

DISRUPTED

STRATEGY FOR
EXPONENTIAL
CHANGE

LARRY QUICK
DAVID PLATT
WITH KRISTIN VAN VLOTEN

Larry and David correctly identify the nature of disruptive change and its quicksilver speed and how we can use that energy to keep ahead. I'll give a copy to everyone in the company and ask them to tell me what we should be doing next.

John Howkins

Author: *The Creative Economy, and Creative Ecologies:
Where Thinking is a Proper Job*

The only thing that won't change is the knowledge that everything will. Disruption is the theme of the world of the 21st century, and Disrupted is a must read for anyone who wants to live there.

Ben Hammersley

Futurist,
Author: *64 Things You Need to Know Now for Then:
How to Face the Digital Future without Fear*

A very insightful read, explaining the very real threats hitting incumbent businesses, the consequences of inaction, and equally how to stay ahead of the herd. A must read for any corporate executive thinking long-term about the business!

Mark Zawacki

Founder, 650 Labs

Disrupted is a very powerful book because it skillfully brings together the two key memes that are impacting business and society today: exponential change driven by technology, and transforming in the face of constant disruption. Larry and David's SiA concept emerges as a very useful way of tackling this future, and a lot of very pragmatic and astute advice is provided along the way. This book is a must-read for anyone who wants to understand, discover, and co-create the future!

Gerd Leonhard

Futurist and Author
CEO, The Futures Agency

A must-read [if] you want to understand the world of today and tomorrow, and look forward to the future rather than fearing it.

Phil Ruthven

Founder, IBISWorld

In this time of exponential change, this book is an essential guide. We can all learn from it how to make sense of change and how to make better decisions for the future.

Alan M. Webber

Co-Founder, Fast Company

*Larry Quick and David Platt give us an antidote to uncertainty, insecurity, and complacency. Their strategy for exponential change can be applied across all organizational metaphors, from defense to advanced manufacturing, from education to logistics. Read *Disrupted* and rewrite your organizational future!*

Di Fleming

Executive Director, Dūcere

Foundation Director, Accelerated Knowledge Technologies

*Few people genuinely understand systemic disruption. So having a practical guide from Larry Quick of *Resilient Futures* to advise on strategies for leveraging new possibilities is highly valuable. I read about 150 books a year. But *Disrupted: Strategy for Exponential Change* is a book that I have sitting on my desk all the time - ready for constant referral.*

Richard Hames

CEO, Centre for the Future

*Armchair innovators beware: *Disrupted* is a practical manual for those serious about creating strategic change.*

John Engelhart

Co-Founder and Chairman, FIDO Global LLC

DISRUPTED

STRATEGY FOR EXPONENTIAL CHANGE

LARRY QUICK AND DAVID PLATT

WITH KRISTIN VAN VLOTEN

Foreword by Saul Kaplan

Founder and Chief Catalyst: Business Innovation Factory (BIF)

Author: The Business Model Innovation Factory

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- *Resilient Futures ALERT—via videos and articles, a way of staying in touch with key issues and change, new thinking, events and breaking news in the area of disruption.*
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AUTHOR'S DISCLAIMER

We would like to stress that we have no personal, professional or financial links with the organizations (e.g. Apple, Whole Foods, Airbnb, Tesla, Netflix, and Uber) used as examples in this book. All professional relationships have been stated when used as cases.

We would also like to add that we are not promoting use of or investment in any of these organizations, or implying that they will avoid disruption in the future.

It is our belief that all organizations are subject to disruption. Even a disruptor will more than likely be disrupted in the future. They, like you, will have to answer the same question: "Do we leverage creative disruption or fall into the same pattern of creative destruction that the organizations we once disrupted chose?"

FOREWORD

By Saul Kaplan

**DISRUPTION IS NOW
THE NORM INSTEAD
OF THE EXCEPTION**

FOREWORD

By Saul Kaplan

Sometimes tweaks aren't enough. Sometimes nothing short of reinventing yourself, your organization, or your community is called for. The start of the 21st century is one of those times. If anything is certain about the new millennium it's the pace of change.

New technology relentlessly hurtles into our lives. Ideas and practices travel around the world at Internet speed. Social media enables individuals to self-organize and re-organize in ways unimaginable in the 20th century. These are anxious times, marked by economic uncertainty, dramatic social upheaval, and climate change. Amongst all of this, one thing is clear: relevancy is more fleeting than ever. How to stay relevant in a changing and uncertain world is one of the most important questions of our time.

We have built institutions that are far better at share taking than at market making. We have become really good at the tweaks and incremental changes that may have been good enough at the end of an industrial era marked by me-too products and services, process re-engineering, best practices, benchmarking, and continuous improvement. But thriving in today's frenetic pace of change requires a new set of approaches and tools.

There are tons of books, experts, and ideas aimed at helping us make marginal improvements in the way things work today as we fight it out with existing competitors for one more share point. Incremental change may be necessary but it isn't sufficient for the 21st century, defined by next practices, disruptive technologies, market-making, and transformation.

In the face of a serious disruptive threat, most leaders do what they are comfortable with and know how to do: they strengthen and become even more entrenched in their current business models. They add new products and services to the current model. They deploy technology to strengthen current capabilities. They extend the current business model into new markets. And they try to create favorable laws and go to court to block new business models. These strategies may sustain value in the short-term, but none of these efforts are effective for long in the face of a disruptive competitor that is changing the way value is created, delivered, and captured through an entirely new business model. Disruption is now the norm instead of the exception.

Many view the concept of change as scary and it becomes even scarier if the word "exponential" is added. Larry Quick and David Platt's *Disrupted: Strategy for Exponential Change* is every individual's and organization's survival guide to living in the exponential "elbow", a place where change happens so fast and is scaled so quickly that the repercussions of it are felt on a day-to-day basis. By exposing readers to the simplicity found in the concept of exponential change, Quick and Platt tap into a boundless audience, creating a relatable "how-to" on dealing with what they call "the unexpected punch" of exponential change.

This is a book that makes readers stop, think, and reflect on the existing capabilities of their own personal business model as well as their organization's. In doing so, readers are guided through a process for repurposing those existing capabilities to enable a systematic and adaptable response to change rather than ignoring or suppressing it.

Exponential change is present in all areas of our lives. *Disrupted* gets you started on a path to leverage these changes rather than fear them.

Saul Kaplan,

Founder and Chief Catalyst: Business Innovation Factory (BIF)

Author: The Business Model Innovation Factory

ABOUT DISRUPTED

“People don’t *get* exponential.”

Those words rang in my (Larry’s) ears for months after I first heard them in March 1996. They were spoken in a quiet but frank tone by Nicholas Negroponte, the head of MIT’s Media Lab and author of *Being Digital*.

To put Nicholas’s (now twenty-year old) view of “the exponential” into context, on that day he was discussing “the move from atoms to bits”, “books without pages”, “smart cars”, “wearable media” and “cottage TV”. Sound familiar?

Twenty years ago it all sounded like science fiction. Now it’s the world we live in.

Though the speculative part of Nicholas’s talk was interesting, what struck me the most was his view on the speed and convergence of a whole system of change.

Today we take what he said in 1996 for granted. But are we really seeing Nicholas’s “trickle that became a downpour” view of exponential change? Do we recognize it starting to exert itself as a “long beginning to a shock awakening”? Do we realize that we are ill equipped to deal with, much less leverage disruption?

Overall, we think not. Twenty years ago people didn't "get" exponential change and today too many still don't.

This will be bad news for many, but good news for the few who are already ahead of the game, leveraging exponential disruption for their own advantage.

Allow us to explain.

In 1979, depending on who you were, the advent of quartz watchmaking went by two names: the Quartz Crisis and the Quartz Revolution. Mechanical watchmakers in the storied Swiss tradition preferred to call it by the former, while Asian manufacturing upstarts heard the call of opportunity and proceeded to build a new industry.

In 1888, George Eastman founded a company that grew rich by selling cheap cameras and expensive film. The Eastman Kodak Company was responsible for the popularization of amateur photography, a technological wave that resulted in handheld cameras documenting the intimate moments of everyday life across the planet. For a time, anything worth remembering was known as a "Kodak moment." But the company that employed 145,000 people in 1988 was shedding market share like so much overexposed film by the late 1990s and early 2000s. When Kodak filed for bankruptcy in 2012, the smartphone had replaced the once-revolutionary camera as the ubiquitous technology for documenting all of those "Kodak moments".

Quartz watches and digital cameras: bad news for the old guard and good news for the upstarts.

But here's where the bad news/good news dichotomy breaks down: both quartz watches and digital photography were inside jobs. The Swiss helped pioneer quartz technology and one of Kodak's very own, Steve Sasson, invented the "filmless

camera." *In 1975.* At what point did Kodak's bad news become Apple's good news? Did the Swiss miss the opportunity to take greater ownership of their own bad news? Could they have instead worked with it up until the point when it could have become very good news for their venerable industry, leading a breakthrough into an entirely new era of craftsmanship?

The dictionary defines *disruption* as "disturbances or problems that interrupt an event, activity, or process." But for some time now the word has also been used to describe the radical developments that bring new products and markets into existence. It would seem, then, that disruption is both destruction and creation. It's destruction that *becomes* creation over time. Or else it's creation that *becomes* destruction over time. Good news becoming bad news and bad news becoming good.

Uber is the world's largest taxi company and they don't own any taxis. Airbnb is the world's largest hotelier and they don't own any accommodations. Skype is one of the world's largest phone companies and they don't own any telecommunications infrastructure. Netflix is the world's largest theatre company and they don't own any cinemas. Facebook is the world's most popular media channel and they don't create content. Apple and Google are the world's largest software vendors and they don't write apps.

This is more than digital disruption. This is the deliberate squashing of conventional business models, backed by an investment sector that has moved on from just funding the next best widget, to start-ups that can successfully disrupt business models. And *quickly*.

THIS IS EXPONENTIAL DISRUPTION. IT'S BOTH BAD NEWS AND GOOD. IT'S BOTH DESTRUCTION AND CREATION.

We, the authors of *Disrupted*, are members of a network of strategic planning, risk management and systems analysis specialists called Resilient Futures. We have spent over twenty years creating a framework for strategy that is simple and agile enough to help leaders, teams, networks, and communities ride waves of disruptive change. We are strategists with experience from a multitude of industries and sectors. We have coached and consulted with organizations, businesses, and communities in order to help them achieve great things in the face of disruptive and accelerating exponential change. We're ready to share what we've learned.

We wrote this book to convince you that you're looking at very good news no matter what form of disruption is transforming your organization and industry. This message is not just for someone else in some other foresighted and agile organization. This is for you.

A banking CEO whose organization lost \$2 billion USD worth of shareholder funds in the wake of the global financial crisis said: "No one could have reasonably foreseen these circumstances." We want you to know that he and his blinder-wearing ilk are wrong. By the time you have finished this book, you'll understand that it *is* possible to both foresee transformative disruptions and to leverage them for your own benefit and the benefit of the people in your organization.

Furthermore, leveraging the disruptions you've seen over the horizon is a capability, a philosophy, and a way of life that will only become more crucial with the passage of time. We are now in an "elbow" of exponential change, when the forces that have driven disruption over the course of history are converging and reaching a series of tipping points.

As these tipping points mount up, we have seen many organizations across the United States and Australia succumb to the same fatal illness our “reasonable” banking CEO suffered from. We call it M.A.D. or Managed Adaptive Decline, and it occurs when an organization or a community ignores “bad news” and then develops elegantly efficient yet ultimately futile strategies for coping with its disruptions. By “going lean” or “managing harder” they divert energy away from solutions and further exacerbate their fundamental ills. Like the proverbial frog in the pot, they accept their fate in a spirit of willful ignorance and passivity, and by the time their business model is boiling to death, it’s too late to evacuate the cookware.

We believe that those who pay attention to the temperature changing underneath their feet are well positioned to win big. The opportunities in this exponentially accelerating era are immense. There is plenty of good news for disruption-leveraging individuals, organizations, and industries. We want to give you an alternative to the strategy and planning methodologies that might be steering your organization into the hot water of M.A.D. After all, you can’t use the same tool that caused the damage to fix the problem. It’s time to update your strategic thinking—and quickly—if you want to avoid falling into a pattern of teeth-gritting decline.

With this book, it’s our intention to provide you with a simple framework for understanding your disruptions and strategically leveraging them. In other words, we want to inform you about how to treat bad news like good news. We call our framework Strategy In Action, or SiA, and it’s been road-tested in a variety of settings and industries. Basically, it’s an algorithm simple enough to allow you to assess conditions, make choices, and take action in the real-time of your exponentially evolving reality. To that

end, this book is a guidebook to this era of exponentially accelerating changes and a toolbox for proactively leveraging those changes, rather than falling prey to their more chaotic, destructive, and demotivating effects. Above all, this book is a series of stories about people passing through the crucible of opportunity and risk with confidence and insight and coming out the other side with something of enduring value.

Chapters 1 and 2 will get you up to speed on the nature of exponential change and introduce you to SiA, our five-pronged framework—or algorithm—for leveraging disruption.

Chapters 3 to 7 will break down the five components of the SiA algorithm. Each of these chapters examines how disruption-opportunists like Apple, Whole Foods, and Tesla work in tune with their times, embodying the principles of SiA. To encourage you to continually consider how these principles apply to your experience, we have punctuated these chapters with questions meant to stimulate reflection. Finally, each of these five chapters ends with a checklist summarizing key takeaways. Taken together, they function as a master list of concepts or practices that represent your “Disruption Readiness”.

Chapter 8 will send you on your way, ready to strategize on your feet and think differently about the brilliantly unprecedented future awaiting you.

This book has been twenty years in the making. We hope it provides you and many other leaders and teams with a context, instructive examples, and solutions for acting ahead of disruption. Our belief in the power of creative and collaborative people to leverage change for awe-inspiring outcomes underpins the entire text. We hope this belief is

contagious. There is plenty of risk on the horizon but you have so much cause for confidence. After all, many others have trodden this path before you.

To take the first step, ask yourself, “Do I actually get exponential?”

Then ask, “What are our disruptors, and how are we going to leverage them to generate sustainable value?” Then celebrate the good news, whatever it is.

Larry Quick and David Platt

CHAPTER 1

Welcome to the Wake-Up

LIVING IN AN EXPONENTIALLY ACCELERATING AGE

*WHAT IT MEANS TO LIVE IN AN AGE OF DISRUPTION. HOW
EXPONENTIAL CHANGE WORKS, WHICH FACTORS ARE
DRIVING IT, AND HOW A NEW PHILOSOPHY OF CHANGE CAN
HELP US TO BETTER NAVIGATE IT.*

*“ WE ARE THINKING ABOUT THE
FUTURE IN A LOCAL AND LINEAR
FASHION...TODAY WE LIVE IN
A WORLD THAT IS GLOBAL AND
EXPONENTIAL...THE WORLD IS
NOT CHANGING CENTURY TO
CENTURY OR DECADE TO DECADE.
IT IS CHANGING YEAR TO YEAR.”*

Peter Diamandis

THE ELBOW

Imagine you meet a very wealthy man. He wants to hire you for a job that will take thirty days. It's not difficult work, but it's an entire month of your life. You ask him: What are the payment terms?

"You have two choices," he replies. "You can either take one million dollars now, or you can drive to my house every day to collect your payment. If you choose the second option, you get paid one penny the first day, but your payment will double each day."

You mull it over. Initially, the first option seems like the much better bet. One million dollars, no drive, and no hassle. How could the second option be worth your while?

But then you do the math.

For twenty-six days, the second option seems like the losing proposition. At the end of the first week, you have collected a cumulative \$0.64. On day 15—already halfway through the month—your boss hands over a paltry \$163.84. But something incredible happens around day 26...

“Exponential” is one of *those* words. It tends to get tossed into conversation like a hyperbolic grenade. Like “sustainability”, its meaning is hazy, its usage marked by hype and hysteria.

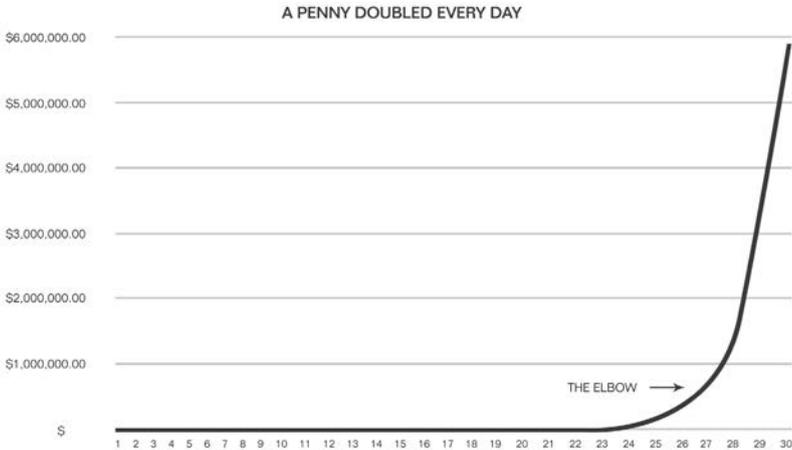


Diagram 1.1

A PENNY DOUBLED EVERY DAY

A payment of one penny doubled every day of a thirty-day month sounds small, but the outcome would shock most organizations.

Perhaps what’s most surprising about the concept of “the exponential”—and what gets overlooked or forgotten—is how extraordinarily simple it actually is. Exponential growth is achieved by a plain, old, steady, constant and compounding rate of growth or change. For example, the American Gross Domestic Product has grown by approximately 2% every year since World War II. Two percent: a predictable, long-established rate of growth that surprises no one. But over time, month by month, quarter by quarter, the impact of that yearly, compounding 2% gets steadily—and then dramatically—more significant.

If that growth is plotted on a graph, it appears as if very little is happening for a long time—growth is virtually flat, the line crawls along horizontally—then suddenly a miraculous “elbow” appears in the rate of growth, sending the line soaring upward. The line on our graph now resembles a hockey stick. In the context of the annual 2% compounded growth of American GDP, that hockey stick heralds the sudden arrival of a supreme world power on the global stage. The elbow in the hockey stick is the point at which exponential change reached a tipping point and blew up, sending American fortunes soaring.

The truth is that human beings have always lived with exponential change. Growth and development have always occurred at what appeared to be steady rates. Rates that, after a long period of time, kicked up at the end in a way that made change feel like it had just occurred. And, because a system of interconnected factors is always at play, it is never just a single change taking place. It took us 8,000 years to transition from the Agrarian Age to the Industrial Revolution, but only 120 years after that, we were manufacturing light bulbs. 90 years after that: the moon landing. 22 years after that: the Internet. 9 years after that: a sequenced human genome. The exponential factor has been with us for a long time.

When we take that bird’s eye view of human history, it is dazzling, but how often do we do that? For the most part we are submerged in the minutiae of our daily lives, where the terrain is fairly predictable. Indeed, the reality of exponential change confounds our very brains, which are wired for learning that is predicated on a linear relationship between cause and effect. We expect almost instant feedback from an action. If there is any delay outside our immediate, expected timeframe then we tend to separate effect from cause. For millennia our experience has been that in most cases what was true yesterday will be true

tomorrow. Our survival traditionally depended upon storing up information about the past in order to skilfully navigate the present and future.

The elbow of the exponential presents a very different environment. The magnitude of change increases so much in the elbow that it registers in the arena of daily life. At this point, what was true yesterday bears absolutely no resemblance to the potential reality of tomorrow. When this occurs, change truly feels *present*. It seems sudden, shocking, magical, unforeseen, and confounding, like a phenomenon that “came out of nowhere.” An overnight success—or failure.

Another way of understanding the elbow is as a threshold where the magnitude or intensity of a change in conditions passes the point of no return. Change shoots up through the elbow into a place that is removed from our sense of the present and the past. At this point, fighting change is futile. Going back and trying to recover the past to retain continuity is folly. In the eye of the exponential storm this simply wastes valuable resources.

This is disruption: the point at which exponential change can be felt at the level of daily life. It's the moment in time when you can no longer ignore change even if you wanted to. It's what occurs between Day 26 and Day 30, and it packs an unexpected punch.

HOW BIG A PUNCH? WELL, ON DAY 30, YOUR BOSS GAVE YOU YOUR LAST DAY'S PAY ACCORDING TO HIS EXPONENTIAL TERMS. ON THAT DAY, YOU RECEIVED \$5,368,709.12. AND YOUR BOSS THANKS HEAVEN IT WASN'T A 31-DAY MONTH.

FEELING DISRUPTED?

We now live in a world in which obscure start-ups like YouTube, Facebook, and Airbnb each respectively secured a billion users (or a billion and a half in the case of Facebook) in a single decade. In that same decade, a “drone” went from being a military weapon system to being a toy that could be purchased for a child for \$50.

Or consider the phenomenon of “the Internet of Everything” (IoE), in which experts are forecasting a 400% growth in Machine-to-Machine (M2M) connections over the next five years. By 2018 there’s likely to be over 10 billion connected devices, and by 2020 some observers predict over 70 billion. Add Big Data to IoE, and it’s tough to predict just how big the impact will be on the already complex culture of digital transactions.

Of course exponential change isn’t just expressing itself through technology or commerce. Scientists touring the Russian Arctic Ocean to check for plumes of noxious methane gas recently encountered a troubling phenomenon. Where they formerly found hundreds of meter-wide plumes, now there are hundreds of kilometer-wide columns of gas bubbling out of the ocean waters. Methane gas is fifty times more damaging to the atmosphere than carbon dioxide. Warming thaws Arctic sea ice, eroding the natural “mirror” that reflects heat back into space, which then raises the temperature of the ocean even higher, and so on. Nature, too, is a matrix of elbows, threshold breaches and tipping points that are accelerating changes—in this case changes to the climatic patterns that provide a stable platform for existence as we know it.

Will digital disruption pale into insignificance relative to the climate hockey stick? Or, will digital be the disruptive

influence that, if leveraged in the right way, provides us with exponential solutions to exponential climate change?

The truth is that we are living in the “exponential elbow” of many different but interconnected sectors and systems. It’s a pile-up of hockey sticks, a kind of global 26th day, when change is chronic and systemic. This is the age of disruption, in which the change that was always developing at an exponential rate suddenly and profoundly accelerates, reshaping the reality of everyday life. It’s the moment when we wake-up, startled and disoriented, in a bed we’ve been sleeping in for millennia.

So how does it feel to be an individual living at a time when exponential change registers in the arena of everyday life? How do these “elbows” manifest in your personal experience, at work or in your home? From yesterday’s rush of cloud computing, to the rapid changes in climate patterns, to a Big Data driven IoE, how is your everyday existence shifting?

PAUSE AND CONSIDER: *What does your disruption look like? What are your disruptors?*

THE FIVE FACTORS OF DISRUPTIVE CHANGE

If the theory of exponential change is a simple concept to understand, the reality of life in times of disruption is anything but. The lived experienced of disruptive change is awesomely disorienting and difficult to parse.

These “exponential elbows” can *feel* like magic, rather than mere math. But if the sum of all of these accelerating changes is so great in impact that it causes us to glaze over, blinking at the magnitude of it all without comprehension

or a plan of attack, then perhaps it will serve us to break this disruptive era down in a little more detail.

In our work with organizations on the frontlines of disruption, you could say we've more or less gotten into the habit of reading signs of the times and making sense of them. That much scanning of the horizon does tend to give you a certain sense of perspective. So while we feel the miracle and the peril of living in this 26th day as keenly as anyone, we've found ways of breaking it down so that it makes more sense.

After two decades of working with organizations, we have identified five factors that are driving disruptive exponential change. They are connectivity, complexity, chaos and change cycles. At the intersection of these four factors is the fifth: technological development.

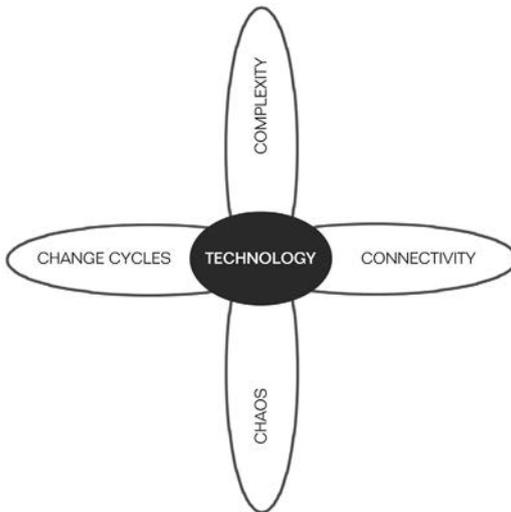


Diagram 1.2

THE FACTORS OF DISRUPTIVE CHANGE

Five intrinsically linked factors that drive disruption.

It is important to note that these factors are intrinsically connected. Together, they create a matrix of systemic change where developments in one component cause a cascade of accelerated developments in all others. But for now, let's disconnect the dots by taking a closer look at each of the driving factors of exponential acceleration.

WELCOME TO YOUR WHISTLESTOP TOUR OF THE AGE OF DISRUPTIVE CHANGE.

Connectivity

Why did Facebook acquire a billion and a half users in a little more than a decade? Why have a plethora of social media businesses—from LinkedIn to SnapChat to Pinterest to Twitter to Instagram to Tumblr—exploded in influence and income over the same time

“ WE HAVE TECHNOLOGY, FINALLY, THAT FOR THE FIRST TIME IN HUMAN HISTORY ALLOWS PEOPLE TO REALLY MAINTAIN RICH CONNECTIONS WITH MUCH LARGER NUMBERS OF PEOPLE.”

Pierre Omidyar

period? eBay founder Pierre Omidyar alludes to it elegantly in the above quote. Human beings yearn to build networks. We are irrepressible connectors, the species that shares information in order to prosper. Social media merely represents an acceleration of a rather ancient human imperative.

While social media is certainly the most populist expression of the great connectivity shift, this trend is working its way through all systems of information, communication, education, production, and trade. The elimination of a time

lag between communicators has cranked up the speed of network building while the elimination of geographic constraints has fostered connections, transactions, and collaborations that would have been inconceivable even twenty years ago. Just as the IoE grows, so too does the incidence of radical new economic models predicated on a culture of connectivity. For example, the rise of corporation-disrupting peer-to-peer businesses like Airbnb and Uber represents a whole new class of entrepreneurs waking up to the power of local and global connectivity.

Eduardo Paes once claimed that “economic integration was the first strong evidence of a new era” and it’s hard to disagree with him. As the spaces between us narrow, the economic opportunities expand—as do the hazards of failure. Economic imperative and our irrepressible desire to connect have produced a momentum with which traditional governing bodies have a very difficult time keeping pace.

Globalization means open markets, stiffer competition, immense niche opportunities, and a world-sized market that sets the quality standards for all. It has brought us call centres staffed by immaculate English-speaking Filipinos and scandals over toxic dog treats from Chinese factories. It has created waves of fear in the “developed” world’s labor market over the ramifications of outsourcing. But it is also creating hungry new markets for a variety of goods and services.

CONSIDER THE FOLLOWING:

- Emerging markets are currently projected to grow four times as fast as developed markets.
- About \$20 trillion USD, or 35% of all consumer spending, will take place in emerging markets by 2020.

- 270 million new households from emerging markets will enter the “global consuming class” (ie. those to whom you want to be marketing) between 2010 and 2020. This represents an increase of more than 40%.

The Boston Consulting Group, whose Global Readiness Index assesses the ability of businesses to capture the growth, scale, and cost advantages of developing countries, recently conducted a survey that revealed only 13% of senior executives feel equipped to capitalize on these emerging opportunities. There is just as much hand wringing over increased opportunity as there is over increased competition, and risk.

But in today's connected world, leveraging connectivity shouldn't be seen as a difficult proposition. For the past ten years or so we've watched Apple and Amazon dominate product categories in global markets. We're now used to “Facebooking” and being “friended”, “poked”, “liked” and “tweeted” and if recent start-ups like Uber or Airbnb can do it, why can't others?

PAUSE AND CONSIDER: *How connected to your customers is your organization, and what networks do you “own” in the same manner as Facebook, Apple or Amazon?*

Complexity

Connectivity is a major driver of complexity. A dissection of any corporation's supply chain in the globalized

era will drive home the reality of our highly complex milieu.

**“ THE ART OF SIMPLICITY IS A
PUZZLE OF COMPLEXITY.”**

Douglas Horton

As newly connected parties find novel ways to combine their diverse capabilities, complexity in our society, economy, and technology deepens. It increases the density of the networked parties, the speed at which they transact, and the interdependencies that form between them.

What's interesting about complexity is that it finds a foothold in our thinking only to the degree that our understanding of it and our interactions with it can be made simple. As consumers, we want to engage with processes and products that do not challenge us too much intellectually or drain us emotionally. The smart device was an incredible leap forward in terms of complex technology. But, it took off among consumers because Apple leveraged complexity and created a simple interface that was delightfully intuitive.

Banks may be the ultimate example of complexity made to appear simple. Picture an ATM. It's an interface not much more complicated than a child's toy, available for convenient and quick transactions that actually represent an awesome choreography of commerce, law, security, and technology. All we need to do is push the buttons and take the cash. Simple.

Or consider the humble sandwich. How many pairs of hands does it take to make a sandwich? One? Not a chance. Your lunch is the end result of a veritable sandwich-making network spanning the globe. Farmers raised the wheat. Bakers made the bread. Truck drivers transported the condiments. The electric company powered the café that served it. The girl behind the counter may even have sprinkled it with some salt from Hervé Rocheteau on Île de Ré, a small island off the western coast of France. Your sandwich is a marvel of modern complexity made to appear simple.

PAUSE AND CONSIDER: *How does your organization take what is complex and make it appear simple?*

Chaos

For our purposes, chaos can be best explained as the amount of discontinuity in a system or network. Such a system could be an organization, an economy, a society or a climate. Discontinuity is simply anything that breaks from the norm, or the continuity we are used to. It's when known variables can no longer be relied on to predict an outcome. This can be experienced as an unexpected extreme weather event, a disease that has never previously been identified, or a global financial crisis that most people don't see coming.

“ THE BATTLEFIELD IS A SCENE OF CONSTANT CHAOS. THE WINNER WILL BE THE ONE WHO CONTROLS THAT CHAOS, BOTH HIS OWN AND THE ENEMY'S.”

Napoleon Bonaparte

In 1942, the economist Joseph Schumpeter published *Capitalism, Socialism, and Democracy*, his treatise on economic innovation. In it, he wrote:

The process of creative destruction is the essential fact about capitalism...The new commodity, the new technology, the new source of supply, the new type of organization...which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives.

Schumpeter's term for the “process of industrial mutation that incessantly revolutionizes the economic structure

from within” was “creative destruction”. You could also use terms like disruption or discontinuity. We prefer the word “chaos”, because it pulls no punches.

In many instances, chaos in today’s world is human-made. Just think of all the discontinuous technologies throughout human history that set the scene for the old ways of doing things to become redundant. In some ways man’s lust for creative expression can mean the self-sown seeds of discontinuity and chaos.

Nowadays, chaos proliferates in all sectors. It can strike certain ventures dead and raise new opportunities in their place. As chaos ramps up, the shelf life of any innovation will shrink. So too will our ability to hang on to cash cows for any length of time. The frenetic pace of social media platform creation and obsolescence is only one indicator of chaos. Remember MySpace?

In chaos, change is the only constant. There are two varieties of change: continuous and discontinuous. Continuous change is preceded or predictable change, like the familiar, orderly progression of winter into spring. Discontinuous change is the unexpected: a hurricane instead of springtime showers. Discontinuity is the rise of digital abruptly transforming Kodak’s empire into a morass of stranded assets.

In chaos, one person’s discontinuity can be another’s continuity. Under Steve Jobs, Apple was primed for discontinuity. Not only did Apple perfect the smart device technology, but they also created an entirely new ecosystem of profit generation around it with iTunes and the App Store. For Apple, the digital hurricane wasn’t a disaster. In fact, the hurricane was the creative destruction *they* caused as they leveraged discontinuity.

Leveraging chaos and discontinuity is an age-old tradition. Newton's mechanistic view of the world was a prime contributor to the machine-age of the Industrial Revolution, which was eventually overturned by Einstein's theory of relativity, which paved the way for nuclear power, the space race, and GPS. Disruption, chaos, discontinuity, creative destruction... it's all old hat, really. As with all factors driving exponential change, chaos has always been with us, it's just that its impact is ratcheting up.

Chaos may not be comfortable, but leveraging discontinuity is a survival skill in the age of disruption. And unfortunately, it's an uncommon skill. Too often, we are driven by cognitive biases such as Fixed Action Patterns (or FAPs) that blind us to the reality of our situation and prevent us from taking positive action. When working with organizations we've noticed that "FAPs" are just one example of the cognitive biases that can blind people to inevitable, disruptive change. Here are some more:

AMBIGUITY EFFECT - The tendency to avoid options for which missing information makes the outcome seem "unknown".

AVAILABILITY CASCADE - A self-reinforcing process in which a collective belief gains more and more plausibility through its increasing repetition in public discourse (otherwise known as "repeat something long enough and it will become true").

BANDWAGON EFFECT - The tendency to do (or believe) things because many other people do (or believe) the same (also known as "groupthink").

CONFIRMATION BIAS - The tendency to search for, interpret, focus on and remember information in a way that confirms one's preconceptions.

ILLUSION OF CONTROL - The tendency to overestimate one's ability to control events.

NEGLECT OF PROBABILITY - The tendency to completely disregard probability when making a decision under uncertainty.

PAUSE AND CONSIDER: *Can you think of other biases that emerge when people you know are confronted with chaos? Do you fall prey to any of these biases? Or, do you face discontinuity head-on?*

Change Cycles

When we examine connectivity, complexity, and chaos more closely, it becomes increasingly clear that these are horses running in tandem, pulling a common chariot. And this chariot runs on wheels that keep turning more and more quickly.

When we talk about change cycles, we refer to the time it takes for a cycle of change to be complete. For example: the time it takes to learn and apply something, to produce something, to complete a transaction, for an invention to become the norm, or for a start-up to become a force to be reckoned

“ IN 2009, AT THE HEIGHT OF THE GLOBAL ECONOMIC CRISIS, IT WAS CLEAR THAT WE WERE SEEING SOMETHING NEW: THE IMPACTS OF THE CRISIS WERE FLOWING ACROSS BORDERS AT UNPRECEDENTED VELOCITY.”

Ban Ki-moon

with. To get a sense of how change cycles are speeding up just think about how long it once took to order and receive a hamburger. In the 1940s people were prepared to wait around for twenty minutes. Now, if it's not in your hands within three, the fast food outlet is toast. Then there's Uber's growth from a simple app to a \$50 billion business in six years and Pinterest's movement from 40,000 users in 2010 to 70 million by the end of 2013. All of these developments represent accelerating change cycles.

Obviously, the change cycle takes on a dizzying array of faces. It has been called the stock cycle, the business cycle, the transaction cycle, and on and on. And it is difficult to look anywhere and find instances where change cycles are not beginning to operate at hyper-speeds.

We behold accelerating change cycles when we see a news-making event trending on Twitter mere minutes after it first occurred. We participate in accelerating change cycles when we click a button to conduct a financial transaction that would have required six months of formal letter writing a century ago. We keenly feel our vulnerability within accelerated change cycles when new start-ups producing more relevant technologies make the old-guard companies we banked our future on suddenly obsolete. Occasionally, these rapidly revolving wheels raise so much dust that it becomes difficult to perceive whether one, in fact, has any future to bank on at all. At best, seeing further than the end of your nose becomes a challenge. At worst, we wonder if the horses carrying this inexorable chariot forward might not have an apocalyptic lineage.

As overwhelming as any one of these sped-up change cycles might be, the incredible fact is each one has the

tendency to multiply the acceleration of other change cycles. This, above all else, is how you need to think about the era of disruption: a rapid convergence of multiple, systemic change cycles that continually trigger one another to create a compounded effect of system-wide and ever-accelerating exponential change.

PAUSE AND CONSIDER: *Which accelerating change cycles are impacting your organization?*

Technology: The Paradox at The Intersection

In 1965, Intel co-founder Gordon Moore observed that the number of transistors per square inch on integrated circuits had doubled every year since the invention of the integrated circuit. He figured the trend would continue indefinitely and for a while his prediction was spot-on. After a number of years, the pace slowed down to the point where data density doubled every 18 months

“OUR INTUITION ABOUT THE FUTURE IS LINEAR. BUT THE REALITY OF INFORMATION TECHNOLOGY IS EXPONENTIAL, AND THAT MAKES A PROFOUND DIFFERENCE. IF I TAKE 30 STEPS LINEARLY, I GET TO 30. IF I TAKE 30 STEPS EXPONENTIALLY, I GET TO A BILLION.”

Ray Kurzweil

and since then, the trend has been holding steady. As we move on from conventional chip technology, no one can predict with any authority when “Moore’s Law” might cease to hold true. There are some, like the famed futurist Kurzweil, who don’t believe it ever will. In 2001, he wrote that: “We won’t experience 100 years of progress in the

21st century — it will be more like 20,000 years of progress (at today's rate)."

This is where the *Wired* enthusiast in you is likely to get worked up. This is where the parable of the daily-doubling pennies becomes truly pertinent. While big-thinking futurists like Kurzweil have their share of detractors, it remains true that we are currently living in a world predicted by Moore's law, and where evidence of the exponential pace of technological development is easy to find. And when we find it, it unsettles us at least as often as it inspires us.

When American political activist Cody Wilson test-fired the world's first 3-D printed handgun in May 2013, it truly was a shot heard around the world. The pistol, dubbed the Liberator, had reportedly been printed out of \$60 USD worth of plastic with a Stratasys Dimension series 3D printer that Wilson bought on eBay. After firing the gun, Wilson published its blueprints through Defense Distributed, a non-profit that Wilson established to publicize open-source gun designs or "wiki weapons."

Wilson's feat alarmed law enforcement officials, attracted massive media attention, and sparked widespread debate over how to meaningfully regulate the activities that this radical new technology suddenly seemed capable of facilitating. Wilson's gun was aptly named the Liberator, even if all he intended was to evoke his crypto-anarchist ideology, rather than the stunning horizon of possibility opened up by the disruptive power of technology.

Technological development sits at the intersection of these five synergistic drivers of exponential change. If you like, it is the actual energy driving connectivity, complexity, and chaos. Technology is behind change cycles speeding

up at an ever-increasing rate. It is the vehicle that carries us rapidly into the exponential future.

Herein lies the paradox of technology. It hurtles us forward into unprecedented experiences, but at the same time it facilitates a smooth ride. It is the tool that helps us to make sense of and derive benefit from our radically changing world. It is the ATM or the smart device that represents the delivery of incomprehensibly complex forces in simple, user-friendly packages.

As with all factors of exponential change, we've been passengers on the technological ride since we first walked the earth. When we first harnessed fire and built tools from stone, we set the wheels of disruption in motion. From fire, to the wheel, to the Gutenberg press, to the stream driven machine, to the smart device, it's been one long, wild ride that speeds up as it travels further. And once again, it's the acceleration that's hard to cope with. When Boston Consulting reports that only 13% of senior executives feel equipped to pursue global opportunities it means that 87% are having trouble.

And generating value is the name of the game. Our technologies have little merit unless they enhance our capability to generate sustainable value. Technology is valuable when it helps us keep pace with change, despite the complexity, chaos, unpredictability, or velocity of our challenges.

So shouldn't we use our capability for developing new technology to create decision-making processes that will work the same way? Surely we need strategic tools that will help us to navigate these staggering challenges as simply and logically as possible. We need tools of the mind that will allow us to keep up with these accelerating

change cycles. “Going lean” isn’t the answer. Pursuing agile management or flex-organization half-heartedly isn’t the answer. Something entirely more radical is in order.

We need an approach designed specifically for disruptive environments. We need a harness that leverages the energy, tension and speed of the horses pulling the chariot of disruption. If we are to see ourselves as charioteers rather than unlucky souls ground under the wheels, we need to grab hold of the right philosophy *quickly*.

THAT’S WHAT WE MUST NOW EXPLORE.

First, A Word About Resilience

Much of our work focuses on making organizations more resilient in the face of disruptive change, but whenever we use the word “resilience”, we are aware of what that word signifies for most people. It makes sense to pause for a moment and clarify what it means to us and why we hope to instil a new form of resilience in organizations using Strategy in Action (SiA) as they learn to navigate the elbows of exponential change.

“ I HAVE NOTICED EVEN PEOPLE WHO CLAIM EVERYTHING IS PREDESTINED, AND THAT WE CAN DO NOTHING TO CHANGE IT, LOOK BEFORE THEY CROSS THE ROAD.”

Stephen Hawking

In our culture, resilience is normally understood to be the quality possessed by a survivor, one who lives and breathes and succeeds despite all calamities, shocks and

adversities. So far, we're on board. But usually, we see the survivor-resilience trajectory play out like this: survivor motors along, unaware of the troubles to come; survivor runs smack into adversity; survivor is hurt, compromised, and laid low; and finally, survivor stands up, shakes off the dust, and marches on, resuming his or her original course. Fall down and get back up. Take a licking and keep on ticking.

What we notice is that this type of survival veers precipitously close to the experience of victimization. In this popular resilience narrative, you don't know if the hero will be a victim or a survivor until the final frame.

Now, obviously, there's no way to do business or live one's life without drawing upon this type of resilience from time to time. We would never suggest that all adversity can be avoided. But sometimes, when we hear this resilience narrative repeated time and time again, we can't help but wonder, "Couldn't there have been another way?"

In our view, there's a type of resilience that is often overlooked, a resilience that we haven't built up quite as many myths around. In our version of the resilience narrative the survivor looks ahead, figuring out how to alter his or her course before disruptive change becomes adversity. In our version of the story, the survivor experiences the change positively and doesn't spend any time laid low. In our version of the story, the victim doesn't become the survivor in the final frame—the adversity becomes the opportunity and the final frame is re-written.

When we talk about resilience, we do not mean to talk about weathering shocks, surviving a crisis, or remaining securely buckled into a smashed-up vehicle like a Crash

Test Dummy. We are talking about learning how to *change ahead of change*.

How do you change ahead of change? It's spelled out in the alternative story of resilience. First, you do it by changing the way you see the world. By changing the way you see "adversity" or disruptive change. Like the 13% of executives who are throwing themselves eagerly into figuring out how to capitalize on those burgeoning emerging markets, this version of resilience comes through embracing discontinuous, disruptive change and learning how to flow with it and ride on top of it. How will the remaining 87% experience the tremendous changes globalization is bringing? Without this new kind of resilience they will likely experience it as a crushing wave of competitive disadvantage. When an opportunity on the horizon is ignored it often arrives in the form of adversity. Remember Kodak.

So, for us, it's all about resilience. But keep in mind that we're talking about bouncing back only if you need to, and not as the only available course of action. We're more interested in reframing resilience and talking about changing the capability of your organization. Its time to tune-in to this disruptive era so that you can experience these changes as incoming opportunities instead of continually crashing up against them like hapless Crash Test Dummies.

THE BOTTOM LINE IS THIS: IF CHANGES ARE COMING OUR WAY AT AN EXPONENTIAL RATE, HOW CAN WE EXPERIENCE THEM AS OPPORTUNITIES RATHER THAN ADVERSITIES? BEFORE WE DIVE INTO THE SiA ALGORITHM IN CHAPTER 2, LET'S LAY SOME GROUNDWORK BY UNPACKING HOW WE THINK ABOUT CHANGE, RESILIENCE, RISK, AND OPPORTUNITY.

A Checklist for Crash Test Dummy Syndrome

We know that the disruptions beginning to cascade throughout all sectors of human experience will make the Industrial Revolution look like child's play. And it's

“SINCE WE CANNOT CHANGE REALITY, LET US CHANGE THE EYES WHICH SEE REALITY.”

Nikos Kazantzakis

ok for you and your organization to feel uncomfortable in the face of so much change coming at you at an accelerating rate.

Change is hard. It's beyond a cliché. We prefer the predictable and continuous because we are all creatures who like to build on prior successes, honoring precedent and tradition. We can all dance, but we are often more comfortable when the steps are choreographed.

We're so wired to resist change that we often mistake chaos and creative destruction for crisis. We may even be convinced that change is a force wholly devoted to the destruction of life, and miss the promise of revitalizing opportunity that is always embedded within it.

We have compiled a list of typical responses to disruptive change. Read through it and take an opportunity to do a self-check. Which items ring a bell for you? When sudden overwhelming changes loom, threatening to knock you off of your course, what is your most likely response?

Do you...

Miss it completely?

“We had no idea the sub prime crisis was coming down the pipeline! How could we have known? No one could have reasonably foreseen these circumstances!”

Deny that it is happening?

"We just didn't want to believe digital was the ascendant technology."

Beat a dead horse?

"We've *always* raised good money with our direct mailing list. We need to write better appeals and send more of them. We just have to work harder, that's all!"

Try to actively arrest or reverse the trend?

"If we just keep Steve Sassons's filmless camera in the closet, we'll kill the technology and maintain the Kodak cash cow."

Take the hit and do your best to 'bounce back'?

"Yes, the North American car manufacturing industry is little laid-low at the moment, but if you just write us a check, I'm sure we'll bounce back. After all, we get credit for just *surviving*, don't we?"

Act like the space cadet floating above it all, seeing everything in only the most hyper-positive terms?

"If we simply recycle our cans and newspapers, everything's going to be just fine! If not, life on Mars is an alternative."

...or only in the most hyper-negative light?

"The end is nigh! If we don't immediately convert our motor vehicles into garden planters, we'll all be dead in a half-century!"

These are the sentiments of people and organizations afflicted by Crash Test Dummy Syndrome. Hurtling along at high speed towards a wall, they appear inanimate and helpless, but securely strapped in for what promises to be a most bumpy ride. For these ones, resilience means the ability to bounce-back, because they can't be held accountable for being hit hard in the first place. The best they can aspire to is survival.

BUT WHAT IF THOSE POOR HAPLESS DUMMIES COULD LIBERATE THEMSELVES FROM THEIR CRASH-AND-SURVIVE CYCLE BY THINKING ABOUT CHANGE DIFFERENTLY?

Grow and Conserve—But Not Without Releasing and Re-Organizing

In many ways, the ecologist Buzz Holling has revolutionized the concept of change simply by being a good observer. His contributions to industries and schools of thought as diverse as change management and the sustainability movement are based on noticing how nature appears to actually work—as opposed to the way we assume it should.

“EVERY CORNY THING THAT’S SAID ABOUT LIVING WITH NATURE - BEING IN HARMONY WITH THE EARTH, FEELING THE CYCLE OF THE SEASONS - HAPPENS TO BE TRUE.”

Susan Orlean

Traditionally, ecologists believed that ecologies worked like this: plants take over an area (growth) and then they work for their own survival by slowly accumulating energy from

and within the surrounding environment (conversation). So, for example, a tree grows, storing up energy from the sun and rain and nutrients in the soil, and it conserves all of that energy in its leaf and wood-mass and root system. This tree is an entity set to grow and survive. Growth and conservation.

But Holling saw two other equally important forces at play in thriving ecologies: release and reorganization. When ecologies like forests develop, certain species (eg. large hardwood trees) become dominant. But the energy that these dominant species accumulate also represents the potential for new ecologies, new species, and new kinds of environments. All of that accumulated energy is always ready to be released into startlingly new forms of life. For example, occasionally the energy in the wood becomes fuel for a wildfire that transforms the landscape, making it more hospitable to different kinds of plants. If you like, this is nature's version of creative destruction.

Holling's "adaptive cycle" envisions change moving in two directions: a forward loop of growth and conservation, and a backward loop of release and reorganization—helping us to understand when to reap rewards, and when to foster destruction and innovation. Some of the energy of a thriving ecology will always be directed towards breaking down the system to create something else completely new. This backward loop doesn't result in disaster because these episodes of breaking-down-to-build-back-up are nested within larger patterns of stability and forward looping. If one part of the forest succumbs to a landscape-transforming wildfire, there is still plenty of hardwood forest in the world that keeps growing and storing up energy in the form of towering foliage, wood-mass and mighty root systems.

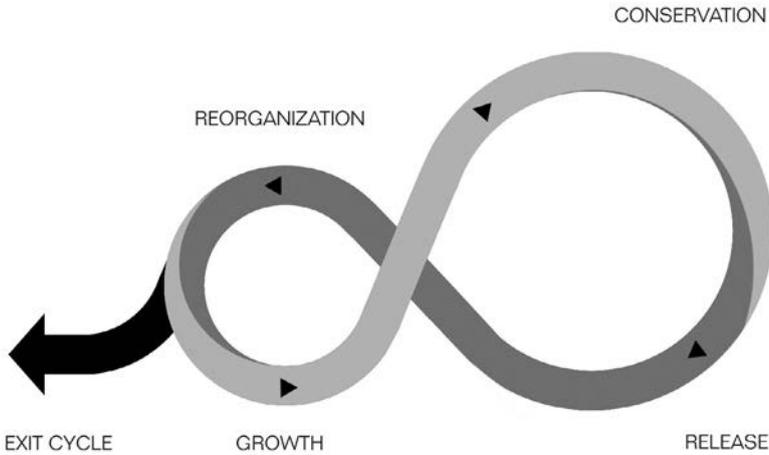


Diagram 1.3

THE ADAPTIVE CYCLE

Holling's "Adaptive Cycle" with its forward loop of growth and conservation, and backward loop of release and reorganization. Failing to understand this thinking may cause an exit to a cycle of M.A.D (Managed Adaptive Decline).

As usual, we can learn a thing or two from nature. In the bigger picture, ecologies thrive because of "disastrous episodes" that lead to novel outcomes, not in spite of them. A wildfire is part of the natural cycle, not an aberration within it. Disruptive or "destructive" change, therefore, is just accumulated energy being expressed in novel ways. It's never, as we like to say, "the end of the world". It is, in fact, the way of the world, and ever has it been.

Holling's adaptive cycle applies equally to social and economic systems. The Roman Empire and many empires that followed fell into the trap of holding on too long to the benefits of colonization and ultimately became victims of

their own greed. The huge business empires of the past have also succumbed to similar fates by thinking they could lock-in and control markets and customers through strangling competitive innovation. Just think about old-school media outlets, vehicle manufacturers and (more recently) energy companies.

When leaders insist on celebrating the forward-loop and fearing, denying, or attempting to obstruct the backward loop, they are choosing to be out of step with nature itself. Efficiency and conservation are only one side of the adaptive cycle within which all systems operate. Equally important are the backward looping forces of innovation, wherein stored-up energy is released to create something new, a fundamental re-organization of the system.

You can't grow a company to a massive size and simply conserve its wealth and maintain its structure. Some of the accumulated energy of that wealth is always going to veer off into self-induced creative destruction or be hit by unforeseen discontinuity, whether you like it or not. Kodak's Steve Sasson and his ilk are always going to be puttering around in unsupervised laboratories, setting wildfires where their managers would prefer them to just straighten up and grow tall, like well-behaved hardwoods. Leaders are faced with a choice. They can either honor the backward loop of change, seeing it as a force for revitalization, or attempt to fight it, and inevitably experience it as a world-destroying conflagration.

Grow your organization. Tend to it so that it operates as an efficient entity that accumulates and conserves energy in the form of capability, capital, intellectual property, human resources, everything else that constitutes a thriving

operation. But release some of that energy into leveraging discontinuity, even if doing so appears to threaten “business as usual”, undermining the very structure that has historically secured success for you. Realize that that this “release” contains the seeds of re-organization that will allow you to endure.

Organizations like Kodak, who chose to stick doggedly to “growing and conserving” without “releasing and reorganizing”, have fallen into Managed Adaptive Decline. They blindly adapt to unfavorable conditions in a well-managed manner that initially appears to mitigate disruption but quickly accelerates destructive decline. M.A.D. organizations know what worked in the past, and they’re damned if they’re going to change course just because the world is changing around them. The answer for these folks is always to just work harder and become more efficient at carrying out business as usual. When they discuss change, they are quick to fall into cognitive bias or utter the justifications and lamentations we included in our Crash Test Dummy Checklist.

IN A VERY REAL WAY, THEY HAVE CHOSEN TO SET THEMSELVES AGAINST NATURE. COULD THERE POSSIBLY BE A BETTER DEFINITION OF MADNESS?

A CHECKLIST FOR DISRUPTIVE LEADERSHIP

Yes, it *is* possible to make peace with change—even disruptive change. It begins with thinking about change differently, and seeing it as a natural process of release and reorganization. But resilience is more than an attitude

or a philosophy. There are practical markers of living in tune with an age of exponentially accelerating change.

The following is a checklist for an organization or a leader that is free of the dreaded Crash Test Dummy Syndrome. This organization will not succumb to the deceptively respectable stance of MAD. Run through this list and see for yourself how you stack up.

Are you...

Tuned in to change?

Do you pay attention to what's happening in your world? Do you understand what forces are shaping your reality today and which ones are rolling over the horizon?

Embracing complexity?

Do you understand how to embrace complexity and offer solutions that appear simple and that people will value? Do you think of new ways for diverse parties to come together to create novel processes, products, or experiences? Do you think about how a variety of capabilities can be leveraged? Are you excited by the possibilities?

Leveraging discontinuity and chaos?

Are you a Kodak or an Apple? Do you see disruptions as opportunities to be the first one in line to create something valuable? Are you aware that holding onto stranded assets is a one-way ticket to failure?

Connected to networks?

Do you see yourself or your organization as a node in a

web of relationships? Do you look for ways to build those relationships or connections? Do you actively leverage the power of networks both on and offline?

Tech-savvy?

Do you keep up with technological developments so that you can figure out which new tools are going to help you do what you do better or differently? Do you use technology to make your life simpler, rather than more complicated?

Changing ahead of change?

Are you resilient through changing ahead of change, or do you constantly fall prey to bouncing back and pushing through adversity – like a typical Crash Test Dummy? Do you release and re-organize? Do you prepare yourself to ride the wave rather than flounder in its wake?

THE CONFIDENT PENNY COLLECTOR

The idea that we are living during a time when “exponential elbows” are piling up into a vast matrix of accelerating changes cannot help but rattle us. It’s only natural. We feel the anxiety whether we’re actively paying attention or not. These changes are so profound and pervasive that we can’t help but register them. Those 87% of executives who aren’t planning for globalization’s explosion of new markets still know that something’s up, and they aren’t necessarily feeling good about it. Unlike you, they may end up choosing option number one, the million-dollar payday that leaves them in the dust.

But there is a better way. Disruptive times call for a philosophy of change that instills true resilience – to

change ahead of change rather than bouncing back from shocks or constantly pushing through adversity. Managed Adaptive Decline and Crash Test Dummy Syndrome are not options for true leaders in an age of disruptive change. True leaders will leverage the exponential, turn their pennies into dollars and collect their \$5 million at the end of the month as the elbow sends them soaring upwards.

CONFIDENCE IS POSSIBLE. AND IT'S NECESSARY ON THE 26TH DAY.

CHAPTER 2

Thinking Strategy in Action

AN ALGORITHM FOR STRATEGY AT THE SPEED OF DISRUPTION

AN INTRODUCTION TO STRATEGY IN ACTION (SiA), AN ALGORITHM THAT TEACHES US TO USE NATURALLY OCCURRING COGNITIVE TOOLS TO STRATEGIZE IN A COMPLEX, CHAOTIC AND FAST-MOVING REALITY.

*“ AN EXPERT IS SOMEONE WHO
HAS SUCCEEDED IN MAKING
DECISIONS AND JUDGMENTS
SIMPLER THROUGH KNOWING
WHAT TO PAY ATTENTION TO
AND WHAT TO IGNORE.”*

EDWARD DE BONO

FIVE PRECEPTS FOR ENJOYING THE RIDE

Near the beginning of Russell Banks' 2008 novel *The Reserve*, the Hemingwayesque Jordan Groves takes his love interest Vanessa Cole for a ride in his airplane over the Adirondack wilderness. Now, we all know that adrenaline heightens romantic sensibility, so when the altimeter reads 2,250 feet, Jordan invites Vanessa to take over. She takes control of the plane and Jordan starts her first flying lesson.

"You're sure you've never flown an airplane?"

"Never!"

He said, "Ok. Five things to remember! Five precepts."

She laughed. "Only five?"

"Observe! Think! Plan! Execute! And abandon! You use *abandon* if *execute* doesn't work, and then you go back to *observe!*"

"Okay!" she shouted. "You're crazy, you know!"

How crazy *is* Jordan? And how quick a student of the Five-Precept Flight Plan is Vanessa, who had been strolling

along the lakefront as an attractive complement to the scenery mere hours earlier?

Jordan tells Vanessa to start by *observing* the altitude, bearing, and speed of the biplane. Next, she *observes* the “the moonlit roof of the clubhouse and some other smaller buildings nearby and the broad expanse of the golf course and then more dark forest and beyond the forest the mountains, Sentinel and the big one, Goliath.” *Mountains*. Time for precept number two. Vanessa *thinks* and realizes they are not high enough. She then *plans*, deciding to give the biplane more power in order to increase their altitude. Vanessa’s *execution*, however, lacks sufficient speed and lift to avoid Goliath. Jordan knows she has to *abandon* the plan and cut hard to starboard. Vanessa turns the plane at the last second, when her only flight path is through a notch in a stand of pine trees. Jordan points at the notch, ordering her to *observe*.

They make it through the pine trees alive. Jordan, seasoned in his five precepts, takes the control yoke back.

INTRODUCING STRATEGY IN ACTION (SiA)

We know that we are living in the age of disruption, when exponential changes have begun to impact us in ways we can no longer ignore even as we struggle to understand them. Like Vanessa, we haven’t been trained to do this. But the plane is moving quickly, the stakes are life-and-death high, and like it or not, we are holding the control yoke.

“ IF YOU HAVE A SENSE OF WHAT WORKS NATURALLY, IT’S HARD TO FAIL.”

Buckminster Fuller

In this scenario, we need a whittled-down approach to flying an airplane. We need something like Jordan's crazy flight plan. His five precepts are a deceptively simple sequence that works even in the moments when the flight isn't working out. It's a logical cycle with built-in capacity for correction. It's an algorithm fit for a Hemingwayesque hero in high-adrenaline scenarios.

If Jordan's crazy, so are we.

Resilient Futures has spent the last two decades working with businesses, government organizations, and municipalities. As we all know, the last ten years have brought the first really forceful expressions of disruption to organizations and their planning methods. During that time, we've met people coping in a variety of ways.

We've encountered fearful and demotivated people. We've encountered teams bent on "going lean" to save whatever profit margin remains. We've encountered leaders who glaze over at the idea of strategy and cringe when confronted with change outside the norm. We've encountered confusion, denial, and resistance. We've also encountered brilliant people whose breakthroughs have fed into our signature approach to strategic thinking.

All of those experiences have helped us shape a unique strategic framework that, like Jordan's flight plan, comes in five easy pieces. It's a framework for strategic thinking that is algorithmic in its ability to mirror our intuitive behaviors.

This algorithm is Strategy in Action, or SiA for short. SiA consists of five steps that we outline in a logical sequence. The steps can flow rapidly together in a cycle that corrects itself when your course seems to have you headed toward a collision with disruption.

SiA may be applied at a rapid-fire rate in what we call micro cycle time. Or it may be applied over a longer cycle of time—weeks or months—or whatever is required to deal with the complexity and speed of the conditions that have been identified. It has been applied to projects, strategic plans, innovation strategies, and programs to transform entire organizations. It has even been used for personal career planning.

It's our experience that anyone can use SiA. Especially when the alternative is slamming into a granite slab.

Picture a football team. They begin acquiring a skill when their coach breaks down each detail of a maneuver for them. Then, they move through the sequence repeatedly during drills. It's an intentional, meticulous process. Ultimately, by the time they are out on the field, it's all muscle memory. In fact, when they are playing, they naturally make adjustments in the way they are executing learned skills in order to achieve their ultimate goal: winning the game. Nobody would deny that multiple, complex, and dynamic changes are occurring quickly during a typical football game, but skilled players are able to navigate these developments quite fluidly. They even manage to enjoy themselves.

SiA works in exactly the same way. Once you internalize the principles and master the skills, you are able to enter the field confidently. You see complex developments play out and feel clear about what they mean. You make natural and effective adjustments. You feel well-deserved pride when your team lands a victory.

SiA is an algorithm that is already wired in your mind and manifests as a set of natural, everyday cognitive tools. You already use these tools on a daily basis and may not

even realize it. You have a natural tendency to observe conditions, strategize, act, and adapt as conditions shift. If you throw a barbeque for friends, you observe the weather, and then put up a tent if the sun is blazing too brightly or if rain clouds are threatening to open up over your dinner guests. When you walk your dog up to the crosswalk, you look both ways, and press the button that will eventually halt traffic. You let the leash go slack or hold it tautly based on the arrival of other dog walkers on the scene and the signals your own dog is giving you.

PAUSE AND CONSIDER: *Can you think of another everyday example of SiA-style strategizing?*

Whether you know it or not, you are an incredibly agile strategist. You understand conditions, you gauge the opportunities and risks, and you are always seeking to generate value through using capabilities, and doing so in short, sharp, iterative catalytic actions.

What you may not do quite as naturally is scale up these cognitive tools for use in more complex, abstract circumstances—particularly at a team, department, or organisational level. We find that people with stronger inborn strategic instincts do exactly this, even if they aren't completely aware of it. When they are grappling with complex, fast-moving situations such as the ones any organization is working its way through on a daily basis, these natural-born strategists instinctively run through the SiA algorithm. They naturally *think* SiA.

For those of us who have lost touch with our strategic instincts, thinking SiA in the context of fast-moving, complex, and abstract scenarios is possible, but it must be surfaced and learned systematically. It must be practiced until it is internalized and becomes a natural way of

thinking. Then, through scaling its application within teams and departments, it can be institutionalized across an organization.

That's why we created *our* algorithm. To help people learn to think SiA, which is to say, apply their naturally occurring cognitive tools to more abstract and complex circumstances. Circumstances like aligning a team towards the pursuit of strategic goals in a milieu of exponentially accelerating change. SiA is for strategy at any scale, for any outcome.

SiA'S FIVE PRECEPTS: STRATEGY AT THE SPEED OF CHANGE

If Jordan's flight plan was designed to keep an aircraft from crashing, our algorithm is designed to help teams and leaders *leverage disruptive change to generate sustainable value.*

Remember that. That's the whole point. SiA helps leaders to treat circumstances of exponentially accelerating change as opportunities, because otherwise, these same circumstances will manifest as value-destroying crises.

In Chapters 3-7 we will unpack each of these precepts in greater detail, but for now, here's a quick overview. In brief, SiA entails:

- Reading, understanding and continually monitoring immediate and emergent **conditions**;
- Perceiving the **strategic opportunity-risks** (SORs) that those conditions reveal;
- Identifying the **sustainable value** you and your team can generate out of those SORs;

- Determining the **capabilities** that allow you and your organization to generate the sustainable value available within those SORs;
- Developing **catalytic actions** that build and launch the capabilities driving sustainable value generation.

Finally, you course-correct by returning to the beginning of the algorithm. Read conditions, figure out what they are telling you, and then adapt your strategy (in action) accordingly.

THE SIA WHEEL REVOLVES CONSTANTLY AND IN REAL-TIME.

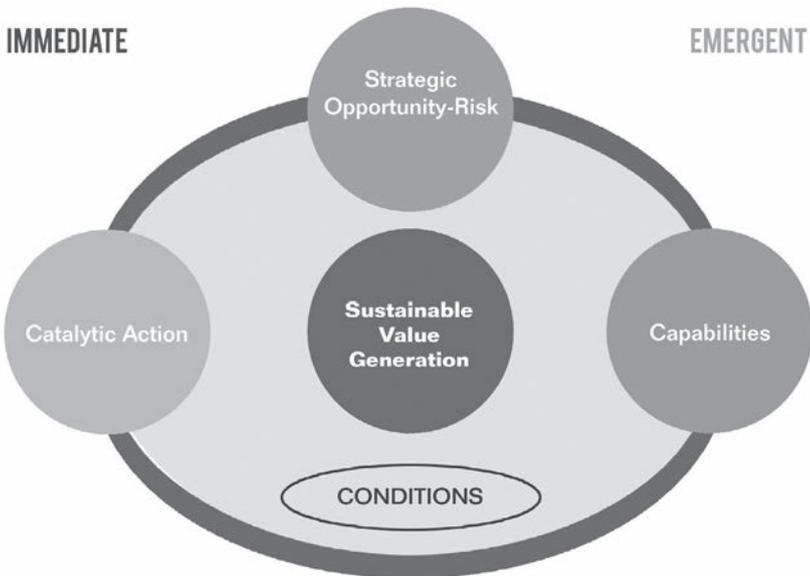


Diagram 2.1

THE SIA ALGORITHM

The five precepts of Strategy in Action – Conditions, Strategic Opportunity-risk, Sustainable Value Generation, Capabilities and Catalytic Action.

The SiA vocabulary is a product of working with teams and leaders in the many realms of organizational strategy and change. Though the vocabulary may sound strange at times, they are everyday words taken straight from the dictionary. The words we use mean what they sound like they mean. For instance, listen to the weather report and you will hear talk about *conditions*. You know what they mean, right? *Opportunity* is exactly what it sounds like, and so is *risk*. We might combine these two to reinforce that you can never have an opportunity without risk (and vice versa) and call them opportunity-risks—but they're still just opportunities and risks. The same is true for *value* and *capability*. In SiA we use these words just as you use them. Finally, we use *catalytic* and *action* together to describe relatively small and rapid steps that combine to become catalytic in their energy and efficient in their synergy.

First Step: Read the Immediate and Emergent Conditions

We assess immediate and emergent conditions. We take an organization's temperature as it is now and may be in the future—internally, locally, regionally and globally. We understand that we are within one of these revolving change cycles in a vast network of accelerating change cycles. We understand— like those 13% of executives in Chapter 1—that we are actors in a global context. We are building those rich connections Omidyar referred to in order to become more knowledgeable. We keep an eye on the horizon of exponential possibilities—both positive and negative.

Second Step: Perceive Strategic Opportunity-Risks

As we look into conditions, we perceive the strategic opportunities and strategic risks that are inherent within those conditions. We see them combined as strategic

opportunity-risks (or SORs). We imagine what value we might generate out of those SORs and we choose the ones we will actively pursue. We know that any disruptions on the horizon could represent our next big value-generating opportunity as long as we wisely manage the risk side of each SOR.

Third Step: Identify Value

We look more closely at the SORs that surround us in order to figure out which ones represent opportunities to generate the kind of value that is most important to us. This value must be sustainable, and produce benefits within and outside of our organization. The enduring value we generate is our best bet for resilience in the disruptive age.

Fourth Step: Determine Capabilities

We are now getting ready to act. We understand exactly how we might capitalize on those opportunities and manage those risks in order to generate sustainable value. We start seeing ourselves differently in light of those emergent opportunity-risks. We understand how we might need to change ahead of change. We figure out which capabilities we need to develop or acquire in order to generate sustainable value

Fifth Step: Develop Catalytic Actions

We design catalytic actions to build and execute the capabilities we need if we are going to generate value out of our SORs. We optimise our strengths and build the necessary networks. We prepare ourselves to benefit tremendously from the wall of power headed our way. We initiate synergistic systems of capability that make best

use of our capabilities so that we are ready for the ride of our lives, rather than the destruction of everything we have built.

In reality—in *action*—these steps are bounded together in a cycle that never stops turning. When you are in your chosen aircraft, you never stop validating your course by checking conditions. There isn't really a single moment when you can stop paying attention to both the gauges inside of your aircraft and the terrain underneath or occasionally in front of you. SiA only works when you keep each of its precepts in continual alignment.

So how will you know when you fall out of alignment?

You'll know when you start feeling disoriented. The value you are seeking to generate will be eroding. Your capabilities will be out of sync with the situation at hand. The action you take will not have the desired effect. You will be hit by discontinuities and shocks from conditions you didn't see coming. Your people will experience the Crash Test Dummy Syndrome. Your organization may even start to go M.A.D.

PAUSE AND CONSIDER: *When was the last time your organization experienced symptoms like these? Can you now connect them to a problem with the way your team strategizes?*

To remain oriented, SiA's five precepts must be aligned and working in sync. This is why we follow the First Principle of SiA:

TO GENERATE SUSTAINABLE VALUE, STRATEGIC OPPORTUNITY-RISK, CAPABILITIES AND CATALYTIC ACTIONS MUST CONTINUOUSLY ALIGN WITH AND WITHIN CONDITIONS.

This is SiA. This is our algorithm. When you practice it as often as we do, it becomes second nature. It works as quickly as it needs to—which is to say, it works at the speed of disruption. Thinking SiA means thinking fast.

That’s something that traditional planning processes don’t allow for.

PLANNING IN SLOW MOTION

We make no bones about the fact that SiA is appreciably different from the traditional strategic planning process we’ve all grown to know and (frequently) loathe. SiA is specially designed for planning in an age of disruption, when connectivity, complexity, and chaos run at hyper-speeds on accelerating change cycles driven by new technology. Our experience is that traditional approaches to strategy just can’t keep up. At best, they get us talking about where we’d like to go, but all too often, they result in irrelevant strategies that lack sufficient power and agility to inspire, align, and mobilize teams. Allow us to explain.

“TRADITION BECOMES OUR SECURITY, AND WHEN THE MIND IS SECURE IT IS IN DECAY.”

Jiddu Krishnamurti

Traditional strategic plans run on five to ten year cycles. Like the Titanic, they are imposing, they eat up a lot of resources, and they’re difficult to turn around once they get going. Generally, they revolve around three questions:

Where do we want to go?

Where are we now?

How do we close the gap from here to there?

These questions are reasonable. They do a fairly good job of laying out the purpose of strategic planning. We all want particular outcomes and we need to contend with our present situation in order to get to where we want to go. The problem with the traditional strategic planning process is that it has taught us to treat these questions like disconnected pit stops on a racecourse to our desired outcomes.

Past, present, future: all neatly divided into their respective folders. If only it were so simple.

By now, it should be abundantly clear that this linear, plodding approach to planning reflects a bygone era. We are *not* living in the same world that gave rise to the stodgy strategic planning process we know and grudgingly put up with.

The modern strategic planning process entered business culture following World War II, when military leaders took tactical brainstorming to new heights. In the military, strategic planning was a process of determining desired outcomes, gathering intelligence, and planning (and trying to control) specific tactical maneuvers. Generals were thoroughly schooled in military history so that they could craft effective plans that were informed by precedent. What worked in the past was understood to be the most valid predictor of what would work in the present and future. After all, in the 1940s, the battleground of the past was not so very different from the battleground of the then-present or near future.

The business strategy culture that evolved from World War II to the 1980s reflects this attitude of sober deference to the past. The typical strategic planning process follows a careful series of steps so steeped in hoary tradition that the entire experience has taken on the character of a

religious ritual. Define the vision, scan the environment, analyze the gaps, set goals, review progress, and repeat.

In this process, the “vision” is often based on a vanilla wish list that sounds exactly the same from organization to organization. The “plan” is contrived through an annual local environmental scan that is devoid of a timely, robust, and realistic understanding of the conditions facing the organization. And the resulting “projects” are lost in the mix as the day to day of real world conditions preoccupies the people meant to execute them.

PAUSE AND CONSIDER: *Think about your organization’s “vision statement”. Will it actually stand the true test of time?*

Moreover, this process tends to reinforce hierarchical business cultures that are also the legacy of militaristic history. Cumbersome five-year planning processes recruit select executives who are then charged with crafting a strategic vision in relative isolation. These executives run through their elaborate dance steps over tediously long periods of time, and by the time they take the stage, their performance may be totally out of synch with the reality that awaits them in the auditorium. Their team members watch disconnectedly, shrug, and then get back to it. They have work to do.

There is a reason why the very term “strategic planning” often evokes images of large binders gathering dust on shelves in executive offices. It is very difficult to create a traditional strategic plan that is relevant by the time it’s ready to be executed. Relevant strategies are the product of teams who can think SiA in real-time, not executives who labor alone in hermetically sealed offices.

The thing is, even the military is beginning to agree with us. The best minds of the battlefield realize that 20th century methods of preparing, organizing, and executing strategy

are outdated. When four-star general Stanley McChrystal, took over command of coalition forces in Afghanistan in 2004, it was plain to him that conventional military strategy was failing his forces.

To defeat Al Qaeda, he and his troops needed to adopt an operational style that matched the enemy's speed and flexibility. McChrystal divided his forces into a network of units with capabilities spread out globally. Each unit was empowered to act based on the conditions, opportunities, and risks that they perceived. They were, in McChrystal's words, a "team of teams". And in this flatter, faster, and more flexible formation, they were able to beat the enemy back.

LIZARD-BRAINS AND EMPTY SHELLS

If you want to better understand how SiA might diverge from the strategic planning processes of the past, why not consider the reptile?

“ I WAS TAUGHT THAT THE HUMAN BRAIN WAS THE CROWNING GLORY OF EVOLUTION SO FAR, BUT I THINK IT'S A VERY POOR SCHEME FOR SURVIVAL.”

Reptiles emerge from their nativity baby-sized but essentially fully formed.

Kurt Vonnegut

They crack through the eggs in which they were gestated, leaving only empty shells behind, and quickly get on with the business of being reptiles. Their brains, devoid of limbic systems or executive functions, contain every instinct needed for governing a relatively simple set of behaviours. Eat, fight, flight, breed, and repeat. Learning really isn't part of the equation. Neither is creating new technology.

Mammals do it differently. When a mammal is born, it remains connected to and dependent upon its mother. The mother accompanies her infant, developing its complex mammalian brain long after birth. The quality of care a mammal receives—that is, how closely its mother delivers the feedback that stimulates learning—directly determines the success of that mammal’s development. A good mother helps her baby to learn the behaviours that will help it to thrive in a milieu infinitely more complicated and nuanced than the “eat, fight, flight, breed, and repeat” world of the lizard.

Traditional strategic plans too often fall into a reptilian rut. When planners treat their newly born strategies like fully formed entities that are fit for any conditions, they are choosing to create dinosaurs.

On the other hand, strategies from a more advanced stage of evolution need their “mothers” to stay close. That is, the conditions that gave birth to the planning process (the first stage in SiA) remain a vital part of the ongoing development of the strategy in action. Conditions are seen as a living companion to SiA, a source of continual feedback, instruction, trim-tab, and change—strategy, *in action*.

Strategy for disruption is a cyclical process, running on real-time feedback. In SiA, the conditions that gave birth to the process keep informing a strategy that is elastic and responsive by nature.

Traditionalists like the old Kodak brass may say, “Our Komodo dragon is great, isn’t it? It’s big, tough, and eats everything in sight. It’s the lord of this island! And all we had to do was hatch it and let it go.”

Agile strategists say, “The environment is changing. This island is becoming inhospitable. We need to move. Good

thing we have the advanced social organization skills to cross a land bridge into an entirely different continent. Thank god we are always evolving. Long live the Monkey Brain!"

Remember the First Principle. The steps of the SiA algorithm are bounded together in a cycle. We are not in the business of producing reptilian strategies that go forth to feed, kill, breed, flee, and repeat. We produce mammalian, evolved strategies that continuously receive feedback so that they can live and thrive in a more complex, globally connected, and chaotic environment where disruption is the rule, not the exception.

We do this because life is now moving much more quickly than a five-to-ten-year cycle can meaningfully account for. We do this because, like those football players, we realize we are players on a field of complex and rapid change, where skills—like strategies—cannot be robotically or ritualistically deployed. We are operating in a context of high impact, rapid-fire, and disruptive change, and we choose to be receptive to the feedback that allows for real-time adaptations. Once these components become misaligned—when, for example, the task of reading conditions is shucked off like so much Komodo dragon shell, or treated like the pit stop you passed ages ago—disaster is just around the corner. But if you learn to continually “check state”, ensuring that your SiA is in alignment and oriented to the First Principle, you can make the real-time adaptations necessary for success.

What stage of evolution is your strategy at?

TRADE-IN THE TITANIC

For the past few centuries, organizations, businesses, networks, and communities of every description have

been like vessels on a relatively calm, open sea. At one time, good seamanship meant maintaining the vessel: trimming sails, repairing the hull, swabbing the decks. The horizon rolled out in a predictable tableau, the maps were safely stowed below deck, and the ship's course had been plotted out long ago, probably on dry land. Of course these vessels had to weather squalls from time to time. But bad weather was the exception, not the rule.

We are now in an era when very little can be taken for granted. The weather has changed—permanently. Calm and predictable waters have given way to a battery of waves that continually grow in height and force. In this environment, maintaining the ship that crew and captain have grown to love and trust is no longer the end-goal. Sometimes, these seamen will have to use the materials of their ship to construct new vessels that can better navigate these waters. They will need agile and responsive capabilities that can leverage the power of the churning water, rather than fall prey to it. Seamen might even become surfers. To paraphrase Thomas Aquinas, if these captains decide, as Kodak's executives did, that their highest aim is to preserve their ships, they would be better off keeping them in port forever.

We know that it's possible to be at sea without being fatally pounded by the surf and overpowered by the weather. It's even possible to enjoy the ride if you have a vessel that allows you to continually course correct because you can really feel the dynamics of the water in your body at all times.

Reaping the rewards and managing the risks of disruptive change necessitates a framework for strategy that is more agile and responsive than the models of yesteryear. Thankfully, agility walks hand in hand with simplicity.

Meaning this need not be as difficult as it might sound.

Picture the Titanic. Now picture a surfboard. You are trading-in a monolith of the sea for a clean, lean, whittled-down instrument of travel.

What distinguishes SiA from the planning frameworks of the past is its emphasis on *changing ahead of change* and adapting in real-time. Basically, it entails keeping a few important habits in alignment. It's about balancing on a stack of ideas and practices that shape up as elegantly as a longboard cutting into a wall of surf.

DISRUPTION IS HERE. WHY NOT ENJOY THE RIDE?