

NANO TOOLS FOR LEADERS®

TO SURVIVE SUSTAINED CHANGE, START REHEARSING

Nano Tools for Leaders® are fast, effective leadership tools that you can learn and start using in less than 15 minutes—with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

GOAL

To thrive in uncertain times, companies need to develop a culture of flexibility—and rehearse for potential disruptions.

NANO TOOL

In the near future, significant and unpredictable external factors may combine to challenge the global business landscape in unprecedented ways. Responding effectively to those challenges will require adaptability, and while many leaders acknowledge its importance, even successful companies can suffer from inflexibility in budgeting, resource allocation, and organizational structure. However, with dedicated effort and consistent practice, businesses can overcome these rigidities, embedding operational flexibility into their culture and processes.

To begin, executives should pinpoint three to five key areas that could significantly impede the organization. These may include:

- *Reviews, budgets, and KPIs*, because performance targets may become impossible to achieve if there are significant changes in the external environment; sticking to unrealistic targets can be demotivating or lead to cutting corners
- *Decision-making processes*, another common culprit, which can cause the organization to slow to a crawl if too many layers are involved or accountability is unclear
- *A single individual* in a critical role who is psychologically unable to grasp a new reality; this can have ripple effects across the organization, holding back on moving people, shifting resources, or changing pricing, any of which can mean missing the bend in the road

ACTION STEPS

Cultivating flexibility with regular rehearsals ensures readiness to adjust your strategies when necessary. Key components of this rehearsal-focused method include:

1. **Envision and prepare for the unexpected:** Socialize the concept of flexibility to deal with surprises. Establish a routine of envisioning various potential situations and strategizing and practicing responses, focusing on the necessary organizational adjustments. Consider what might need to be discarded or developed swiftly and the possible ripple effects, including talent requirements. Regularly repeating this drill in diverse contexts will sharpen the team's ability to recognize and adapt to change swiftly, enhancing overall readiness.



- 2. Build flexibility into budgeting:** Some budget items may need more frequent adjustments. Incorporating these adjustments into your rehearsals can pinpoint which areas might need swift changes. For instance, a drought in the Panama Canal would make cargo stuck for months, with no end in sight, creating negative effects for your logistics team and your customers. Questions to consider include which budget areas to modify; the timing of communication; and whether this necessitates a revised production budget, increased cash reserves for inventory, altered sales goals, margins, or additional customer discounts due to unmet obligations. Regular rehearsals enable teams to rapidly develop and internalize responses to such scenarios.
- 3. Create flexible performance assessments:** KPIs often lead to inflexibility within corporations. However, if these performance indicators are adaptable, they can foster a proactive and ownership-driven attitude among managers. This shift can result in a more agile organizational culture, encouraging ethical behavior and the embracing of opportunities.
- 4. Special challenges for B2Bs:** In B2B companies, budget and KPI inflexibilities are challenging due to long-term contracts. To introduce flexibility, contracts must include clauses that allow for automatic adjustments in response to fluctuations in currency or raw material costs. Without such measures, cash flow and profitability may suffer from unforeseen changes. Cost variations must be transferred throughout the supply chain to the consumer, as intermediaries cannot bear these changes without jeopardizing their operations and the value chain. Additionally, B2B firms must remain vigilant against emerging competitors, disruptive products, regulatory changes, or strategic moves by rivals that could alter their market standing.
- 5. Flexibility with human resources:** Be ready to quickly reassign people in response to unexpected changes. Proactive adjustments to the workforce are crucial, eliminating redundant roles, introducing necessary positions, or merging jobs to enhance agility. Quick adaptation may involve forming new teams on the fly and revising key performance indicators for all impacted employees.

HOW LEADERS USE IT

One large consumer-goods company builds flexibility into its budget by requiring all VPs to free up funds through cost savings in their business lines agreed upon at the start of the fiscal year. Those funds are held in reserve to respond to competitive drivers that might pop up throughout the year, whether it's for advertising, promotions, or pricing.

GE's former CEO Jack Welch once gave the highest bonus to a leader whose division fell short of targets, even as other GE divisions had exceeded theirs. Why? The division had outperformed its competition in the face of extremely tough external challenges. In your rehearsal scenarios, practice which KPIs need to swing and consider setting a range within which they can do so.

In February 2024, Eli Lilly was hit when the parent company of its major competitor, Novo Nordisk, announced the acquisition of Catalent, a contract manufacturer. Catalent works with many pharmaceutical companies to make and deliver their products, including Novo Nordisk's popular obesity and diabetes drugs Wegovy and Ozempic. Acquiring Catalent would expand capacity for Novo Nordisk and could give it a pricing advantage over Lilly's competing drugs. Did Lilly anticipate Novo Nordisk's move? Was it so focused on getting FDA approval for its obesity drug, Zepbound, that it never even considered where the competitor might be going? How well Lilly weathers this surprise will likely depend on how well it rehearsed.

CONTRIBUTOR TO THIS NANO TOOL

Ram Charan is an adviser to CEOs and boards of directors worldwide, a member of corporate boards in several countries, and author of 36 books. His latest book is *The Leadership Pipeline: Developing Leaders in the Digital Age* (Wiley, 2024). This Nano Tool is adapted from an [article](#) originally published in Fortune.

ABOUT NANO TOOLS

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, director of Custom Programs at Wharton Executive Education. *Nano Tools for Leaders*® is a collaboration between joint sponsors Wharton Executive Education and Wharton's Center for Leadership and Change Management. This collaboration is led by Professors Michael Useem and John Paul MacDuffie.