risk and uncertainty from climate change and human intervention. In many cases, change is occurring too rapidly for evolution and adaptation by natural selection to keep up, leaving an increasing number of species vulnerable to new and increasingly unpredictable threats.

However, some species have exhibited the ability to adapt quickly to changes in environmental conditions without multigenerational evolution through natural selection through a mechanism known as phenotypic plasticity². Animals that display this type of adaptability have a special genetic ability to respond differently to different environmental conditions, all without changing their underlying genetic makeup through long-term evolution. This rare ability can be a vital tool against long-term climate change and short-term climate variability.

Businesses can look to this unlikely parallel to understand how to survive and thrive amid rising disruption and uncertainty. At a basic level, the natural world and the business world are complex systems made up of interconnected subsystems, all competing for resources and survival. In nature, these subsystems are ecosystems, populations, species and organisms; in business, industries and companies. The similarities between the two are striking. Among the most important similarities between nature and business is the fundamental need for the individuals in these systems – organisms and businesses – to sense changes in their environments and adapt to them to survive.

Today, no industry or company is safe from disruption. The paradigm shifts that come with emerging technologies and global megatrends will bring about great opportunities. Many organizations will not be prepared to adapt at the speed and scale required to survive such unpredictable, frequent and large-scale changes. The COVID-19 pandemic has accelerated such a paradigm shift, highlighting the extent of globalization and the interconnectivity of technology, society and nature in new ways. It has also revealed the fragility of many companies that were long seen as industry leaders.

In this paper, we suggest that for companies to position themselves for long-term success in an increasingly complex and connected world, business leaders must prioritize adaptability as a must-have organizational trait. Survival of the fittest, as Herbert Spencer re-phrased Darwin’s natural selection concept, has taken on a new meaning in today’s world. Businesses can no longer rely on traditional measures of business fitness: size, scope and efficiency. They must change their perspective on competitive advantage indicators and transform quickly and at scale to become adaptable today to survive tomorrow.

We offer two key focus areas for businesses to prioritize on their journeys to adaptability – new measures of fitness and a future-view of scenario planning – and use the context of the COVID-19 pandemic to illustrate that some companies are already doing this better than others. We offer parallels from nature and highlight recent examples of companies that failed to adapt to show why adaptability is important and why companies should consider it. These considerations are in preparation for the transformations required to complete the now, next and beyond strategy.

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¹ https://plato.stanford.edu/entries/natural-selection/
Adaptation: nature’s transformation approach

Adapting to stay fit
The concept of fitness lies at the heart of Darwin’s theory and explains why some species thrive while others become extinct. Fitness, and the adaptability that allows for species to stay fit, also helps us describe disruption-ready companies, like those that endured or capitalized on COVID-19 disruptions.

Fitness takes many forms in nature, but the lessons of adaptability are universally applicable. For example, a tiny frog may appear vulnerable to predators, such as snakes and birds. Still, it could have developed adaptations over time to produce a poison that protects it from such predators. This frog may not appear “fit” compared to much larger, faster and stronger animals. Still, its adaptations mean it is highly fit for its environment and circumstances.

In today’s world, animals that can adapt quickly, such as those that display phenotypic plasticity, may be better suited for long-term survival than those that adapt slowly over many generations. Scientists studying corals\(^3\) have identified a trait in some reef corals around American Samoa that allows them to adapt to higher water temperatures. Some corals had evolved to become more heat-tolerant because natural selection favored this trait in warmer waters. However, others that were relocated from cooler water exhibited plasticity to adapt to become more heat-tolerant in warmer water without having evolved to favor that trait through natural selection.

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3 https://blogs.ei.columbia.edu/2018/03/30/helps-animals-adapt-not-climate-change
https://science.sciencemag.org/content/344/6186/895
These corals offer a compelling lesson for businesses in a world in which the only certainties are uncertainty and complexity, one that requires companies to reframe their idea of what it means to be fit. If corals can unconsciously adapt to a new environmental condition because of its genetic traits, why couldn’t a business learn to adapt continuously to new market realities and disruptions?

**Moving beyond traditional perceptions of business fitness**

Companies must rethink what it means to be fit in today’s business landscape. Traditionally, size, reach and efficiency were seen as leading indicators of business fitness. The biggest companies operating most efficiently at scale in many markets were dominant and disruption-proof. Size, scale and manufacturing efficiency did not protect auto manufacturers in 2009 after consumer purchases plummeted during the financial crisis. A lack of preparation for that possible future, and limited flexibility to adapt to the changing circumstances, resulted in bailouts and bankruptcies for some major manufacturers, despite their size and historic market dominance.

Traditional retail’s decline provides a similar cautionary tale. Sears, a pioneer of new retail channels throughout its history, once dominated the retail industry in North America. Today, Sears Holdings has shuttered most of its Sears and Kmart stores⁴. Failure to understand customer needs, limited

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Sears operated over 3,500 stores in 2010; today, it operates fewer than 200 stores
investment in digital and e-commerce and inadequate leadership are among the factors that led to Sears’ demise despite its century-long dominance in retail. These traits limited the company’s ability to adapt, and its once-fit business model collapsed under pressure from new market realities.

There are many more popular examples of companies that failed to adapt to disruptions, from Kodak to Blockbuster. These once-dominant companies fell from grace quickly due to a combination of unwillingness and inability to adapt. While this is a simplification of two complex stories, it effectively demonstrates the importance of adaptability in a rapidly changing market.

Many business leaders still appear to believe that traditional indicators of market dominance provide an insurmountable competitive advantage. However, as disruption accelerates, evidence suggests that the biggest and “strongest” industry players are not always the fittest or most likely to survive. For example, the average lifespan of S&P 500 companies decreased from 60 in the 1960s to less than 20 years as of 2017.

Examples of adaptability during COVID-19

Some examples of rapid transformation during the COVID-19 pandemic make a compelling case for adaptability and fitness as leading indicators of long-term success in today’s environment.

Many companies had begun transformations before the pandemic to succeed in the new era of technological advancement, convergence and disruption. However, the vast majority weren’t ready for the magnitude of change caused by COVID-19 and subsequent lockdowns.

As our colleagues at EYQ, the EY think tank, noted in the third edition of the EY Megatrends report⁶:

The world changed in March 2020. Almost overnight, the COVID-19 pandemic strained health care systems to the breaking point, put much of the global economy on an indefinite hiatus and radically reshaped societal norms and interactions. For businesses everywhere, these events are undermining established assumptions while catalyzing new models and approaches.

Not all companies have struggled during the pandemic, though they are few and far between. Some companies were in the right place at the right time to succeed in the new landscape, such as so-called “work from home” companies or e-commerce leaders. Others have remained stable due to their strong focus on resilience, financial stability and contingency planning. Even fewer have used the crisis strategically to innovate their business models or to grow. These companies have demonstrated the uncommon ability to adapt quickly to the changing environment because they are agile, dynamic organizations that can flex, adapt and evolve when needed. Such organizations are uniquely positioned to compete in the now, next and beyond.

Adaptations in response to COVID-19

While many companies froze in the face of the uncertainty brought by lockdowns and public health challenges, others quickly repositioned themselves to succeed in the new paradigm.

Ford transformed plants nearly overnight to produce PPE, a feat that may have been impossible for the automaker before recently departed CEO Jim Hackett instilled a culture of design thinking and innovation when he took the helm in 2017⁶.

Food distributor Sysco rapidly shifted its supply chain to help grocery stores meet demand, repurposing its established expertise in distribution to restaurants and schools to fill a critical gap in food systems⁷.

Few industries have experienced more disruption from COVID-19 lockdowns than retail. The shift to e-commerce has been ongoing for some time, but the crisis accelerated digitalization more than expected. While “traditional” retailers, including Neiman Marcus and JCPenney⁸, have declared bankruptcy in droves, innovative platforms like Shopify and Mirakl have filled the gap to support never-before-seen e-commerce sales, especially from small- and medium-sized businesses⁹.

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⁶ https://fortune.com/longform/coronavirus-businesses-ventilators-medical-supplies-ford-gm-dyson-3m/
⁹ https://techcrunch.com/2020/05/13/as-e-commerce-booms-during-the-pandemic-shopify-accelerates/
New measures of business fitness

The examples of adaptations to the COVID-19 disruptions show that companies that understand their environments and are positioned to sense change and adapt to it quickly or, even better, proactively, are the most likely to not only survive but thrive in the face of disruption. Beyond COVID-19, every old measure of fitness no longer applies – reinventing the core is how companies will create and sustain value in the future.

Fitness in the future will hinge on many things, with nuances for every geography, industry and even company. Still, companies can invest in three transformative value drivers that will help them stay fit and provide a more dynamic competitive advantage in the future:

Putting humans at the center
- Embedding purpose throughout the organization
- Focusing on the needs of all stakeholders, not just shareholders
- Designing the business, products and services with the needs of humans at the forefront

Driving innovation at scale
- Exploring innovations at the front end of disruptions
- Fostering and rewarding creativity
- Scaling innovations through a clear business model and technology strategy
- Expanding into adjacent and new markets to mitigate risk to the core business

Deploying technology at speed
- Expanding opportunities through partnerships and ecosystems
- Staying informed about technology advancements and potential impacts on your business
- Establishing the right technology programs and alliances
- Developing a holistic digital transformation strategy to keep pace with competitors
- Automating and digitalizing workflows to increase organizational efficiency and optimize costs

These traits will be hallmarks of adaptable and future-fit companies. Those that cling to historical or incremental value drivers will continue to fall behind; this is not to say that achieving or maintaining size, scale and efficiency will lead to failure, by any means. Nevertheless, the companies that can put humans at the center, drive innovation at scale and deploy technology at speed will be able to move quickly and adapt to changes in customer demands, technology advancements and disruptive competition, better than those that rely on size and efficiency alone.
Businesses can learn a lot about fitness and adaptability from nature, but companies and their leadership teams have a distinct advantage over animals. They can consciously plan for multiple possible future scenarios and create the conditions for success under multiple outcomes. They don’t have to rely on their genes to display plasticity. They can become adaptable by focusing on new concepts at the core of business fitness and identifying what is needed today to be future-fit.

But how can companies know that they have what it takes to be future-fit if they don’t know what the future looks like? Scenario planning can be a key tool for companies to identify what they need for the future and guide the transformation. Most scenario planning follows an academic- and data-driven approach, like the stress testing required for banks. This type of approach is helpful in many cases to prepare for possible liquidity events, contingencies or financial downturns. Still, the focus is too narrow to help companies prepare for fundamental disruptions over a longer period.

We advocate for an approach that combines science and art, or a “futures view.” Companies may not be able to predict the future, but understanding what is possible, plausible and probable can help a company shape a preferable future.

This approach enables a company to identify what disruptions might be possible in the future and what that will mean for the organization. Through this understanding, companies can strategically plan for their preferable future at the intersection of these possible future scenarios and guide investment accordingly over the now, next and beyond. Disruption is a significant threat to all companies, but it is also a great opportunity. Companies that understand what is possible in the future can seize the upside of disruption by crafting a continuous transformation strategy that balances transformation initiatives over three horizons: the now, next and beyond. Companies that manage transformation in this way can build a foundation that can support future growth, enable new value propositions and explore entirely new businesses or “game changers” in the beyond.
Overcoming barriers to transformation

Like in nature, markets cannot support unlimited growth. Therefore, to maintain a balance in the business ecosystem, some companies will inevitably fail. While many internal and external factors are at play in a company's long-term survival, we can see that “intergenerational” survival is more likely when a company adapts to the market quickly and effectively.

Companies can become more adaptable by rethinking what it means to be future-fit, analyzing trends and employing a future-view approach to scenario planning. Companies can also avoid some key pitfalls that can lead to an inability or unwillingness to adapt. Many companies that fail to adapt display some of the same traits, all of which can be a lesson to today’s business leaders.

Abandon legacy mindsets

Many companies cling to legacy mindsets and base their assumptions about their industry and future on what previously worked. To overcome this, companies can instill a human-centered design culture, grounded in a shared purpose and vision, that encourages innovation and a fail-fast approach. This mindset shift is difficult for large companies, but those that have taken this step can adapt much more quickly than competitors that cling to the past for the sake of maintaining a legacy.

Develop symbiosis with an ecosystem of partners

Many companies that cling to old ways of working also have a individualistic or independent mentality that treats business success as a zero-sum game. In today’s connected age in which industry convergence and technology blur the line between traditional industries, companies need to approach competition in new ways. Many plants and animals interact with each other to the advantage of both species in a symbiotic relationship. Bees and flowers, notably, have such a relationship. Flowers provide a critical food source for bee populations, and bees, in turn, carry pollen from flower to flower to enable reproduction and growth. Companies can consciously adopt this approach by partnering with competitors, academia and startups to improve competitive advantage. The nature of competition has changed, and business leaders need to embrace the change to maintain or build fitness in today’s environment.

Know it can happen to you

Finally, and maybe most dangerous of all, some of these companies think, “It won’t happen to me.” In today’s environment, this lack of self-awareness can lead to untimely extinction. In 2013, Nokia’s CEO, Stephen Elop, ended a speech announcing Microsoft’s acquisition of the former mobile phone leader by saying, “We didn’t do anything wrong, but somehow, we lost.” Nokia is a classic example of the so-called “knowing-doing gap.” They saw shifts in the market and disruptions on the horizon but believed themselves to be invincible to these changes. A false sense of security makes a company more vulnerable to disruption but can be easy to overcome.

Many other internal and external factors can limit a company’s ability to adapt. These examples can serve as a quick guide for leaders hoping to avoid the same mistakes that have led other companies to the brink. If corals can unconsciously adapt to warmer waters to survive environmental change, your company can prepare today to adapt to whatever may disrupt your business tomorrow.
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