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# From Disruption to Engagement: “The Open Network Economy”

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*This article is inspired by the work made in common during the COMn-Presidentes of  
Fundação Dom Cabral in São-Paulo, September 2009 to April 2010*

## FOREWORD

This article is not a sequential summary (session by session) from the topics that we explored during the COMn from September 2009 to April 2010.

Starting from a collective intuition that things were about to change dramatically in the way to lead organizations, we invited a series of provocative thinkers, most of them flying under the radar screens from traditional business schools and other edutainment organizations.

So rather than starting from a “precooked” agenda, we have let the key themes and topics emerge from our thoughts and discussion.

This article therefore attempts to be a synthesis to date and a first step towards continuing our reflections in whichever direction, organizational structure and with whomever we feel are needed.

Our gratitude go to:

Alexandre Almeida - Novelis  
Carlos Márcio - Elektro  
Cleber Moraes – Avaya  
Eduardo Bom Angelo- LAZAM MDS  
Erikson Blun – Hospital Brasília  
Fátima Zorzato – Russell Reynolds  
Guillermo Kelly – Pirelli  
Herberto Yamamuro – NEC Brasil  
Marcos De Marchi – Rhodia AL  
Mauro Aguiar – Colégio Bandeirantes  
Michel Levy - Microsoft  
Pedro Suarez – Dow Latin America  
Ricardo Pelegrini – IBM  
Sérgio Chaia – Nextel

And to:

Cibele Lara, Erika Barcellos, Valeria Hudson – Fundação Dom Cabral  
Frank Brown – Dean Insead  
Nick van Heck – Executive Learning Partnership  
Roland Kupers – Shell  
Gerd Leonhard – Media Futurist

For their outstanding exploration, curiosity, open mindedness and support to this process. We hope they enjoyed it as much as we did.

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## I.- A shared Intuition

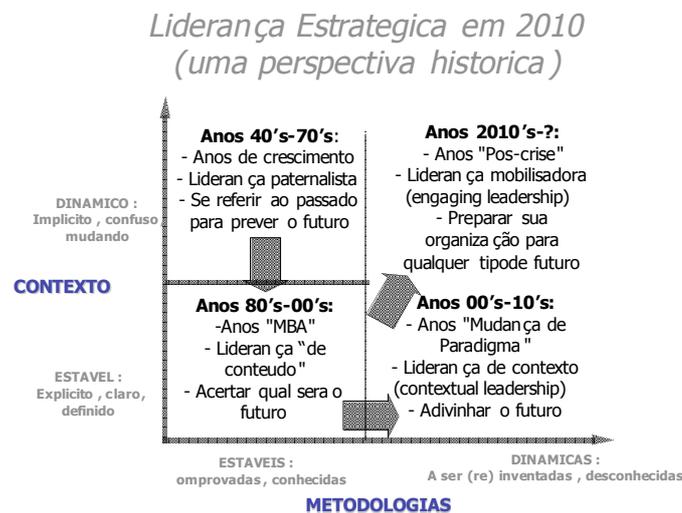
When Dalton Sardenberg, Professor at the Fundação Dom Cabral and Director of the COMn program, interviewed separately each President who took an active part in this collective reflection, he collected a clear signal that all of them felt the need for deepening their thoughts on the new style of leadership they and their organizations should contemplate in order to respond to the “Shock of the Future”<sup>1</sup>.

Referring to the Brazilian economic reality (we were in July/August 2009 when most of the world was seeing no light at the end of the tunnel), the “Post-Crisis Leadership” was already a reality and challenge. How do we orderly and sustainably lead our people through this powerful dynamic?

The technology revolution and the social network impact was also seen as a major reason for which our leadership styles should evolve. “We won’t lead Generation Y and Z people in the same way as we led ourselves so far.”

Some concerns were also raised: “How do we go along the “Open Wave” without giving away our trade secrets?”, “How do we strategize and organize in a faster changing environment?”

We all knew something big was about to take shape, we all had the instinct that a tsunami had been launched without knowing neither where it would come from nor how high it would be. Early warning signs were perceptible, something was about to emerge but how to be proactive and use it at best rather than being passive observers? Famous Irish author G. B. Shaw’s quote was resonating strongly: “People are always blaming their circumstances for what they are. I don’t believe in circumstances. The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can’t find them, make them.”



We used the here above matrix to clarify our position: we were coming from an economic landscape where the rules of the game were clearer. We were now heading for a far more complex and ambiguous environment. Guessing the future was certainly not the way to go but preparing ourselves for whatever that future would be, was a smarter bet.

## II.- What do we mean by “Open Economy”?

<sup>1</sup> The use of the title of one of Alvin Toffler’s seminal books is no coincidence

The profound disruption we all knew was coming was a blend of several components: technology, history, societal factors, economy, values and crisis of confidence in those, generational gap, accelerating change... When preparing his participation to this project with Gerd Leonhard (back in December 2009, in a horrible Swiss-German highway restaurant where we worked passionately for six hours... I guess waiters had never seen two people sitting there for so long with some much energy and enjoyment!), we gave this emerging phenomenon the name of "Open Economy" (or Open Network Economy, Open Source Economy etc...). One of the best books to date evoking this "Third Wave"<sup>2</sup> is the famous *Wikinomics*<sup>3</sup>. It goes quite deep into the technological aspects<sup>4</sup> which have enabled the emergence of a new economy but falls short in our view to reflect on the strategic, organizational and leadership impact of *Wikinomics*.

Historically, Alvin Toffler (born in 1928) became famous for predicting in 1980, that the "Third Wave"<sup>5</sup> would be the emergence of a society based on knowledge. For him, the First Wave had been a world, replacing the first ages of humanity (nomads, followed by sedentarized hunters and gatherers) and centered on agriculture. The Second Wave was the one of industrialization, which was going to have a strong impact on our way of life. Quoted by Wikipedia<sup>6</sup>, Toffler writes: "The Second Wave Society is industrial and based on mass production, mass distribution, mass consumption, mass education, mass media, mass recreation, mass entertainment, and weapons of mass destruction. You combine those things with standardization, centralization, concentration, and synchronization, and you wind up with a style of organization we call bureaucracy." This is rather interesting as a lot of our organizations are still run on this mode and belief inherited from the "MBA culture".

The Third Wave is the "post industrial society" in which Toffler predicted demassification, diversity, knowledge-based production, and the acceleration of change. We will see later in the "Strategic Game Changers" section how accurate Toffler's intuition was! He is quoted as saying "The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn."

In our views, some specific factors concurred to make it possible for the Open Economy to emerge.

- *Technology*: As Tapscott and Williams brilliantly describe it, technology has been a key enabler from the Open Economy. As we all know, the seeds of internet germinated in military minds. The fear triggered by the successful launch of the Soviet Sputnik rocket, prompted the always fertile imagination of military strategists to wonder how to do to preserve the vital communications and knowledge in the USA, should they be attacked by USSR. A major shift in thinking was that, rather than going for the traditional and centralized fortification, militaries chose a totally opposite route for decentralized bits of information being spread around major nodes throughout the country, so that the probability for them to be destroyed totally would be far less than would be, should the "last of the Samurai" fall or be hit. The internet then came, derived from the military concern. Invented by CERN's British engineer, Tom Berners-Lee in 1991, the World Wide Web was going to

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<sup>2</sup> Here goes another non innocent reference to Alvin Toffler

<sup>3</sup> Don Tapscott & Anthony D. Williams (2008) *Wikinomics: "How Mass Collaboration Changes Everything"* – New-York - Portfolio

<sup>4</sup> Tapscott and Williams underline in particular the role of the web 2.0

<sup>5</sup> Toffler A. (1984) "The Third Wave". Bantam

<sup>6</sup> [http://en.wikipedia.org/wiki/Alvin\\_Toffler](http://en.wikipedia.org/wiki/Alvin_Toffler)

revolutionize the way we communicate, socialize, purchase & sell, access information, spread it etc... Today the internet is just the tip of the technological iceberg supporting the "Open Economy".

- *The Open Source philosophy*: Flying on the wings of the internet, the Open Source movement (giving birth to Apache or Linux for example) rapidly extended to wider areas, such as world famous Wikipedia but also inspiring peer to peer sharing.

- *"Complex Adaptive Systems" thinking*: In 1984, the Santa-Fe Institute<sup>7</sup> was created with the initial mission to bring together scientists from all over the world, coming from fields as varied as quantum mechanics, biology, architecture, chemistry, social sciences, business to reflect and understand how complexity theories could serve/apply to their field of interest. Their work has greatly contributed to the evolution of thoughts from "XIX<sup>th</sup> century physics" logics to XXI<sup>st</sup> century<sup>8</sup>

- *The 2008 (and going) global economic crisis*: early indications suggest that the recent (and lasting) economic crisis has profoundly marked people's mind. A crisis of confidence in the "old industrial capitalist"<sup>9</sup> system is very perceptible and has gone out of the usual and now sterile "left vs right" opposition: US President Obama made clear his determination to "take on the bankers", should these not self regulate, French President Sarkozy's vehement opening speech in Davos World Economic Forum (February 2010) against "quick buck capitalism" and the increased pressure towards more state interventionism in the UK and Germany all suggest that politicians have felt where the wind is now coming from. The outraged reactions from the public towards the roots of the crisis, the state support to old economy organizations, the bonuses of some executives or the closing of businesses (with taking the executives as hostages in France or murdering some in India) show that mindsets are shifting. Even before the crisis broke out, ex "Wall Street" ideology supporter, Stephen Roach<sup>10</sup> wrote: "The so-called productivity resurgence has been built on slash and burn restructuring strategies that have put extraordinary pressures on the workforce. This approach is not a permanent solution. Tactics of open-ended downsizing and real wage compression are ultimately recipes for industrial extinction." The Copenhagen failure in December 2009 reinforced those from the opinion that leadership should not be abandoned to leaders. An official, wishing to remain anonymous and who participated to the conference said: "A fiasco it was but there is one positive aspect: People seem to have understood that the situation is too important and that our common future is not something they can delegate to politicians. They need to do something about it themselves now and across borders".

The Open Economy is different from the recent "New Economy" and its dotcom bubble. If it is also partially technology enabled, it is not as exclusively tight to easy money, IPO's or the excesses which marked that last era of the "old capitalism model".

The Open Economy seems to follow certain ethics and values summarized under the G.R.A.V.I.T.A.S. acronym:

- **Generosity**: Fighting to get heard, non intrusive/truly value adding advertising, "content for free" and the "Open Source" phenomenon and philosophy mean that a

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<sup>7</sup> <http://www.santafe.edu/>

<sup>8</sup> See Roland Kupers presentation "Complexity" in your files

<sup>9</sup> <http://blogs.hbr.org/haque/>

<sup>10</sup> At the time chief economist at Morgan Stanley, wrote on May 14th 1996 an article called "America's recipe for industrial extinction"

certain level of generosity is expected and even taken for granted. Those still jealously holding on to their old conception of IP may head for trouble. Brazilians and Chinese, leave aside our own adolescents have a very different view of copyrights than “old US and Europe” do. Apple is very successful with a closed and “non generous” business model but how sustainable will that be when competitors will have brought truly innovative counter offers?

- **Responsibility** (and Self Discipline) will increasingly be felt as the necessary counterweights to the increased levels of freedom and opportunities we are granted today. Indeed, looking at some worrying behaviours in our cities, this seems like wishful thinking. However, collaborative websites such as Wikipedia, even if not 100% perfectly reliable (by the way none of the encyclopedias are) are remarkable gold mines of information due to the discipline of their members.
- **Abundance** (principle of): From “zero-sum game” to unconditional collaboration, the term “Co-opetition” is increasingly used to describe this new competitive environment where traditional frontiers are blurred and yesterday’s enemy becomes today’s ally, but in some fields only... The Principle of abundance replaces the defensive and competitive attitude.
- **Value** (authentic): In a March 2009 lecture in Columbia University<sup>11</sup>, Umair Haque was warning that the old system largely under-estimates costs and overstates benefits. The “polluter payer”, the “who needs public funding will be held accountable” trends are part of it. Haque sees Authentic Value become a trademark of new capitalism.
- **Interdependence**: The interconnected world, the globalization and our dramatically increased capacities of damaging/supporting if not the whole globe at once, at least sizeable parts of it, means a level of interdependence never seen before. Non-linear scientists would refer to the butterfly flight causing a hurricane somewhere else; Wherever we operate in the world, what happens elsewhere may have a huge impact on us. Who in Victorinox (maker of famous Swiss Army Knives) could have predicted the impact of 9/11 on travelling rules all over the world?
- **Trust**: Trust is becoming the currency of the connected world. The major e-commerce platforms all have a feedback system which enables us to know who we deal with. New technology has enabled the citizen to rapidly cry foul and challenge traditional sources of authority (remember the costly “mistake” of then Senator H. Clinton claiming to have landed under the bullets in Sarajevo, proven lying on the internet half an hour later).
- **Authenticity**: As many of us will have experienced, Authenticity (an obvious link to Trust) will be requested as the license to operate for leaders. In a world of increasing complexity, ambiguity and uncertainty, people will not follow unauthentic, “painting the walls in pink” types of leaders. Their credibility will not simply rely on their competences (as in the past) but also on their capacity to talk straight.
- **Sharing Attitude**: Linked to generosity, a sharing attitude will be expected, as is already the case on social network such as Facebook, where people share with their “friends” clips, tunes, articles, pictures and other meaningful emotions. This doesn’t mean that everything will go for free. New ways to monetize “Content” will be invented. The record companies are suffering but LiveNation (the world’s bigger show producer) has now Madonna and U2 under contract and is doing well...

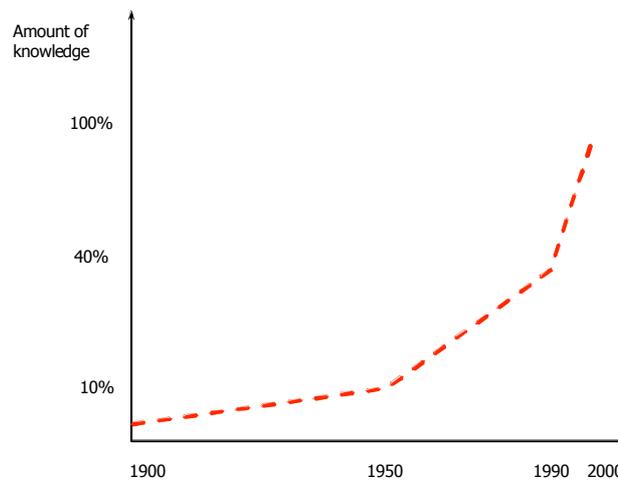
The Open Economy is enabled by technology, supported and framed by an emerging strong set of values and principles. It increases the ambiguity of our competitive landscape by making co-exist the traditional economy with a new, “complexity based” mindset.

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<sup>11</sup> <http://www.youtube.com/watch?v=-Dy1QC-Ie5s>

### III.- The three “Paradigm Shifts” of the Open Economy

- *From scarce to abundant knowledge*: In the mind of Nick van Heck, this is one of the major and still widely underestimated paradigm shifts of the Open Economy. Whereas we used to live in a world where outsmarting competition, guessing the future faster than they would, hold superior knowledge were considered as true advantages (benefiting legions of strategy consultants), we are now fully installed into “the world’s knowledge is at our fingertips” logic. The “Did you know” clip<sup>12</sup> provides interesting insights on some of the uncelebrated and radical changes that took place in the world during our recent past. In the mid 90’s Fortune Magazine was quoting a research from Wharton Business School about the exponential growth of knowledge:



As we will see, this major shift has several consequences:

- 1) Strategy needs to evolve from “guessing the future” to preparing the organization for whatever it will be: everybody being able to dig in similar and widely available sources of information means that guessing isn’t the name of the game and, as we see in various stock exchanges, it amplifies the movements, just like in Peter Senge’s famous “Beer Game”<sup>13</sup>.
- 2) Knowledge isn’t anymore the duty or privilege of the top management: Just like the human body, constantly taking information by thousands of cells about its environment, tomorrow’s organizations will realize that meaningful and strategic knowledge will not necessarily come from the top.
- 3) The capacity of information filtering will become crucial: In 2002, Lieutenant General Paul K. Van Riper, a retired Commanding General of the 2nd Marine Division had been asked to lead the “enemy” team in US Army’s 250 million\$ war game, Millennium Challenge, aimed at preparing for Iraq’s invasion. Van Riper ridiculed his opponents (the “good” blue guys) and defeated them in two days, inflicting it the equivalent of 20’000 deaths and sinking sixteen warships. The red team had borrowed a lot to “Complex Adaptive Systems” thinking to set its strategy up. One of the key features was to overwhelm the blue army with unnecessary and

<sup>12</sup> <http://www.youtube.com/watch?v=jpEnFwiqdx8>

<sup>13</sup> The “Beer Game” represents an almost ideal supply chain where players have a total transparency on the stocks held at various levels of the chain. They can see the levels of what is being held by retailers, distributors, wholesalers and producers. During the first rounds of the simulation the consumers demand is stable, always the same (participants just do not see the quantities being ordered at various steps of the chain and bear a cost for being over and under stocked). Only once does the consumer demand change and it stays for the rest of the game at that level. That simple and unique change, creates a cataclysm in the whole chain widely over-reacting.

irrelevant data. When they realized which information was relevant, it was too late. On the other hand, the funny clip featuring the “moon-walking bear”<sup>14</sup>, also shows the damage that can be done by focusing compulsively on one vision, losing sight of the bigger picture. We will see later that having a clear, meaningful and shared purpose is fundamental in avoiding data overdose whilst ensuring that the organization, through its employees stay awake and curious about what is happening in its environment.

- *Competition is flying under your radar screen*: Jonathan MacDonald<sup>15</sup> calls it “Corporate Technology in the hands of Citizens”. In other terms, the privilege once held by deep pockets’ companies is now within the reach of unknown and obscure potential competitors working from their home. This is strongly changing the rules of the game, bringing “guerrilla fighting” in the land of the established players (The four majors in the record industry missed completely the birth of an obscure mp3 standard, phone operators spent fortunes of G3 licenses when V.O.I.P. suddenly came on the market, free via Skype, Encyclopaedia Britannica enjoyed a pleasant situation until Wikipedia showed-up out of nowhere). Here again, this shift has some consequences:

1) Community building: LEGO had built a community of 2.7 millions registered followers in 2009 and its legofactory.com site enables parents and children to proudly learn and share the results of their Sunday afternoon work with the rest of the world... 130’000 clips are tagged with LEGO on Youtube! The Danish toy company has managed to create and maintain a lively community of dedicated fans which feeds it with design and other ideas. This exceptional club of supporters also serves as an exceptional early warning system when novelties are needed or could come and disrupt LEGO’s market. LEGO has transformed clients into passionate believers and aficionados!

2) “If you can’t beat them, join them”: one of the great story brought by “Wikinomics” is the highly improbable (and equally successful) relationship between IBM and the Geeks community of Apache then Linux developers. Although appearing as a “marriage against nature” between a then stiff representative of old economy and a community of idealists, IBM by displaying the G.R.A.V.I.T.A.S. values managed to successfully work in a true win-win mode with the open source fans. This was a bright way to ensure a permanent connection with this organic community from which the next disruption could come anytime. It would have been impossible for IBM to install on technology watch on each of these individuals or micro-communities.

3) Go open: Maintaining a “closed” system of values and business model may work as long as you are the uncontested leader on your market. Clearly Apple can afford this strategy at the moment, at the risk of appearing uncooperative, dominance seeking, excluding and... arrogant. However, should the winds of Disruption blow in another direction, a company may bitterly regret the closed image and strategy route they chose. The hasty sharing of the Symbian platform and setting of an open source Symbian Foundation by Nokia (when it was obvious to all that the storm was near)

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<sup>14</sup> <http://www.youtube.com/watch?v=oSQJP40PcGI>

<sup>15</sup> Co-founder of “This fluid World”, ex-Sales Director of Blyk, Commercial Director of Ministry of Sound, CEO of Sky TV channel and Chairman of the Music Industries Association

may have appeared as “too little, too late” to many in the creative geniuses community.

- “*Disruption is what happens to the ill-prepared*”: is how Nick van Heck likes to provoke executive teams when they tend to blame circumstances for where they ended-up. Ien Cheng<sup>16</sup> is quoted as saying: “The choice is not between disrupting your business now versus later, but between disrupting it yourself or having it disrupted for you!” Marshall McLuhan<sup>17</sup> believed that: “It is the framework which changes with each new technology and not just the picture within the frame”. We are going to live increasingly in times where we will have to manage the permanent dilemma of continuing to manage the excellence of the existing operations and constantly looking to surf ahead of the next possible disruption wave. Kevin Kelly summarized this, writing: “Innovation is disruption; constant innovation is perpetual disruption. This seems to be the goal of a well-made network: to sustain a perpetual disequilibrium [...] The difference between chaos and the edge of chaos is subtle [...] A real innovation is sufficiently different to be dangerous. It is change just this side of being ludicrous. It skirts the edge of the disaster, without going over. Real innovation is scary. It is anything but harmonious.”

Let us now summarize the main “Game Changers” as Gerd Leonhard calls them which will affect society, strategy, organization and leadership.

#### IV.- Societal Game Changers

As we see around us, society as a whole is being impacted by the movement towards Open Economy. We see three main impacts taking place:

- From desktop to mobile society
- The arrival of the N-geners
- From “Egosystems to Ecosystems”

- *From desktop to mobile society*: As Gerd Leonhard showed during his COMn session, society is changing from a passive consumption mode towards a far more active and co-creating one. The trend towards what Gerd calls the “Broadband culture” is obvious. “Passive desktopers” will read, listen and watch whereas “active broadbanders” will write, create, change. The mobile society, as a consequence, is also far more engaged than its neutral predecessor. Technology is becoming an enabler and not an end per se. Engaged broadbanders will become activists and harder to manipulate. Facebook dearly paid for its attempt to discreetly change its terms of use and seek to own all material which was posted on its pages. Tweeter was widely used by Iranian opposition demonstrators to inform each other and share with the outside world what was happening inside their country. When O3B<sup>18</sup> will be operational and able to fulfill its mission to provide internet access to everyone on the planet, it will be the strongest push towards democracy since the French Revolution.

- *The arrival of the N-geners*: also called the internet Generation (born between 1977 and 1996) about whom Wikinomics<sup>19</sup> provides an interesting and detailed description. True

<sup>16</sup> Chief of Staff for the global multimedia group at Bloomberg

<sup>17</sup> [http://en.wikipedia.org/wiki/Marshall\\_McLuhan](http://en.wikipedia.org/wiki/Marshall_McLuhan), inventor amongst other of the “Global Village” concept

<sup>18</sup> <http://www.o3bnetworks.com/> aims at “making the internet accessible and affordable to everyone on the planet”

<sup>19</sup> p46-54 in the book

embodiment from the “mobile, Broadband generation” they were born and raised with the Digital technology. This means that there is much more in common between them, whatever their race, religion or geographic origin than there were between the previous generations. Less dependent from television (a passivity inducing media) there are far more into co-creation, interaction and social networks. Their norms are:

- Speed: they are used to immediacy and getting things done, transferred, shared quickly
  - Freedom: quite rebellious to authority for the sake of it, they will certainly challenge the “seniority is superiority” stance. They also have a fundamentally different view on intellectual property and “piracy”
  - Openness: the amazing willingness of N-Geners to expose their privacy in public, through social networks and not being bothered by it suggests a strong need for openness. However, people using this in an unethical manner against them will rapidly be exposed and rejected.
  - Innovation: N-Geners constantly strive for novelty and what’s in.
  - Mobility: they are the Mobile Generation described by Gerd
  - Authenticity: This norm is part of the emerging GRAVITAS set of values
  - Playfulness: Although politically motivated (sustainability, human rights, poverty, inequality) those “fast zappers” are reluctant to engage into “heavy” debates and far more prefer the appearance of lightness, speed and mobility.
- *From “Egosystems to Ecosystems”*: The globalization has also had as a consequence a heightened awareness from the interdependence between people and nations. Technology has enabled us to know sometimes better than the locals, what happens in their country. We live in a connected world and have been more aware of the impact of what happens anywhere. The strong drive towards sustainability (to give it a generic name but it encompasses fight against poverty and inequality, human rights, women dignity cause, environmental protection etc...) is far more than a fashion now and is there to last and gain momentum.

## V.- Strategic Game Changers

The emergence of the Open Economy is brutally disrupting the competitive landscape. Amongst the several (of which many still to come) “Game Changers” identified, let us focus on three:

- Managing the Disruption/Continuity dilemma
- “Customer value, not control is the answer”<sup>20</sup> or “Friction is fiction”
- “Monetizing Anarchy”

- *Managing the Disruption/Continuity dilemma*: Roland Kupers in his presentation via Cisco Telepresence, asked us to challenge some of our assumptions about the economic system. For him, as previously mentioned, many are based on implicit beliefs, dating from XIX<sup>th</sup> century. The first point (decreasing vs increasing returns) is linked to the principle of abundance mentioned under emerging values earlier. A new strategic game changer is that we are not necessarily in a zero sum game logic and that success in one side may also mean success for the other. The cooperation principle is linked to it. The equilibrium principle is also challenged bringing us back to Kevin Kelly’s earlier comment on innovation and disruption.

Old economics	New economics
<ul style="list-style-type: none"> <li>• Decreasing returns</li> <li>• Based on 19th C. physics (equilibrium, stability, deterministic)</li> <li>• If only there were no externalities and all had equal abilities, we’d reach Nirvana</li> <li>• No real dynamics in the sense that everything is at equilibrium</li> <li>• Sees subject as inherently simple</li> </ul>	<ul style="list-style-type: none"> <li>• Much use of increasing returns</li> <li>• Based on biology (structure, pattern, self-organization, life cycle)</li> <li>• Externalities and differences are driving forces. No Nirvana.</li> <li>• Economy constantly at the edge of time, rushing forward, structures coalescing, decaying, changing</li> <li>• Sees subjects as inherently complex</li> </ul>

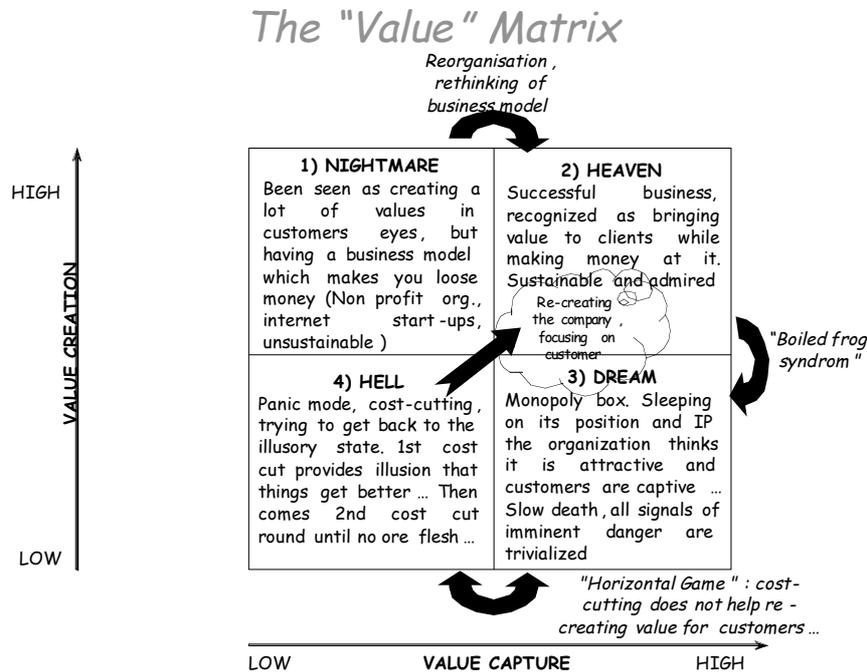
Roland Kupers 33

This having been said, Roland also exposed us one of the challenges leaders would increasingly be confronted to: managing under old and new assumptions at the same time. There will be no “one fits all” and no “The old economy is dead, long life to the new economy”. For Roland, the true complexity resides in the fact that both systems will co-exist and leaders will have to excel in traditional management of the status quo, operational excellence and play it safe and in “Disruption leadership”, innovation and risk taking:

<sup>20</sup> Borrowed from Wikinomics



- “Customer value, not control is the answer”<sup>23</sup> or “Friction is fiction”: the second major strategic Game Changer is very challenging for industries which have survived for long on using IP as a way to prevent competition or bar access to a market, without paying their customers in return. Nick van Heck’s VC2 matrix provides us with a good view on what is happening in such cases:



For Gerd Leonhard, “Friction” (seeking to artificially and legally prevent customers to access what they need/want) increasingly become fiction (from “Dream” box to “Hell” box). In the age of openness and transparency, seeking to control customers will become a risky strategy...

- *Monetizing Anarchy*: “Open is not free” likes to say Gerd. The strategic challenge for Open Economy leaders will be to understand and redesign their business model so as to understand what to give away and how to capitalize on the freebies. Going back to the music industry example, seeing this industry as a record selling business is being fatal to the four majors, desperately behaving like the Catholic Church seeking to prevent Johannes Guttenberg to print the Bible in German and preferring to continue controlling its loyal followers (Friction is fiction, remember?). it is possible, even at the age of free download to monetize music through merchandizing, publicity, par per view shows, large shows and bundling offers (Nokia “comes with music”). Each disruption forces us to rethink the way we monetize our offering.

**VI.- Organizational Game Changers**

The paradigm shift towards abundance of information and knowledge has one fundamental corollary in the way we should organize our companies to strive successfully in the Open Economy: they must become “Intelligent Organizations”.

A great metaphor is being quoted by Ori Brafman and Rod Beckstrom<sup>24</sup> in their account of the historical difference between Montezuma’s Aztec and Atahualpa’s Inca empires and

<sup>23</sup> Borrowed from Wikinomics

<sup>24</sup> O. Brafman & R. Beckstrom (2006) *The Starfish and the Spider* (Penguin Books)

organizations and the Apaches organic tribes from North America. The Aztecs and Incas were organized in a traditional, centralized and pyramidal way, with everything evolving politically around the emperors and geographically and economically around the capitals, Tenochtitlàn and Cuzco. It simply took Cortez and Pizarro to besiege the capitals and execute the emperors to reduce two whole, civilized nations to slavery. Compare this with the way Apaches were organized: The Spanish invigorated by their victories in Latin America tried the same strategy in vain. Apaches had built no monuments, no streets, no towns. They were nomads. The Apaches refused the open combat on the battlefield in which the Spaniards tried to lure them. Instead they excelled into guerrilla fights, short, rapid and agile. During two hundred years, the Spanish didn't manage to rule the Apaches out where they were installed. Tom Nevins, an anthropologist who studied the North American Indians believes that the main reason why Apaches couldn't be defeated was rooted into their organizational and hierarchical structure: Apaches were decentralized where Incas and Aztecs were centralized. They had no political or economical capitals, no castles to defend. They were not led by a single leader but rather by a Nant'an, a non coercive, leading by example spiritual leader. Decision making was not centralized. Because they widely shared a same purpose and vision, even decisions were taken in a non hierarchical, decentralized way: the right decisions were made at the right place, organically. With the blessing of the Nant'an, situational leaders emerged on a per need basis, replacing if needed a Nant'an which just had been captured and killed by the enemy. The more the Spanish tried to attack the Apaches' open system, the more those resisted to the temptation and reflex of autarky and remained even more open and decentralized.

Intelligent organizations are purpose led and ensure everyone understands, buys-in and actively contributes to their Purpose. Everyone still has a specific role in the organization, like each organ and member of the human body, but all concur to one single overarching purpose (which in our body's case, to keep us well and alive).

So the main impact of the Open Economy on our ways of organizing will be to transform our organizations from traditional, pyramidal and hierarchy led into organic, adaptable and purpose led "intelligent organizations". So what does an "Intelligent Organization" mean?<sup>25</sup>

1. Co-creating clarity, meaning and ownership of the strategic intent at all levels of the company will ensure that people think, explore, listen and are interested by the company's future. At barbecues, during hockey or football games, in informal conversations with colleagues, friends, family or foreigners, they will constantly weigh the impact of what they hear and learn on the company's strategy.

2. It will not be sufficient to develop our people in understanding the business they are in, it will also be fundamental to ensure that the pyramidal, hierarchical ("seniority=superiority") and procedure driven organizations are transformed into far more organic ensembles.

3. Leadership will have to evolve drastically as well. Looking back, I feel bad and guilty for sometimes having run wonderful, forward thinking, state of the art engagement processes but failed to recognize that, should the leadership style of leaders not evolve from directive micro-management, distant and protective and punishing of mistakes, the whole effort would amount to short term morale raising edutainment but not much more. Leaders must adapt their style to the new intelligent organizations they wish to design and that, as we know is probably our biggest personal challenge...

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<sup>25</sup> Borrowed from my blog: <http://blog.enablersnetwork.com>

What are the design criteria of “intelligent organizations”? There are three<sup>26</sup>:

- A strong and shared sense of Purpose (sometimes called Identity)
- A permanent feedback loop, relating to the Purpose
- A fertile ground of relationships

- *A strong and shared sense of Purpose*: In 1998, Ernst & Young produced a true collector’s item, a CD-ROM called “Embracing Complexity”. In it, several leading experts in the field of Complex Adaptive Systems explore how their knowledge applies to business. In the clip, Lt. General Van Riper<sup>27</sup> (him again!) explains in few words the power of having a strong sense of Purpose. The Marine whose collar is buttoned-up may seem anecdotal but it hopefully conveys the message: People intellectually compelled and emotionally engaged in a shared sense of Purpose do not need to be checked and controlled: they just “are” the Purpose. The sense of purpose is not created through corporate communication nor vision/mission statements. It is something which emotionally resonates with the members of the organisation and which is lived, very visibly by the leaders, each day. To make it more tangible, here is an “acid test” focused on the Purpose axis as provided by Nick van Heck:

1) ‘Credibility and clarity’ test :

- Do our people know what our company’s Purpose is?
- Does it enable them to make clear choices?
- Do they see the rationale of our Purpose?
- Do they emotionally connect with it?
- Is it in tune with what they see happening around them?

2) ‘Come alive’ test :

- Do our people see our Purpose happening everyday? Do they live the implications of our collective choices?
- Can our people make it come alive? Does this Purpose give them sufficient guidance?

3) ‘Purpose and energy’ test :

- Does this Purpose truly generate energy? Is worth striving for?
- Are our people willing to go the extra mile for this?

My work exposes me to visit tens of companies per year. It never takes long to “smell” if there is a strong and shared Sense of Purpose there or if people happen to be there “because you have got to sing the blues to pay the dues”: Is there a pride to belong or does the receptionist bow down in obedience once your pronounced the name of the CEO? Do people passing by look at you in the eyes and make you feel welcome or is there hostility or neutrality versus the outside world? Do people seem energized or do they painfully wait for Friday night?

- *A permanent feedback loop, relating to the Purpose*: Staying with the human body metaphor, the only way to compensate for the lack of a centralized governing body (is it the heart, brain, nervous system???) is for all the components, aligned on the shared Purpose, to receive permanent feedback, indicating whether or not they are deviating from

<sup>26</sup> borrowed again from <http://blog.enablersnetwork.com>

<sup>27</sup> <http://www.youtube.com/watch?v=r5-hoQfqd6g>

the line. In a clip<sup>28</sup>, also borrowed from Ernst & Young's "Embracing Complexity", Kevin Kelly invites 500 people to pilot a plane on a simulator. 250 persons command through their individual joystick the lateral movement of the plane (all joysticks are linked to a computer, which will "average" the orders given by the pilots) and the other 250 control the vertical movements. There is a clear and shared Purpose: Fly this plane through four targets.

The feedback is permanent (they see themselves fly and the immediate results of their collective actions) and directly related to the purpose (going through the targets). The feedback is meaningful, as people know how to interpret it and immediately act on it (they do not need further instructions nor permission from Kevin in order to take corrective action)

Finally, Kevin Kelly controls his own anxiety rather than transmit it to the audience. With light touches of humour, a relaxed and sometimes firm tone, he directs his 500 pilots team towards success. In more general terms, designing a permanent feedback loop process that will enable the organism to become intelligent and self-adaptive means:

- 1) Identifying a few Purpose related indicators and ensure they are widely and regularly understood/updated/communicated
- 2) Developing our people so that they understand what could impact positively and negatively the organism and its purpose. If our people understand this, they will live, breathe and "be" the Purpose of the firm. They will act and behave as early warning systems and propose new ways, ideas and initiatives that support the company's Purpose
- 3) The language of the leaders should reflect the Purpose and indicators in a way to permanently reinforce its existence and message.

- *A fertile ground of relationships*: An engaging Purpose and a constant feedback loop designed to help people stay aligned with it are not enough to create an "intelligent organization". If our organs weren't connected, if they didn't "trust" each other, if "politics" were emerging between lungs, heart, brain and stomach, we would move towards death rapidly... Can you imagine the brain double-checking suspiciously the information it receives from specific parts of our body? Relationships don't mean affection nor liking each other, it means "Connecting People". The short clip on birds<sup>29</sup> coming from the same CD as the two previous ones is a great illustration of this... This metaphor tells us why certain firms will arrive after the party is over at the "latest disruption banquet". The type of non-relationships shown by the Red Robbins creates functional silos, plants the seeds for distance and neutrality (when it is not destructive through internal competition and politics) between executives and departments. We are so busy defending our own ego, our own territory that we fail to remember the real war is taking place outside... and the macho-territorial rabbits see but too late, the sociable, gregarious turtles surfing on the wave of innovation.

There is less of a magic formula to build those relationships but initiatives such as taking time out with the team, reducing distance by showing vulnerability and authenticity, create an open environment where people may openly share, make mistakes, admit temporary incompetence, include dialogue about the quality of one's relational network, all contribute to it.

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<sup>28</sup> <http://www.youtube.com/watch?v=2KR9G0FSaUU>

<sup>29</sup> <http://www.youtube.com/watch?v=gmwTbJj5yTQ>

## VII.- Leadership Game Changers

After seeing how the new “Open Economy” will impact our strategy and organization let us finally explore how it should affect the way we lead.

The values emerging from the Open Economy (G.R.A.V.I.T.A.S.) will no doubt impact the way we lead our people. There are several new ways of leading starting to emerge, influenced by the radically new needs of followers and by the N-Geners whom we mentioned before:

*Disruption leaders:* On the one hand, as wise leaders, they do not wish to disturb the operational excellence of the existing company and on the other, they want to be the ones disrupting the industry instead of being victims of circumstances. Becoming “Disruption leaders” will change the way we lead in our firms. The opportunities and ideas will not come just from us anymore. Our capacity to listen, encourage (and tolerate/learn from mistakes “fail fast”) and engage our people will be fundamental. Disruptions leaders encourage their people to think and behave as market drivers not market driven...

*Connecting leaders:* Philippe Bobin is the head of leadership development in Rhodia. He sees future leaders to have enhanced “Connection skills”. Leaders will need to evolve from “Directors to Connectors”. Their role will consist of connecting the apparently unrelated dots on the strategic map and scrutinize constantly the world around them as well as remain permanently “switched on” with the various levels in their firm (and not just their faithful and loyal “close guard”). The most spectacular change I ever saw taking place was years ago in a Spanish bank when, in order to make sure that the strategic change they had communicated to the top 500 leaders would be lived and meaningful at the lower echelons, the Board members made it a point during whatever visit they would pay to any branch, to hold informal and purposeful dialogues with employees at all levels.

*Tribal leaders:* Seth Godin is one of the fashionable marketing gurus of this time. On a short clip taken during a TED event in February 2009<sup>30</sup>, he explains his original concept of “tribal leader” and asks three questions:

- Who are you upsetting? For him “Tribal Leaders” are “heretics” who challenge the status quo. So if you are not upsetting anyone in the market, you are probably waiting for being disrupted...
- Who are you connecting? Tribal Leaders understand what “resonates” in people. “The Beatles didn’t invent teenagers, they decided to lead them, Bob Marley did not create the Rastafaris, he chose to inspire them”... Tribal Leaders understand what moves and resonates with people and excel at creating communities around that purpose
- Who are you leading: Tribal Leaders don’t please everybody. They manage to change clients into aficionados, customers into fans and transform obedient and bored employees into passionate defenders of a cause. The old push model becomes an inspire and engage one

*Engaging leaders:* This takes us to the book my partners and I recently published[5]. For us, Engaging Leaders work on three agendas:

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<sup>30</sup> [http://www.ted.com/talks/lang/eng/seth\\_godin\\_on\\_the\\_tribes\\_we\\_lead.html](http://www.ted.com/talks/lang/eng/seth_godin_on_the_tribes_we_lead.html)

- They co-create, with their people, clarity, meaning and ownership around the strategic or intellectual agenda (Logos)
- They behave, visibly and spectacularly in ways which directly support and connect with the organization's Purpose (Ethos). They practice actively Value Building Behaviours (active listening, asking open questions, summarizing, supporting, challenging, clarifying, seeking time-out and asking/giving feedback)
- They create "emotional markers", through powerful metaphors, stories and symbols, which enable people to engage emotionally into the organization's purpose (Pathos)

It is only by ensuring that we intellectually and emotionally engage our people into our company's "raison d'être", by developing them to think for and by themselves, by encouraging them to explore and understand how apparently insignificant events can be huge opportunities or threats for our business (model) that we will be able to ensure agility and rapid implementation. As Meg Wheatley suggests *"Enormous struggle with implementation are created every time we deliver changes to the organization rather than figuring out how to involve people in their creation"*

### **VIII.-Time to conclude**

Dalton, Gerd, Nick, Roland and I felt we learnt so much in your company that we are now designing what we would like to be nothing less than a truly life changing event for C.E.O.s and their team: The Disruption Experience. We intend to run it first in Saõ-Paulo prior to taking it to the rest of the world.

We intend to invite a series of advanced thinking provocateurs, all flying under the radar of traditional business schools. After listening to their intuitions about the future, we will structure reflection sessions for your and your team around four themes:

- How do we prepare ourselves for the future?
- How will we become disruptive?
- How should we organize ourselves?
- How should we lead in this new Open Economy?

Because we intend to work at the three levels of intellectual but also behavioural and emotional agendas, each team (C.E.O. and his team) will have a senior coach who will observe the dynamics of the team and help it improve the quality of its strategic dialogue. On the emotional level, we do not want the Disruption Experience to be a classical "edutainment" workshop: we intend to create an emotionally marking experience where your team will also share and explore with other C.E.O.s and their teams about becoming true leaders in the Open Economy.

Dalton, Gerd, Nick, Roland and I are already actively started to work on the design, speakers and senior coaches, co-organizers and sponsors for this first event.

We believe that the Open Economy will profoundly affect even our values and ways of dealing with each other, locally and globally. As a closing, I would like to share the publicity of TIM (reported in an interesting Brazilian blog<sup>31</sup>).

**THANK YOU!**

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<sup>31</sup> <http://gaulia.blogspot.com/search?q=Wittgenstein>



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