30

THIRTY YEARS OF MAKING CHANGE HAPPEN

MADE FOR CHANGE

YOUR NEXT, AND LAST, BUSINESS IMPERATIVE

Year after year, the value and outcomes leaders hope to achieve through digital excellence, data-driven decision-making, and best-in-class customer experience remain elusive. Discussed dutifully across board meetings, shareholder calls, and conference rooms worldwide, they're the incantation of the modern corporate leader—sought-after strands in the DNA of successful transformation.

It's a curious phenomenon: Year after year, why do these priorities (among others like them) continue to fuel such fervent dialogue among the leadership ranks? Why is there still an insatiable appetite for articles, podcasts, and white papers vowing to help leaders navigate these topics once and for all?

It comes down to today's climate of constant change: Customer behavior and preferences are unpredictable. Innovation yields new digital capabilities. Ever-more-insightful forms of data raise the competitive stakes. Unlike slower-to-evolve capabilities and functions such as accounting, legal, or treasury, the requisites for transformation—including digital excellence, data-driven decision-making, and customer experience—are constantly evolving. Still, leaders often try to extract value from them in a fixed fashion, applying the same rigidity as they do to some of the more static areas of the business.

MADE FOR CHANGE

Made-for-change businesses employ an intentional method for flexibility—one that drives value and manages risk by enabling change *little and often*. People and culture power a made-for-change future.

To fully leverage these potential advantages, organizations need malleable strategies and systems. Leaders must ground them in clear objectives while acknowledging the inevitability and necessity of adaptation.

Simply put, successful businesses must be **made for change.** These businesses employ an intentional method for flexibility—one that drives value and manages risk by enabling change little and often. People and culture power a made-for-change future.

WHY IT'S TIME TO SET THE FOUNDATION FOR A MADE-FOR-CHANGE FUTURE

For many businesses, becoming made for change means unraveling decades of hardwired infrastructure, processes, and ways of working—the things companies built their legacies on throughout the 20th century.

How did we get here? Process optimization practices that started with the introduction of Henry Ford's moving assembly line in 1913[1] matured and expanded in the decades that followed. For example, the *Toyota Production System* is a methodology and set of core leadership philosophies that strive for efficiency improvement and "the complete elimination of all waste."[2] Countless companies have taken their cues from the automotive industry and adopted these or similar methods, hardening all aspects of production to drive out waste and avoid risk.

From the mid-1990s through the early 2000s, the tide started to turn. Digital, data, and customer experience emerged as unexploited assets that promised a new kind of competitive differentiation. Yet there were no standards or precedents guiding their use. Like a modern-day California Gold Rush, businesses quickly loosened the reins on standardization so they could pioneer the next competitive frontier.

"[It was] a bubble that took a real, transformational phenomenon—the internet—and compressed its potential for economic value into an unrealistic time frame—a couple of years," said J.P. Gownder, a principal analyst at Forrester, a leading research and advisory company, of the dot-com craze.[3] That meant businesses abandoned their standards and conventional prudence, taking bigger risks to stake their claim in a new era.

When the bubble burst, businesses retreated, hardening systems and structures to avoid downside risk. And just when they started to feel comfortable wagering some bigger bets again, the Great Recession of 2007-2009 put them back on their heels. Throughout periods of uncertainty, standardization has been the safest way to wring waste and risk out of the business. And in theory, it adds up: The more you can harden your operations, the more efficient and less costly they are likely to be—at least in the short term.

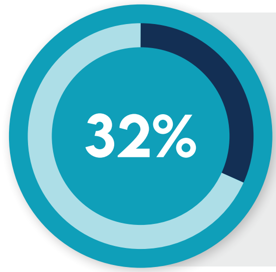
FLEXIBILITY HAS INTRINSIC VALUE

Because transformation's value streams, including digital excellence, data-driven decisions, and customer experience, are always changing, there's inherent value in your ability to adjust alongside them. In other words, flexibility drives value.

But in a rapidly evolving marketplace, this stance is flawed—and that's truer today than ever before. Businesses in 2022 operate in markets that must effectively respond to the evolution of customer preference, employee needs, and increased competition, all of which are moving at an accelerated pace thanks to the free flow of capital, seamless access to information, technology advances, and diminished barriers to entry. Because transformation's value streams, including digital excellence, data-driven decisions, and customer experience, are always changing, there's inherent value in your ability to adjust alongside them. In other words, flexibility drives value.

But as history teaches us, organizations that want to capture the value of flexibility can no longer swing between the extremes of unfettered risk-taking and uncompromising risk avoidance. Through our research and work over the last three decades, we've found that businesses tend to put too much weight on risk avoidance and waste reduction to the detriment of strategic flexibility. We believe it's because they lack the right guardrails to assume risk and pursue flexibility.

A 2020 report from *Harvard Business Review* supports our position. Its authors wanted to quantify the forgone value due to suboptimal levels of risk. To answer that question, they devised a metric called the risk aversion tax (RAT). The RAT represents the "the hidden tax" an organization pays when its managers are more risk-avoidant than their CEO, who is assumed to have the optimal level of risk tolerance. In their assessment of one company they described as "high-performing," the authors calculated a RAT of 32 percent; in their words, "This company could have improved its performance by nearly a third simply by eliminating its own, self-imposed RAT."[4]



Per *Harvard Business Review,* one "company could have improved its performance by nearly a third simply by eliminating its own, self-imposed RAT."

To overcome employees' natural aversion to risk and reclaim the value of flexibility, what we really need is a structured method to configure our businesses for change—a pragmatic method that balances the benefits of flexibility with the inherent risks and costs (throughout the organization, not just at the C-level). Delivering change in small, frequent intervals answers that call. It's what we'll explore next.

CHANGE LITTLE AND OFTEN TO CAPTURE THE VALUE OF FLEXIBILITY

Becoming made for change is tough because of the natural human proclivity to avoid risk and a misunderstanding of the value of flexibility. After all, it can be difficult to attribute a revenue or cost figure to flexibility in making a business case. Instead, leaders more often rely on the same well-trodden growth and efficiency measures to build their cases for transformation: Operational efficiency/cost is the most-used transformation strategy KPI (36 percent). Speed to market, one outcome of a strategy that enables flexibility, is the second-least used—it's used by just 21 percent of businesses.[5]

But once you move from strategy into delivering work, flexibility is the lower-risk and higher-value course of action. Think about it: Business cases are based on assumptions that inform transformation strategy. Those assumptions are partially incorrect because the requisites for transformation—digital excellence, data-driven decisions, customer experience, or otherwise—are changing constantly and subject to an array of possible futures: "We tend to be *overconfident* about the accuracy of our forecasts and risk assessments and far too narrow in our assessment of the range of outcomes that may occur," Robert S. Kaplan and Anette Mikes wrote in *Harvard Business Review*.[6]

And while people, and the assumptions they make, are imperfect, people play a vital—if not the most vital—role in transformation. In the end, many businesses invest their time in painstakingly analyzing facts, figures, and projections, resulting in a business case that offers little more than an educated guess. In doing so, they also overlook the most important analysis of all: understanding what is needed of people to realize their strategy and validate its supporting assumptions.

“We tend to be overconfident about the accuracy of our forecasts and risk assessments and far too narrow in our assessment of the range of outcomes that may occur.”

ROBERT S. KAPLAN AND ANETTE MIKES,
Harvard Business Review

THE LITTLE-AND-OFTEN PRINCIPLE

Made-for-change organizations act swiftly on strategy, devising informed hypotheses and delivering on them in small, frequent increments. They empower employees to create change little and often, testing business case assumptions continuously.

You can’t know whether your strategy will create value until you’ve started to deliver it *and* your people have adopted it. Until that point, the business case is an investment of time with no proven value. It’s the embodiment of risk and opportunity cost.

While made-for-change organizations understand the necessity of the business case, they also acknowledge its fallibility. Therefore, they don’t treat it as a guarantee but rather as a critical aspect of a hypothesis that must be proven. They act swiftly on strategy, devising informed hypotheses and delivering on them in small, frequent increments. In other words, they empower employees to create change **little and often,** testing business case assumptions continuously. This approach drives value more predictably and cuts down on risk because it avoids a colossal change at any one time; when there’s an inevitable failure, the downside is contained. More importantly, that failure offers value in itself—a new data point from which employees can learn and improve incrementally. This iterative principle of “change little and often” is intrinsic to business agility—and to finding value in flexibility.

By changing little and often, made-for-change companies develop an “adaptive advantage,” one that enables them to advance doggedly toward their promise and purpose as the market moves around them.[7] To illustrate, let’s revisit our automotive example. We’re all likely familiar with the global chip shortages resulting from COVID-19-related market pressures and the resulting impact on model availability. With a hardened assembly line focused squarely on efficiency and optimization, many original equipment manufacturers (OEMs) couldn’t make the incremental adjustments necessary to work around the shortage. Many were forced to delay or cease production altogether. Those with an adaptive advantage, like Tesla, have changed little and often to navigate the scarcity with ease. Unconstrainted by a fixed type of chip, the company deploys incremental software updates to accommodate alternative chips seamlessly as need changes.[8]

Software updates aside, made-for-change businesses deploy a similar type of change—little and often—across operating models, governance, incentive structures, career paths, and more. In other words, your business needs to be rewired to anticipate perpetual end-to-end change. In our final section, we’ll show you how your culture and people make this possible.

YOUR PEOPLE AND CULTURE ARE KEY TO A MADE-FOR-CHANGE FUTURE

OUR MADE-FOR-CHANGE JOURNEY

In embarking on our made-for-change journey, we sought to point employees' creative energy, talents, and capacity toward a single, unified growth strategy.

As we've explored, the case associated with a made-for-change enterprise is compelling: change delivered little and often enables you to capture the value of flexibility and manage risk. Now, it's time to get practical. To become made for change, we recommend that you consider the steps we've detailed so far: Understand the case for flexibility in your own organization; then, prime your culture and ways of working to change little and often. That's where employee empowerment, trust, and transparency come into play. To illustrate, I'll share how our firm moved through these stages and offer practical steps for your own journey.

First, a little background: We're a 30-year-old company operating in the U.S. and U.K. with partner operations across the globe. With a workforce of roughly 3,500 consultants, our core services include strategy consulting, management consulting, and managed services. Because we are in the business of bringing best-in-class solutions and insights to our clients, our people have always been our most valuable currency.

In embarking on our made-for-change journey, we sought to point employees' creative energy, talents, and capacity toward a single, unified growth strategy by employing the following steps:

1. CREATE THE CASE FOR A MADE-FOR-CHANGE FUTURE.

Your C-suite must collectively recognize one guiding truth: Strategic, intentional flexibility equates to long-term success and transformation value. More than likely, a pivotal moment will prompt that recognition. Identify that event in your organization's recent history. Is it the pandemic, a disruptive new entrant, or tangible examples of missed opportunity?

Reorient your leadership team around your company's purpose and pinpoint the opportunities for shared value at the intersection of customer, workforce, and operational needs. Guided by this foundation, collectively envision a future where culture and ways of working enable the flexibility needed to capture those valuable opportunities.

In shaping your vision for a made-for-change future, introduce a new set of objectives. Prioritize those that represent material value potential—in other words, those tied to measurable, outside-in commercial value from the perspective of either your customers or employees (if they're the customer in your transformation). Avoid prioritizing functional or business unit-specific objectives that don't *directly* create value for your customer.

While a commitment to shared objectives is required at every level, it starts at the top. Leadership alignment cannot end with a tepid nod in the (virtual) conference room. If there is true agreement and commitment to the new (adjusted) set of objectives and key results (OKRs), then every member of your C-suite must understand how they can actively participate and contribute to this future.

How this looked for us: As we aspired to become made for change, we recognized that our firm was not wielding flexibility to its advantage. Said otherwise, we weren't making the small, focused, and regular (little and often) adjustments necessary to drive value, manage risk, and realize the potential of our business cases. Instead, we had proven solutions that we constantly reinvented. We wasted entrepreneurial capacity and compromised consistency, creating unnecessary risk and stifling value potential.

To solve this challenge, our leadership ranks went all in on a new approach to setting vision and strategic direction—an approach anchored in a collective understanding of our made-for-change imperative. Casting aside functional objectives, we identified growth pillars tied directly to our customers, in this case our workforce and our clients.

Within those growth pillars, we identified the products (including solutions and services) where designing for change would provide incremental value and limit risk if improved upon. If it didn't make the list, our leadership team was aligned that we were no longer going to invest time and capacity in trying to improve it.

And within our priorities, we defined where to standardize for value-added efficiency and scalability and, conversely, where to point the workforce's entrepreneurial energy. Typically, we codified about 80 percent of a given product. Then we empowered our people to tailor the 20 percent—the portion where customization offers appreciable value and impact specific to a unique (internal or external) client challenge.

Ask yourself: "Has our leadership team aligned beyond just a shared appreciation for an aspirational vision or future destination? Can we point to a set of objectives and key results that align to the growth aspirations of the business rather than a single function?"

If the answer is no, stay tuned for our follow-up article on this topic.

2. ESTABLISH WAYS OF WORKING THAT ALLOW FOR CHANGE LITTLE AND OFTEN.

As you move toward a made-for-change future, determine how your business will work to enable change little and often. Organizational models, which are often dictated by legacy functions, should not determine the pattern for collaboration. After all, core transformation value streams like our examples of digital excellence, data-driven decisions, and customer experiences don't happen in a silo, so neither can your ways of working.

Instead, ask: What is the optimal operating model, supported by annual goals, incentives, career paths, and patterns of cross-functional teaming, that will allow us to change little and often, manage risk, and drive the greatest value relative to business needs?

One other word of caution: Be ready to accept that you may not receive employees' buy-in on new working norms from the outset. When you first introduce something different, your culture might reject it. In fact, you should *expect* rejection. You'll likely also see an initial drop in productivity as employees get acclimated to a new way of operating. However, as employees start to change little and often, owning value creation along the way, they will begin to buy in to the new ways of working and collaborating. A made-for-change model shifts employee expectations and culture over time, moving from historical change resistance to future change pursuit.

When employees validate the small changes in their daily work, they can use that learning to propel the next change. Those incremental successes mean that you build upon positive change, which is essential for driving momentum around adoption and quality. The virtuous cycle repeats: Culture and working norms become mutually reinforcing.

How this looked for us: While creating client value has always been our highest priority, our culture and ways of working weren't primed to allow change little and often. Sure, we'd performed the requisite analyses to shape compelling business cases, but we hadn't equipped our people to drive value and manage risk through informed testing and learning around shared objectives. Instead, employees ran in numerous—sometimes duplicative and often divergent—directions, siloed by functional objectives and individual aspirations.

When we committed to a predetermined set of growth pillars and OKRs that directed employee energy and focus, many were frustrated by changes to governance, which they perceived as a loss of autonomy. As a result, we saw material turnover in our executive ranks that greatly exceeded our expectations.

What had been perceived by some as a loss of agency was ultimately a redirection of it within the growth strategy, business architecture, and culture we established. As employees and executive teams made focused contributions to growth, the prospect of a made-for-change future energized them. In addition, the incidence of duplicative projects, fragmented efforts, and lack of support—previously causes of low employee engagement and discontent—plummeted. At this stage of our journey, we learned that neither unfettered autonomy nor staunch risk aversion are desirable scenarios. High-value flexibility means assuming the optimal level of risk through change, little and often, that points toward shared objectives.

Ask yourself: "Are our employees working in a flexible, adaptive fashion, but their primary allegiance remains to their siloed functions?" It may be time to revisit your team structures, career paths, and incentive models in the context of your enterprise strategy.

Look out for more insights from our team on this challenge this year.

3. EMPOWER, ENABLE, AND TRUST EMPLOYEES TO POWER A MADE-FOR-CHANGE ORGANIZATION.

If you're aligned on the value of flexibility, with an understanding of why changing little and often can help you realize that value, your final step is to enable your people to capture that potential.

Take stock of your organization's identity and guiding principles. This clarity provides a lens through which to evaluate the ongoing relationship between new ways of working and how they show up in your culture. Purpose and identity provide formidable anchor points from which change, little and often, can be propelled in a way that's consistent with your values.

Tools like *freedom within a framework* can help you manage the relationship between ways of working and culture and also empower employees along the way.[9] While *freedom within a framework* isn't a novel term in management circles, here's what it means to North Highland: As empowerment and trust take root within an organization's culture, employees will be increasingly comfortable "failing fast" in a safe space that is defined by shared values and principles. By taking calculated risks, learning, and improving within the confines of established strategic priorities and OKRs (i.e., the framework), the cadence of change, and in turn value, becomes increasingly predictable.

How this looked for us: Empowerment, trust, and transparency are integral to our culture, and they guide employees' day-to-day, practical decisions. Guided by our growth pillars and OKRs, decentralized teams have the freedom to prioritize work, evolve their focus, and reprioritize to best support enterprise objectives. The following techniques help our employees practice *freedom within a framework:*

1. **Design thinking.** Our employees are guided by OKRs that consider client needs over business needs. We equip employees with access to insights they need to design (and adapt) solutions based on client pain points, challenges, and motivations.

2. **Systems thinking.** With greater transparency and a better understanding of how our organization operates as a connected system, employees can work more efficiently and at a higher quality by leveraging the best-in-class work of others across the firm.

3. **Scenario thinking.** We encourage employees to pilot concepts in different scenarios and contexts. They have the liberty to flex based on changing conditions and continuous testing and learning.

Ask yourself: "Do some of our teams revert to designing solutions based on fixed beliefs and assumptions?" It may be worth taking a closer look at the techniques that can help employees flex with greater intentionality.

We'll unpack the role of design, systems, and scenario thinking in made-for-change organizations later this year. Stay tuned.

YOUR MADE-FOR-CHANGE MANDATE

So, to return to my original question and premise: Why do digital excellence, data-driven decisions, and customer experience puzzle businesses in their transformation efforts year after year? The phenomenon stems from our innate aversion to risk, an inclination to standardize, and misaligned objectives. While technologies, data, and customer preferences are always changing, we miss opportunities to capture the value that comes with moving alongside them. Realizing that value starts by pursuing flexibility with structure and intention. **By becoming made for change.**

It's time we focused less on avoiding all risk and change and more on designing our businesses to accept it. Being made for change is a method to extract the value of flexibility—one that balances risk and reward through change little and often, and one that allows for intentional adaptation. None of us can escape the change of the past 30 years, and in the next 30 years we're left with no choice but to get good at it. *Really good.*

1 "This Day in History: Ford's Assembly Line Starts Rolling." History, Nov. 30, 2021.

2 "Toyota Production System." Toyota.

3 "The Dotcom Bubble Crash Was 20 Years Ago Today—Could it Happen Again?" Newsweek, Mar. 10, 2020.

4 "Your Company is Too Risk-Averse." Harvard Business Review, Mar. 2020.

5 December 2021 North Highland-sponsored survey of 515 business leaders at U.S. and U.K.-based organizations with > $1B in annual revenue.

6 "Managing Risks: A New Framework." Harvard Business Review, June 2012.

7 "The Human Experience Imperative." North Highland.

8 "Could Software be the Answer to the Chip Shortage?" Aurora Labs, Jan. 13, 2022.

9 "Structure that's Not Stifling." Harvard Business Review, May-June 2018.

LET'S CONTINUE THE CONVERSATION:

ALEX BOMBECK, Chief Executive Officer
Alex.Bombeck@northhighland.com

Alex spent more than two decades leading the digital consulting practices of marketing and communications agencies before joining North Highland in 2014. As CEO, Alex directs the firm's growth agenda and leads its focus on culture and transformation. He puts people at the center of his approach to transform organizational and operational processes, supporting new ways of working, greater enterprise agility, and collaborative cultures.

ABOUT NORTH HIGHLAND

North Highland makes change happen, helping businesses transform by placing people at the heart of every decision. It's how lasting progress is made. With our blend of workforce, customer, and operational expertise, we're recognized as the world's leading transformation consultancy. We break new ground today, so tomorrow is easier to navigate.

Founded in 1992, North Highland is regularly named one of the best places to work. We are a proud member of Cordence Worldwide, a global network of truly connected consultancy firms with the ability to think and deliver together.

This means North Highland has more than 3,500 experts in 50+ offices around the globe on hand to partner with you.

For more information, visit northhighland.com and connect with us on LinkedIn, Twitter and Facebook.

30 NORTH HIGHLAND
THIRTY YEARS OF MAKING CHANGE HAPPEN