SPOTLIGHT

Persuade Your Company to Change Before It's Too Late

How to make the case when the evidence isn't yet clear

AUTHORS

Pontus M.A. Siren
Partner, Innosight

Scott D. Anthony
Senior partner, Innosight

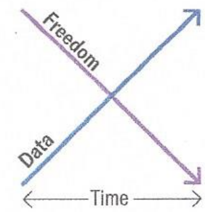
Utsav Bhatt
Associate partner, Innosight

THERE'S A PARADOX facing leaders seeking to transform their organizations as they see their markets begin to change. On one hand, they need convincing data to make the case that transformation is necessary—to show that their companies are about to find themselves on "burning platforms." On the other hand, by the time public data about disruptive trends and market

Illustration by **JIN XIA**

The Information-Action Paradox

The more data that's widely available in a market, the lower the freedom to act on it becomes, because others see the same opportunities and risks and respond to them. The information threshold is not the same at every company. An entrepreneur like Ellen, who doesn't have much business to lose or many stakeholders she has to get buy-in from, can act with less information. But an executive of a more risk-averse established company, like Chris, needs more information to persuade himself and his stakeholders that bold moves are necessary.



Public data and freedom of action are inversely related.

shifts is convincing, the window of opportunity has shrunk, if not disappeared. And when companies actually *are* on burning platforms, their leaders confront a harsh reality: Burning platforms inhibit change by increasing rigidity at the very moment when flexibility is crucial. The lesson: Avoid ever ending up on a burning platform. But that requires leaders to act before compelling data is widely available.

Berkeley Cox, Michelle Mahoney, and the rest of the leadership team at the Australian arm of King & Wood Mallesons (KWM), a global law firm, faced this exact problem several years ago. They were starting to pick up signals that their law practice needed to change dramatically, but convincing data was still scarce. The three of us worked with KWM Australia to generate and interpret what we call "private data," or unique insights that clarified the change brewing beneath the industry's surface. This article describes the approach we took and details specific methods other leaders can use to similarly motivate their organizations to address shifts before the evidence of them is abundantly clear.

The Nature of the Challenge

Business leaders face a problem that's familiar to investors and political leaders: In periods of uncertainty the availability of information and the freedom to act are inversely correlated—or, in simpler terms, as data increases, your ability to act decreases.

Let's say your company is deciding whether to commit a large amount of its resources to entering a new market such as driverless cars. As competitors' moves and degree of success provide information about the market (its size, profitability, and growth rate), they simultaneously constrict your freedom to seize opportunities in it; with each move your rivals are building difficult-to-replicate capabilities and establishing strong positions in the most attractive market segments.

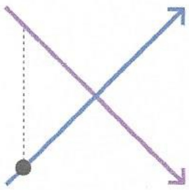
We have created a simple conceptual model to help companies map out where they stand when it comes to their knowledge and their ability to act. We call it the *information-action paradox*. A thought experiment contrasting Entrepreneurial Ellen and Corporatized Chris illustrates how it works. (See the exhibit "The Information-Action Paradox.") Entrepreneurial Ellen has a low threshold of proof, meaning she is willing to act with a low amount of data. Why? Well, she's an entrepreneur! She doesn't have to convince a wide range of stakeholders of the need to act. She's also starting with a blank sheet of paper, so she doesn't worry about the effect her actions will have on her established operations. She can take bold, intuitive risks. Corporatized Chris has a higher threshold of proof, for three reasons. First, he has basic human biases such as status quo bias (the inclination to keep things the way they are) and loss aversion (the tendency to care more about avoiding losses than about receiving equivalent gains). While Ellen innately has those biases too, she hasn't yet established her business, so she doesn't have much to lose, and she is hoping to create a status quo worth preserving. Second, Chris has to deal with multiple stakeholders who reinforce his biases. And finally, his organization makes decisions using traditional financial tools, which further bias organizations against investing in innovation, according to Clayton Christensen, the late Harvard Business School professor who cofounded our firm, Innosight. (See "Innovation Killers: How Financial Tools Destroy Your Capacity to Do New Things," HBR, January 2008.)

It's possible, of course, that Ellen is wrong, in which case Chris can say, "I told you so." However, if she is right, by the time the data crosses Chris's threshold of proof, his company will be on the proverbial burning platform. And by then, Ellen and other entrepreneurial leaders will have carved up the most attractive market spaces, built technology advantages that are expensive to copy, hired the best talent, and so on.

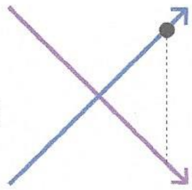
The Situation at KWM

Back in 2018, Cox was in his second year as the elected leader of about 150 partners and 750 lawyers at KWM Australia, a partnership that serves corporate clients, including many blue-chip organizations, in that country. Mahoney, a 20-year veteran of KWM with deep technological expertise, was in her third year as KWM Australia's executive director of innovation.

Four signs suggested that significant change was coming to the market. First, the number of companies promising to use technologies such as machine learning to deliver routine legal services more effectively and efficiently (known as "legal tech") was on the rise. Second, many clients, tired of high bills, had built internal capabilities to handle significant chunks of legal work. The



Entrepreneurial **Ellen** has a low threshold of proof, so acts early.



Corporatized **Chris** has a high threshold of proof and waits and sees.

increased sophistication of in-house counsels made them more open to alternative solutions that would deliver better value. Third, leading accounting firms such as KPMG and PwC, attracted by the margins earned by law firms, had publicly announced their intent to build up their own legal services practices. Fourth, young lawyers were expressing more and more frustration with long hours of often mind-numbing work such as proofreading documents and cross-checking citations, prompting firms to try to address the historically backbreaking nature of the associate job.

Cox was certain that those dynamics posed a material threat to the firm's fundamental operations. But his personal conviction wasn't enough to get the firm to take bold steps to counter that danger. That's because the kind of core transformation KWM needed wasn't about making a daring leap into a new market, like Amazon's entry into cloud computing. Nor was it about reshuffling a portfolio of offerings, as Intuit did when it bought Mint.com and sold its personal-financial software package, Quicken. Such major moves can be driven by an individual's vision or a small team of decision-makers. But KWM Australia could change its way of operating only if all its partners and lawyers started thinking and acting differently, and they had no obvious pressure to do so. KWM was firmly positioned as a top-tier firm in Australia, had a strong balance sheet, and was considered an employer of choice by Australian law school graduates. In short, its business was strong, and other public indicators such as industry associations' market growth forecasts suggested it would stay healthy.

Cox knew he had his work cut out for him. "Lawyers are risk-averse by nature," he notes. "That's why they're good at what they do. They also look for perfect information to make decisions, but in this environment, as in many environments, information is not perfect." If Cox waited until perfect data validated his intuition to change course, it would be too late to change course.

This quandary isn't unique to legal services. Think about a university president pushing for distributed digital education. "What about student outcomes?" faculty members will say. Once edutech providers demonstrate conclusively that distributed digital education provides equal or superior learning outcomes, opportunities for universities will narrow. Or consider the head of a chain of automobile service stations who thinks the business should pivot to caring for electric vehicles. Though it seems like a pretty good bet that the number of electric vehicles on the road will someday surpass the number of vehicles with internal combustion engines, exactly when is uncertain. And if the head of the chain waits until that moment arrives, other entrants are very likely to have already seized the opportunity.

Building Collective Conviction at KWM

So how can leaders get their companies to act before their businesses are on bona fide burning platforms? By generating private data (as KWM did) and lowering the threshold of proof.

Generating private data. As we've noted, public data, the kind found in industry reports, rarely produces the will to act early. But private data can be a game changer.

There are three broad categories of private data. The first is *qualitative data.* This includes testimonials from customers who provide insight about their future actions and behind-the-scenes stories of purchasing decisions that were "near misses"—meaning customers almost made a different choice. It also includes research that hasn't yet been published in scientific journals and proprietary intelligence on the progress of startups that are still operating in "stealth" mode. Yet another useful source of private data is recently hired employees, who often are more closely connected to market-shifting trends.

The second category is *quantitative data,* such as analyses of purchasing behavior in specific customer segments or analyses that track shifting market sentiment by identifying patterns in comments on chat boards or employee review sites like Glassdoor.

The final category is *proprietary models* that process and analyze data in unique ways. For example, a financial model that predicts the future impact of not taking action to deal with trends today can surface the hidden risk in continuing to follow the current strategy.

KWM Australia's extensive analysis of its proprietary client data showed that the firm's overall growth masked its commercial challenges at the low end of the market, where disruptive change often begins. The firm also developed client case studies using detailed "voice of the client" interviews, which further illustrated changing industry dynamics. They revealed, for instance, that the gap between the quality of KWM's work and the work of emerging competitors was perceived to be narrowing rapidly.

When such private data is shared at the right time in the right way (more on that in a bit), it can help make industry disruption feel much more front and center than it appears in the public data and thus can strengthen the collective resolve about the need for change.

Lowering the threshold of proof. Even the best private data is unlikely to produce a level of certainty close to that generated by a detailed financial model whose inputs are all demonstrated facts.

There are two ways to lower the threshold of proof enough to motivate an organization to take early action. The first is to use frameworks and models to make sense of incomplete information. The information-action paradox framework served this purpose at KWM Australia. In the first half of 2018 we shared it at two major partner meetings and asked the partners to discuss the question "How far to the right are we on the chart?" It was a simple way to make people more aware of why it was so hard to make decisions during uncertainty. It also helped the group realize the degree to which a significant number of colleagues *already* felt that change was crucial. For example, in one meeting almost 20% of the 110 attendees said that the firm was now on the right side of the model, where there was more than enough data to suggest it was imperative to act. The people pushing for change, it turned out, had access to their own private data from conversations with current and prospective clients. That information, however, was locked in their individual heads. Once they shared it with everyone else, momentum for change began to build.

Another framework that helped KWM interpret faint signals was Christensen's disruptive innovation model, which shows that disruptive change often starts in less-demanding market segments or among customers that have historically lacked the skills or wealth to consume existing solutions (people Christensen called "nonconsumers"). After explaining this model to groups of the firm's leaders, we outlined specific indicators that an industry is in the early stages of major upheaval. Then we shared the insights generated from the firm's private data and asked each group to discuss the degree to which they amounted to early warning signs. The disruptive innovation model helped people spot trends that might otherwise be dismissed as the usual gradual churn of the market. And with each meeting the collective conviction that there was indeed a clear need to change grew.

A second way to lower the threshold involves techniques that help groups align around a course of action in the face of uncertainty. At KWM Australia, we drew on tips described in the November–December 2018 HBR article "Unite Your Senior Team" (which one of us, Anthony, coauthored). A key enabler was developing a common language around select strategic issues. The firm's partners had robust discussions about what various terms, such as "legal tech," meant. This is critical because when a team doesn't take the time to precisely define language, people often simply talk past one another.

It's also crucial to ensure that there's space to surface and debate key areas of misalignment. One memorable example of this came during a February 2018 meeting of the board of KWM Australia. After hearing about key disruptive trends, board members were asked to give their view on how much of the profit pool should be invested in innovation. They shared their individual estimates using a mobile-phone-based polling app. Answers ranged from roughly 1% to 10%. We then asked the directors who gave the highest and lowest numbers to explain the assumptions underpinning their responses. The discussion helped highlight divergent viewpoints on topics like the degree to which partners closer to retirement would be willing to invest in the future and the pace of disruptive change. ("We've been talking about change for 20 years," one board member said. "Why will it be different this time?") That helped the board determine what private data would be most critical for subsequent discussions.

Signals in private data can often be dismissed as market noise. That's why it's important to look at it in structured discussions. At KWM Australia these helped the partners agree on where the industry was, the pace of change, and what that meant for where the industry would be in the future. A summary question—"Does anyone think that the legal industry won't change significantly in the next five to 10 years?"—helped cement the conviction to act while there was still time.

The Impact at KWM

It took KWM Australia about a year to get everyone on the same page. (Leadership didn't expect or demand an overnight

> Public data, the kind found in industry reports, rarely produces the will to act early. But private data can be a game changer.

shift.) While Cox and his team, with input from our firm, created a draft perspective about the future direction of the law firm, they also created space for discussion, debate, and disagreement, allowing collective ownership of the need to change to spread through informed dialogue. Eventually the partners came to the consensus that to navigate market disruption and deliver better outcomes for clients, the firm had to become tech-enabled and infuse cutting-edge artificial intelligence and smart-contracting tools into its day-to-day practices. With Cox, Mahoney, and Mark McNamara, a senior partner who headed the private equity practice, playing key leadership roles, KWM launched a three-pronged effort to advance its transformation.

First, it introduced targeted behavioral interventions to encourage the adoption of productivity tools. They included a program called "Use It or Lose It," which allowed lawyers to get credit against their billable-hour targets for up to 30 hours of training, experimentation, or coaching on legal tech.

Second, the firm created programs to support its transformation. One of them tackled the way the billable-hour model can implicitly penalize efficiency and make using technology appear to be against a lawyer's best interests. To address that, KWM introduced a "multiplier" model, which increases the weighting of tech-enabled hours worked by lawyers. A lawyer who does 10 hours of work using artificial intelligence to review a contract might get credited with 15 hours of traditional work (without any additional cost to the client). That program was coupled with broader moves toward fixed-fee engagements that further encouraged the use of technology.

Third, KWM Australia implemented a comprehensive communication program. For example, in November 2019 Cox and McNamara laid out the logic behind the case for change in a 3,700-word document that was organized into eight sections followed by two appendices. The firm also engaged a communications change specialist (a novel approach for a law firm) to simplify key messages and communicate them clearly and consistently across the organization. And it asked newly elected partners to evaluate warning signs of disruptive change and describe the future business model of their practices.

By September 2021, KWM Australia had made significant progress in its effort to transform itself. Nearly 300 fresh graduates and young lawyers (about 30% of the staff) had gone through its "digital-literacy boot camp." The firm had invited many of them to act as "reverse mentors" for more-seasoned lawyers. It had removed billable-hour targets for newly hired lawyers, a clear sign to the market that it intended to thoroughly transform an operating model that had been successful for more than a century.

By that time the multiplier model had gained traction and had been used by teams of lawyers serving close to 500 clients. The firm had also built a centralized transformation hub that housed more than 130 videos exploring various aspects of legal technology and providing case studies and had dubbed more than 100 lawyers who had demonstrated proficiency in digital transformation and emerging legal technologies "digital legal eagles." A high-profile award ceremony had shone a spotlight on teams that had pushed the technological frontier and transformed the client experience. And earlier in the year, in recognition of its digital-first approach to client service and people management, KWM had been named the most innovative law firm in Asia-Pacific by the *Financial Times*.

Remember, all this took place inside a law firm that faced no obvious reason to change given its strong performance, happy clients, and sterling reputation as an employer of choice in the industry.

A RECENT CROSS-INDUSTRY survey of more than 300 global leaders conducted by Innosight found that 72% felt that they needed to transform their core offering or business model. The most pressing obstacle to success cited by this group was allocating enough resources to change efforts—an indication that their leadership teams lacked the conviction to take action. As the KWM Australia story demonstrates, generating private data and lowering the threshold of proof can help leaders build such conviction before the need for change becomes glaringly apparent. This approach can accelerate strategic transformation and save businesses from ending up on burning platforms.

HBR Reprint S22013

PONTUS M.A. SIREN *is a partner at Innosight.* **SCOTT D. ANTHONY** *is a senior partner at Innosight and the lead author of* Eat, Sleep, Innovate *(2020) and* Dual Transformation *(2017).* **UTSAV BHATT** *is an associate partner at Innosight.*