THE THREE SCHOOLS OF THOUGHT THAT MATTER

Transformation Thinking: How to become made-for-change through the integration and application of design, systems, and scenario thinking

NORTH HIGHLAND

ANSWERING THE ADAPTABILITY IMPERATIVE WITH TRANSFORMATION THINKING

When Webvan launched at the peak of the dot-com boom, the ambitious online grocer invested millions in redesigning the industry's infrastructure to deliver products to people's homes simply and inexpensively.[1] The company's founder raised an initial $120 million in venture capital and spent a significant chunk of it building a 330,000-square-foot distribution center—a highly complex "behemoth adorned with five miles of conveyor belts and $3 million of electrical wiring," according to The Wall Street Journal.[2]

But while the company was counting on the internet to change consumer behavior, customer demand simply wasn't yet there, and Webvan had made no plans for other ways to utilize its massive investment in infrastructure. After burning its way through $1.2 billion in capital in just a few short years, the company declared bankruptcy in July 2001.

Webvan's lack of planning for an alternate future isn't an anomaly; many modern organizations overlook the opportunity cost of building infrastructure, operating models, and workforces with a fixed mindset and fail to adopt a more adaptive strategy. They often lack the tools and methods to respond quickly to signals of change and simultaneously accommodate a range of potential futures. This was apparent recently, as businesses were caught on their back foot when COVID-19 began spreading around the globe. Business continuity planning, for many years an afterthought, became a critical imperative as companies were forced to adapt quickly, and pivot into multiple modes of operating and new ways of enabling success to survive in a climate of unforeseen change.

The widespread lack of planning for multiple futures isn't altogether surprising; for many years, standardization was the go-to approach to make operations more efficient and less costly. But today, the pace of change due to technology advancements and other factors is exponential, and standardized systems and structures won't give your business the freedom to evolve with customer and employee expectations and behaviors, which are changing faster than ever.

While transformation remains a top priority—everyone's talking about the need to transform from A to B to C—few conversations center on the how. Increasingly, that how hinges on adaptability.
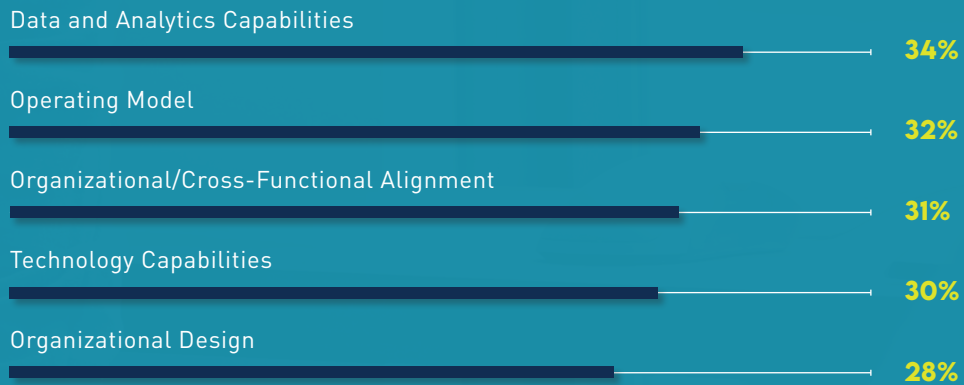
Today, successful businesses are ones that invest in developing flexibility and resiliency. They drive value and manage risk by adapting not with big sweeping changes but rather by changing little and often (the cumulative effects of which may ultimately be big and sweeping), and testing their business case assumptions continuously along the way.[3]

TOP BARRIERS TO ADAPTABILITY

While transformation remains a top priority—everyone's talking about the need to transform from A to B to C—**few conversations center on the how.** Increasingly, **that how hinges on adaptability.** Leaders cite the following factors as top barriers to adaptability:

What are the primary barriers to your organization's ability to be more adaptive?

Data and Analytics Capabilities
34%

Operating Model
32%

Organizational/Cross-Functional Alignment
31%

Technology Capabilities
30%

Organizational Design
28%

Source: North Highland-sponsored survey of > 500 cross-functional employees at organizations with > $1B annual revenues and that are headquartered in the U.S., U.K., or Europe, North Highland, December 2021.

PLANNING FOR MULTIPLE SCENARIOS

32%

▶ **Thirty-two percent of leaders we surveyed in December 2021 say they are leveraging scenario planning to design and deliver their transformation.**

And, perhaps most importantly, as leaders look ahead in today's climate of constant change, it's clear there's not just one possible future. Instead, businesses must prepare for multiple scenarios and continuously monitor the market landscape and signals of change so they can adjust plans as needed. In fact, 32 percent of leaders we surveyed in December 2021 say they are doing just that by leveraging scenario planning to design and deliver their transformation.

To effectively design an operating model and workforce that can flex and thrive within a variety of futures, leaders should leverage a new combination of contemporary disciplines through the integration of design, systems, and scenario thinking—a mindset we call **Transformation Thinking.** This piece will unpack how Transformation Thinking—supported by strong data and analytics tools and capabilities—leads to better decision-making while enabling your operating model and workforce to transform and adapt for a range of potential futures.

SYNTHESIZE, INTEGRATE, AND EXAMINE: THE PRINCIPLES OF TRANSFORMATION THINKING

Becoming a made-for-change organization requires an enterprise-wide commitment to core principles that enable customer centricity, adaptability, and flexibility. The application of Transformation Thinking, which brings together three interconnected, inherently complementary disciplines, is the answer. The principles of Transformation Thinking are mutually reinforcing and transformative at a cultural level. When effectively applied, Transformation Thinking shifts organizations from change resistant to change optimized through a fluid cycle of synthesis, integration, and examination.

Synthesize with design thinking.

Design thinking accommodates for constant change by offering a framework for solutioning around user and customer needs in an adaptive, iterative way. Design thinking empowers teams to strip problems down to their core and develop solutions that address root causes and fundamental needs. Employees are equipped with insights to design (and adapt) solutions based on customer pain points, challenges, and motivations. Design thinking often looks like:

• **Empathy and immersion:** Standing in the shoes of others to gain insights and understanding, objectively observing behaviors and interactions, asking questions, interpreting intent, identifying trends and customer needs (both met and unmet) through cognitive and emotional connection.

• **Ideation:** Generating ideas to solve customers' problems, improve experiences, and fulfill unmet needs by exploring possibilities and potential. Tactics and activities may include brainstorming, storyboarding, and co-creative exercises and sessions with customers.

• **Prototyping and testing:** Producing a scaled down version of concepts and ideas to validate or invalidate hypotheses and assumptions, reveal any issues or drawbacks with the current design, and gain feedback to improve.

Together, empathy, ideation, prototyping, and testing allow you to get to know your customers and stakeholders, experience their pain points and needs as if they were your own, and integrate this critical information throughout the organization.

Integrate with systems thinking.

Systems thinking integrates the customer needs into every element of a complex enterprise: It's your people, processes, structures, governance, technology, and data, all aligned to meet customer needs. Techniques such as service-design blueprinting push to understand and intentionally engineer the interrelationships of the enterprise across applications, platforms, and data. It brings all these elements together to best serve, enable, and delight customers along your transformation journey. With greater transparency and a better understanding of how your organization operates as a connected system, systems thinking closes the gap between ideas and execution through:

• **Interconnectedness:** An organization is an ecosystem, one in which everything is interconnected and driven against one objective: Understanding and meeting customer needs. Rapid and frequent change requires a heightened level of interconnectedness to ensure that improvements don't benefit just one isolated function, but compound value across the ecosystem. Mapping, viewing, and visualizing this interconnectivity through tools like blueprinting, value, and ecosystem mapping ensures that even the smallest improvements generate a positive ripple effect enterprise-wide.

• **Feedback loops, causality, actions, and results:** Effective feedback loops help leaders—and employees at all levels—establish correlation versus causation, and findings can be applied to create

actions and results that drive efficiencies within an interconnected, complex system.[4]

Systems thinking is not just about avoiding unintended consequences. It's about designing and optimizing an organization that is integrated and customer-centric at its core (i.e., at a cellular level). It's about striving for system symbiosis to ensure that each part of your complex ecosystem supports and compliments the others in an environment of fast-paced change.

Examine with scenario thinking.

Scenario planning historically felt like an event, but the process has evolved into a mindset of ever-present scenario thinking supported by key frameworks—from lower-tech trend analysis to cutting-edge AI—for continuously examining and pursuing preferable opportunities, managing risk, and maintaining flexibility. It drives planning and execution, enabling organizational resiliency and adaptability through the consideration of responses and strategies for an ever-widening array of opportunities and risks.

First popularized by Shell in the early 1970s as scenario planning, the always on mindset of scenario thinking is an embedded cultural attribute that supports the end-to-end design-thinking journey. Scenario thinking, and the plans that resulted, alerted Shell's managing directors in advance to some of its greatest challenges, from the 1973 energy crisis to the collapse of the oil market in 1986, and the increasing pressure on companies to address environmental and social problems.[5] Companies with a scenario-thinking culture keep their eye on multiple options continuously rather than becoming fixed on a singular path.

More recently, Macy's CFO Adrian V. Mitchell says that scenario thinking is driving the retailer's strategy amidst increasingly unpredictable customer demand.

"We believe the demand is out there and that the consumer will be spending," Mitchell said at the JP Morgan Retail Roundup on April 7, 2022. "The question that is facing the company is whether consumers will be spending their discretionary dollars on airline tickets to Florida or going out to restaurants instead of shopping in stores."[6]

Facing not just customer unpredictability but higher inflationary pressures, rising interest rates, and new supply

SCENARIO THINKING:
THE SECRET TO SPEED

Speed is king when it comes to retail customer order cycle times, and scenario thinking is the key to the castle. American Productivity & Quality Center (APQC) finds that organizations that can "model and analyze scenarios to a significant or very great extent" outperform those that don't with:

FASTER CUSTOMER ORDER CYCLE TIMES
(averaging 11 days versus six)
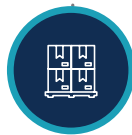
HIGHER FINISHED GOODS INVENTORY TURNS
(9.6 versus 7.7)

SHORTER CASH-TO-CASH CYCLE TIMES
(53.5 days versus 63 days)

chain disruptions due to the war in Ukraine, Macy's is shifting to capitalize on a wide range of scenarios. It's developing new online categories of business, beefing up efforts to monetize its real estate, making more buying decisions based on predictive demand, and taking steps toward automating its supply network by 2024.[7]

Every organization is capable of scenario thinking—the act of identifying signals of change, determining drivers, defining scenarios, and considering implications. However, the imperative isn't just on big-picture scenario thinking at an enterprise level. Scenario thinking must be democratized and decentralized to happen at departmental and functional levels. And, as change and perpetual adaptability becomes synonymous with survival, more organizations must tap into its power by embracing:

- **Uncertainties and possibilities:** Understanding the emerging trends on the horizon and exploring possible futures while staying grounded in reality.

- **Scenario design and development:** Building alternate versions of the future and understanding the potential resulting impact on both systems and interactions.

- **Challenge and debate:** Setting aside time for discussion, both with internal stakeholders and experts from outside the company, to flesh out each scenario and its implications and measure the potential impact of each in a quantifiable way.

- **Flexibility and readiness:** Becoming more flexible and prepared for current and future challenges through the process of assessing scenarios and creating subsequent action plans and alternatives.

Peter Drucker famously wrote, "The best way to predict the future is to create it." Organizations must make scenario thinking a core

capability—at all levels and functions—to create a prosperous future of their own design and gain the power and potential of the most nimble and adaptable made-for-change organizations.

PUTTING TRANSFORMATION THINKING TO THE TEST

While each method of thinking is powerful in its own right, on their own they are limited in their ability to build a truly made-for-change organization. When implemented together, Transformation Thinking forms a mutually reinforcing cycle whose results are more powerful than the sum of their parts.

▸ **In fact, when working in concert, scenario thinking pushes the design and systems thinking components of the ecosystem to project forward across multiple possible futures.**

Transformation Thinking is an integrated cycle of:

1. Leveraging the people-centric mindset that accompanies design thinking to put stakeholders at the center of your efforts.

2. Integrating the customer, employee, and/or stakeholder (users) into the complex ecosystem that is your organization, and defining the transformations that will compound the positive impact of solutions, people, data, technology, management, and processes.

3. Exploring future customer needs, which will ultimately be shaped by macro forces like the evolution of social values, political upheaval, breakthrough innovation (e.g., biotech, quantum computing, etc.), the metaverse, globalization, and more.

BUILDING THE TRANSFORMATION THINKING ATTITUDE AND APTITUDE ACROSS YOUR ENTERPRISE

To strengthen your organization's Transformation Thinking use and application, and to promote the adoption of Transformation Thinking enterprise-wide, leaders must change internally in the same way they do externally: Little and often. These Transformation Thinking building blocks allow an organization to drive value, optimize flexibility, and manage risk while implementing systemic and sustainable growth.

HOW MIGHT TRANSFORMATION THINKING COME TO LIFE?

In this simple example for a large retailer, we've broken down the steps an organization can take to apply Transformation Thinking to become made-for-change. In this case, consider the plausible environmental context of a possible recession. The following steps outlined below serve as a Transformation Thinking Checklist.

☑ TRANSFORMATION THINKING CHECKLIST:

STEP 1

Identify the signals and drivers of the recessionary scenario.

- High inflation and related interest rates
- Rising unemployment in critical sectors
- Weakened consumer demand across specific categories

STEP 2

Define plausible scenarios that might unfold.

- High inflation and uneven labor supply and demand affect productivity
- Consumer shopping and retail/Consumer Packaged Goods (CPG) demand becomes more volatile in certain categories
- Channel buying preferences shift to digital and price-sensitivity escalates

BEST PRACTICE: Leverage scenario frameworks to enable teams to rapidly map out potential futures based on signals of change, uncertainties, and potential risks.

STEP 3

Consider the implications of a recession for your business.

- Key consumer groups may have less money to spend, so they will change their buying habits. They will continue to purchase essentials but will reduce spending on certain "nice to haves." Yet, they'll also explore other items given the pandemic's impact on customer preferences.

- If oil and gas prices continue to rise, consumers may stay home more frequently, which could mean several key changes are ahead: Customers will make fewer trips to the store and they will use alternative channels, such as the retailer's digital and e-commerce platform and home delivery services. More at-home delivery purchases will place transportation costs on the retailer, thereby increasing its customer service expenditure. Additionally, a shift to alternative shopping methods could impact our example retailer's profits unless they've put appropriate investment in their digital and e-commerce channels combined with strong branding and experience competitiveness. If our retailer is not selling as much—or volume shifts from in-store to online purchasing, which is traditionally more expensive to fulfill—and its revenue is declining, it will need to identify ways to cut costs to maintain profitability.

- Fewer trips to the store will also impact our retailer's workforce mix. As customers explore delivery of goods and services to their homes to avoid the fuel expenditure, our retailer will need to shift the roles and responsibilities of some of its existing employees, and will need increased capabilities in areas such as workforce planning and the ability to accurately perform labor forecasting for alternate futures.

BEST PRACTICE: To empower employees and establish routines and rituals to culturally embed a scenario-thinking mindset across your organization, increase access to data and build data literacy. When the workforce plays a role in identifying and assessing trends, understanding patterns, and making more informed decisions, it can help shift mindsets and behaviors in support of a strong scenario-thinking culture.
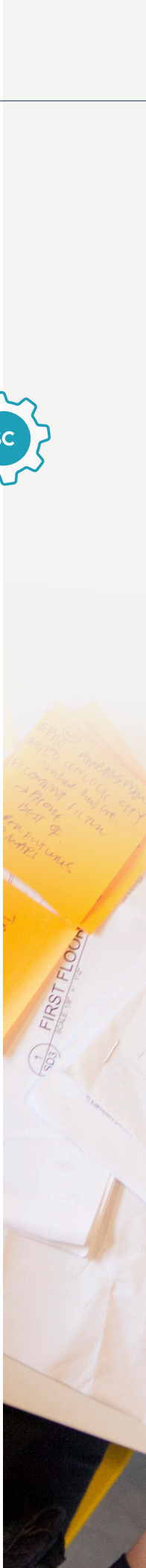
STEP 4

With customers top of mind, what solutions should you prioritize and pilot to ensure your business navigates the recession scenario as seamlessly as possible?

- Should you refocus efforts around getting the basics and securing recession-proof inventory? You'll need to shore up how you get those items by thinking through your sourcing strategy.

- You'll want to sell more of the essentials to offset reduction in spending on other categories. Should our retailer rethink the layout of its stores and the configuration of its website to ensure the essential items are front and center to the customer?

- Think about how our retailer can become the store of choice for essential items when another large retailer with competitive prices is right down the road or offers a differentiated online experience. Can it shift its marketing efforts to focus on the high quality of its items versus the competition? Alternatively, does it need to cut marketing and advertising spend to offset losses?

- Does our example retailer need to reduce headcount or make changes to its workforce mix to meet the changing needs of customers, based on potential scenarios and behavioral changes that might unfold?

BEST PRACTICE: As you journey through each piece of the Transformation Thinking cycle, including the steps above, it's critical to leverage data to make decisions that are not based solely on intuition or emotion. Develop an insights and intelligence capability to inform and enable customer- and employee-centric design. You'll want to ground it in data-driven insight, comprised of structured and unstructured data combined with emerging trends and values. Activate a 360-degree insight engine that integrates all major forces impacting the organization, from evolving behaviors and needs to signals of macro change. With robust data tools and capabilities, you can build an organizational system and model that monitors, provides, and responds to always-on, real-time feedback and insight. This will bolster your design- and scenario-thinking techniques, which are enabled by channels that collect ongoing feedback and empower teams to flex and continuously improve.

STEP 5

You'll also need to think through how the recession and these proposed solutions will impact the ecosystem that is your business. Consider:

- What you need to change about your sourcing strategy to ensure you have continued access to recession-proof items. How can you prevent supply chain disruption to these items? What are those essential items and how can you validate this with your customers?

- Whether or not your employees have the skills and competencies to design the new solutions you've prioritized and want to pilot. Do you have the right roles and career paths in place?

- How will you align your operating model to support these solutions?

- What needs to change about your processes to support these solutions?

- Do you have the data capability across your organization to measure and anticipate customer behavior in real time and adjust your solutions as you gather more information or as conditions change? Is that data being shared with the right people who can then action on it and help make inventory decisions and course-correct quickly?
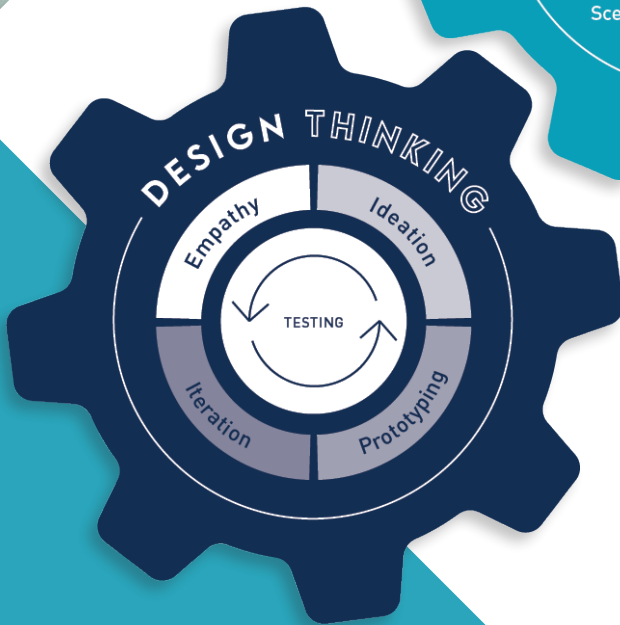
BEST PRACTICE: Leverage techniques such as blueprinting and ecosystem mapping to visualize how all the elements of your business (systems) come together to best serve and enable customers along your transformation journey. Tap into data to identify peaks and troughs in demand and then make informed decisions about the various components of your business, such as establishing the appropriate workforce mix to flex to meet those changing demands. Strong insights allow you to design an organizational system and model that can flex and adapt to evolving futures and customer needs. Additionally, consider how to operationalize systems thinking through service design and business architecture.

BEST PRACTICE: As you engage in Transformation Thinking, keep the workforce top of mind and maintain a close eye on the skills that will be needed to support your solutions along the way. After all, 95 percent of leaders we surveyed in December 2021 believe talent and skill needs will change throughout the delivery of upcoming transformation strategies. To optimize your workforce mix, address changing skills needs, and avoid skills gaps, engage in regular reskilling and upskilling. Additionally, employ agile and adaptive ways of working to enable teams to test, learn, and evolve.

TRANSFORMATION THINKING

SCENARIO THINKING
- Identify Forces
- Determine Drivers
- Define Scenarios
- Consider Implications

DESIGN THINKING
- Empathy
- Ideation
- Prototyping
- Iteration
- TESTING

SYSTEMS THINKING
- Observations
- Analysis
- Adjustments
- Anticipation
- FEEDBACK

HERE'S A SIMPLE EXAMPLE OF HOW TO APPLY TRANSFORMATION THINKING FOR A NEW CUSTOMER-FACING POLICY:

▶ **Design thinking: Ensure the policy is designed to hit the sweet spot of meeting customer needs and propelling business objective.**

Start with a precise understanding of the current customer experience and diverse customer needs: How do we design a policy that considers the customer from the outset?

▶ **Systems thinking: Define how all elements of the enterprise must evolve to apply, fulfill, enable, service, and warrant the policy successfully.**

Consider the implications enterprise-wide—from data, systems, employees, processes and more—to ensure symbiotic, positive change. Who is responsible for training employees on the new process? Are technology systems adjusted to reflect what is communicated to customers? What data is needed to continually monitor and optimize the desired policy impact and outcomes?

▶ **Scenario thinking: Explore how the context, circumstances, and rationale that drove today's policy might change in the future.**

- What options and flexibility can be built into the policy itself now?
- How do we implement the new policy while anticipating future policy changes?
- How might we respond if customers react in an unexpected way (and what could those ways be)?

TRANSFORMATION THINKING: THE SUSTAINABLE PATH TO MAKING CHANGE A CORE CAPABILITY

An operating model and workforce that can flex and thrive within a variety of futures is no longer a nice-to-have safety net. It has become critical to not just surviving exponential change, but to leapfrogging competitors and redefining success on your terms. While everyone else is just trying to gain footing in a new future, made-for-change organizations have already emerged stronger, faster, and smarter. They've become the phoenix rising from the ashes in a world that seems to be always on fire.

Transformation Thinking isn't about enabling constant change for change's sake. It's about change anchored in and influenced by your overall organizational and go-to-market strategies. It's change that answers the key strategic questions an organization must always address: Where do we play, and how do we win? Leaders must ensure they don't sacrifice intentionality and thoroughness, as Webvan did when it gave into the pressure to "grow big fast," according to a former Webvan executive.[8] Be willing to start

small: "Successful innovators start small after thinking big," Chunka Mui wrote in Forbes. "Those who fail start big after thinking small," Mui added. Pick an area of focus to apply the intersection of these three mindsets. By creating a reference case, you can demonstrate the power of Transformation Thinking before scaling across the organization.

START SMALL: TRANSFORMATION THINKING IN THE DAY-TO-DAY

As many organizations push to become more customer centric, they have trained and exposed their entire organizations to the benefits of design thinking with the intention of embedding customer-first mindsets in all that they do. Transformation Thinking must expand on that initial ambition to ensure the organization and its employees constantly consider the system implications and future scenarios for design, delivery, and ongoing management of products, services, and experiences. Together, the three disciplines that make up Transformation Thinking offer an optimal execution for even the smallest, day-to-day program change.

Businesses that are made for change understand that there are tradeoffs to moving quickly, including the tendency to make decisions based on a single dimension, such as cost or a near-term need. Instead, businesses must prepare for

multiple scenarios. Transformation Thinking builds intentionality into your planning, so that your operating model and workforce can transform and adapt no matter what comes your way next.

Imagine what Webvan could have become if it had used Transformation Thinking. By synthesizing, integrating, and examining its customer needs, the ecosystem, and potential future scenarios, the company could have built flexibility and resiliency into its core. By changing little and often, it could have tested its business case assumptions along the way, rather than rapidly launching in new cities based on an unproved hypothesis that the grocery delivery business would be profitable at that time. Instead, it could have focused on customers more concerned about convenience than cost; alternatively, it could have avoided— or repurposed—its massive investment in infrastructure. It could have disrupted an industry two decades before COVID made fast, convenient home delivery an imperative for retailers worldwide.

1 "What Webvan Could Have Learned from Tesco," Knowledge at Wharton, Oct. 10, 2001.

2 "Co-founder of Borders Is Planning to Launch an Online Megagrocer," The Wall Street Journal, Apr. 22, 1999.

3 "Made for Change: Your Next, and Last, Business Imperative," North Highland.

4 "The Role of Systems Thinking in Organizational Change and Development," Forbes, June 15, 2020.

5 "The Man Who Saw the Future," Strategy+business, Feb. 12, 2003.

6 "Macy's Prepares For An Unpredictable Future," Forbes, April 11, 2022.

7 "Adopt Planning Capabilities That Enable Scenario Modeling and Analysis," Supply and Demand Chain Executive, June 27, 2022.

8 https://techcrunch.com/2013/09/27/why-webvan-failed-and-how-home-delivery-2-0-is-addressing-the-problems/

ABOUT NORTH HIGHLAND

North Highland makes change happen, helping businesses transform by placing people at the heart of every decision. It's how lasting progress is made. With our blend of workforce, customer and operational expertise, we're the world's leading transformation consultancy. We break new ground today, so tomorrow is easier to navigate.

Founded in 1992, North Highland is an employee-owned firm - regularly named one of the best places to work. We have more than 5,000 consultants worldwide and 65+ offices around the globe. Meanwhile, we're a proud member of Cordence Worldwide (www.cordence.com), an international consulting alliance.

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