Built to Think – Organizational Roadblocks to AI Value

Why AI Capability Doesn't Always Lead to Enterprise Value

Introduction and core problem

This is an introduction to some ways to think about improving your results with AI. For now, think about the general themes. Organizations can vary widely. Some of this may apply to your current situation while some may not.

Let me start with a story that illustrates what I think is a core problem with organizations. A long time ago I had my first opportunity to take on a new project. I got to develop the entire proposal from scratch, including the budgets. I understood that when you're doing something new, you can rarely predict future results with both precision and accuracy.

I came to the leadership team with a binder containing all the project materials. My projections used ranges and highlighted the risks that could affect those ranges, so we could discuss them and make a good decision. The CFO was there, and when I finished, he said only one thing: "Just give us a number. Give me a total number for the whole thing. No ranges. I just want a number."

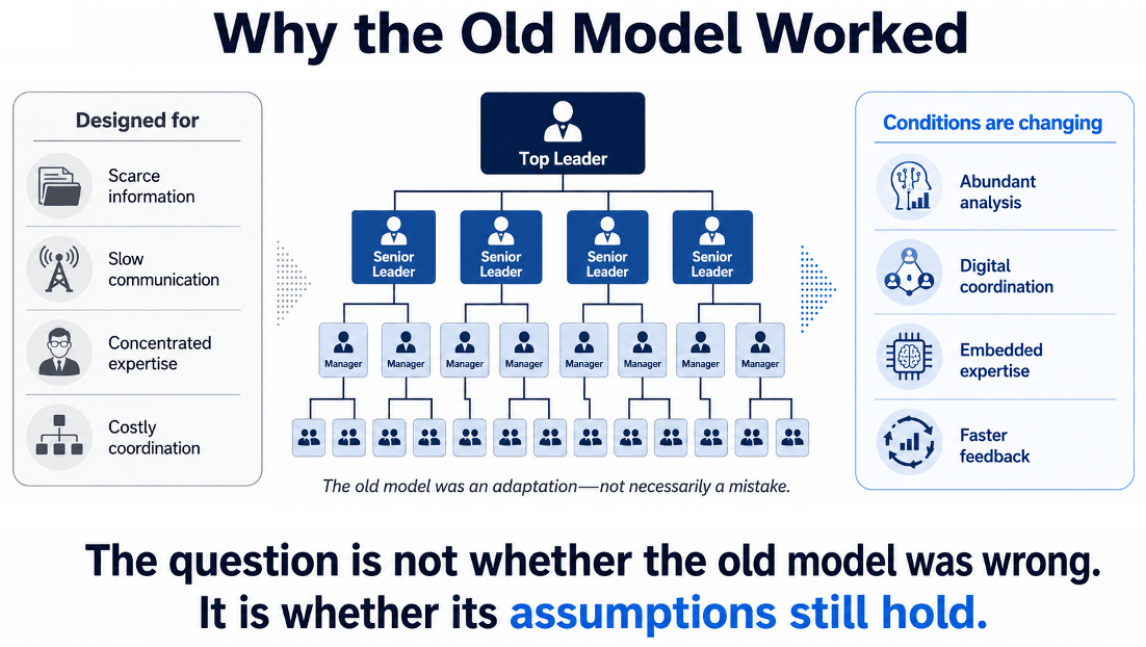
I kept trying to explain why a single number didn't work. He simply looked at me and repeated, "Just give us a number." Eventually, I realized the problem was not that they didn't understand my explanation. The problem was the organization itself. The organization had been designed and built to reject things … including possibilities and change.

That started me on a long journey of asking: If the organization itself is often the problem, what can we do about it?

Organizational models and change

Let's first look at why the old model worked. I'm talking about the typical organizational models you may recognize. The key question isn't whether your current organization is wrong. It's whether the assumptions behind it still hold, especially in the age of AI.

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In the past, information was often scarce. Communication could be slow. Expertise was concentrated in certain people. Coordination was costly. Organizations developed ways of operating that fit those conditions. Information technology changed many of those conditions. Now AI is changing those conditions – and the organizational assumptions built on them – again.

Just because something needs to change now doesn't mean it was wrong in the past. It was an adaptation to its time, not necessarily a mistake. Of course, mistakes happen. However, most leaders were trying to design and run their organizations in ways that fit the circumstances they faced.

Let me offer an analogy. In commercial air travel, passengers associate success with stability and smooth, gradual changes. As a passenger, I don't want to be tossed around like I'm in a fighter aircraft. I want an uneventful flight that gets me there on time. The advantage of jet-powered aircraft over piston-engined aircraft was not just speed. A jet's ability to fly above most weather provided a smoother flight. In commercial air travel, significant change is relatively unusual and unwanted. The same is true of many organizations and industries during long periods of relative stability.

Now contrast that with modern military aircraft. To maneuver faster, some are designed to be inherently unstable. Computerized flight-control systems make continuous adjustments much faster than a pilot could. These systems provide stability when needed while allowing rapid maneuvers. If all the

computerized control systems fail in some military aircraft, the pilot would have to eject because the aircraft could not be controlled manually.

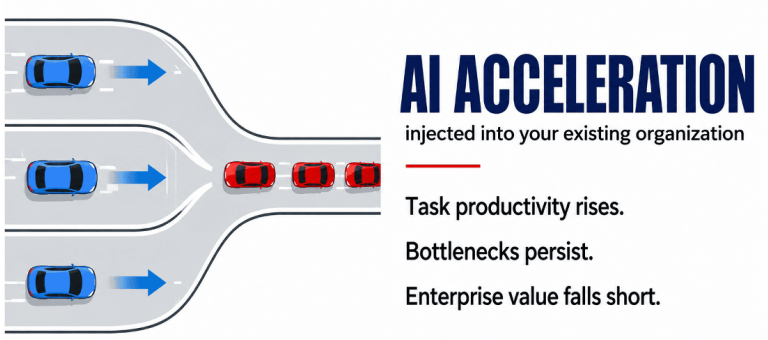
Many industries are now experiencing a similar shift, and AI may be making that shift more noticeable. Change is becoming the norm, but organizations are not necessarily designed for it. AI can accelerate tasks and increase output, which is beneficial. It can also increase noise and the rate of change. At the same time, it can expose weaknesses in businesses at a terrifying speed. AI has accelerated the pace of change again.

Organizational issues from AI change

Let's look at some of the organizational issues this creates.

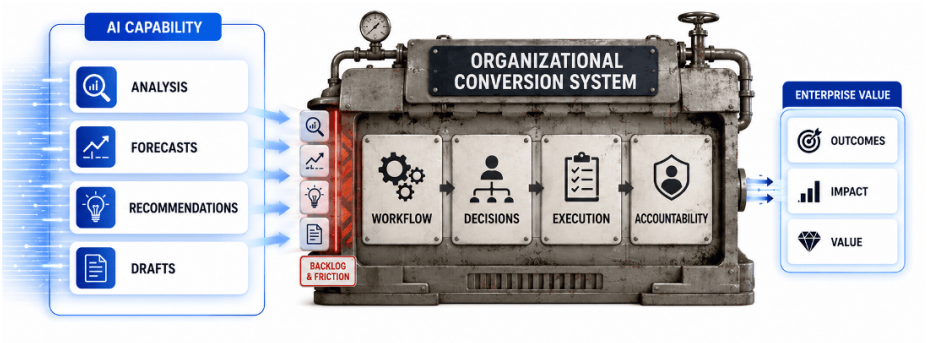
Illusion of speed

The first is the potential illusion of speed. I can accelerate individual tasks with AI. However, if downstream tasks can't keep up, a bottleneck forms. The overall workflow can move only as fast as its bottleneck, and work piles up. In effect, we optimized one part of the organization while suboptimizing the whole.



Think about traffic: if multiple lanes merge into one, everything backs up. The fact that traffic moved quickly before the bottleneck doesn't mean the overall trip is faster. In the same way, I may not be getting the results or value I expected from AI.

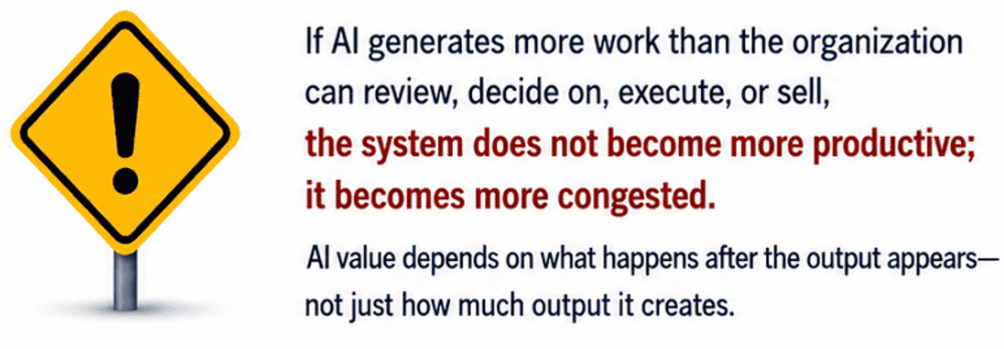
Now imagine the organization as a large engine with many inputs:



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If one part suddenly generates much more output, it can create backlogs, friction, and heat elsewhere. In the same way, we may fail to capture AI's potential value because the overall workflow can't keep up. Decisions and execution downstream from AI may become barriers to realizing its value.

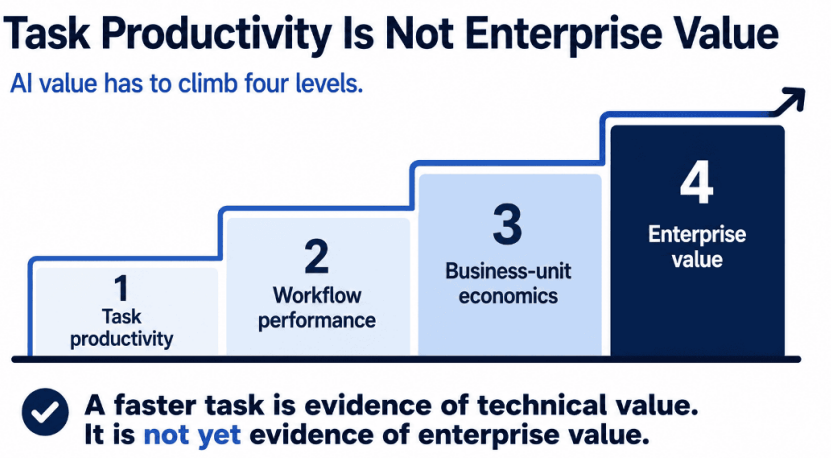
Here's the main point. If AI generates more output than the organization can review, decide on, execute, or sell, the overall system probably won't become more productive. It will become more congested.



The value to a business owner, CEO, or executive isn't what happens inside the AI tool. It's what happens after the AI output appears. Are we achieving the results we want, or simply generating more output? The goal isn't to use as much AI as possible. The goal is to create value with AI.

Task value is not automatically enterprise value

That raises another common issue. Just because we're doing something faster doesn't necessarily mean we're creating business value. An activity may become faster, cheaper, easier, or better. That's a real improvement, and we shouldn't dismiss it. But it's only the first level. Does it improve the workflow that contains the task? Does the entire workflow perform better?



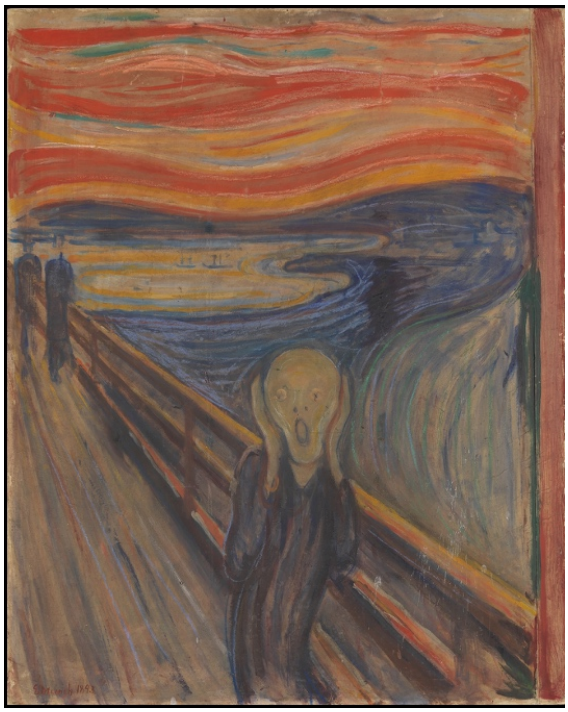
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At the workflow level, measures such as cycle time and rework may improve. But what happens at the business-unit level? Are revenues and profits increasing, or are costs falling? And if we have multiple business units or sections, what happens to enterprise value? What happens when we scale from a single task to teams, multiple teams, and multiple workflows? What we want is a sustainable, strategic, and meaningful gain for the organization as a whole.

Most of the evidence thus far on AI usefulness focuses on individual tasks and sometimes on workflows. Some research suggests only a third of organizations have seen enterprise value gains. If someone says, "We saved (some number) hours of work this week," the next questions should be: "What happened to those hours? Where did that value go? Did it produce a result we can see, or was it absorbed elsewhere in the organization?"

Effects on people and culture often ignored

Here's another major issue. Bottlenecks and value conversion are relatively mechanical aspects of the organizational system. But one issue that often receives too little attention is how people respond. When employees hear about AI, their reaction often resembles the famous painting "The Scream." The painting represents an experience of existential dread. On the one hand, employees hear that AI is great; on the other, they hear about layoffs and demands for efficiency. They're asking themselves questions like "What about my job? What are we doing? How will this change my role, even if I'm not laid off? Can I do the new work?"



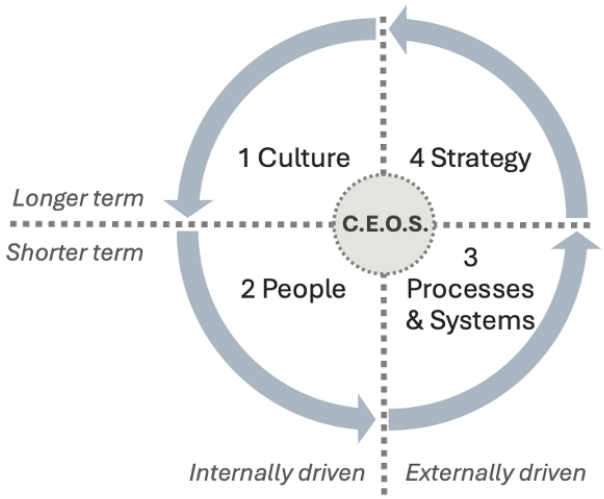
Earlier transformations, such as the Industrial Revolution and automation, raised similar questions. Similar human concerns arise during any significant change cycle.

People don't necessarily fear change. But they often fear change that's done to them rather than with them. If you don't communicate clearly about changes, that can increase fear. That goes doubly for AI. Communicate the organization's AI goals and what's being done to achieve them.

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Communication may not end all fear, anxiety, and resistance. However, not communicating will guarantee issues.

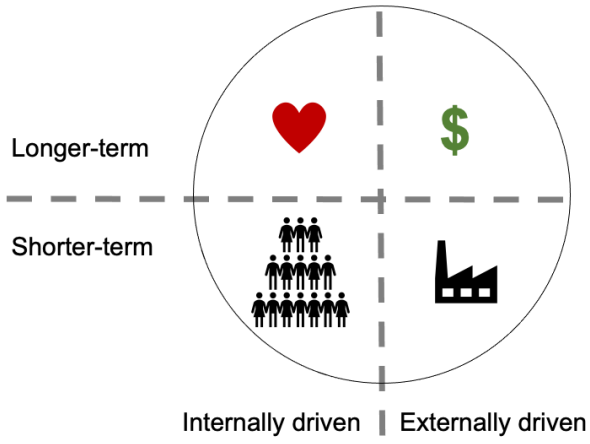
A simple organizational framework for diagnosis and design



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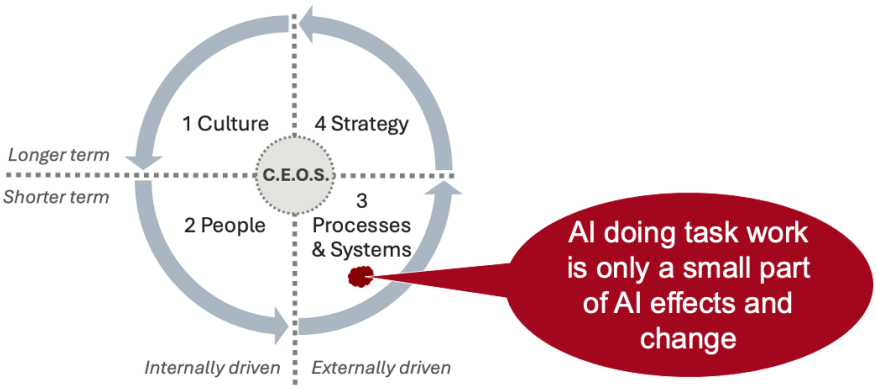
To help illustrate this, let me introduce a framework without going into all the details. The Optimal Business Success Model™ has four factors: culture, strategy, systems and processes, and people. You can use it both for organizational design and for diagnosis.

Culture is the heart of the business and something another organization cannot simply reproduce. Strategy describes how the organization will achieve its mission and sustain itself financially, whether through revenue or funding. Systems and processes are like the factory: how we turn inputs into outputs. The people factor addresses whom we choose to involve in achieving the mission.



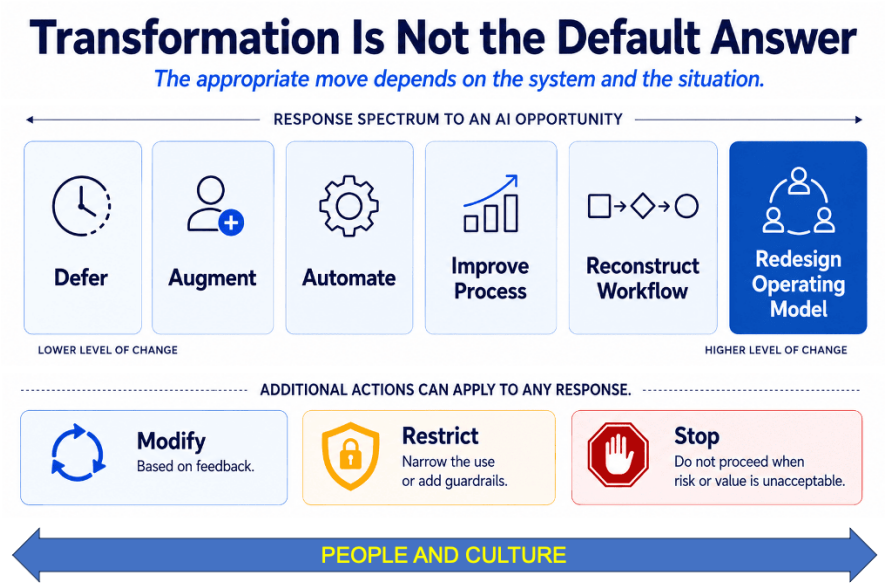
Many organizations began thinking about AI by asking, "Can't we just add AI to a task and get the benefits?" In most cases, the answer is no … not by itself.

"Can't we just add AI to a task to get AI benefits overall?"
The short answer: "No, in most cases."



Isolated AI adoption can be dangerous since AI can affect all organizational factors, not just processes & systems. At a minimum, you need to consider the people factor. Help people understand whether and how their tasks will change with AI. Address their concerns about job replacement and their ability to adapt. Provide training as needed to help them work with AI.

After hearing about these problems, you might ask, "Do we have to transform the whole organization to succeed with AI?" Maybe, maybe not. AI doesn't automatically require organizational redesign. It does, however, force leaders to ask whether redesign is needed … or at least it should. Transformation is not the default answer. It depends on the organization, its aims, its people, its culture, and how it operates.



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There's a spectrum of possible responses.

We can defer AI adoption. We can use AI to augment existing work or automate a task. We can use AI to improve a process or reconstruct an entire workflow. We can even redesign the operating model, including culture, people, systems and processes, and strategy. The right response depends on the situation. Across those options, we can also modify an existing AI approach or restrict AI use for now.

I keep emphasizing the people and culture factors. I've seen their importance repeatedly over years of observing and advising on organizational change. Unless you have no people at all, people and culture always need consideration.

Organizations should change to adapt to present circumstances. Don't think of organizations as permanent structures into which you're simply going to shove some AI. Think of culture, people, processes and systems, and strategy as the results of past choices. Understand those choices and the past context. Don't ignore how the organization got to where it is. Otherwise, you may repeat past problems.

Doing things just for the sake of change is not a winning move. Preserve what remains relevant, modify what should be adapted, and deliberately redesign what no longer fits.

Doing nothing without analysis is also not a good move. Ignoring needed changes can limit success, including with AI.

External relevance versus internal coherence

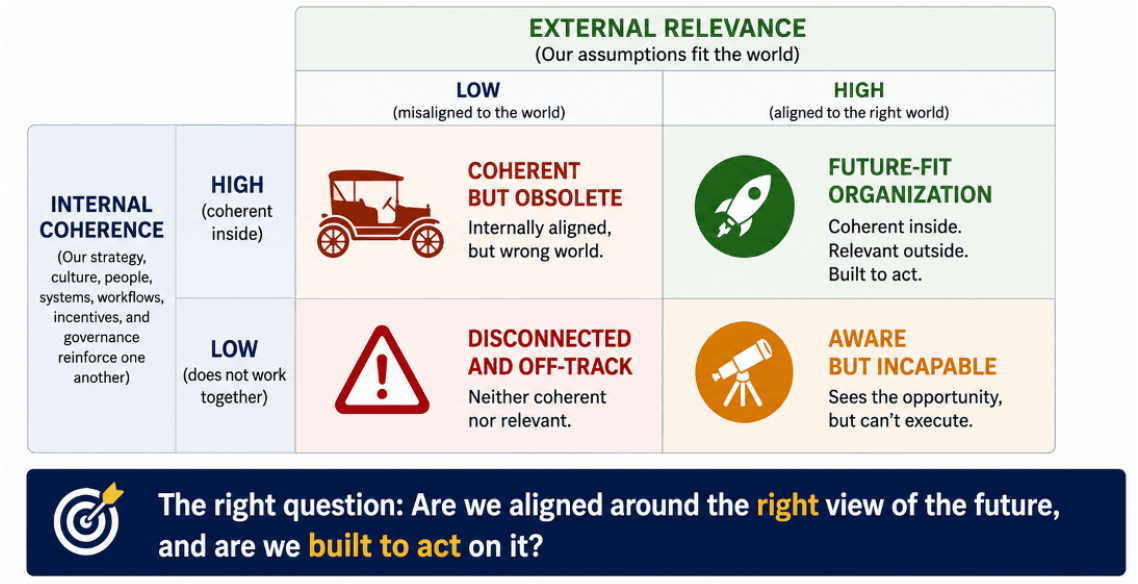
From a leadership perspective, the challenge is balancing external relevance and internal coherence.

External relevance asks whether our assumptions fit the world.

Internal coherence asks how well the organization's elements work together to achieve the mission.

Imagine a matrix with low and high external relevance on the horizontal axis. Add low and high internal coherence on the vertical axis. That creates a 2x2 future fitness matrix.

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At the bottom left, the organization is neither externally relevant nor internally coherent. This is the worst case.

At the upper left, it's internally coherent but obsolete. A common example is a buggy-whip business when automobiles first appeared. It is efficient and competent at something the outside world no longer needs.

At the bottom right, the organization understands the external world. However, it isn't aligned well enough internally to pursue opportunities and remain relevant.

At the upper right, the organization is coherent inside and relevant outside. Both dimensions are maintained in harmony.

Even without AI, this alignment isn't static for most organizations. AI itself is changing week by week, month by month, and sometimes day by day.

The questions we need to keep asking are:

- Do we have the right view of the future?
- Are we built to act on it?
- How does AI factor into that?

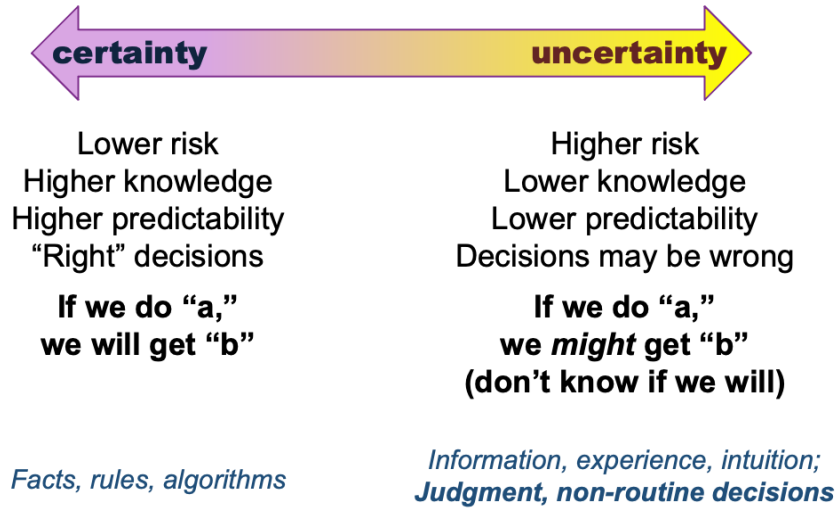
Don't let AI become the end goal. Keep asking how it can help us achieve our actual goals.

This gives you a sense of what leaders need to do. There are other criteria for redesign that we can cover in more in-depth presentations.

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How do you get started?

In almost any change, a key question is: What's the level of uncertainty?



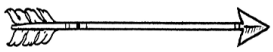
With low or no uncertainty, we have lower risk, greater knowledge, and higher predictability. We can make what we believe are the right decisions for the circumstances. "Right" doesn't mean being morally right or wrong; it means being appropriate to the situation. We can be relatively confident that if we do A, we'll get B.

Under greater uncertainty, we have higher risk, less knowledge, and lower predictability. A decision may turn out to be wrong because we didn't have enough information to make a good one. If we do A, we might get B, but we don't know whether we will.

When uncertainty is low, facts and rules can guide decisions. Many traditional computer systems work this way. AI can also support these decisions. But as uncertainty increases and outcomes become less predictable, judgment becomes more important. AI may provide information and options, but people still need to decide what to do. Intuition and experience also matter when uncertainty is high.

Here's an analogy. Suppose Robin Hood is in Nottingham Forest and sees a deer that his group needs for food. He draws his bow and shoots an arrow.

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Execute plan

Right until wrong

Once the arrow leaves the bow, he can't change its course. The arrow is basically executing the plan with no changes. He hopes he's a good shot and the deer doesn't move much. When he shoots, he assumes the arrow will hit the target … that the shot is "right." And there's no Nottingham Walmart nearby where he can buy more arrows, so every shot needs to count.

Contrast that with a guided missile.



Plan, do, check, adjust

Wrong until right

If I launch a missile at an aircraft, the opposing pilot isn't going to sit still and wait to be hit. He's going to maneuver to evade it. The guided missile starts with a plan and a target. Throughout its flight, it must check and adjust within its operating parameters. If the target moves, the missile adjusts. Its flight is a continual cycle of checking and adjusting until it either hits the target or misses.

The mindset change is that when uncertainty is high, our goal may be right even if our approach needs to change. Meanwhile, our approach will probably be wrong to some extent as we go along. This is the same as the missile's path may be wrong along the way, so it keeps correcting until it hits the target. We can't predict the future well enough to know every correct move in advance.

That connects with one of my favorite quotations from Randy Nelson:

> *"The core skill of innovators is error recovery, not failure avoidance."*

Don't freeze because you don't know the future. Start with redesigning one consequential outcome system. Then figure out how to recover, adapt, and keep moving forward.

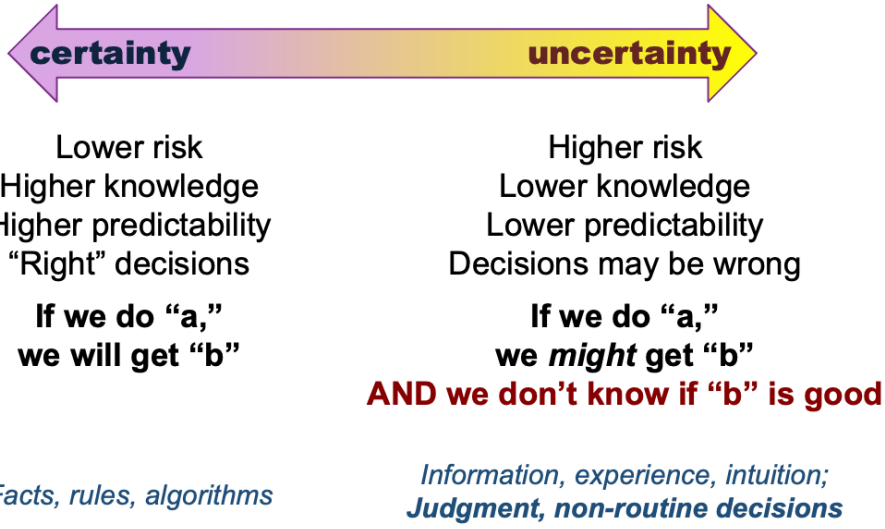
Effects of uncertainty on change management

This matters for change management. With greater uncertainty, we need to think in cycles. We form a hypothesis about how things should work. We then design a bounded intervention, carry it out, and observe what changes. We can then learn and revise accordingly. Then we repeat the cycle.

Unless we're facing an emergency, we don't want to attempt wholesale change all at once. That adds a lot of risk.

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There's another layer to our uncertainty diagram, shown in red below.



Some approaches assume that we move from the current state through a transition to a known desired state. In older terminology, that's "unfreeze, change, refreeze." The original Kotter change model can also be interpreted as starting with a desired state and concentrating on how to get there.

However, the uncertainty isn't only whether doing A will produce B. We also may not yet know whether B is the right result to pursue. We need feedback for two reasons: to improve how we reach our target *and* to determine whether the target itself needs to change.

Current state → transition → desired state

In AI-driven redesign, the target state cannot necessarily be known in advance:

Current system → hypothesis → bounded intervention →
operate → evidence → learning → revised organization →
operate → new evidence → further redesign → iterate as need

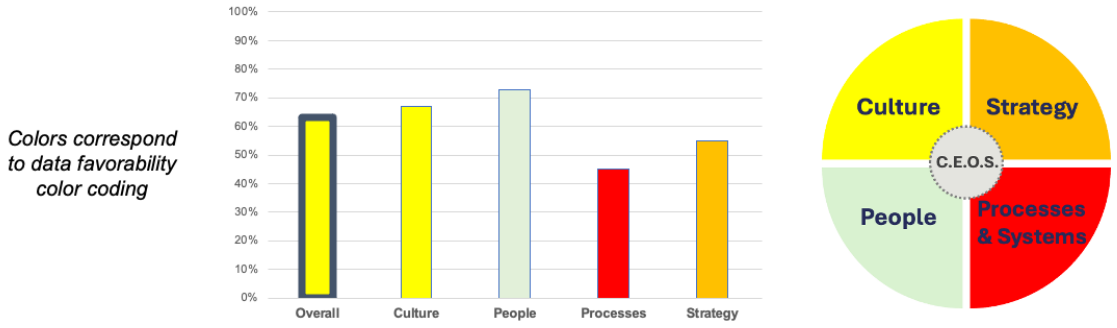
Uncertainty about the end state is particularly relevant to AI. The AI playbook is still being written. We know many ways to improve efficiency in individual tasks, and some ways to improve entire workflows.

However, organizations and their circumstances differ widely. There is not yet a single clearly defined end state for AI that applies to all organizations.

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There's some good news. AI offers another way to reduce uncertainty. We can use AI to help model possible changes before putting them into practice. In other words, you can use AI to help determine how to use AI better. It's an important function to consider beyond using AI simply to perform tasks.

You can also assess your organization before or after redesign. The four-factor framework I described earlier can support an assessment. The picture below shows a real-world organizational assessment using the four factors. The color coding indicates level of concern. The assessment has details for each factor along with recommended actions.



There is an advantage of assessing the organization before any redesign. Knowing current weaknesses allows you to target the highest payoff actions to achieve high performance. Those actions may not be what you think they are. Not knowing may lead to investing in AI where it won't be as valuable … or even be a distraction and waste.

Summary

Don't add AI merely for AI's sake. The future won't simply belong to organizations with the most AI.

Don't add it to an operating model that cannot accommodate it because that model was designed for a different world. You can invest time and money, only to discover that the operating model blocks or restricts the value you hoped to gain.

Start with your mission and values. What's still relevant, and what should be preserved? How do you maintain the balance between external relevance and internal coherence? How do you preserve what is relevant while re-engineering as needed? And how do you build the organizational capabilities needed to incorporate AI effectively?

For AI redesign, answer five essential questions:

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1. What outcomes should the organization be designed to produce?
2. Which workflows should be improved, eliminated, or rebuilt?
3. Which decisions should stay human, be AI-assisted, or be delegated within clear limits?
4. How should authority, accountability, governance, and assurance be designed?
5. What leadership, cultural, and workforce changes are needed to make the new model work?

One final piece of good news: If you're good at leading and managing change, that's still a key capability in the age of AI. Regardless of what AI you're implementing, if humans are involved, leading change matters.

I'll close with this picture. There's fog in the distance, and you can't quite see where the tracks lead.



Similarly, you may never get a completely clear picture of your situation. You *can* make decisions based on what you can see, move forward, and adjust as you learn.

That is the way forward in the uncertain era of AI.

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