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How To Persuade Even Major Firms To Change

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In any large firm today, top management usually includes two groups.

One group is committed transform the firm digitally, as a key to survival, let alone thrival.

The other group treats the need for digital transformation as a sideshow of the status quo.

When the status-quo group calls the shots, as it often does today, the firm's trajectory is predictable. The firm's 'digital transformation' has little impact, and the firm continues its slow long-term decline, like IBM and GE (Figure 1).

In such settings, change may only come if attention can be shifted to the exponential upside of digital.

The Case For The Status Quo

The status-quo managers are not being entirely irrational. In a steadily improving stock market, the firm is often making strong returns, particularly if boosted by share buybacks, successful rent seeking, firm-friendly regulatory change, falling corporate tax rates, and well-timed acquisitions of competitive threats that escaped anti-trust scrutiny. They may also have been able to bolster the firm's financial returns through special charges, secret fees, hidden supplements, expiring customer rewards, and convoluted customer grievance procedures that somehow never come to closure—of the kind that we know so well, in sectors such as telecommunications, insurance, airlines, and hoteling.

The careers of these managers have often been in firms run consistently in this industrial-era manner, with a steep hierarchy that practices command-and-control, and a single-minded pursuit of maximizing shareholder returns. That's what they were taught in business school. That's what the Business RoundTable declared in 1997 to be official U.S. business policy. That's what they see around them and in the business press. That's what they know. Why should they change? As a practical matter, they are well compensated for staying on this track. Indeed, their like-minded boards of directors are often telling them to stay the course, and not rock the boat. The boards usually want to see more of the same, only harder and faster, not something radically different and risky.

To be sure, these C-suiters pay appropriate verbal tributes to what they see as the current management fashions. They profess interest in environmental issues and climate change, and other social goals, but are careful not to let such conversations disrupt the running of the business or the pursuit of shareholder value. This approach got them through the dot-com bubble, which came and went. It got them through the 2008 financial crisis, which came and went. They now have to deal with the Business RoundTable declaration of August

2019 renouncing the policy of shareholder value in favor of 'value for all the stakeholders', whatever that means: maybe it too will pass? They are careful to use politically correct language, so as not to ruffle any feathers. But within the firm, little has changed, as researchers like Harvard Law professor, Lucian Bebchuk, have noted. This course of action has worked well for them in the past. Why should it not do so in future?

They are of course aware of the current furor over 'digital possibilities'. They have seen the huge gains currently being made by the digital giants, but that's Big Tech, not their sector. Their firm is in a slower, stabler domain of business; here, computer technology plays a secondary role. They have listened to the extravagant claims and talk of "transformations" and "digital revolutions" amid heavy breathing from the digital-transformation advocates. They have even permitted digital experiments and agile programs to proceed. But who knows if they will ever amount to anything consequential?

Effective Communications For Change

Change-oriented managers quickly find that such managers are not moved by appeals to create more value for the customer, or to do the right thing for society.

Nor are status-quo C-suites even likely to be moved by the mounting evidence of the stronger financial gains being consistently achieved by firms that give primacy to customer value, as documented in Fred Reichheld's forthcoming book, *Winning On Purpose: The Unbeatable Strategy of Loving Customers* (Harvard Business Review Press, November 2021).

Reichheld's book shows, not just the *possible* future gains from customer primacy, but retrospectively, in case after case, the *actual* positive difference in results that have already occurred. These are firms that committed to customer primacy years ago and have consistently—and paradoxically—beaten the shareholder returns of firms that aimed explicitly at maximizing shareholder returns.

We know from decades of research on the confirmation bias that appeals to facts and reasons don't change entrenched viewpoints: indeed, typically, they strengthen the listeners' resolve *not* to change.

A Different Digital Narrative

What the change-oriented managers may need to do is to spark a new story in the mind of the status-quo managers that what is at stake is not just having somewhat stronger financial return by strengthening customer focus, but also the extraordinary trillion-dollar gains that can come from combining customer focus and digital technology. It's the combination that makes the potential exponential.

In the same way that the digital giants, Apple, Microsoft, and Amazon, now dwarf all other firms, the exponential potential of digital isn't limited to "Big Tech" firms, which now operate in multiple sectors. These firms show the realistic possibility that a business in any sector can use imagination to unlock the exponential gains of digital technology by creating more customer value through innovation.

In the same way that Amazon turned its internal software capabilities into a hugely profitable business (Amazon Web Services) for companies in all sectors, the potential future of Domino's Pizza may not lie so much in pizza, which it already dominates, but rather, as Ray Wang has pointed out in his book, *Everybody Wants to Rule the World* (HarperCollins, July 2021), in exploiting Domino's digital delivery capability for all kinds of restaurants—an exponential multiple of anything it could achieve in making pizzas.

Similarly, Disney's long-term potential may lie, not just in the highly competitive entertainment sector, which it already dominates, but also in turning its multi-sectoral digital capabilities exhibited by the MagicBand in its own resorts. Such a business, whether as a physical device or a mobile phone app, could have wide application in many sectors, such as restaurants, health, sports, and travel—potentially an exponentially larger business than entertainment alone.

Likewise, JP Morgan Chase's true exponential potential may lie, not just in the highly competitive banking sector, which it already dominates, as it could in being first major bank to use digital technology to take banking sector beyond the confines of familiar banking practices, and become something as customer-friendly and broadly transformational as Apple's impact on telephones. Just as the iPhone was not just a telephone but a multi-functional device that altered all our lives, so banking could become a multi-functional activity affecting many sectors far beyond traditional bank accounts and loans.

These are not *billion*-dollar opportunities. They are game-changing *trillion-dollar opportunities*. The potential gains are so large that even life-long shareholder-return devotees might awaken to the scale of the gain. When all else fails, tales of such extraordinary proportions may make the case.