REWIRING MODERN ORGANIZATIONS FOR ADAPTABILITY AND CONTINUOUS CHANGE

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Is your organization positioned to thrive in the twenty-first century? To do so requires a focus on honing the competency of change to create agile and innovative organizations. The research shows that this is easier said than done, as almost two-thirds of those surveyed say they don't understand the path required to achieve agility and innovation.

The speed of change has increased to a point where innovation is outpacing anything that we have experienced in history. Consider that it took the telephone 75 years to reach 50 million users, whereas Twitter hit the same mark in nine months. In addition, the level of connectedness required today means traditional, siloed, and command-and-control cultures can't keep pace and connect the dots fast enough to support ever-changing customer needs. Couple that with an educated global workforce that is technologically enabled and multigenerational, and it is evident businesses are experiencing competitive pressure from places they could never have imagined even a decade ago.

Our experience shows that plodding along with a five-year plan or focusing on functional excellence is not the right path. There are simply too many unknowns, and the way work is done continues to become more and more experimental, cross-functional, and networked. So what is the path forward?

Through our work with clients in transformation, like Clif Bar, we know companies today must ensure that a compelling purpose is central to transformation and humans are at the heart of change. We believe thriving twenty-first century companies are "Connected Organizations™." We know Connected Organizations™ succeed because they do four things really well:

- **They Matter**
  All stakeholders, including employees, customers, partners, and suppliers must be inspired by a brighter future. Only with this commitment can the clarity to understand why change is necessary emerge. The purpose and mission of the organization must inspire all and inform every action.

- **They Engage**
  At the heart of every effective transformation is the fact that all employees get a seat at the table, as co-creators of the future state. Throughout the journey, leaders must be genuine, transparent, and accessible to employees. The voice of the customer must be a focus, incorporated into all decisions and experiments, and known by all.

- **They Integrate**
  An end-to-end perspective is required to break down functional silos. Tools, technology, systems, data, and decision making are all connected, working together in a way that works in service of the vision.

  Technology, process, and governance are tools to unlock people's potential and ensure alignment and effectiveness to drive outcomes. Decision making is pushed down because teams have access to the right information at the right time to enable them to make smart decisions.

- **They Evolve**
  Connected Organizations™ are nimble, agile, and innovative. They iterate, improve, and learn. Through experimentation and smart risk-taking, they always have their eye on the next big thing. These organizations invest in continual learning and development of their workforce to keep them at the leading edge of new skills and knowledge.

Traditional management consulting is premised on the idea that outsiders are best placed to tell organizations what they need. Our approach is to work in a practical, innovative way that brings out the best through co-creation and collaboration with clients.

As specialists in organizational transformation, Future State works hand in hand with customers to enable them to succeed in the face of constant change and evolution.

To learn more, please visit us at www.futurestate.com.

REWIRING MODERN ORGANIZATIONS FOR ADAPTABILITY AND CONTINUOUS CHANGE

Business competition is intensifying as digital transformation and market insurgents challenge the status of established market leaders. Agility and innovation, as a result, have gained increasing importance and prominence as ways for organizations to meet competitive threats. But there are significant obstacles to overcome in order for a company to innovate and become more agile, as traditional business processes and technology strategies fail to fully support the transformation needs of many organizations. These are especially high hurdles given how widespread disruption has become.

In a new survey by Harvard Business Review Analytic Services, nearly all (93%) of the 324 executives in North America surveyed say they are grappling with volatility in their markets, whether caused by changing customer demands, new competitive threats, or some other factor. What's more, nearly half (49%) of the business leaders describe the level of change as "high."

Market changes are spurring more than three quarters of the respondents (77%) to develop new business models. FIGURE 1 That's not a surprise—the drive for business transformation has been building throughout this decade. What is noteworthy is how business volatility is upending internal operations. A significant majority (85%) of the executives say ongoing changes in their markets are compelling their enterprises to create more agile business cultures designed to promote continuous innovation and organizational flexibility.

Executives at Clif Bar & Co. are well-versed in these trends. Clif's portfolio of organic energy foods faces stiff competition from both established consumer products companies and startups. That makes creativity and new ideas essential ingredients for Clif Bar's ongoing success. "We highly value innovation and agility," says Rich Boragno, chief financial officer. "We need to continuously change, innovate, and stay nimble."

HIGHLIGHTS

93%
OF ORGANIZATIONS ARE SEEING SIGNIFICANT LEVELS OF BUSINESS VOLATILITY IN THEIR MARKETS.

85%
OF EXECUTIVES SAY MARKET FORCES ARE REQUIRING THEM TO CREATE MORE AGILE BUSINESS CULTURES.

68%
SAY THEY DON'T UNDERSTAND THE BEST WAY FORWARD TO ACHIEVE AGILITY AND INNOVATION.

64%
SAY ENHANCED CUSTOMER EXPERIENCE IS THE BIGGEST PAYOFF FOR THRIVING IN AN ERA OF CONTINUOUS CHANGE.

"At Clif Bar, the **most important metric** for our innovation efforts is **time to market**. The faster our products reach customers, the faster we reap the benefits of **revenues and profits**," says Rich Boragno, chief financial officer at Clif Bar & Co.

EVOLVING BUSINESS MODELS PUT A PREMIUM ON AGILITY

Business cultures must adapt for continuous change

● DISAGREE ● NEUTRAL ● AGREE

Market forces require my organization to create a more agile business culture designed to promote continuous innovation and organizational flexibility.

10%	5%	85%

My organization has developed or is developing new business models to better meet customer requirements.

13%	10%	77%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2019

Survey respondents echoed this refrain across a mix of commercial industries and public sectors, as well as large, mid-sized, and small organizations. Although diverse, this group had something in common beyond seeing the importance of agility and innovation. They're unclear about how to cultivate internal organizations primed for continuous change. Only about a fifth (19%) say they understand the best ways to achieve agility and innovation, which leaves more than two-thirds (68%) in the dark about how to move forward. One telling source of confusion is the lack of time employees are setting aside for creativity and ideation. Only 19% of organizations plan to allow more time for people to experiment and pursue new ideas. Apparently, senior leaders see friction between innovation and productivity, and don't know how to balance these areas.

To overcome these barriers and position themselves for competitive advantage, leaders must understand that modern corporations engineered for adaptability and continuous change aren't the products of technological quick fixes. They result from a free-flowing exchange of human expertise, business data, and analytics capabilities that engage everyone from senior executives to frontline employees in ideation and problem-solving processes.

Agile Operating Models Become Business Imperatives

Confusion about cultivating workforces for continuous change can be bad for business. Only 12% of the executives describe their organizations as being "much more" effective at supporting agility and innovation than others in their industry. Add the 25% who see their organizations as only slightly more effective, and that leaves a large group (62%) that are equal or less effective than others. In short, agility and innovation aren't competitive differentiators for these firms—a significant handicap at a time when continuous change and reinvention are business imperatives.

But executives say there are significant returns for organizations designed for adaptability and innovation. The survey respondents pinpoint key strategic benefits of agility that outrank even core bottom-line returns, such as increased revenues and growth in market share. For example, 64% of the executives cite enhanced customer experience as the biggest payoff. FIGURE 2

By being adaptive and poised for change, organizations position themselves to meet shifting customer tastes and requirements faster than competitors. The executives are apparently eyeing a growing body of research showing the competitive

value of excelling at serving customers. For example, one study found that 63% of consumers would share more information with a company that offers a great experience,[1] while 16% would pay more for products and services.

Agility and innovation yield additional strategic benefits. Forty-four percent of the executives in the survey say those capabilities lead to greater success in attracting and retaining high-quality talent, while 39% see a direct link to process improvements and the development of new products and services. Boragno agrees. "At Clif Bar, the most important metric for our innovation efforts is time to market," he says. "The faster our products reach customers, the faster we reap the benefits of revenues and profits."

The company's two-year effort to foster agility and innovation is paying off. In the past, new products often took 12 to 18 months to become full-fledged. The development window now typically spans only about six to 12 months, thanks to process developments, more accurate and easily accessible market data, and better utilization of resources. Each of these improvements is linked to the goal of fostering a more innovative and agile culture at the company.
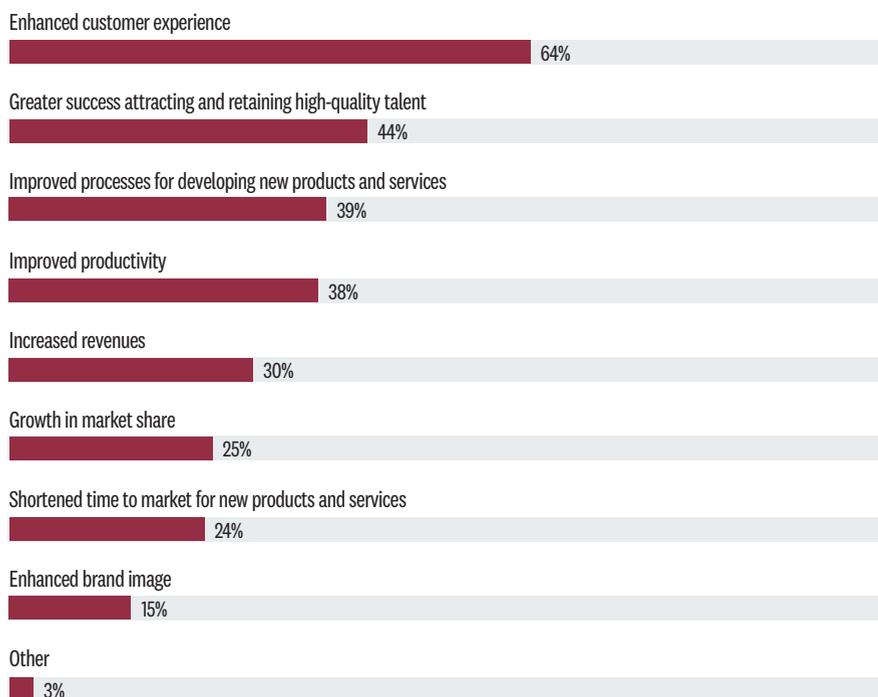
Telltale Signs of Trouble

Transformation isn't just for established companies looking to maintain their competitive edge. Startups in fast-changing industries must also create formal processes for cultivating innovation. "The cellular therapy space is new and constantly evolving," says Jeff Knight, vice president of global operations at Poseida Therapeutics, a clinical biopharmaceutical company based in San Diego. "Because this is a transformational approach for drug therapies, we must be creative and change quickly as the body of knowledge in this area keeps growing."

In addition, young companies may not have similar financial and human resources as more established firms. "That's where innovation is incredibly important," Knight adds.

STRATEGIC BENEFITS OUTWEIGH TACTICAL GAINS

The most important business benefits of an adaptable and innovative enterprise

Enhanced customer experience

64%

Greater success attracting and retaining high-quality talent

44%

Improved processes for developing new products and services

39%

Improved productivity

38%

Increased revenues

30%

Growth in market share

25%

Shortened time to market for new products and services

24%

Enhanced brand image

15%

Other

3%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2019

"Transformation enables us to maximize the use of our resources to achieve our most aggressive goals for growth and expansion."

The desire for agility and innovation may be great, but organizations face five substantial roadblocks in gaining competitive advantage in these areas. First, organizations struggle to overcome outdated, hierarchical decision-making processes, which continue to hobble 69% of the organizations represented in the survey. FIGURE 3 Addressing continuous change isn't a top-down responsibility and requires input from all organizational layers, from senior leaders to department managers to end users.
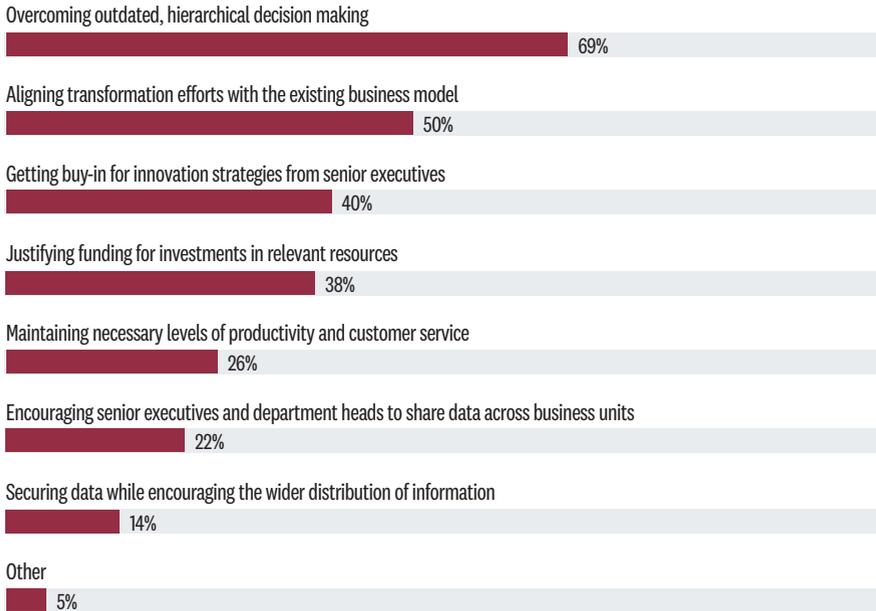
Second, half of the executives say their organizations are challenged to align transformation efforts with existing business models. Third, 40%

FIGURE 3

OUTDATED THINKING BLOCKS MODERNIZATION

Executives see the value of organization-wide decision making and data sharing

The biggest challenges companies face when trying to increase agility and innovation

Overcoming outdated, hierarchical decision making
69%

Aligning transformation efforts with the existing business model
50%

Getting buy-in for innovation strategies from senior executives
40%

Justifying funding for investments in relevant resources
38%

Maintaining necessary levels of productivity and customer service
26%

Encouraging senior executives and department heads to share data across business units
22%

Securing data while encouraging the wider distribution of information
14%

Other
5%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2019

say they can't easily obtain buy-in for innovation strategies from senior executives.

The fourth barrier is the confusion that arises over what it takes for organizations to become more agile and innovative. For example, more than half (56%) of the executives rank highly the need to cultivate a culture that embraces calculated risks. But this view is at odds with one-third (34%) of the executives who say their organizations are willing to support employees when they fail.

This conflict isn't the only sign of confusion. On the surface, it's encouraging that a majority (54%) of respondents say their organization values widespread collaboration among employees and business units. However, only a quarter of the companies see the importance of gathering and sharing data across the enterprise, which is a key piece

for enabling ideation and decision making across departments and responsibilities.

"Senior leaders are usually not great about sharing information and data, although they should be," says Sarah A. Soule, professor of organizational behavior at the Stanford Graduate School of Business. "When presented well, data can start a conversation and challenge assumptions that employees may hold."

The fifth roadblock is the reluctance of organization leaders to make financial commitments to these areas. Less than a quarter (23%) say their organizations have made significant investments in resources designed to promote agility and innovation in the past year. Fifty-five percent have made some investments, and another 11% are latecomers—they're planning to invest in the coming year. Seven percent have no plans to spend in these areas.

A Multifaceted Action Plan for Innovative Organizations

The survey found that barriers to innovation and agility come in many forms—from unclear business goals to outmoded decision processes and business cultures to poor cross-departmental collaboration, change-management breakdowns, and inadequate resource investments. The survey data and executive interviews identified five best practices that progressive leaders are using to achieve more nimble and competitive organizations.

First, companies must clearly define business goals. That process requires an analysis of strategic imperatives and any roadblocks that stand in the way of supporting them. When a potential solution emerges, such as an idea for a new, market-expanding product, company managers should vet it by asking whether the change is doable, valuable, and a strategic fit for the company.

What business goals will gain traction in the months ahead? True to the responses that rank enhanced customer experience as a business imperative, 43% of the organizations will take

steps to improve communications with customers to better understand their requirements. FIGURE 4

Second, broaden decision making beyond the constraints of traditional, hierarchical structures. This suggestion reflects how a smaller but significant group of organizations are also realizing senior executives don't have all the answers when it comes to succeeding at a time of continuous change. To promote adaptability, 31% of the those responding to the survey say they will create new organizational structures for enabling decision making by people who aren't senior managers. This means that within pre-defined constraints—gross margin and pricing targets and product-quality requirements, for example—lower-level staff members have some power to act, based on their experience and judgment. Broader decision-making responsibilities dovetail with the development of adaptive teams—the formation of dynamic groupings of people with the best cross-functional expertise to address specific problems or business initiatives. Forty-one percent of the executives surveyed plan to support these types of groups.
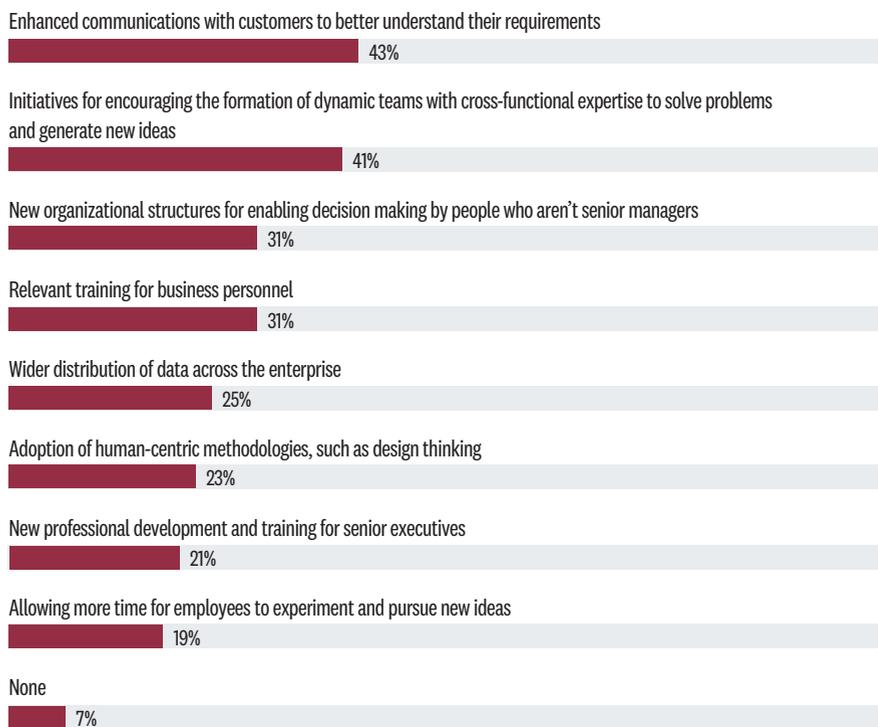
Clif Bar, the maker of organic energy foods, created a team of people from various departments to guide a project to revise how it develops new products. "We've been growing fast over the last 28 years, and we've developed some bad habits along the way," Boragno explains.

With the help of a consulting firm, the company created a framework for streamlining its product-development strategy. The plan counts on teams that tap a mix of talent, with representatives from brand management, innovation, finance, and supply chain functions. This latest move keeps a core component of the corporate culture alive and growing. For more than a decade, the company's founder, Gary Erickson, and his wife and co-CEO, Kit Crawford, have encouraged their employees to maintain an entrepreneurial spirit. Teams are assigned to guide new products from conception to distribution, and one such team helped create Clif Cubes, a

line of endurance bars that consumers can break into bite-sized chunks. The team members borrow techniques from agile software developers to devise and act on ideas for new products. They meet regularly and quickly—typically 15 minutes at a time, once a week—to discuss ways of improving product lifecycle processes and to review new information and timelines for ongoing projects. Changes to processes or projects happen in short bursts, called sprints, that allow for incremental updates that can be quickly launched, tested, and revised as needed. "They also address emerging issues in real time versus waiting for someone to schedule a special meeting or send emails about a problem," Boragno says.

The company also manages a second group of innovators who participate in "hacks," a process which people gather to find ways to improve

INNOVATION STRATEGISTS TARGET AREAS OF OPPORTUNITY

Steps organizations are planning in the next year to promote a culture of agility and innovation

Enhanced communications with customers to better understand their requirements
43%

Initiatives for encouraging the formation of dynamic teams with cross-functional expertise to solve problems and generate new ideas
41%

New organizational structures for enabling decision making by people who aren't senior managers
31%

Relevant training for business personnel
31%

Wider distribution of data across the enterprise
25%

Adoption of human-centric methodologies, such as design thinking
23%

New professional development and training for senior executives
21%

Allowing more time for employees to experiment and pursue new ideas
19%

None
7%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2019

BROADEN DECISION MAKING BEYOND THE CONSTRAINTS OF TRADITIONAL, HIERARCHICAL STRUCTURES.

Forty-one percent of the organizations surveyed **will acquire analytics platforms** designed to be easy for the business staff to use.

How Innovation Leaders Promote Continuous Change

As markets and business models continue to change, enterprises must evolve into agile, highly adaptable organizations. A select group of organizations from the Harvard Business Review Analytic Services survey distinguishes itself by the extent to which it has put this idea into practice by replacing hierarchical decision-making processes and adopting new operating models. In return, these firms are seeing significant payoffs from their efforts. For example, executives from these leading companies, which span large, mid-sized, and small enterprises, rate their organizations as more effective than industry peers in supporting agility and innovation. In addition, these companies report revenue growth of 10% or more over the past two years.

The most telling characteristic about this group is its commitment to fostering agile, connected organizations. Nearly half (45%) of these innovation leaders have made "significant" investments in resources designed to promote agility in recent past years—or almost double the rate (26%) of the entire group of survey respondents.

Where have leaders focused their investments? Spending strategies are people-focused and designed to promote employee engagement. Fifty-nine percent of the most innovative firms manage programs that encourage employees at all levels to generate and share new ideas. In addition, nearly half (44%) of the leading firms launched new training programs to encourage employees at all levels to use data and analytics for ideation and decision making.

To further promote agility, innovation leaders gravitated to new operating models designed for continuous change and ongoing transformation. Sixty-one percent initiated programs to encourage the formation of dynamic teams with cross-functional expertise to solve problems and generate new ideas. Only 41% of the total respondent base have committed to similar efforts. In addition, the group of mature organizations revised organizational structures to enable decision making by people who aren't senior managers. To help these more diverse teams ideate and solve problems, innovation leaders say they're distributing data more widely across the enterprise.

Finally, the more innovative firms are actively trying to get closer to customers. By a ratio of 70% to 47%, the leaders say they are promoting greater outreach to customers to better understand their requirements.

internal processes. "These are the subject-matter experts who work in the trenches and provide solutions that others wouldn't have thought of because they're not as close to the systems," Boragno explains.

A third best practice is to give these innovators the information they need for making viable decisions by sharing data and unlocking information across departments. "When employees are equipped with all of the information, training, and data findings at their disposal, they're able to make more well-informed decisions that ultimately lead to a better output," says Sameer Chowdhri, global head, HR Solutions for Workplace by Facebook.

Some organizations that are breaking down the cultural and technical barriers that inhibit data sharing see benefits relatively quickly. "We're still in the early phase of ensuring information is clean and democratized," Boragno says. "But we feel we're getting reports much faster, and if there's a problem with a piece of data, people see it and can fix it more quickly."

Survey respondents are targeting investments in a handful of digital tools to support human-centered modernization strategies. Forty-one percent of the organizations surveyed will acquire analytics platforms designed to be easy for the business staff to use. FIGURE 5 Examples include business intelligence (BI) applications that let people who aren't data scientists comb through information centrally stored in data lakes and warehouses.

"The democratization of data is freeing up our sales people from spending much of their time mining data collected from retailers," Boragno says. "That information now comes directly into the data warehouse and gets disseminated. In addition, the BI tool relieves financial people from spending 80% of their time downloading information into spreadsheets before they can analyze it."

"As many businesses begin to use automation and artificial intelligence,

the power of human connection and voice will always remain paramount," Chowdhri says. "Providing a platform to enable employees to collaborate and communicate in a way that best suits them is critical. The most agile and forward-thinking companies are dedicated to giving everyone a voice, to help drive change and promote a positive culture within a company."

Now, because data gathering is less onerous, the staff spends the majority of its time doing the analyses, he says.

Tools for gathering and analyzing information aren't the only pillars for data democratization and federated decision making. Organizations are also planning to expand applications for disseminating and discussing information. Forty percent of the organizations surveyed will invest in unified communications applications for workgroup collaboration, data sharing, and content creation. The same number plan to purchase digital automation technology that performs routine tasks so people can focus on more strategic activities.

Fourth, innovation leaders are working to keep pace with continuous business disruption through effective change-management practices. Academic researchers and consultants acknowledge that developing these practices can be one of the most difficult aspects faced by innovation-oriented organizations. The reason: work is full of habits and routines, which are notoriously hard to change. "Don't forget that change is about mourning the comfort of routine," Stanford's Soule says. "Leaders must support people who are feeling the loss of a routine and demonstrate clearly what the end state will be. Leaders must also articulate why change is needed and connect that with the desired culture of the organization. Executives must then model the behaviors so that everyone understands old habits are no longer valued."

That may be more difficult than it sounds. Business leaders typically can navigate the tangible aspects of change, such as guiding the

TECHNOLOGY PLAYS AN IMPORTANT SUPPORTING ROLE

Technologies organizations plan to adopt to promote agility and innovation

Analytics platforms that are easy for the business staff to use
41%

Digital automation that performs routine tasks so people can focus on more strategic activities
40%

Unified communications for workgroup collaboration, data sharing, and content creation
40%

Analytics for processing large volumes of internal and external information
33%

Applications and services for real-time customer engagement
32%

Systems for collecting and sharing insights from domain experts within the organization
23%

None
8%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2019

implementation of a new performance evaluation system and training people to use it. But they may struggle at painting a vision of the future and motivating people so that they want to move in that direction. Finding the right change agent can increase the odds of success. "You need someone who is great at building and motivating teams to lead change management, not experts in whatever the end state is," Soule says. "For example, to lead a transformation to become a design-driven firm, find someone who knows how teams work, not someone who is an expert in design."

Finally, don't underestimate the power of engaging people from all levels in determining what business and organizational changes are needed and how to achieve them. "If people have been part of the design process, it is more likely that they will feel bought into it," Soule says.

A fifth strategy for change focuses on giving people the time to innovate. Employees must find time for creativity and ideation during workdays packed with other demands. Less than a fifth

CHANGES TO PROCESSES OR PROJECTS HAPPEN IN SHORT BURSTS, CALLED SPRINTS, THAT ALLOW FOR INCREMENTAL UPDATES THAT CAN BE QUICKLY LAUNCHED, TESTED, AND REVISED AS NEEDED.

of organizations regularly schedule brainstorming sessions. Without formal structures, employees may not carve out creative time on their own. "We would like people to adjust their schedules, but not everyone does that," Clif Bar's Boragno says.

So, the company is trying other options to spur new ideas. It organizes offsite meetings to free people from relentless phone calls, emails, and deadlines. The company also designed spaces at its main facility with couches and coffee makers to encourage ad hoc meetings and collaboration away from assigned workspaces. Efforts like these may be having an impact. "It's nice to see people starting to flock to those areas," Boragno says.

Follow the Leaders

The survey confirms that executives see a direct link between business disruption and the need to reengineer organizations for agility, innovation, and ongoing change. The problem is, most organizations are still searching for the right formula for success. They're struggling to overcome the challenges of rigid decision-making structures, siloed data, and poor cross-departmental collaboration.

"As many businesses begin to use automation and artificial intelligence, the power of human connection and voice will always remain paramount," Chowdhri says. "Providing a platform to enable employees to collaborate and communicate in a way that best suits them is critical. The most agile and forward-thinking companies are dedicated to giving everyone a voice, to help drive change and promote a positive culture within a company."

Fortunately, a select group of innovation leaders is pointing the way to success. They're taking five important steps starting with clearly defining the business goals for spurring the development of innovative companies. They're then working to break down hierarchical decision-making processes, enable efficient data sharing across departments, modernize change-management strategies, and build time to innovate into people's schedules.

These measures create a foundation for free-flowing exchanges of human expertise, business data, and analytics capabilities. In addition, everyone from senior executives to frontline employees can become more involved in ideation and problem-solving processes. The result: the rise of modern organizational structures and cultures that succeed through adaptability and continuous change.

Endnotes
1 https://www.pwc.com/us/en/advisory-services/publications/consumer-intelligence-series/pwc-consumer-intelligence-series-customer-experience.pdf

METHODOLOGY AND PARTICIPANT PROFILE

A total of 324 respondents drawn from the HBR audience of readers (magazine/enewsletter readers, customers, HBR.org users) completed the survey.

SIZE OF ORGANIZATION

23%	21%	8%	16%	7%	25%
FEWER THAN 100 EMPLOYEES	100–499 EMPLOYEES	500–999 EMPLOYEES	1,000–4,999 EMPLOYEES	5,000–9,999 EMPLOYEES	10,000 OR MORE EMPLOYEES

SENIORITY

39%	28%	17%	14%
EXECUTIVE MANAGEMENT/ BOARD MEMBERS	SENIOR MANAGEMENT	MIDDLE MANAGEMENT	OTHER

KEY INDUSTRY SECTORS

OTHER INDUSTRIES WERE LESS THAN 7% OF THE TOTAL EACH.

11%	11%	10%	10%	10%	8%	8%	7%
HEALTH CARE	MANUFACTURING	TECHNOLOGY	EDUCATION	GOVERNMENT/ NOT-FOR-PROFIT	CONSULTING SERVICES	FINANCIAL SERVICES	BUSINESS/ PROFESSIONAL SERVICES

JOB FUNCTION

OTHER JOB FUNCTIONS WERE LESS THAN 7% OF THE TOTAL EACH.

22%	13%	8%	7%	7%
GENERAL/ EXECUTIVE MANAGEMENT	CONSULTING	STRATEGIC PLANNING	ADMINISTRATION	SALES/BUSINESS DEVELOPMENT/ CUSTOMER SERVICE

Figures may not add up to 100% due to rounding.