



## Towards an Antifragile 21st Century Business

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The amount of change in the world is exciting, but the combination of the level of innovation being generated by technology and the fierce competition of global markets means that we are seeing – and will inevitably continue to see – slip-ups. The recent issue with Samsung Note 7 batteries catching fire is a prime example. Even examples that seem to be about specific bad choices, like Volkswagen manipulating emissions test results, are driven by the immense pressure to innovate and compete. I worked for the venerable English merchant bank Barings in the early 1990s, and when it collapsed, largely due to the actions of Nick Leeson (the ‘Rogue Trader’), it was against a backdrop of tremendous pressure to perform. We can add examples of hackers actively looking to bring us to our knees.

In the fascinating book *Deals from Hell: M&A Lessons that Rise Above the Ashes*, Robert Bruner cites studies of the common conditions that create real world disasters such as the Bhopal chemical plant leak, collapsed bridges and fatal Everest climbs. He argues that all of the conditions – such as ‘not-business-as-usual’ and ‘no slack in the system’ – are prevalent in M&A contexts. I would argue that they are increasingly prevalent in all business contexts.

In the 1980s, three physicists, Bak, Tang and Wiesenfeld, introduced a concept they called *Self-Organized Criticality*. More specialized than the general statement that entropy is increasing, this concept implied that systems naturally evolve to the point that they are close to chaos – on the brink, standing at the edge of the precipice – where one small shove will bring the whole thing tumbling down.

As businesses, what is our defence against self-organized criticality and the failure that almost certainly follows it? We might try to make our businesses robust: businesses that stand strong in the face of change. This has been a popular topic in the LEF research community recently, with my esteemed colleague Doug Neal contemplating how technology can help with robustness, reliability, incident response, etc.

The unusual and fascinating cross-disciplinary author Nassim Nicholas Taleb, perhaps best known for his book and meme *The Black Swan*, argues in his later book *Antifragile: Things that Gain from Disorder* that the opposite of fragility is not robustness but antifragility. Antifragile systems actually benefit from chaos, shocks and change. For example, we can (and Taleb does) argue that evolutionary biological systems actively benefit from shocks and change – the gene pool gets stronger (even if many individuals in that system do not). This is equivalent to Nietzsche’s assertion that “what does not kill me makes me stronger.”

Hence, arguably, the goal of 21<sup>st</sup> century businesses is not just to be robust in the face of unexpected and undesired shocks (the conventional risk management perspective), but to be *antifragile* – to get stronger from expected and unexpected change. And even if we can’t always be antifragile in an absolute sense, we can seek to be antifragile in a relative sense – improving our relative market position compared to competitors.

What can we do to become antifragile? We would argue that getting better at three things helps: *sensing*, *choosing* and *changing*.

First, *sensing*. If we know what’s coming – both opportunity and threat – we simply have more runway to exploit it. This presupposes having the skills and knowledge to understand and evaluate what’s coming. Early evidence from the first 33 responses to our ‘21st century readiness’ survey show that technology sensing is the discipline most strongly correlated to overall 21st century readiness (a correlation of +0.76). Much of the LEF’s work to date, and in particular our two-day Xperience Lab for ‘upgrading’ executives, is explicitly aimed here.

Second, *choosing*. In times of stasis, the number of choices and the amount of VUCA (volatility, uncertainty, complexity, ambiguity) surrounding those choices is limited. In highly complex, chaotic times, the opposite is true. We have to continually make smart strategic choices, even in foggy conditions. ‘Meat and potatoes’ disciplines like value-based management, combined with more sophisticated overlays such as scenario planning and option valuation, can help us be more antifragile in the face of change. In the 21st century organization model, digital strategy, digital governance and the whole ‘value-centric leadership’ section are most relevant here. (Digital governance is, perhaps unsurprisingly, the discipline second most strongly correlated to overall 21st century readiness.)

Third, working on our ability to *change* is a powerful tool in the quest for antifragility. Underlying this are a whole host of disciplines, including those in the ‘adaptive execution’ section of our 21st century organization model – agile methodologies, collaboration, transparency and fluid organizational structures. But perhaps most important, especially viewed in the light of the examples mentioned earlier, is the ability to estimate *change capacity*.

How much change can your business handle? Do you know? Do you have a means of finding out? If the answer to those questions is negative, there may be a problem. If you accept too little change as a business, and/or as an IT organization, you will get left behind by competitors/the market – which is a form of relative/absolute fragility. On the other hand, if you try to push through too much change, at best you will fail to reap the full value of that change; at worst, you will create chaos, vulnerability, demotivation, confusion, and/or failure.

If we want to win in the 21st century, we must strive not just to be robust. We must strive to be *antifragile*.

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