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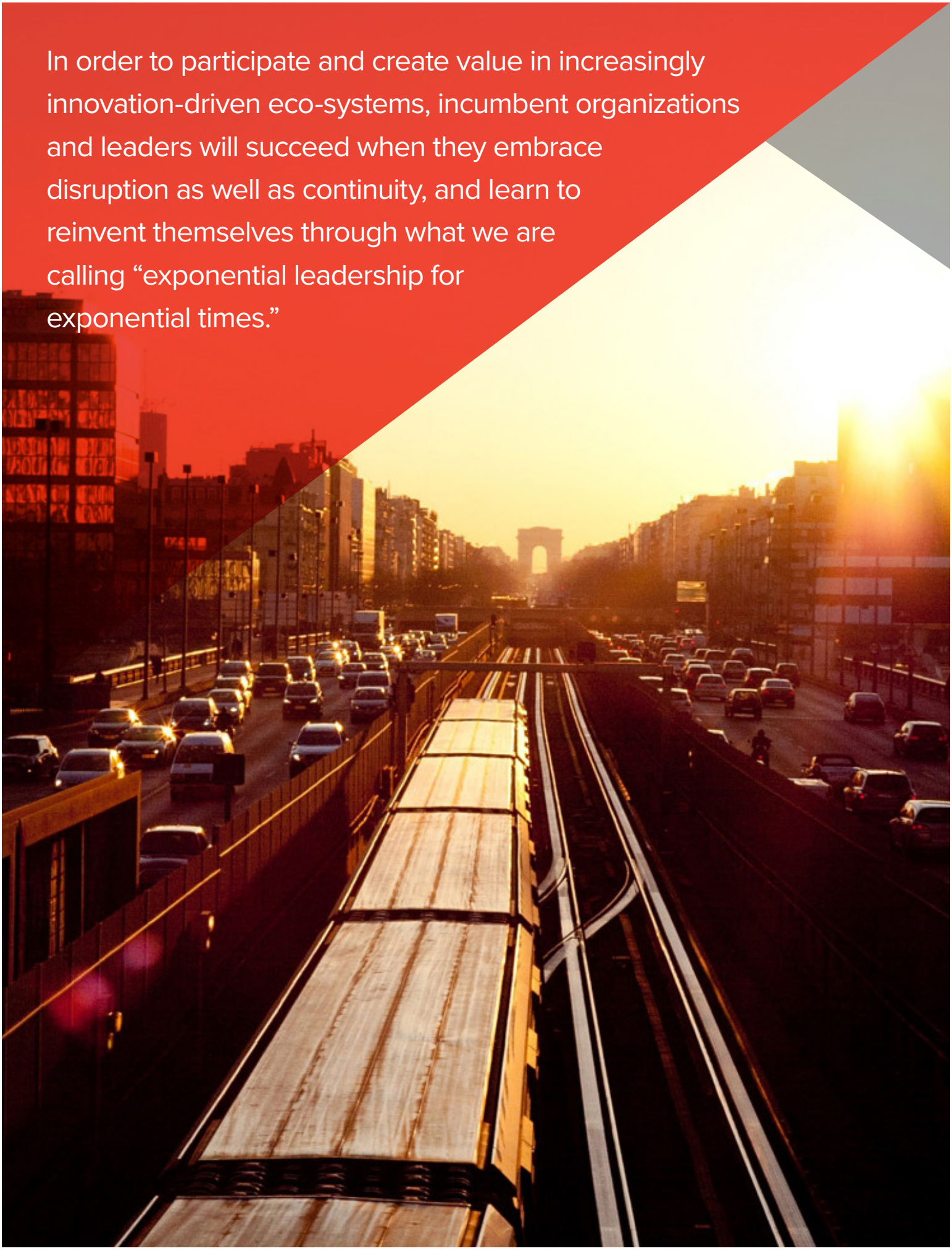

# WHAT GOT YOU HERE WILL LEAVE YOU HERE:

## EMBRACING DISRUPTION AND EXPONENTIAL LEADERSHIP AS "HUMBLE INCUMBENTS"

By Lee Ann Del Carpio and Paul Kinsinger

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In order to participate and create value in increasingly innovation-driven eco-systems, incumbent organizations and leaders will succeed when they embrace disruption as well as continuity, and learn to reinvent themselves through what we are calling “exponential leadership for exponential times.”



As the business press has noted, the specter of "disruption" has risen to become one of the most pressing topics on the minds of executives, especially those leading incumbent companies in industries most vulnerable to what we call the three mega-forces of disruption: the increasing pace and amplitude of change, the often exponential vs. linear impact of technology, and "the globalization of opportunity and access."[1] As a result, it may seem as if the advantage in these times goes to small, agile, technology driven startups or to "new economy" giants such as Facebook and Amazon that can leverage their inherent reliance on technology and deep pockets to build or buy disruptive capabilities.

But does that leave "old economy" incumbents hopelessly shackled by the constraints of their industry and business models, as well as "incumbent mindsets?" Is their fate simply to be slow-moving victims of the turbulence that the three mega-forces conspire to visit upon them?

Many would say incumbents of all stripes—especially those in high-cost business models—need to continuously innovate, innovate, innovate. We agree that's a crucial part of a "stay alive and thrive" strategy. However, mandating innovation will not transform legacy players into nimble, adaptive bastions of experimentation and change. Rather, the era of disruption challenges incumbent organizations and leaders alike to reconcile what may feel like opposing forces: to detect potential sources of disruption and learn to disrupt themselves before others do, while at the same time leveraging the advantages of incumbency. They must help their organizations overcome fear and catalyze change while at the same time embrace and nurture the deeply held value systems and purpose that generated their initial growth to begin with. The challenge of disruption for incumbents is inherently a challenge of integrating these polarizing forces with greater clarity of vision, congruence of leadership thought and action, and courage to create new outcomes.[2] And these polarizing forces must be balanced while navigating exponential changes in the marketplace. In order to participate and create value in increasingly innovation-driven ecosystems, incumbent organizations and leaders will succeed when they embrace disruption as well as continuity, and learn to reinvent themselves through what we are calling exponential leadership for exponential times.

## THE ERA OF DISRUPTION

Business academia has long defined disruption as the negative competitive impact experienced by incumbent players challenged from below by new entrants or in new markets.[3] Our view is that "disruption" in the marketplace is just one part of a much larger, more robust mega-phenomenon and that the three mega-forces of disruption are also cutting through social, economic, and political forces, and should be understood in this much larger context. We all see, feel, and read about disruption, large and small, every day. In addition to it wreaking havoc on once well-known companies that failed to see or respond to radical change, we also frequently witness or experience disruption of the larger social, economic, and political fabric, as societies and established political orders struggle to adapt to the tremendous pressures from the relentlessness of change. In fact, it seems as if fewer and fewer entities—companies, political parties, economic sectors, and even nation states—are immune. Witness the nigh-unprecedented developments in American presidential politics over the last year; the similarly strident and polarized debate in Europe over migrants; the splitting apart of countries like Syria and Libya and the rise of ISIS as a post-nation state entity in the restive Middle East; the disruptive impact on energy prices from the advent of the shale gas era; the conflict between technology, privacy, and national security unleashed by Edward Snowden; etc.

Nor has the impact of this era of disruption confined itself to institutions or larger societal forces. Disruption is being increasingly felt at the individual level as well, as many people reel from the pace of change and the impact of technology.[4]

As a result of this larger phenomenon, we believe the broader definition of marketplace disruption offered by Tony Seba, a lecturer at Stanford and author of several books that examine the disruptive forces faced by the automotive and energy industries, does a better job of beginning to frame the concept of disruption for businesses today. He says, "Disruption is about a product or service that helps create a new market and value network, and significantly weakens, transforms, or destroys an existing market, product category, or industry."[5]

1 It is often noted that the last two decades of globalization have given rise to 34 billion new consumers whose impact will forever change the global marketplace, but these same new entrants into the global economy are also fundamentally changing the competitive landscape for new businesses and new ideas. Neither remains the province of only 5% of the world's population, as had been the case for several centuries. Globalization of opportunity and access means the democratization of value creation.

2 Clarity, Congruence and Courage™ are what we call leadership guideposts for transformation (Source: Inner Power International, Inc. ©20152016).

3 See Clayton Christensen, The Innovator's Dilemma, Harvard Business Review Press, 1997. The antecedents to this definition are found in classic economist Joseph Schumpeter's concept of the forces of "creative destruction" unleashed by capitalism, reflecting the competitive nature of the marketplace and the continuous impact of human creativity upon it.

4 Pope Francis acknowledged the stresses related to this personal "disruption" in an encyclical letter he wrote in 2015 when he noted that: "The continued acceleration of changes affecting humanity and the planet, is coupled today with a more intensified pace of life and work which might be called, "rapidification." Although change is part of the working of complex systems, the speed with which human activity has developed contrasts with the naturally slow pace of biological evolution."

5 Tony Seba, presentation to the AltCar Expo and Convention, September 19, 2014. See https://www.youtube.com/watch?v=RBkND76J91k

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Indeed, with newer entrants like Alibaba, Uber and AirBnB which own no inventory, vehicles or real estate, respectively, we would argue that ***disruption in business goes beyond products and services to a process that changes entire systems of value creation.*** Merriam-Webster reminds us that, by definition, disruption means "the order of things [is] being disturbed". Uber, by "disturbing" the order of the taxi business and the business model assumptions that underlie it, is transforming the entire system of mobility. AirBnB is transforming the system of hospitality. Disruption ultimately means that people are thinking, acting, relating, and purchasing in entirely new manners that "interrupt" the heretofore-predominant business models and transform the very systems in which we interact. This, in turn, impacts how we consume, how we produce, how we organize our supply chains, how we grow, and how we lead.

## THE CHALLENGES FOR INCUMBENTS IN TODAY'S "DISRUPTIVE" WORLD

In the face of constant turbulence, a confluence of technological breakthroughs, and increasingly global access, the era of disruption means that many incumbents' fundamental assumptions about value creation, production and consumption are being turned on their heads. And the testing of these core assumptions can exacerbate natural tensions inherent in global business: How do we absorb and accommodate modernity and still honor our core identity and traditions? How do we proactively spot trend breaks and early warning signs while at the same time driving more efficiency into our core systems? How do we simultaneously drive change in the system and still create value in the existing system? How do we avoid being blindsided by disruption while at the

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same time adopting the best characteristics of a disruptor ourselves?[6] Disruption can be a polarizing force and unlike startups and "new economy" giants, whose business models are predicated upon disruptive innovation, incumbents must embrace both disruption and stability, experimenting to drive transformation while at the same time optimizing efficiency in the core business. This amounts to having to work on the proverbial plane while flying the plane… and doing so amidst unprecedented turbulence.

In the midst of these natural tensions, we see incumbents who we work with fall prey to two main traps: Failing to confront and proactively deal with the deeper existential and transformational questions at hand and failing to grasp the power of the exponential function.

## EXISTENTIAL AND TRANSFORMATIONAL QUESTIONS

For legacy players with decades and sometimes centuries of hardwired systems and processes – and the mindsets that go with them the challenge of disruption is essentially an existential and transformational one: ***What is the brilliance of our legacy? Who are we now and what value do we create? As things change exponentially, who do we need to become?*** Disruption demands deep reflection and reinvention of not only aspects of the business model touched by technology and marketplace changes, but the management processes, systems and mindsets that support it. The reflection that is required means pushing the pause button and reevaluating the core value the firm creates and core mission it serves, and a readiness to discard products, services, processes, systems and ways of thinking which do not flex to the emerging business reality.

The example of how Kodak failed to drive the deeper reinvention that was needed when digital photography was disrupting the film business decades ago is now canonized in business literature. What is perhaps less known is how at Fujifilm, the other major player in the story, CEO Kojima actually embraced those existential questions, leading the organization to ultimately diversify into radically new business lines that embraced the digital disruption. Between 2000 to 2006, he challenged his leadership team and employees to reinvent the business and themselves:

*"If Toyota could no longer sell cars, what would they be? That is what we are facing. If we aren't an imaging company, then what are we?"*



*"My biggest challenge is changing the mindset of the employees. We are moving away from just 'Imaging and Information'. But it is not yet clear what our new core will be. How can I convince such a large organization to make such major changes when it's not clear exactly where we are headed? How do I get people to be more entrepreneurial? How can I create a sense of urgency when we're still a profitable company?"*

*"…We have become used to the relatively comfortable climate. It is essential that we distance ourselves from this self-satisfied mindset and have the courage to take on reforms swiftly and forcefully."* [7]

But imagine the confusion and concern he caused the first time Kojima called out an existential question: What do you mean, who are we? We are leaders in our industry and we have pressing operational problems to handle, metrics to meet, goals to accomplish. If anything, we can pilot test a new approach next quarter. So goes the traditional thinking, and the deeper questions get pushed to the side. We are uncomfortable being uncomfortable. Indeed, perhaps the biggest danger that legacy players face is the seduction of comfort, which leads to complacency, pride, a proclivity to perfect not disrupt, and a suspicion of anything different.

The fundamental place we see most incumbents get stuck is that existential questions are tough. Reflection is uncomfortable. Reinvention means change. Change creates fear. As humans, we are hardwired to scan for and defend against threats, and protect our time-honored traditions and processes. Incumbents have particularly strong time-honored traditions and management processes, many of which were built for Industrial Age success. But when incumbent leadership teams fail to pause and consider the existential questions, they fundamentally increase the risk that their organizations will not survive the exponential change in the marketplace.

6 For example, it was recently reported that Home Depot was surprised to learn that Amazon was selling more hammers on line than Home Depot was in their stores.

7 Giovanni Gavetti, Tripsas, Yaichi Aoshima, Fujifilm: A Second Foundation, Harvard Business Review, rev. April 5, 2007

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## THE EXPONENTIAL FUNCTION

As Erik Brynjolfsson and Andrew McAfee share in The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies, 2014, "The great shortcoming of the human race is our inability to understand the exponential function. Linear goals will not be successful in a world that is changing exponentially." [8]

Disruption today is happening at an exponential rate, both in the world around us as well as in the marketplace, which fuels the chances of being caught by surprise now more than ever.

This concept of exponential change and the surprise factor is brought to life in the story of the second half of the chessboard, which Brynjolfsson and McAfee share in The Second Machine Age. As the legend goes, the inventor of chess introduced his game to the emperor of India, who was so pleased that he offered the inventor any reward he might name. Presenting himself as a humble man, the inventor asked for a single grain of rice on the first square of the chessboard, two on the second, four on the third, and so on. As the piles of rice entered the second half of the chessboard, and volume became exponentially large, the emperor figured out what was going on, and in some versions of the story, the inventor lost his head as a result. Headless or not, what the story relates is the power of the exponential function, similar to Moore's law in computing. What's powerful to note is that changes in the volumes of rice initially seemed understandable, in the first half of the chessboard. It wasn't until the second half of the chessboard when things got "crazy," to quote futurist Ray Kurzweil. Our human intuition cannot cope with the constant doubling after the 32nd square of the chessboard.

The challenge with the exponential function of our times is that it's incomprehensible. We get it cognitively – up to a point – and then our brains cannot process it. And, as new technology is introduced, it often comes out with a splash like Artificial Intelligence and 3D printing did up to 30 years ago and then it disappoints us in terms of being ready to scale. So we forget it about it, put it in the back of our minds. We fail to keep tracking the progress being made, and thinking about the potential implications. Then, suddenly, it's at scale and it "surprises" us, causing massive disruption and chaos. That's because our brains are hardwired for cause and effect, linear processing, and our cultures (both nationally and organizationally) reinforce linear versus exponential. We cannot process beyond a certain point of exponential change – we are not wired to see it.

An example of linear vs. exponential thinking was shared by Anand Mahindra, Chairman and Managing Director, Mahindra & Mahindra, India at the recent World Economic Forum in Davos, in January 2016. In a panel discussion entitled, "The Transformation of Tomorrow", he said:

"We fall into the trap of linear thinking. Theoretically, we [India] are on a springboard ready to take over from China and suddenly provide the world with goods. But with... 3D printing, etc. will there be demand for stuff from India? I think what we have to recognize here is that we are falling into a trap of linear thinking... We say, ok China is now getting too affluent. India will now have cheap labor. Cheap labor will migrate to cities. Cities will need to scale up, with technology. We will have to have export markets, and so on.

You have to start thinking differently about what this does in India, where 65% of the population are still in villages. What you really need to do is think about stopping migration... Suddenly, you can put 3D printers out in the villages. You can enable them all to become independent garage mechanics... You can link them up to customers...You can cut out intermediaries that they needed to get to city markets.... You create surplus right there [in the villages]. If we make our villages smart, there will be huge gains in productivity." [9]

In this case, asking the simple questions "How might we make our villages 'smart villages' versus going through what China went through?" helps us grasp the exponential function and moves us beyond thinking of simply the consumption of technology to how we might produce technology locally. It helps us imagine possibilities to leapfrog, versus progressing in the typical, step-by-step, cause and effect fashion that has characterized Industrial Age organizations for more than a hundred years.

8 Brynjolfsson, McAfee, The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies, Norton, 2014.

9 The World Economic Forum, Davos, Switzerland, "The Transformation of Tomorrow," https://www.youtube.com/watch?v=mtXfzd53wRQ.

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## EXPONENTIAL LEADERSHIP AND THE "HUMBLE INCUMBENT"

Exponential change means we need to embrace ***exponential leadership***: a way of thinking and leading that helps us navigate through the challenging existential questions and avoid the trap of linear thinking to proactively reinvent ourselves in the rapidly accelerating marketplace. Exponential leadership means empowered mindsets and skillsets to transform fear into positive outcomes. It starts with curiosity and humility, and helps us move through any incumbent complacency, pride, proclivity to perfect the past versus find the future, and a suspicion of anything different to creating new outcomes. It means forging clarity through increased vigilance, driving congruence with exponential thinking through the practice of versatility, and embracing leadership courage and increased experimentation.

The disruption that is driving massive change also means that we must disrupt the management practices and processes that keep us trapped in legacy success but do not create our future. Incumbent organizations have thrived for decades with Industrial Age management practices and processes: Hierarchical and silobased organizational structures, information being shared at the top and cascaded down, disruptive information being held in a secretive fashion until the organization is ready to address it, etc.

In the age of disruption, disruptor business models are increasingly distributed, as opposed to centralized; mobile, as opposed to command-and-control oriented; intelligent as opposed to secretive; and participatory, as opposed to extractive.[10] This is because customers today increasingly expect on-demand, mobile, real-time relevant, transparent and connected solutions. As a result, the incumbents that embrace disruption—and we call them, **"humble incumbents"**—are those that will proactively disrupt and adapt their management practices and processes to create real-time interactive feedback loops, role model openness, transparency and integrity. They will also invite a diversity of perspectives from a wider network, and foster collaborative learning and adaptability.

We believe that this evolution of leadership mindsets and skillsets, as well as conscious disruption of legacy practices and processes begins with exercising three complementary sets of "muscle groups." First, incumbents typically can benefit from focusing more externally and identifying potential disruptive threats so that they can create options before it's too late to react. This requires "heads-up" vigilance (even while they focus "heads-down" on operational excellence and delivering results), and attuning to the human needs that are driving key disruptive trends. Second, legacy players will be more effective in managing exponential change if they can develop an internal capability to "disrupt themselves" before others do and ask themselves the tough existential questions on who they need to become to survive and thrive. This requires them to identify and "reverse" key assumptions about their industries and business models, and then to demonstrate the versatility necessary to turn these insights into executable initiatives. Finally, incumbents will never overcome the deep-seated sense of comfort and built-in protection of the status quo if leaders cannot strengthen their inner courage to build a climate of experimentation and tolerance for failure.

Putting these mindsets and practices in place is easier said than done. In fact, it's a bit like passing through the proverbial "eye of the needle" – it requires deep inner work at the individual and collective levels to transform and reinvent and many incumbents won't make it. As Cisco's Executive Chairman John Chambers shared in March 2016:

*"As leaders, if you don't transform and use technology differently—if you don't reinvent yourself, change your organization structure; if you don't talk about speed of innovation—you're going to get disrupted. And it'll be a brutal disruption, where the majority of companies will not exist in a meaningful way 10 to 15 years from now… Probably 40 percent of enterprise customers around the world will not exist in a meaningful way ten years from now. When I said that two and three years ago, my CEO counterparts said, 'Hey, John, you called the other transitions right, but I think that's way too aggressive.' I think now most CEOs would agree. If they don't change, they get left behind."*[11]

*Exponential times require reinvention, which means exponential leadership. We believe the "humble incumbents" that are truly dedicated to making the transition and thriving will benefit from increased clarity through vigilance, heightened congruence through versatility, and deeper leadership courage through experimentation.*

10 Just as Tony Seba describes the energy architecture shifting to distributed, mobile, intelligent and participatory, in Clean Disruption, 2014, we see the same qualities in successful disruptor business models such as Souq.com, Grub Hub, and others.

11 Cisco's John Chambers on the Digital Era, McKinsey & Co., March 2016.

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## VIGILANCE: “SEEING” THE DISRUPTIVE HORIZON

In a volatile business landscape, where the marketplace is changing rapidly and new competitors can emerge overnight, exponential leadership demands that we widen our lens, go beyond traditional scenario planning and measures of success that track continuous change in our industry, and tap into diverse networks of players both outside the organization and across multiple boundaries within the organization to “see” disruptive forces before it’s too late.[12] The goal of this undertaking is to identify potentially disruptive forces with sufficient lead-time to create maximum optionality for decision-makers. Ideally, this is about providing executives with preemptive opportunities, such as jumping into a space at the very outset or, where possible, raising barriers temporarily while marshaling resources for entry or acquisition. Once a disruptive initiative from an outsider is detected, options to respond include “competing with,” “buying in,” and “waiting the disruptive initiative out.” [13]

There are three key capabilities an incumbent needs to maximize optionality with regard to potential disruption: (1) to be able to identify potential disruptive challenges; (2) to be able to create, or to strengthen, the organization’s abilities to detect leading indicators of such challenges, preferably with as much lead time as possible; and (3) to have in place, or to be able to create, a capability to respond quickly.

Picking up signals of potential disruption as far away as possible means when they are at their weakest, most difficult to detect, and, importantly, most subject to misreading. Of course, this involves monitoring the pace and direction of technology in a company’s field (and in adjacent spaces that could spill over) as well as in the related fields of endeavor that provide key supporting or enabling functions.[14] In some marketplaces, a monitoring effort would also need to focus on critical regulatory drivers, (such as how increasing restrictions on automobile usage in city centers could impact existing transportation models and the frequency of car maintenance).

At a time when “customer is king,” it’s no surprise that one of the best ways to pick up weak signals is to be as close to the customers as possible; (for B2B companies, the challenge is to be both as close to their customers, and to the customers of their customers as possible). In vigilant companies, this means staying in contact with customers via as many disparate touch-points as possible; directly, through the many interactions companies have, but also crucially through partnering with others in their ecosystems to provide additional reach and perspective.

12 Indeed, some are asking whether or not traditional business strategy tools invented for more predictable, linear times are still relevant in an era of disruption. We believe that with some adaptations, they can be continue to be deployed in thinking through challenges and opportunities presented by disruption and exponential change. For example, scenario planning, a strategic vigilance tool widely used to help envision variations of the future, could easily be adapted to a “where can disruption come from” framework. Similarly, a SWOT could be utilized to help coax more honest assessments of an organization’s “disruptability” through posing questions such as, “what if our key strengths were actually weaknesses?”

13 See, for example, Joshua Gans, Keep Calm and Manage Disruption, MIT Sloan Management Review, February 22, 2016

14 One helpful checklist is a list of twelve potentially disruptive technologies in Disruptive Technologies: Advances that will transform life, business, and the global economy, McKinsey Global Institute, May, 2013, page 5.

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A critical shift that needs to happen—even for those companies with long experience in monitoring external events and leading indicators—is from the conventional approach of targeted searching to a more open form of scanning and inquiry. Market intelligence in the past has been built around task-oriented activities such as directed interviews, questions, and observations guided by specific knowledge gaps about known competitors or other familiar actors. Potential disruptors in their earliest stages will not be providing such familiar "noise" signatures; thus, presupposing knowledge gaps will likely miss the mark widely.

So, while companies should, indeed, engage in active monitoring via social media in trying to detect the weak signals associated with a potential disruptor,[15] our experience is that this also needs to be accompanied by a more agnostic, open-ended approach to customers and others in the ecosystem. While customer behaviors will remain "ground zero" for discovering potential disruptors, in many cases they themselves will not be aware that they are exhibiting the weak signals that a potential disruptive opportunity is emerging.

What's more important for "weak signal searchers" is to learn to enhance their passive observational skills and to be empathetic to the challenges customers and potential customers are confronting so that they can gain key insights about potential disruptive activities, as well as opportunities for innovation.[16] For example, rather than simply tracking what startups are doing, why not go one step earlier in the signal process and ask, "What human needs are motivating the startups to see an opportunity? What forces are driving changes in human needs that relate to our industry, products and services? What human needs will emerge as these forces continue?" The idea behind Uber is said to have been sparked by the feeling of frustration many people have had when it seemed they just could not get a taxi at the very moments when they needed one the most—like when it's raining and they have lots of luggage on the way to the airport.

Bottom line, vigilance is a deeply disciplined practice of observing and listening to what might be, what differs, what confounds, what teases, and what challenges and then baking that mindset into the organization to afford timely clarity and optionality.

## VERSATILITY: "DISRUPTING YOURSELF"

The second "muscle group" an incumbent needs to exercise in this disruptive era is about focusing inwardly, and taking on the role of "disrupting yourself" before others do. From this vantage point, incumbent players seeking to innovate in pursuit of creating new value in the marketplace should demonstrate the versatility necessary to harness the disparate forces of disruption to accelerate that process, and "jump the curve," (as one senior executive told us in January, 2016). And here, too, there are three capabilities an incumbent needs to develop or to strengthen: (1) the ability to identify the longstanding beliefs undergirding the industry and the business model, (2) the ability to challenge those deeply held beliefs by reversing them, or "turning them upside down;" and (3) the ability to apply "how might we" thinking to convert those "upside down" assumptions into quick experiments with disruptive initiatives.

The real challenge in the "disrupt yourself" process is to be as honest and brutal as possible about acknowledging the longstanding beliefs around how to succeed in an industry or in a business model, as well as with regard to the underlying assumptions about customers, the role of technology, the organizational structure, and business economics that support these beliefs. The more complacent and traditional the company culture, the harder it will be to pierce the veils around such totems.

Companies actually start the shift from an incumbent mindset to that of a disruptor when they get to the third step, which is why "turning things upside down" thinking is at a premium. This often starts with statements like, "What if we took this underlying belief about success in our industry and restated it as the opposite?" or, "How might we take this underlying assumption about our organizational model and turn it upside down?" The goal here is to force a look at things from a diametrically opposite perspective, and to derive as many prospective initiatives from this as possible.

Seeking contrast frees us up to move from "impossible" to "possible" more quickly and releases the energy needed to drive the change from the status quo. Many initial ideas will be

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15 In this regard, see Harrysson, Metayer, and Sarrazin, The Strength of Weak Signals, McKinsey Quarterly, February, 2014

16 In many ways, the mindset behind a search for weak signals of potential disruption has much in common with that behind the Design Thinking process. For more on Design Thinking and its mindset, see Tim Brown's seminal article, Design Thinking, in HBR, October, 2009.

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untenable, but the key here is to move beyond the obvious to the novel. As author and professor Adam Grant notes, "Most [executives] say you're really humming with around twenty ideas. But that answer is below the mark by an order of magnitude. There's evidence that quality often doesn't max out until more than 200 ideas are on the table."[17] Reversing assumptions and generating a volume of ideas means that the novel few that survive early vetting regarding "doability" should then serve as the experimental pioneers in practicing to be a disruptor.

Moreover, incumbents must also then be willing to upend many standard management processes as well, such as some traditional measurements of performance. Otherwise they will quickly close off the space needed for the new ideas and constrain the organization's ability to detect the disruptive signs. We know several incumbents, for example, that have carefully set up a structure to incubate new radical new ideas, only to apply standard but unrealistic key success factors around expected rates of return that essentially doom the whole initiative.

While initially uncomfortable, engaging in these often challenging practices in versatility ultimately means exponential leaders at legacy players can drive greater congruence with exponential thinking and accelerate movement forward.

## EXPERIMENTATION

One of the biggest challenges to incumbent organizations is breaking free from the death grip of complacency and inviting more experimentation and tolerance for failure. The fundamental tension is that people want stability, but the era of disruption and the necessity of reinvention means that when we are experimenting, it's going to be inherently messy. As Ed Catmull, President of Pixar and Disney Animation Studios, shares:

*"We know, intellectually, that if we want to do something new, there will be some unpredictable problems. But if it gets too messy, it actually does fall apart. And adhering to the pure, original plan falls apart, too, because it doesn't represent reality. So you are always in this balance between clear leadership and chaos; in fact that's where you're supposed to be. Rather than thinking, "OK, my job is to prevent or avoid all the messes," I just try to say, "well, let's make sure it doesn't get too messy."*[18]

Here, the rule of thumb from best practices in innovation and Design Thinking applies—go for small, quick tests that either succeed in establishing a disruptive beachhead, or fail fast and cheaply so you can try some more. But encouraging or even "allowing" experimentation also means incumbent leaders must invite a sense of play, and have a higher tolerance for mistakes and failures. This is often counterintuitive to many organizations, driven by results and a fierce sense of responsibility. It can feel like a time waster.

It's also not the way that Industrial Age organizations were structured. In fact, as former Google CEO Eric Schmidt and Google advisor Jonathan Rosenberg point out in their book, How Google Works, "...most management processes at companies today...were devised over a century ago, when mistakes were expensive and only the top executives had comprehensive information...[So], since the Industrial Revolution, operating processes [in most companies] have been biased toward lowering risk and avoiding mistakes. These processes and the overall management approach from which they were derived stifle smart creative [professionals] today."[19]

As Tim Brown, the founder of the renowned California-based design organization IDEO shares, a great experiment is low risk (tested with a safe audience and low cost), quick and easy (easy to build and try), and generative (will grow the idea). The challenge is overcoming fear of failure. Indeed, a successful experiment can feel emotionally like a failed product launch. In many organizations, inviting failure is given lip service, but is often used politically to hammer foes and stifle conflicting agendas. As Ed Catmull shares, "...There are two meanings to the word "failure." The positive meaning is that we learn through failures. But in the real world—in business, in politics—failure is used as a bludgeon to attack opponents. So there is a palpable aura of danger around failure. It's not made up; it's real. This is the second meaning. So we have these two meanings and, emotionally, we can't separate them. And we don't actually call something educational until after it happened."[20]

As a result, humble incumbents must also confront the need to disrupt traditions around the practice of incremental, continuous improvement (which is based on times of foreseeable change), as well as their long-held beliefs that the best ideas come from those with the highest rank and most experience in the industry (founded on a belief that "expertise" is fundamentally rooted in past knowledge and experience). Instead, they must lead with constant curiosity about what's going on with their customers and within their ecosystem, as well as start from a point of empathy for the customer, rather than on what they sell.

17 Adam Grant, "Building a Culture of Originality", Harvard Business Review, March 2016.

18 "Staying One Step Ahead at Pixar: An Interview with Ed Catmull", McKinsey Quarterly, March 2016.

19 Schmidt, Rosenberg, How Google Works, Grand Central Publishing, 2014.

20 "Staying One Step Ahead at Pixar: An Interview with Ed Catmull", McKinsey Quarterly, March 2016.

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One of the biggest challengest to incumbent organizations is breaking free from the death grip of complacency and inviting more experimentation and tolerance for failure.



## EMBRACING DISRUPTION AND AN ERA OF EXPONENTIAL CHANGE

After the 2008 crash, many executives asked, "When will things return to normal?" The answer quickly became, "they won't... welcome to the 'new' normal."

Well, the "new normal" era is now also over, as is the "next" normal. We are now in the era of **"no normal"** and it is dominated by the mega-phenomenon of disruption. Things are now changing so quickly in so many fields of endeavor that it's hard to see anything other than a future of ***constant change***. Disruption is here to stay as a phenomenon; there is no going back to simpler, more predictable, more stable times. Incumbent organizations cannot wish disruption away, or hope that it will not wash over them. By engaging in greater vigilance, versatility, and experimentation, those who are truly humble can go a long way toward readying themselves for the era of disruption and even embracing disruption as a strategy for continued viability and reinvention.

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## OVERVIEW

This white paper is part of a new series focused on navigating through the Era of Disruption and the Dawn of Exponential Times. The aim is to illuminate the opportunities available in this extraordinary era and to clarify the unprecedented transformations needed at the organizational, leadership and individual level in order to meet the challenges at hand and thrive. Papers in this series include:

1. **What Got You Here Will Leave You Here** — Explore how this Era of Disruption is dramatically different than living in a "VUCA" world – where volatility, uncertainty, complexity and ambiguity reign. The dawn of exponential times promises to deliver 10x and higher benefit only if we can reinvent our organizations and ourselves for new ways of leading, thinking, and relating.

2. **Strategies for the Disruptive Era and for Exponential Times** — It's already been established that the core strategies and strategic thinking pathways of the last half-century will no longer suffice in the era of disruption and exponential times. It's also clear that digital native companies leading the disruptive charge operate within radically different strategic guiderails. Digital 2.0 incumbents across nearly all industries will require a mix of the two approaches to navigate the transition from the linear to the exponential era.

3. **The Gift of the Humble Incumbent** — What is a "Humble Incumbent"? Many incumbent companies in digital 2.0 industries will fail to make the transition to the exponential era, and many factors that contribute to determining that. Our experience is that those that we call "Humble Incumbents"—organizations fundamentally infused with, and built around, humility—will have the strongest base to work from.

4. **What is Exponential Leadership?** While many organizations have been focusing on developing greater adaptability and agility in leaders in the face of increasing turbulence, our experience is that this approach does not go far enough. Disruption and exponential times are already demanding a more extreme expansion of the way we think and lead, so as companies disrupt and reinvent their business models, so too must leaders reinvent themselves.

5. **How Can We Develop Leaders for Exponential Times?** The ways we have developed leaders in the past will no longer be enough to face the unprecedented challenges inherent in this era of disruption. Not only must the leadership skills for this era be reimagined—we must also reinvent how we develop leaders for exponential times.

6. **The Key to Conscious Reinvention for Exponential Times** — We are at a stage of human evolution that demands elevated levels of thinking and collective reinvention to thrive in the face of constant disruption. As individual leaders, we must slow down to unearth personal beliefs that hinder rapid transformation and then accelerate new practices to move exponentially forward. This will require identifying key accelerator beliefs and practices that each of us can utilize to advance our thinking and development.

For more information on the other articles in this series, please visit us online: **http://innerpowerintl.com/our-latest-ideas/** or **http://www.cb-leadership.com/**

Or, join us for further dialogue on LinkedIn: **https://www.linkedin.com/groups/4490735/profile and https://www.linkedin.com/in/leeanndelcarpio**

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