Game changer

How companies are responding to a fast-changing business environment

A report from the Economist Intelligence Unit
Game changer is an Economist Intelligence Unit report that examines how companies are responding to a fast-changing business environment. Rather than being a single paper, the analysis is presented as a series of articles. The report was sponsored by Progress Software, but the Economist Intelligence Unit bears sole responsibility for the content. The findings and views expressed do not necessarily reflect the views of the sponsor. The report was written by Rob Mitchell, and edited by Chris Webber. Additional interviews were conducted by Fergal Byrne and Sarah Fister Gale.

Our research drew on two main initiatives:

We conducted a global online survey of 390 executives in September 2011. Approximately one-half were C-level executives and a similar proportion represented companies with US$500m or more in annual revenue. Respondents were spread evenly around the world, with 30% from Asia, 30% from Europe, 30% from North America and 10% from the rest of the world.

To complement the survey results, the Economist Intelligence Unit also conducted a programme of qualitative research that included in-depth interviews with a range of experts and senior executives. The insights from these interviews appear throughout the report. The Economist Intelligence Unit would like to thank the following individuals and all survey respondents who contributed to this research:

- Richard Axelrod, co-founder of the Axelrod Group
- Rolf Bixner, a senior partner and managing director at Boston Consulting Group
- Andrew Blau, president and chief executive of Global Business Network
- Lowell Bryan, a director at McKinsey
- Michael Denison, research director at Control Risks Group
- Clark Gilbert, president and CEO of Deseret News and Deseret Digital
- Hal Gregersen, senior affiliate professor of leadership at INSEAD
- Anil Gupta, chairman and managing director of Havells
- Ronald Heifetz, co-founder of the Center for Public Leadership at the John F. Kennedy School of Government
- Ken Jones, president and CEO at Astellas Europe
- Eivind Kolding, chief executive of Maersk Line
- Ed Lawler, distinguished professor of business at the University of Southern California Marshall School of Business
- Danny Peltz, head of treasury at Wells Fargo
- Richard Rawlinson, a partner at Booz & Company
- Donald Sull, a professor at London Business School
- Wim Thomas, chief energy adviser to Royal Dutch Shell
- Tiger Tyagarajan, chief executive of Genpact
- Armando Zagalo de Lima, president of global customer operations at Xerox
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Companies are taking longer to reach critical business decisions. The pace of change and the complexity of the environments in which businesses operate have forced them to extend decision-making times, even though they would much prefer for them to have fallen. Nearly one-half (48%) of businesses surveyed say decision-making times have increased over the past five years; only 22% say they have fallen.

Executives fear that they are not making the right decisions. Most businesses are reasonably confident about gathering and analysing data, but they are much less comfortable when it comes to making decisions. Among respondents to our survey, only 39% think they are good at making decisions about how and when to respond to change.

Cultures will need to adapt. Hal Gregersen, senior affiliate professor of leadership at INSEAD, comments: “Most people have a bias towards the status quo, so when they are faced with a disruptive opportunity or threat, they see it as a virus they want to kill.” With change an ever present in today’s business environment, leaders need to come up with ways of counteracting this resistance to change.

Leaders need to be willing to conceive multiple futures and embrace uncertainty. “Companies need leaders who are tolerant of ambiguity and who can make others feel comfortable about that,” argues Lowell Bryan, a director at McKinsey. “They have to instil confidence in their teams that they are making the right decisions, even though it’s not clear how the future will evolve.”

Setting up a new division can be an effective way of managing disruptive change. Clark Gilbert, president and CEO of Deseret News and Deseret Digital, and a former professor at Harvard Business School, advises: “Setting up a separate unit with its own P&L and management allows that unit to focus on the breakthrough disruptive change, while the old unit can be shrunk down and moved to a space in which it can survive.”

Executives should listen to messages from the frontline. “One of the most powerful sources of information about emerging adaptive opportunities and pressures lies at the frontline,” says Ronald Heifetz, co-founder of the Center for Public Leadership at Harvard University’s John F. Kennedy School of Government. “Employees who interact with customers are always the first to get the clues and early warning signs about new sources of opportunity or competition.”
the pace of change is accelerating...

mobile phones
468% increase between 2000 & 2009

internet users
365% increase between 2000 & 2009

1,600% increase in China

source: world bank & IDC

expected in smartphone use

source: blogpulse

It is estimated that there are now more than

346m websites

170m blogs

social media

source: facebook & twitter

More than 750m active Facebook users and

100m users of Twitter

...and businesses are struggling to respond

74% of respondents to our survey said the pace of change in their operating environment has picked up in the past five years

79% of people think it’s important for their organisation to respond quickly to changes in its operating environment

48% say the time it takes their organisation to make decisions has increased over the last five years

39% are confident they are making the right decisions about how and when to respond to change

Source: Economist Intelligence Unit Survey of 390 business executives

BUT...
Change has been a major feature of our economic system since at least the industrial revolution. From that point on, the dynamics of technological advance, trade liberalisation and free-market competition have been driving economies forward in an evolutionary process where continual change is a defining characteristic.

Still, many observers think the pace of economic change has picked up in recent years, and the research carried out for this report shows that businesses are struggling to cope.

One important driver of change is that the amount of information the world generates is increasing. One contributing factor is that the amount of knowledge the world generates is increasing. For example, World Bank data show that there was a 56% increase in the number of academic journal articles published per year between 1990 and 2007 (see chart 1). Similarly, statistics from the World Intellectual Property Organization show that annual patent applications increased by 90% between 1990 and 2008 (see chart 1).

At the same time, information flows are also accelerating. According to KPMG, a consulting firm, the amount of information found in the Lehman Brothers’ e-mail system after the bank’s collapse in 2008 was roughly 30 terabytes, equivalent to twice the amount of information contained in the US Library of Congress. Equally as striking, Wal-Mart is now said to be processing more than 1 million customer transactions every hour and stores them all on a system capable of holding 2.5 petabytes of information, enough space to hold about 33 years of HD-TV video.

Technology—particularly the internet—has been another driver of increased complexity. World Bank data show that the number of internet users globally rose by 365% between 2000 and 2009, and that there are now an estimated 1.8 billion people hooked up to the internet worldwide. As well as forcing companies to adapt their infrastructure and business models to take advantage of the opportunities created, research shows that the rise of the internet has led to increases in trade and competition. So not only have firms had to adapt to a radical new technology, but they have also had to do so in an environment that is becoming increasingly competitive, dynamic and complex.

All of this means that rather than set long-term strategies and stick to them over a period of years, companies are finding that they need to take a much more flexible approach to their business. “The value of a clearly defined five-year strategy has been diminishing for some time now,” says Rolf Bixner, a partner at Boston Consulting Group. “Companies now need to constantly review and adapt their strategy, and ensure that they build an organisation that is able and willing to change continuously.”

What do businesses think of all this? Unsurprisingly, nearly three-quarters (74%) of respondents to our...
survey think the pace of change in their operating environment has picked up in the past five years. Also, and perhaps equally as unsurprising, almost eight in ten (79%) think it is important that they respond quickly to the changes taking place around them. Fascinatingly, however, almost one-half (48%) of all businesses surveyed say the amount of time it takes for them to make key business decisions has actually increased over the past five years. Moreover, many are taking a surprisingly long time to reach decisions that are critical to the company’s performance. Four out of ten respondents say that it takes them months and 8% say that it takes years.

One of the reasons for this unwelcome extension of decision-making time could be that the accelerating pace of change and increased complexity of the business environment have made decision-makers more uncertain about the future. Lowell Bryan, a director at McKinsey, points out that this is consistent with the current tendency for companies to hoard cash. Currently, there is around US$2trn in cash sitting on corporate balance sheets in the US alone. “Companies only want to deal with investments where they have a very high confidence in the returns,” he says.

Further survey findings corroborate this trend (see Chart 4). For example, less than four out of ten respondents think that they are making the right decisions about how and when to change. Companies also admit that they are much better at gathering information than they are at acting on it. Similarly, executives are more comfortable with tasks like identifying early indicators of change and assessing the possible impact of changes than making timely decisions and implementing them in their business.

In other words, companies have no problem gathering and analysing data—which is unsurprising given the surplus of information available—but they struggle with turning this information into strategic decisions. More information and analysis has not led to less uncertainty. Try as they might, the pace of change and complexity of the environments in which they operate have forced businesses to extend decision-making times, even though they would much prefer for them to have fallen.

This dissonance matters. Failure to respond quickly to change implies missing out on growth opportunities or undermining existing sources of competitiveness. Moreover, in an environment where change, complexity and competition are all accelerating, the costs and benefits of making the right (or wrong) decisions are being amplified.

Business decision-makers must urgently find ways of bridging the gap between the kind of company many of them think they work for (one that does not make decisions quickly enough) and the kind the vast majority think they should be working for (one that responds quickly and effectively to changing circumstances). The remainder of the articles in this collection explore ways in which business leaders can make that transition.

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### Chart 3: Has the Time Your Organisation Typically Takes to Take Key Decisions Increased or Decreased Over the Past Five Years?

Select all that apply. (% respondents)

<table>
<thead>
<tr>
<th>Change Type</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Significant increase</td>
<td>12%</td>
</tr>
<tr>
<td>Slight increase</td>
<td>36%</td>
</tr>
<tr>
<td>No change</td>
<td>31%</td>
</tr>
<tr>
<td>Slight decrease</td>
<td>18%</td>
</tr>
<tr>
<td>Significant decrease</td>
<td>4%</td>
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</table>

Source: Economist Intelligence Unit

### Chart 4: How effective do you think your organisation is at dealing with the following aspects of change?

<table>
<thead>
<tr>
<th>Change Type</th>
<th>Effective</th>
<th>Not Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying early indicators of change</td>
<td>49%</td>
<td>17%</td>
</tr>
<tr>
<td>Assessing the impact of potential change</td>
<td>47%</td>
<td>16%</td>
</tr>
<tr>
<td>Making timely decisions about how and when a response to change is required</td>
<td>38%</td>
<td>24%</td>
</tr>
<tr>
<td>Making the right decisions about how and when to respond to change</td>
<td>39%</td>
<td>20%</td>
</tr>
<tr>
<td>Implementing changes to systems and processes</td>
<td>37%</td>
<td>25%</td>
</tr>
<tr>
<td>Communicating the rationale for the response to stakeholders</td>
<td>36%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit
Xerox has learned the lessons from disruptive change the hard way. In the 1990s, it quickly found its share in the photocopying market eroded by disruptive entrants from Japan, including Canon and Ricoh. These companies produced basic digital versions of Xerox’s product and had few of the incumbent’s high-end features. But, crucially, they were smaller and cheaper, and therefore accessible to a much larger customer segment. Xerox could not compete and its dominance of the copier market came to an end.

Today, Xerox is trying to keep its eyes wide open to the potential for disruptive change. A department called Corporate Intelligence spends its time analysing the market, anticipating client requirements and feeding that information to product development specialists. “The earlier you can detect change, the more capable you are to react,” says Armando Zagalo de Lima, president of global customer operations at Xerox. “If you drive change as a company, you are in a much better position than if you are trying to follow it.”

But how should companies distinguish disruptive change from more run-of-the-mill continuous change? Clark Gilbert, president and CEO of Deseret News and Deseret Digital, and a former professor at Harvard Business School, describes disruptive change as a situation where the customer, business model and performance criteria fundamentally invert in such a way that everything in the core business looks inferior when viewed through the lens of the new idea.

Faced with a disruptive innovation that conflicts with their existing business model, companies must dramatically change their strategy to embrace the new approach. But as many business leaders have discovered, this is extremely difficult to achieve. “Rather than prioritise the new model, companies end up allocating resources and attention back to the core, traditional way of doing things rather than the new, more innovative model,” says Mr Gilbert.

To Hal Gregersen, senior affiliate professor of leadership at INSEAD, and co-author of the Innovator’s DNA, the failure to respond to disruptive change stems from an inability to shake off entrenched ways of thinking. “Most people have a bias towards the status quo, so when they are faced with a disruptive opportunity or threat, they see it as a virus they want to kill,” he says. “It is so threatening to so many people in the company that they do everything they can to avoid contemplating a different way of doing business.”

Sony’s loss of the digital music market to Apple is symptomatic of this problem. Having enjoyed decades of success with devices such as the Walkman and the MiniDisc player, Sony executives had a rigid view about how the future of their business would unfold. The entire focus of the company was on developing and refining existing technologies and business models that had been hugely successful in the past, and they could not imagine a world in which these would become obsolete. But rather than giving them a head-start in an emerging industry, their experience and knowledge was a handicap that prevented them from making the leap to the new digital world.

Over time, most industries face disruptive change as a result of new innovations, business models or competition. And in an increasingly interconnected and competitive world, the probability of disruptive change continues to grow. “The world is now so full of unexpected, surprising changes that companies today must either disrupt themselves or be disrupted,” says Mr Gregersen.

But even if companies understand the need to change their strategy in response to a new
opportunity or threat, the implementation challenges of responding to disruptive change can be considerable. Asked about the barriers that slow their organisation’s response to change, respondents point to a lack of resources as the main factor (see Chart 5).

Companies often spend years, if not decades, optimising their resources, processes and technology, and building the necessary relationships to create a competitive business model and a predictable earnings stream. Abandoning all this in response to major external change requires a massive investment in resources that a company simply may not possess. “It’s no wonder people find disruptive change difficult,” says Donald Sull, a professor at London Business School. “All of a sudden, you have a business that relies on completely different relationships, metrics, processes and resources. Companies need huge flexibility to explore these new opportunities and this comes into direct conflict with the requirement for efficiency to exploit their current business model.”

With managers already stretched in dealing with the day-to-day responsibilities, engineering change and convincing others that it is necessary and beneficial can be very difficult to achieve. “What is often ignored is the downside to the participant in managing change because there is no slack to pick up the work,” says Richard Axelrod, co-founder of the Axelrod Group, a consultancy that specialises in change management. “The change process inherently requires extra time and resources and while you can find highly motivated people who are able to deal with that, the danger is you continue to draw on those people and at some point they burn out.”

So how should companies respond to disruptive change? Having identified a change as disruptive, Mr Gilbert recommends that companies create an entirely different division to capture the new opportunity, while migrating the existing business to a lower-cost model and a more targeted niche where it can compete effectively. “Setting up a separate unit with its own P&L and management allows that unit to focus on the breakthrough, disruptive change, while the old unit can be shrunk down and moved to a space in which it can survive,” he explains.

Deseret News and Deseret Digital, the two companies managed by Mr Gilbert, are good examples of this approach. It has long been recognised that the newspaper industry is facing its own disruptive change moment with the rise of the internet. Since becoming CEO of Deseret News, a traditional print newspaper based in Utah, in 2010 Mr Gilbert cut its cost base and refocused the editorial content on a more distinctive niche of family values. “Rather than be a general interest newspaper, Deseret News is going to be a focused product with a distinctive voice,” he explains. “That’s a more targeted space but no one can compete with us there and we can survive with that model for a long time.”

Meanwhile, Deseret Digital, the business unit focused on online content, is pursuing an aggressive growth strategy. The company has its own P&L and management team, and has a remit to focus on innovation and benefit from the disruptive change in the industry. “If the disruptive change is taking away from my incumbent business, then I need a strong platform for growth that can compensate me for that decline,” says Mr Gilbert. “With two separate companies, I can manage change in an old legacy organisation and manage innovation in a new, hyper-growth company at the same time.”

Having separate management teams means that Deseret Digital can recruit people with the right experience for managing in the online world, rather than trying to re-skill traditional newspaper executives. “Our employees at Deseret Digital aren’t coming to work for a newspaper with a digital division,” explains Mr Gilbert. “They are coming to work for a digital company.”

Dealing with disruptive change is highly challenging. Many companies fail to spot the impending upheaval, and even if they do, the scale of the change may be so significant that they cannot marshal the necessary resources to react. A successful response means admitting that a well-established business model may no longer be appropriate for the new world. This is a painful transition, but the good news is that disruptive change can bring major new opportunities for growth, as well as decline.
A good place to start when trying to anticipate change is to engage the parts of the workforce that have day-to-day contact with customers. Asked which groups are most valuable as sources of information about change, respondents point to customers by a considerable margin (see Chart 6). “One of the most powerful sources of information about emerging adaptive opportunities and pressures lies at the frontline, which may be the sales force all the way out in the periphery,” says Mr Heifetz. “Employees who interact with customers are always the first to get the clues and early warning signs about new sources of opportunity or competition.

Yet despite recognising that customers are the best source of information about impending change, few companies are good at capturing this intelligence. In large, bureaucratic organisations, there are often too many layers between customer-facing employees and senior management. This means that salient information that might suggest an impending change is too easily blocked or lost in layers of bureaucracy.

Another common problem is that senior decision-makers do not want to hear about problems as it means being proven wrong. “People who have invested a lot in a particular marketing plan or sales plan often don’t want to hear that there needs to be a redesign,” says Mr Heifetz. “They would rather conclude that products aren’t selling because the sales people are not doing their jobs properly.”

Increased communication between those on the periphery of the organisation and the key decision-makers can increase the chances of salient information reaching the right audience. Mr Bixner points out that this dialogue should be about challenging assumptions, rather than a traditional board presentation where problems are concealed and the emphasis is on telling a story everyone wants to hear. “It’s important that these sessions are a forum for debate,” he says. “Boards should not just rely on presentations from direct reports but encourage a broader conversation, perhaps by bringing in people from several layers down who may have a different perspective.”

Companies that excel at gathering and acting on this information can gain an important competitive advantage. A US bank, Wells Fargo, for example, has set up customer advisory boards across the country, which it uses to present new product ideas and seek feedback on its current offering. “We listen to their challenges and try to distil that into something that we can apply across our customer base,” says Danny Peltz, head of Treasury at Wells Fargo. “It helps to inform our product development process and also gives us some of the insight we need to figure out their unmet needs.”

“One of the most powerful sources of information about the emerging adaptive opportunities and pressures lies at the frontline, which may be the sales force all the way out in the periphery. Employees who interact with customers are always the first to get the clues and early warning signs about new sources of opportunity or competition.”

Ronald Heifetz, Co-founder, Center for Public Leadership at the John F. Kennedy School of Government.
According to our survey, leadership is the single most important factor that enables organisations to respond effectively to change (see Chart 7). For Mr Axelrod, leadership goes far beyond being a figurehead. “You often get leaders who are sponsors but in name only,” he explains. “It’s all very well approving the budget but leaders also need to use their authority to support and engage with the change process.”

Eivind Kolding, chief executive of Maersk Line, reckons the ability to support and drive change is intrinsic to the role of leadership. “If a leader cannot change the business, he or she won’t be successful—it’s as simple as that,” he explains. “You can’t just say we’ll try to do what we already do a bit better. That will lead to average results, at best.”

Mr Kolding understands more than most the importance of leadership to ensure effective change. Three years ago, Maersk Line was in trouble. Although it shipped 15% of the world’s cargo, it had a business model, organisational structure and culture that were stuck in the past. Customers were becoming frustrated with a service that they regarded as increasingly inefficient, and shareholders were losing patience with deteriorating financial results.

Rather than make incremental changes to make up lost ground, the management of Maersk implemented a major change programme, called streamLINE, which was designed to turn round the company’s fortunes by simplifying organisational layers, standardising processes and cutting costs across the board. The management team, led by Mr Kolding, identified three key areas for change. First, the company needed to increase its reliability and ensure that more shipments arrived on time. Second, it needed to be easier for customers to do business with Maersk. Third, the company planned to improve its environmental performance by increasing the efficiency of its operations. “By focusing our change efforts on these three key areas, we thought that we could take leadership in the industry and move away from the pack,” explains Mr Kolding.

Making meaningful improvements across these three dimensions required Maersk to conduct sweeping changes to its organisational structure. Mr Kolding admits that, prior to embarking on the streamLINE process, Maersk was too bureaucratic and inefficient. To address this, the company made 8,000 of its 33,000-strong workforce redundant and stripped out layers of management so that, from the CEO to the lowest rungs in the organisation, there were seven layers rather than 11. In addition, many processes that had previously been scattered across the organisation were centralised in shared service centres to improve efficiency.

Mr Kolding also revamped the management team, bringing in new members who combined a willingness to embrace and drive change with strong execution capabilities. “It was quite clear that a number of the leaders who had been on the long journey of growing the business were not mentally ready to make the changes,” he explains. “Although it was risky to replace them because it meant that we had a less experienced management team, we needed to bring in new people to ensure that we had the right platform in place.”

With a new management team, Maersk could start to implement streamLINE, which consisted of seven major change projects, called “leaps”. Each member of the management team took responsibility for one leap, and there were bi-weekly meetings with the entire team to assess progress on each project.

Mr Kolding stresses the importance of engaging the broader workforce through frequent communication, feedback and by providing opportunities for everyone in the company to...
contribute their views. “You need to give people ownership and the feeling that they are being heard and can influence the process,” he says. “The more ambassadors you can get on side, the better. Just sending out a memo from the CEO isn’t going to help.”

At Maersk, the early signs suggest that streamLINE is having a positive impact. In 2010 the company announced profits of US$2.6bn, which is a difference of US$4.7bn compared with the previous year. But despite this early success, Mr Kolding emphasises the need to be flexible and open to adapting the strategy in response to changing stimuli. “The strategy sets out a direction, but you need to adjust it all the time,” he stresses. “You don’t always know how you’re going to get where you’re going at the outset. If you do, you probably aren’t being ambitious enough.”

Wim Thomas spends a lot of time thinking about the future. As the chief energy adviser to Royal Dutch Shell, Mr Thomas is part of the team that conducts the company’s scenario planning exercises. In the 1970s, Shell pioneered the commercial use of scenario planning as a way of helping the company to think about how the future might unfold. The goal of the exercise is not to predict the future, or even assign probabilities to particular events taking place, but to present a series of plausible narratives that challenge senior executives’ view of the world. “It’s all about thinking through the different dynamics and drivers of change, so that executives can envisage a number of plausible outcomes and how they might interact over time,” says Mr Thomas.

By testing their strategy against a set of distinct narratives, Shell executives have an opportunity to assess the robustness of their business across multiple scenarios. “Most of the time, your strategy works across one or two different models, but there may be another model where it doesn’t work,” explains Mr Thomas. “That’s fine as long as you know that and have used your judgment to make that decision. At least if you know about the possible scenarios, you can prepare for the uncertainty and make sure you don’t lose your shirt. That is how companies survive, and how you make them more resilient.”

In recent years, scenario planning and other long-term risk management techniques have become more widely accessible to help companies think through how the future might evolve, particularly in sectors, such as energy, that have very long investment horizons. But these tools nevertheless remain a minority interest. Among our survey respondents, just one-quarter use scenario planning to monitor and identify change in the external environment.

Andrew Blau, co-president of Global Business Network, a consultancy, thinks businesses could benefit from embracing the tool more wholeheartedly. For him, the value of scenario planning lies in helping executives to overcome entrenched viewpoints about how the future will unfold. “When we think about the future and what the sources of change might be, we look for evidence that confirms our existing belief and tend to discard signals that suggest another story,” he explains. “By forcing us to think about different narratives, scenario planning helps us to consider what change might look like, how we can identify it and how we might adapt our strategy in the light of a range of outcomes.”

Broader conversations about the future are important in a business environment where there is a tendency for senior executives
to surround themselves with people from similar backgrounds. “Although it may not be intentional, executives often end up with teams comprised of people who have closely related stories about the organisation’s past and future direction,” says Mr Blau. “At its worst, this becomes groupthink, a kind of echo chamber within the organisation whereby everyone reaffirms what the obvious pathway is going to look like.”

Senior management teams that suffer from groupthink will typically dismiss information that challenges received wisdom as an outlier or anomaly. But these signals from the periphery, far from being noise in the system, might be extremely valuable information. “Anomalies, such as products that should sell but don’t, or that sold much better than expected, are often signals that there is a gap between your mental maps of how the world should work and the actual terrain,” says Professor Sull.

Of course, spotting the indicators of major change is not straightforward. Less than one-half of the respondents to our survey think that their organisation is effective at identifying early indicators of change. “Sometimes people think that signals of change are going to be as obvious as a man waving a red flag in an empty meadow, but it’s often much more subtle than that,” says Mr Blau.

Despite the challenge of spotting early indicators, companies can maximise their chances of anticipating change by ensuring that they are open-minded, and willing to have their worldviews regularly challenged. As Mr Blau says: “Anticipating change requires executives to be sensitive to their environment and tolerant of ideas that come from the margins, even if they conflict with their view of the world.”

Chief executives, in particular, need to build awareness of the possibility of change in their management team and ensure that they are comfortable with multiple paths. “Companies need leaders who are tolerant of ambiguity of the world and who can make others feel comfortable about that,” says Mr Bryan. “They have to instil confidence in their teams that they are making the right decisions, even though it’s not clear how the future will evolve.”

Another important step on this journey is building a culture of change. In part, that means conducting frequent experiments and being tolerant of failure. Rapid change requires a plethora of new ideas and approaches. Not all will work or be successful, but those that are can be scaled up quickly to ensure that the company keeps pace with a fast-moving environment. Companies like Procter & Gamble, using its Connect + Develop model, have put experimentation and openness to new ideas at the heart of their business. “If you are in an environment that is changing faster and faster, it means you have to make more calls and start experimenting,” says Mr Bixner. “You need to fail fast, fail quickly, and fail cheaply.”

Although organisational structures and flat reporting lines help to encourage a more dynamic approach to management, they will not enable a company to respond effectively to change on their own. To do this, executives need to create a culture where change is encouraged and welcomed.
Few chief executives receive complaints from their employees that they are not going through enough change. But at Genpact, a business process management company that was once a business unit within GE, acceptance of change has been hard-wired into the business culture. “If our leaders don’t see enough change around them, they get restless,” says Tiger Tyagarajan, chief executive of Genpact.

Business process management is a young, technology-oriented industry that is changing rapidly in response to evolving customer needs. Having a workforce that is flexible enough to adapt with the business is a vital asset in such an environment. For Mr Tyagarajan, it is essential to set expectations of change in the workforce even at the recruitment stage. “In our core values, we’ve articulated that embracing and driving change is expected behaviour from everyone in the company,” he says. “When we hire people, particularly senior executives, we test their ability to deal with change and their willingness to drive change and overcome resistance in their team.”

Mr Tyagarajan cites Genpact’s adoption of lean six sigma, a set of tools that drives innovation and excellence in operational management, as being a strong agent of change at Genpact. “Lean six sigma helps us to improve processes for our customers and measure the financial benefits for them,” he explains. “We know that to achieve those improvements, change needs to take place, which is why we think of lean six sigma as a change acceleration process.”

High-potential candidates for future leadership positions at Genpact are expected to spend time working on lean six sigma, before being rotated to more senior positions in the company. “We use lean six sigma as a leadership training ground,” says Mr Tyagarajan. “If executives can thrive in that environment, then we know that they have been effective not only at understanding the need for change but at driving it across our processes.”

The ability to respond to and drive change also forms part of executives’ performance management criteria. “Change is core to how we evaluate people,” confirms Mr Tyagarajan. “Every manager appraises their people on specific measures that show whether they have driven change or have been able to absorb it in their role.”

Genpact also pays careful attention to measuring the outcomes of its talent management processes. It carefully tracks the success of its succession planning processes to find the right internal candidates for senior positions, and measures the ability of its lean six sigma process to develop future leaders. “If people are emerging from that programme and there is strong competition from functions in the business to grab them, then we know that we’re doing the right thing,” adds Mr Tyagarajan.
Our research for this paper suggests that companies could try the following steps to accelerate decision-making and ensure that their strategy processes are aligned with a fast-changing external environment.

**Review strategy when faced with change, not according to the calendar.** Most companies set strategy over a period of time, such as five years, and then review it annually. But there is no guarantee that change will coincide with the moment when this process is at its peak. Conducting strategic reviews when necessary is a better approach than putting a date in the diary.

**Seek views and information from as many sources as possible to feed into the strategy process.** Companies cannot set strategy in a vacuum. When reviewing their future direction, business leaders should ensure that they seek views from a range of different stakeholders—both internal and external.

**Ensure that key managers have the autonomy to make decisions quickly.** Bureaucratic companies with multiple layers and reporting lines are inherently slow at decision-making. It takes time for key information to reach decision-makers, and it is often sanitised and filtered before it reaches them. Flat management structures, where decision-making responsibility is decentralised and devolved to key managers, are more responsive to change.

**Create a culture where change is encouraged and welcomed.** Although organisational structures and flat reporting lines help to encourage a more dynamic approach to management, they will not enable a company to respond effectively to change on their own. The culture and attitude of management are just as important as the structure within which they operate.

**Conduct frequent experiments and be tolerant of failure.** Rapid change requires a plethora of new ideas and approaches. Not all will work or be successful, but those that are can be scaled up quickly to ensure that the company keeps pace with a fast-moving environment.

**Be tolerant of ambiguity and willing to conceive multiple futures.** An uncertain, fast-moving business environment requires business leaders to conceive a variety of plausible future narratives for their company. Chief executives, in particular, need to build awareness of the possibility of change in their management team and ensure that they are comfortable with multiple paths.

**Employees who are affected by change are much more likely to support the process if they already trust the leadership.** If the chief executive and other senior managers have consistently demonstrated an approach that is open, honest and supportive, then employees will trust their judgment.