

## Chapter 1

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# ***Threats and Opportunities in a Rapidly Changing World***

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**A**s we write this, we are going through a rather extraordinary spike in uncertainty, change, and volatility caused by the COVID-19 pandemic. There is a lot of discussion about what the “new normal” will be in 6 to 18 months. While this conversation is interesting and can be provocative, it is all too often misleading. A focus on this pandemic as a once-in-a-lifetime phenomenon can lead us to be passive and to miss the most important lesson: that this crisis is not an aberration but a spike in a trend that has long and deep roots.

Specifically, the amount, complexity, and volatility of change going on around us has been in general *expanding* in waves since even before the start of the industrial revolution. And virtually all the data says that this trend will continue in any number of ways after the current COVID-19 crisis abates. The potential forces of change are not limited to another pandemic. There are plenty of additional possibilities: artificial intelligence, other disruptive technologies, global integration, as well as

social and political movements that now have worldwide impact.

Furthermore, a gap is clearly growing between the amount of change happening around us and the change we are successfully, smartly implementing in most of our organizations and lives. As we will show you in the following chapters, this disconnect is increasingly dangerous, especially when people have been convinced that their continuous incremental improvements are all that is needed.

The risks we are taking are also increasingly unnecessary, because the emerging science of change, outlined in the next chapter, offers steps to mitigate bad outcomes. This information is accessible and actionable. It draws on brain research, business history, organizational studies, leadership, and more. We have found it possible to turn the science into replicable, teachable methodologies and then, in any specific situation, into executable playbooks.

Some enterprises have already tapped into this knowledge base. These companies are mobilizing their people to produce hard-to-imagine results by taking advantage of the opportunities presented by more change. These opportunities also have the potential to add great value to society at large.

## **“The Storm Is Just Beginning”**

On January 16, 2020, Volkswagen Group CEO Herbert Diess told VW’s senior managers, “If we continue at our current speed, it is going to be tough. . . . The storm is just beginning. The era of classic car making is over.”

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We would only add that both our formal research and our advisory work suggest that the long-term change trend has reached a point where the era of classical business and government may be over or may soon be over.

Whether dealing with threats from low-cost competitors or opportunities for growth from innovative products or acquisitions, organizations today need greater speed and flexibility, sometimes much greater, not just to deal with extraordinary events like COVID-19, but to deal with the shifting reality of our present and future. More broadly, the need to adapt rapidly is equally important for society to resolve threats like climate change or food security, as well as to continue capitalizing on opportunities for progress toward a more equitable and prosperous world.

A few enterprises have become adept at facing these challenges by identifying trends early, changing quickly, and successfully maneuvering at speeds that feel like 100 miles per hour. We will share some of these stories in the pages that follow. We're confident in their integrity because, in most of these cases, we watched these events unfold up close in our advisory work. These leading enterprises are outliers from which you can learn much. And learn we must, because the vast majority of organizations are struggling to adapt at a remotely adequate pace.

The need to adapt is nothing new; after all, Benjamin Franklin said, "When you are finished changing, you are finished." What is new is how often we need to change, the pace at which we need to move, and the complexity and volatility of the context in which we are operating.

## **The Challenge: A More Volatile, Uncertain, and Rapidly Changing World**

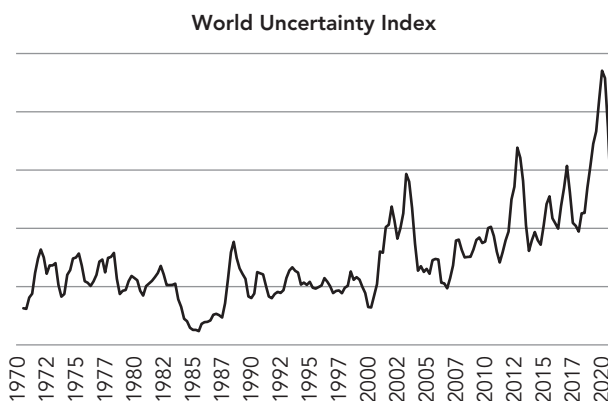
For centuries, the world has been speeding up, changing more and more often and in increasingly complicated ways. This trend has accelerated as we've moved from an Industrial Age to an Information Age.

Examples of this increased pace and complexity are easily found. The total number of patents granted by the United States Patent and Trademark Office doubled from 1960 to 1990. Then the number of patents quadrupled in the last three decades. While it took the telephone 75 years to reach 50 million users, cell phones took only 12 years, and the iPhone took just three to hit that milestone. A 2018 IBM study estimated that 90% of all data on the internet was produced in the immediately preceding two years.

The average tenure of companies on the S&P 500 in 1965 was 33 years. Today, it is half that. Reputational risks, though hard to quantify, have certainly increased with the growing use of social media, constant news alerts, and venues for publicly accessible employee feedback. Glassdoor has 32 million unique visitors each month. These examples are representative of changes that can be found in many different contexts.

The increased change around us drives an increased effort to change within the organizations that employ us, supply us with needed goods and services, and govern us. There are many variations of what this looks like by industry, sector, or region. But in general, the sheer number of organizational initiatives to produce change is now much larger than 30 years ago. Fifty years ago,

virtually no organizations talked about changing their cultures, while today this is commonplace. The growing number of initiatives has led to more and more companies adopting formal project management offices (PMOs).



*Source:* Adapted from Ahir H, N Bloom, and H Furceri (2018) “World Uncertainty Index”, Stanford mimeo. The WUI is computed by counting the percent of the word “uncertain” (or its variants) in the Economist Intelligence Unit country reports.

Along with, and directly related to, the increase in the pace and complexity of change, the last two decades have seen a steep increase in the level of uncertainty. Complex change does that. The high level of economic and political uncertainty can make it difficult to know what initiatives will be necessary to stay competitive and to take advantage of new opportunities.

Unfortunately, as we will see in the examples laid out in this book, the internal change in organizations is not keeping pace with external change and volatility. This challenge affects *everything*: the quality and availability of health care; the stock market; the environment; the affordability of products that make life easier, more interesting, or more fun; the economy; the responsiveness of

government; poverty; our ability to deal with medical emergencies, including pandemics; how many of us will lead comfortable and satisfying lives; even how many of us will die needlessly. The list is endless.

## **The Change Problem and Solution**

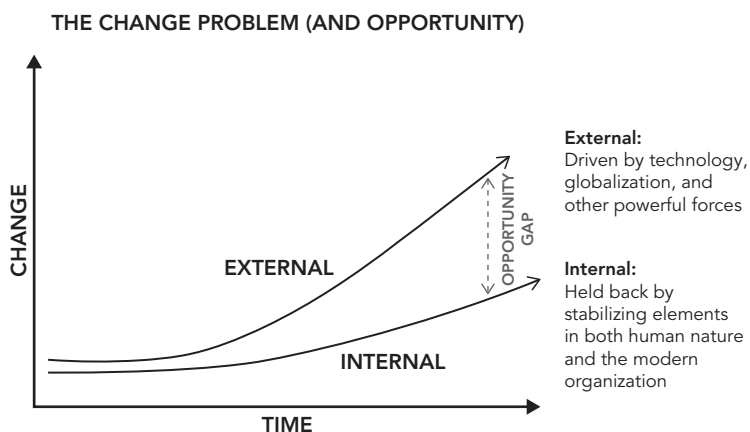
In this book, we will dig into this increasing uncertainty, volatility, and change. We discuss the implications, as we now understand them, for people who are trying to make things better for their enterprises (and society). We argue that if we continue to improve our capacity to adapt and change only incrementally, we are taking a huge and unnecessary risk.

The good news is that we have learned much over the past few decades about why so many people and organizations struggle with change, why a minority thrive, and why more than a few literally do not survive. As you will see, for perfectly understandable but correctable reasons, much of this knowledge is not yet used in most organizations.

Our collective struggle with change often seems to be the result of ill-equipped, seemingly incompetent, or stubbornly myopic people. The stories of companies like Kodak, Blockbuster, or Borders are often told as cases of arrogant, stubborn leaders who refuse to see what should have been obvious. In hindsight, we question whether they even tried to change. To some degree these critiques are true. But they are not the whole story and hence are misleading.

The bigger story is that neither the core of human nature, hardwired into us many thousands of years ago,

nor the central design of modern organizations, very much a late nineteenth- and early twentieth-century invention, were built to change quickly, easily, and smartly. People and organizations were designed mostly to be efficient and reliable enough to ensure survival. We do have the capacity to innovate and create new habits or products. But that capacity is not the most powerful force except in young people and organizations. With maturity comes all sorts of mechanisms that lean toward stability and short-term safety. So even when companies recognize new threats, they are often unable to change enough or fast enough to overcome these challenges.



Today, in a more complex and rapidly evolving twenty-first century, when we put a person designed for a world long gone into an organization that was not designed for this century, we regularly see too slow a pace of change in the face of uncertainty. We see too painful a process as individuals and organizations try to deal with inevitable transformation challenges. We get too little

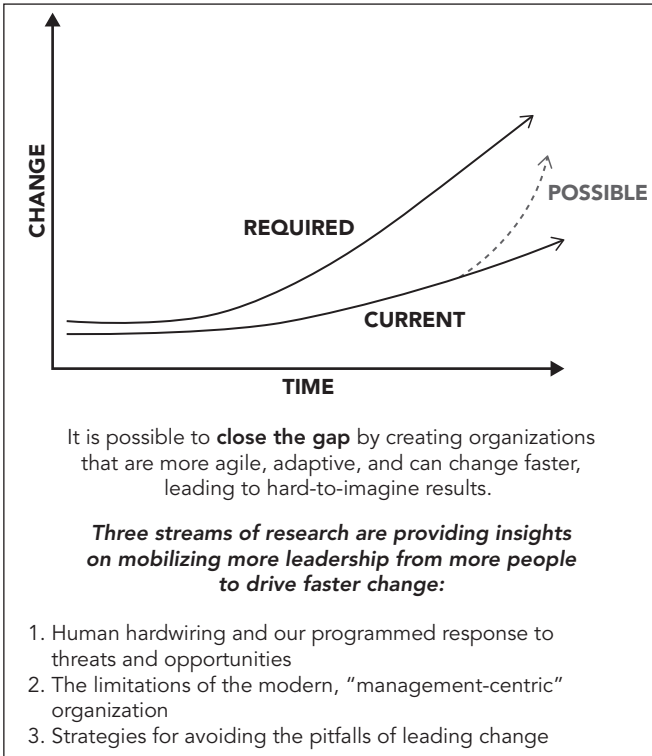
too slowly in terms of needed results, even though that deficit is not always obvious.

This struggle is today's reality and potentially tomorrow's catastrophe. *But it does not have to be that way.* Much more is possible.

We know this is true because we have seen examples of success where the gap between external and internal change is minimized or eliminated. When this correction is made, enterprises can leap into new and better futures with widely shared benefits.

Outstanding success is often attributed to a few larger-than-life leaders. There is truth in the observation that an individual can have an outsized impact in certain situations. But both research and our advisory experiences pretty clearly show that the most successful change comes from mobilizing more leadership from many more people. And three streams of research, discussed in the next chapter, seem to be particularly promising in providing insights into how to unleash this expanded idea of leadership. The first stream comes from brain science and deals with human nature and our response to threats and opportunities. The second is from organizational studies and business history and speaks to the limitations of the modern "management-centric" organization and how we can overcome those limitations. The third comes from a branch of leadership studies, one that specifically deals with the all-too-common pitfalls of leading change.

## THE CHANGE SOLUTION



Taken together, these research streams can provide powerful insights into how you can realistically mobilize much more leadership from many more people to drive change faster and smarter and, thus, to close the gap between internal and external realities.

What is perhaps most encouraging is that we can say, with confidence, that this emerging science of change has gone beyond academic analysis to actual, often dramatic, impact in the real world. Throughout this

book, we share examples where organizations have taken a substantially different path from the norm by utilizing methods and insights from this emerging science. What is equally as encouraging is that there is no magical sauce or impossible-to-replicate situation in these examples. We have seen, up close, again and again, that people can be guided, facilitated, educated, and motivated to adopt new ways of thinking and working, to actually change their actions, resulting in sometimes astonishing business or mission impact.

The companies that we discuss (and many more that we do not) have truly done some amazing things. They have implemented whole new strategies to help them roar out of financial crises. They have accomplished, in 90 days, changes and business results that were thought to be totally impossible within a year or two, much less in such a short period of time. These enterprises have significantly improved employee engagement and have seen their efforts reflected in winning awards for Best Place to Work. Big, older companies that have struggled to innovate have developed remarkably successful innovations in products, ways of working, and strategies. Some have changed smartly and swiftly and doubled or tripled their share prices in 2–3 years, or even less.

When you start to add up the people touched with such efforts, the numbers grow big quickly. These improvements are at the heart of Kotter International's vision of "millions leading, billions benefiting." Real results like these are the product not just of research, but useable research. This is why we have organized the book in ways that make it immediately applicable to specific changes you might be experiencing or contemplating.

## The Stakes

In a world where billions of people continue to lead lives few of us would want to conceive of, where we face growing environmental challenges that threaten to impact our children and grandchildren disastrously, where emerging technologies in the wrong hands or used for the wrong purposes could be horrific, where biological agents can spread with terrifying speed, and where even in rich countries inequity and inequality raise serious questions about the viability of democracies, *we need (and can create) a lot more change that astounds.*

Experiences that have left people disappointed, pessimistic, or cynical will raise questions about that assertion. But there is sufficient evidence in the research, especially the success stories, to support optimism.

This evidence comes from cases where bold new strategies are not partially but wholly executed within accelerated time frames; where digital transformations do not disrupt business, cost a fortune, and take forever; where restructurings create great efficiencies without killing productivity, morale, or innovation; where remarkably fast and smooth M&A integration eliminates clashing mindsets and all the problems that creates; and perhaps most difficult of all, where real substantial cultural change propels firms into a much better future.

There is a line of thought, typically traced back to the great economist Joseph Schumpeter, that suggests that the problem of change has a better solution than the one we offer here. Schumpeter's solution is called "creative destruction." For example, if government would

stop protecting bigger and older enterprises and instead make it easier for entrepreneurs, the dinosaurs who can't adapt would die off and be replaced by innovative youngsters. We would not need to teach the slow-moving or out-of-touch companies to be agile. Instead, we would just let them go extinct when they can no longer keep up.

Of course, creative destruction does happen in our world today, just not in the pure form that some would advocate. The pure form is unrealistic because capital and product markets would struggle to adapt to this constant birth-death dynamic. And labor markets would do more than struggle. They would fail in their attempts to swiftly move massive numbers of unemployed into very different jobs, demanding very different skills, usually in very different parts of the country or the world. Unemployment above a certain point would not only create massive pain to individuals and families, but would undermine faith in capitalism and democracy—perhaps faith in any form of government or economic system.

The clock is ticking. The gap between what is needed and what most organizations are capable of continues to widen. Bringing an organization up from poor performance to the norm is useful and will potentially benefit many people. But going from an F or D grade to a B is not what the world needs. Good is no longer good enough. Even for large numbers of organizations, good still means wasted resources, results coming too slowly, wealth left unrealized, and ultimately people suffering. Rising up from the norm to enter the top 10%, but doing so over 20 years, is no answer, either. Too much is moving too fast for thinking in terms of two decades.

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When it came to change, risk mitigation traditionally meant a bias toward caution. Increasingly, risk mitigation means getting on with it and not missing opportunities. In today's world, not adapting fast enough is the greatest risk. Yes, be deliberate and use results from the latest research as a guide. Employ insights from truly outstanding success stories. Learn from people who have been involved in those stories. *But get after it.*

Our goal in this book is to inspire you to embrace change and “get after it!”

And why not? The vast majority of the time, people who successfully help us deal better with change benefit greatly themselves. They not only do better in their careers but they feel better about life. They not only receive material rewards; they gain esteem. They not only survive; they truly thrive. And they leave legacies of which they are deeply proud.

The challenges that businesses—and even more broadly, humanity—face are not small. As the coronavirus pandemic demonstrated, it is no understatement to say that our ability to adapt and respond to these challenges is not only a question of creating prosperity but indeed one of survival.

So much more is needed—and, with a better understanding of some core components of human nature, of the limitations of the design of modern organizations, and of the leadership needed and possible in this era—as you will shortly see, so much more is possible.

