Profiting from change

by Andrew Curry

The business environment is changing all the time, and for businesses, this creates turbulence. They have no choice other than to ride the turbulence, for businesses that fail to understand turbulence and to adapt to it will decline and die. Those that understand and anticipate the changes that turbulence brings can shape their environment instead of just responding to it. They can, as The Futures Company, suggests, profit from change.

So the critical questions for businesses are:

- How do you see change and make sense of it?
- How do you frame your understanding of change so you can act on it effectively?
- How do you make change stick, so you stay ahead of it and profit from the process of change and adaptation?

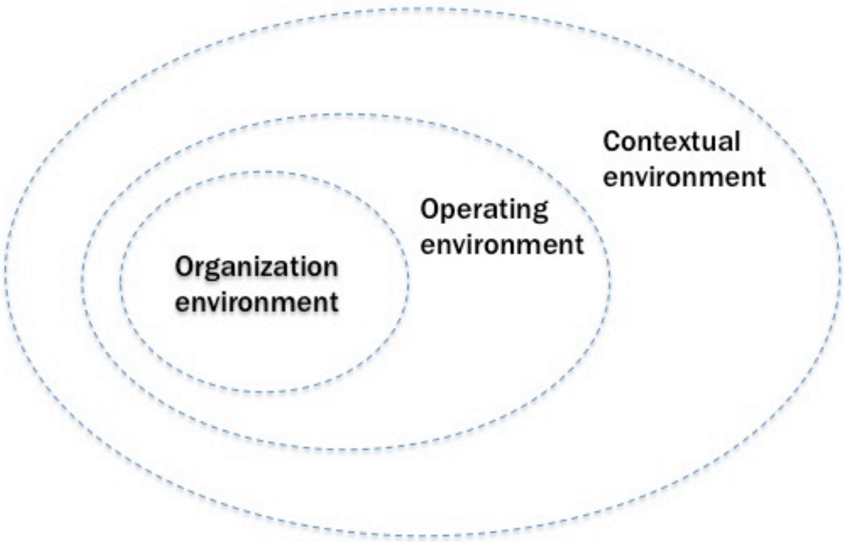
The deep paradox of change at the start of the 21st century is that the huge turbulence the business world is experiencing is actually being caused by the speed of change slowing down. The clock speed of the business world is changing. Research suggests there are "four horsemen" of disruption: demographics, economics, technology, and values. Looking across these we see that for the first time in 150 years, demographic growth is slowing, not accelerating. Productivity rates have been falling for 50 years. The long boom in technology that helped to mask this shift is running out of momentum as tech markets mature and tech products become commoditised. Even social values, where there are signs of more rapid change, are running in the wrong direction for business as values shift towards a "post materialist" world that sets more store by relationships and experiences.

There is a second paradox here. These are all changes that run on generational timelines. Precisely because of this, businesses find it harder to react effectively. Even when you see it coming, there are always questions of timing. The management literature is full of examples of businesses that failed, from Kodak to Nokia, because they stuck with profitable product lines for too long. Bankruptcy, as Hemingway said, happens gradually, then suddenly.

Seeing change

The four horsemen also map onto the four sources of growth (markets, money, technologies, values) previously identified by Futures Company research.[1] There are well established frameworks for monitoring change, from STEEP to VERGE. The wider point is that organisations are open systems that sit in a wider environment. Part of that environment — the world of suppliers, customers, stakeholders and regulators — is familiar, and is engaged with every day. The "contextual environment" beyond that is less well understood, and the changes here eventually disrupt how the business works.[2]

Exhibit 1: Businesses are open systems



Source:Emery, M. and Devane, T. (1999), "Search Conference", in Holman, P. and Devane, T. (eds), *The Change Handbook. San Francisco, Berrett-Koehler.*

Companies can find it hard to connect their external monitoring with their day-to-day operations, so it is worth tracking signs of change in the business environment as well. As Peter Drucker observed, "Any threat to a business or an industry is an indication of a change in the environment; in markets, customers, or knowledge".[3] The social psychologist Gary Klein emphasises the importance of understanding anomalies and discontinuities[4]. Rita Gunther McGrath notes that diminishing returns to innovation, together with increasing commoditisation, are early warnings of decline. Says McGrath, "If the people designing the next generation offer are having trouble conceiving of new ways to differentiate what you do, that's not good."[5]

Framing change

One of the biggest obstacles to seeing business opportunities is the mental models that executives have about the way a business runs. Sometimes these are cultural ("this is the way we do things round here"). Sometimes they are historical or autobiographical. Mental models become embedded in a company's decision-making system, in the form of budgets and headcount, which are typically allocated on the basis of past performance, not future prospects.

One of the features of mental models is how strong they are. Even in the face of anomalies in the way their business works, business leaders will often seek to explain these away, rather than asking whether their mental models — their assumptions about how their industry works — are still fit for purpose. The reverse is also true: the test of a new mental model, as Venkatesh Rao writes, "is its ability to make sense of things that were not explicitly considered before adoption."[6]

Part of the process of profiting from change, then, is shifting mental models. At Shell, Arie de Geus wrote that the ability of a company to respond to changes in its business environment depended "on the ability of a company's senior managers to absorb what is going on in the business environment and to act on that information with appropriate business moves."[7]

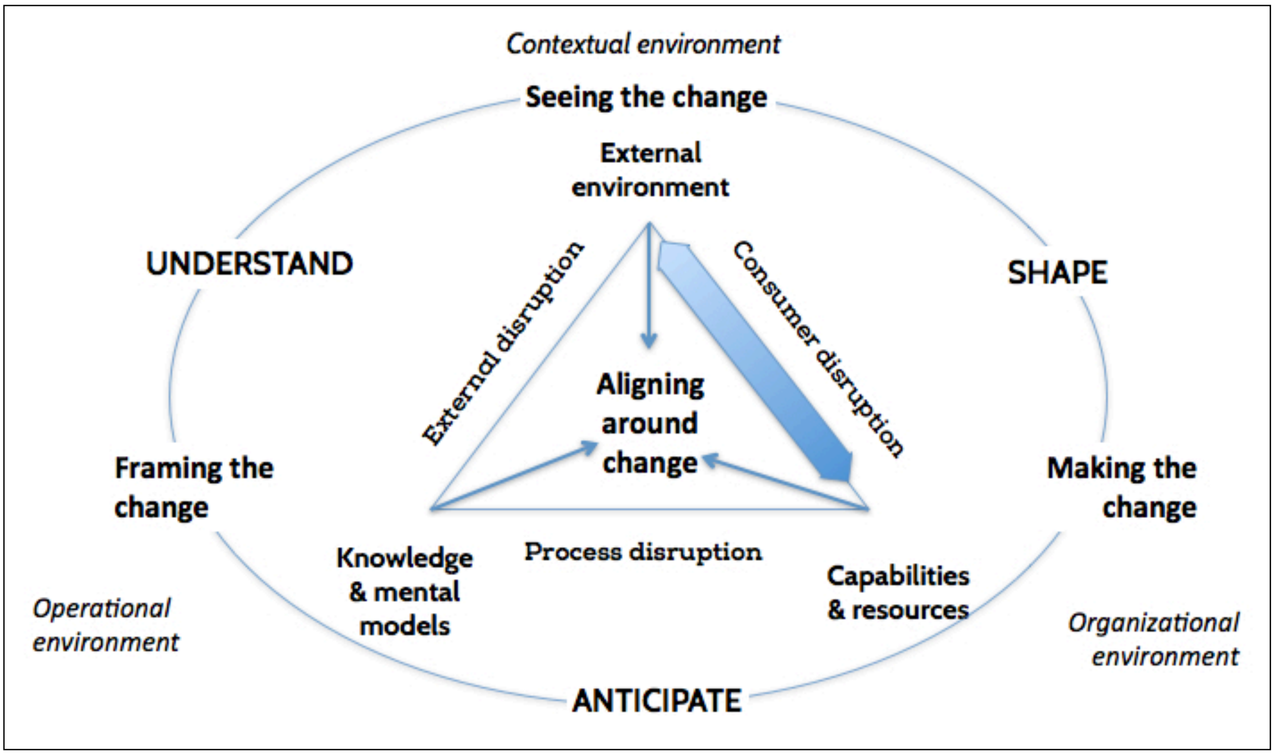
Making change

The appropriate "business moves" involve aligning a desired way of doing something — for example a new range of products or services, new customers, new markets, new processes — with a set of capabilities that mean that you can deliver them effectively. Any kind of change involves the development of a new business concept that aligns the external environment with the organizational environment. In the process, inevitably, there is pressure on the customers, partners and stakeholders in the operating environment, which means that change is resisted.

One way to overcome this is to generate excitement about the new business idea that the company is developing. Too much of the way that businesses speak about change is fearful, more about risk and loss than opportunity. And the new business idea *should* be exciting, for this reason. "Whatever makes the future happen is always the embodiment in a business of a different economy, a different technology, a different society," as Peter Drucker observed. "It need not be a big idea, but it must be one that is different from the norm of today." In other words, it captures an idea of *how* society is changing and aligns the business with it. In turn this should energize staff, who are critical to success.

Seeing, framing, making: The Futures Company's Change Triangle connects change in the business environment with the optimal strategic response.

Exhibit 2: The Change Triangle



Source: Andrew Curry/ The Futures Company

In **Understand**, the contextual environment connects to the operating environment ("external disruption"). Here, structural and regulatory change reconfigure your business network. This could be through changing resources or demographics, or in the case of regulatory change, a different public view of how business should behave. The response: follow the change smartly.

In **Anticipate,** changes in the operating environment - in technology or cost structure - change how the business needs to organise itself ("process disruption".) These don't happen overnight. The responsive business has time to reconfigure itself. But if doesn't, an insurgent will disrupt the market.

In **Shape,** the business connects a change in the external environment with a shift in how it does business ("consumer disruption"). It disrupts its sector by changing the way the value proposition is understood,[8] and creating a strategic advantage Think of how the "discounters" realised that unnecessary choice was a cost to both customers and to the supermarket. Multiple strategic advantages flow from this insight.

Growth businesses combine three things:

- they understand what's changing in the medium to long term;
- they translate that into value that they can share with their customers; and
- they manage their internal systems flexibly so they don't get locked into patterns of the past and the present.

They are constructed to enable them to profit from change. But they don't do it by magic: they do it through process and practice. The secret is open to everyone.

Four steps to profiting from change

- **See the whole business environment, from the organisational to the contextual environments, understanding the vectors of change in each space.**
- **From this, anticipate the new opportunity spaces that are emerging.**
- **Identify how you need to frame the way you think about the change to move into an opportunity space, and the capabilities needed to be effective.**
- **Shape the change by making the service or product.**

Endnotes

[1] The Futures Company (2013), *Unlocking New Sources of Growth.*

[2] Emery, F.E, and Trist, E.L, "The causal texture of organizational environments", *Human Relations*, vol. 18 (1965)

[3] Drucker, P. (1964/1989). *Managing For Results*. Oxford, Heinemann.

[4] Klein, G. (2014), *Seeing What Others Don't*. London, Nicholas Brealey Books.

[5] McGrath, R.G. (2013). *The End of Competitive Advantage*. Boston, Ma., Harvard Business Review Press.

[6] Rao, V. (2011). *Tempo*. Ribbonfarm.

[7] de Geus, A. (1988), "Planning as Learning". *Harvard Business Review.* March 1988.

[8] Normann, R. (2003). *Reframing Business.* Chichester, John Wiley.