Leading Change Isn't Only a Crisis Event

By Frank Hopson and Izabela Rak

Change isn't a new phenomenon. Executives recognize that every three-to-five years their industry will experience a shock requiring them to rally their strategy teams and design a new path forward. Once the executive team agrees on the new plan, tasks can be disseminated down the organization, and business managers given new goals to hit.

However, many executives fail to recognize that the industry shocks they face are accelerating at a faster rate. What's more, as their product portfolio and geographic reach expand, it becomes more difficult for a small group of individuals to steer their increasingly complex businesses effectively. Change management is no longer an event to be managed through; instead, it's a way of life that requires building effective structures to succeed.

An organizational culture of change empowers employees with the autonomy to take action, outlines the principles of value creation to guide decision-making, and celebrates wins to reinforce behaviors that maximize performance. Over time, the industry leaders will be the companies that cultivate a culture of change and prepare not just to survive, but to thrive.

CFOs as Change Implementers

As companies shift to cultures of change, leadership teams need to recognize that managers are the change implementers; they need the autonomy to make decisions and take action. The organization's ability to adapt and pivot around industry disruptions will be directly related to how well it can leverage and engage its employee base.

Companies have targeted more specialized products, increased their geographic reach, and expanded customer industries to capture premium pricing. However, these factors have also made employees with a more direct line of sight to customer and market needs increasingly vital. As a result, your businesses will need to adjust to fit the unique circumstances of each of your markets, and managing by command and control makes it difficult to respond quickly enough to changes.

To illustrate how different segments of a business can perform differently within the same macro conditions, let's look at S&P 500 companies. Since the beginning of this year, average 2023 profit expectations for consumer durables and apparel companies have declined by nearly 20%. However, profit expectations for food and staples retailing companies have increased by 4% over the same period. Energy companies' profit expectations have soared over 80% higher on average.

If you managed this portfolio of companies with a singular strategy, you wouldn't optimize your returns. Each potential customer base requires a unique strategy, and your teams closest to these customers would have the best insights on how to proceed.

A Shared Goal

Autonomy still requires direction. Your employees need clear guidelines on what's most important to the organization to create alignment on long-term shareholder value. Unfortunately, the amount of information that needs to be processed to make a decision has increased exponentially in recent years. And while scorecards and key performance indicators (KPIs) have increased the information available to employees, they also reduce clarity on what drives value.

A management team needs to establish a value framework that reduces the noise and focuses teams on a shared goal for success. The value framework should be simple enough to integrate at lower levels of the business and comprehensive enough to capture your key drivers of value. Economic profit provides one example of such a framework. It encapsulates revenues, operating expenses, and a cost for capital used in a business to offer a singular measure of value creation. Managers can use this simple measure to understand the value contributions of complex business decisions that impact growth, costs, and investment needs.

Incentive Compensation

Lastly, an organization must find ways to amplify discussions around change and celebrate its wins to make it a way of life. A change culture is driven by the need to improve the business to meet customer needs and stay ahead of the competition. Employees must be willing to fail, realizing that not every action taken will succeed. But they also should manage initiatives so that the gains from wins outweigh any unsuccessful attempts. An effective means to drive this behavior is to align incentive compensation with the value framework.

As previously discussed, a value framework should enable teams to dynamically manage the trade-offs of growth, costs, and investment needs in their business. This gives teams a tool to embrace change and identify new business models to meet customer needs while increasing value. To amplify discussions, the value framework should become the centerpiece of management meetings and business performance discussions. Continuous communication through this lens will reduce white noise and clarify to teams what's most important to the organization. By taking the next logical step and paying teams to improve their performance of the value measure, you'll align their success with the company and reinforce the positive behaviors you want to instill.

Thomas Friedman wrote, "Change is hard. Change is hardest on those caught by surprise. Change is hardest on those who have difficulty changing, too. But change is natural; change is not new; change is important." So, as you gather your teams to manage through the current turmoil, make sure to ask yourself, "what are we doing to prepare for the next change event?" The only constant in life is change; how will you make it your competitive advantage?

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