

Presenters: **Adam Kingl**, Managing Director, Duke Corporate Education, **David Rowan**, Founding Editor-in-Chief, WIRED UK, and **John Whelan**, Director, Corporate Research Forum

The focus of this event was digital disruption, which is the change that occurs when new digital technologies and business models affect the value proposition of existing goods and services.

David Rowan discussed innovation. Every organisation thinks they need innovation, because things are moving so quickly. It's become an obsession, almost like a religion. But we need to stop and think about organisational purpose and culture, not just 'technology'. Organisations should keep the following in mind.

- When it comes to innovation, 'just because you can, doesn't mean you should'. It is critical that organisational purpose and culture guide product development.
- Innovation means delivering the future. Organisations need to work out what they think that future will be, based on signals in the larger environment.
- Innovation doesn't necessarily come from established companies; in fact, the innovation mindset is usually quite different in a start-up as opposed to established companies.
- Innovation comes from motivated people, often in hybrid, agile teams, with a mission to build something useful. These teams have a lot of hunger, and are happy to take business away from established players.
- Rapid advances in technology, coupled with dramatic and quick falls in the prices of that technology, mean that things we thought wouldn't happen in our lifetime are becoming normal very quickly. For example, with the rise of Amazon's Alexa and other voice technologies, such as Google's Voice Assistant, suddenly everyone needs a 'voice strategy'.
- AI is a key technology of the future (it's already arrived); adaptability and self-learning are key skills for the AI-driven future. The way we communicate is also going to change due to AI.
- Every sector is being disrupted by AI-driven data science.

How do you keep your organisation from being run over by all this change? The easy option is to appoint a Head of Innovation. The more challenging, but ultimately rewarding, option is to engage in 'non-bullshit' innovation (also the title of David's upcoming book), which is firmly rooted in organisational culture. David shared ten guidelines for culture-based innovation.

1. **Reframe your value.** A given company may think they are about the traditional product(s) or service(s) that they have offered, but they must be willing to reframe what they are there for, what they stand for, and what their culture is given the current demands of the market. This applies equally to large, wealthy organisations and to small ones. David gave two examples of organisations reframing their value. A large bank in a Nordic country was losing business; they assessed their skills and infrastructure and have now moved into healthcare management. A bookstore in London no longer simply sells books; they design bespoke libraries and offer personalised reading recommendations for wealthy clients.
2. **Build an ecosystem.** Partnering with other organisations is crucial. Partnering can occur even if your 'organisation' is a nation and your partners are people. For example, Estonia, a nation of 1.3 million people, has created the world's first 'borderless nation'. Estonia allows non-Estonians to become 'e-residents' by filling out an application form and paying a fee (about 100 euros) online. E-residents can then start a company with an advantageous tax scheme, which also boosts Estonia's tax receipts for investments that help resident citizens. Estonia is rethinking how a country works, but using outside partners to do so.

3. **Be agile.** At the Pentagon in the United States, a unit called the 'Defence Digital Service' exists solely to try to solve problems of which the bureaucracy is in denial. For example, their 'Bug Bounty Project' invited hackers to try to hack programmes that the Pentagon claimed were entirely secure. The hackers found the first vulnerability within 13 minutes. Fostering these sorts of units and divisions can allow your organisation to move much more quickly to react against threats or make changes.
4. **Build room for failure.** It is important to give your people space to try things, but equally important not to penalise them for failure (as long as they learn from the failure). Take a page from Google X, where the focus is on creating a psychologically safe culture in which people can come up with bold ideas. Develop processes that monitor what they are doing and incentivise them to kill a project if it's not going anywhere. Begin projects by defining their 'kill criteria' (what metric will we measure against to determine when and if to kill this project?). For example, a team at Google, which elected to kill an alternative fuel technology that had almost – but not quite – met its objectives, were awarded bonuses for taking that difficult decision.
5. **Import a culture.** The 'Defence Digital Service' at the Pentagon has its own unique culture. Staff members wear hoodies and have a 'Star Wars' kind of culture. Alternative cultures, such as 'hacker pirate' cultures or 'test and learn' cultures, can thrive inside big organisations.
6. **Empower your team.** Supercell, a software company in Finland, divides staff into teams of 5-10. Each team has an enormous amount of autonomy. The hybrid teams solve problems by being creative. It takes very enlightened leadership to recognise that people at the top don't always know best.
7. **Find your blind spots.** It is critical that organisations get into the habit of looking for things that they don't know they're looking for.
8. **Leverage new tech.** For example, HTC, a consumer electronics company, is building a phone using blockchain that allows the phone to be your wallet.
9. **Enable collisions.** The most important thing you can do is to create diversity in your organisation, and then allow people to collide. Collisions, co-learning, and connectedness are key. Create physical space to allow collision and experimentation, especially across functional divisions.
10. **Exploit a crisis.** Use crises to rethink, rather than being brought down by them. Own a problem and develop a new approach. For example, an Indian textiles company that produced towels for the American market experienced a crisis when one of their main buyers, Target, announced that they would cease to buy their product due to the discovery that the cotton in their towels was not 100% Egyptian. The company responded by embracing radical transparency and implementing new technology to track their cotton supply. Their business has now rebounded.

David closed by highlighting one risk factor – complacency. Organisations cannot risk arrogance or complacency in today's business environment, because they can be knocked out of their position very, very quickly.

Adam Kingl shared his insights on digital disruption's implications for leadership. One of the biggest problems for leaders is that they are, for now, largely an analogue generation tasked with implementing digital change. The environment has moved past the point when 'digital' was a novelty; now, digital is well on the way to becoming the norm. But many organisations, and their leaders, are stuck between the two.

What does the new digital normal mean for strategy (beyond just 'embracing technology')?

- It means the end of linear thinking. In the new normal, both strategy and change become fluid. Change will become reflexive.
- It's not the speed of change that's important, it's the agility with which organisations respond. We're already into the next generation of disruptive technology. How will organisations respond?
- Organisations must beware of category kings, those new players who disrupt established companies. Category kings (i.e. Amazon) want to gain the lion's share of your market share, within a year. These organisations are celebrated, but they also terrify established organisations. Category kings have a different mindset; while incumbents think incrementally, category kings think of disrupting industries and gaining market share very quickly. This mindset is the secret of Silicon Valley's success.
- Most incumbents are 'dumb pipes' (they move stuff or people from A to B without knowing anything about them). Their approach to digital is more 'bolted on' than 'built in'. This approach will not work in today's business environment.
- The way organisations think about time must change. At what point do you have to think about how you will transform in the future? Much earlier than you think- organisations should be thinking about potential transformations well before they enter a period of decline; ideally, companies will be thinking about this at the growth stage. But when things are going well is when organisations tend to be complacent.
- Organisations now have to exploit their core and explore their frontier at the same time, always.
- The dominant conception of leadership in established organisations is about control, which doesn't allow space for exploration. Organisations have to get out of a 'control' mindset.

Adam discussed some of the issues associated with risk. The way organisations think about risk usually shuts down creative thinking and exploration.

Established companies typically misallocate their resources:

- There is one source of capital (why not many?).
- There are allocational rigidities (leaders are not incentivised to experiment and may feel threatened by any potential loss of social capital).
- Resource allocation is conservative. (Don't ask for a business case for a blue-sky idea, or put the business case at the front of an innovation. There are too many unknowns which are likely to lead to an automatic 'no'. Evaluate innovations collectively rather than individually.)

However, if you don't create room for aspiring entrepreneurs inside your organisation, they'll leave and compete with you from outside. Thus, if your organisation's going to thrive, it needs to operate more like a collection of start-ups than a top-down monolith.

Operating like a start-up means:

- Having the freedom to seek the best return (which includes being open to hearing ideas from anyone at any time)
- Having multiple sources of experimental capital
- Allowing all ideas to compete on an equal footing
- Focusing on a portfolio of ideas

It also means adapting your organisational mindset.

- If you want to evolve, you first have to admit that you don't know everything.
- The leaders in companies that fail to adapt quickly enough have usually failed to write off their depreciating intellectual capital. (In other words: Ignorance + Arrogance = Danger¹⁰).

We celebrate entrepreneurs and with good reason. What would the world look like if Steve Jobs had remained a software engineer at Atari working on the next version of Pong or Space Invaders instead of helping to invent the first Apple computer?

The problem is that even the most innovative start-ups tend to lose their entrepreneurial flair as they grow. Incrementalism and conservatism creep in as layers of management are added and policies and rules proliferate. Gradually the focus shifts from building new businesses to protecting the core. Indeed, most companies start declining long before any external signs appear (such as dwindling market share). The slide starts the moment senior leaders believe they have more to gain from perpetuating the status quo than from challenging it.

While some companies have built business incubators with dedicated facilities and staff, that's not enough. The entire company needs to be entrepreneurial—that includes established businesses as well as internal start-ups. **If you want an organisation that innovates everywhere, then every employee needs to think and act like an entrepreneur.** What does that mean in practice?

1. **Real ownership.** What motivates entrepreneurs is the opportunity to build something that is significant, where one's personal contribution is indispensable to the eventual outcome. To an entrepreneur, work isn't a "job," it's a "mission." Avocation and vocation are inseparable. Entrepreneurs work hard because they feel the business is "theirs", and they take enormous pride in it. Entrepreneurs are fully vested, both financially and emotionally, in the success of the enterprise. They also know they "own" the success of their business. If the business thrives, it's because they did a great job; if it dives, there's no one else to blame.
2. **Authority to act.** Owners have a lot of discretion. They decide who to hire, how to balance competing priorities, how to allocate scarce resources, how to reward contributors, and how to evolve the business over time. Conversely, they are on the hook for meeting stakeholder expectations and can't kick difficult decisions 'upstairs'. Nevertheless, the most effective entrepreneurs don't use their power unilaterally. In start-ups, critical decisions are usually discussed broadly and everyone has the chance to weigh in. Initiative is prized and individuals are free to take risks. For example, one of the core values at Spotify, the popular music streaming service, is that 'failure recovery is better than failure avoidance'. In other words, don't ask for permission—if you see a problem, fix it. If you see an opportunity, chase it.
3. **Flat and fluid structures, with minimal process.** The most successful startups operate in small, non-hierarchical teams, and keep the bureaucracy to a minimum. There are no gatekeepers, no silos, and no pointless paperwork. Everyone can fit inside a medium-sized conference room, and the preferred method of communication is an all-hands meeting. Though some individuals have bigger roles than others, there's a sense of being in it together. The vibe is more 'neighborhood' than 'pyramid'.

Unfortunately, most companies are not conducive to entrepreneurship. The following are barriers to entrepreneurship.

- First, the vast majority of employees feel like **conscripts, not owners**, even though they may have been granted a few shares. Consigned to a narrow role, they don't

feel they have the chance to excel, much less build something great. Often, they work within a unit or a function that's so big it's hard to feel that one's contribution actually matters. While front-line employees may be accountable for revenue, or for costs, they are seldom accountable for both—so they're not given the opportunity to think and act like business owners. Without unit-level P&Ls, it's hard for employees to see the connection between their actions and the overall success of the company.

- Second, in most organisations the authority to act is highly constrained. Local teams don't have control over the key decisions that determine success—like pricing, channel strategy, product line, staffing, and investment. Given that, it's hard to hold them accountable for anything other than carrying out their narrow, highly scripted tasks. **The product of this disempowerment is detachment.** Why care about problems you are not empowered to address, or opportunities you are not empowered to pursue?
- Third, in a start-up, there's not much in the way of organisational structure. Teams form, break up and re-form in response to changing priorities. Roles are fluid and get shaped around individual capabilities. People are free to contribute in whatever way adds value. In large organisations, by contrast, **unit boundaries, specialised roles and political fiefdoms make it difficult for people to organise spontaneously around emerging priorities.** Instead, there are almost continuous cross-unit wrangles over who's responsible for what, and who owns what resources. Research from Management Lab suggests that the typical employee in a large company spends 20% of their time complying with internal bureaucratic injunctions— preparing the umpteenth slide deck or report for the boss's boss, going to a seemingly endless string of mandatory coordination meetings, or filling out forms to satisfy internal requirements.

If most employees feel like employees rather than owners, if their actions are highly circumscribed by rules and policies, and if they feel the structures and systems in their organisation are designed to thwart rather than encourage bold thinking and doing, then they're not going to contribute much in the way of innovation.

"It's not my job." "It's above my pay-grade." "There's nothing I can do about that." "The system doesn't allow it." "You'll have to put in a request." You seldom hear comments like these in a start-up, but you hear them every day in big companies. If you want to build an innovative company, that has to change.

Some people will say it's impossible to run a large company like a portfolio of small, nimble start-ups. There are too many interdependencies to manage around channels, marketing, supply chain and the brand—you can't let every unit do its own thing. Or they might argue that it would be sub-optimal to divide big units into small, self-organising teams because this could result in duplication and a loss of efficiency. Or they might argue that we cannot expect people think and behave like entrepreneurs when they are simply employees. But despite these objections, there is substantial evidence that it is possible to build organisations on a foundation of entrepreneurial energy.

Organisational Entrepreneurship in Action at Nucor

Nucor is the world's most innovative and profitable steel maker and the largest producer of steel in the United States. Nucor's 23,000 employees work in 200 plants and each facility is largely responsible for making choices around which products to develop, how to manufacture those products, and how to price them. With an average of about 125 people per plant, operating units are small enough to allow all employees to personally know their colleagues, which facilitates open and informal communication. It also translates into quick problem-solving at the local level, without having to wait for decisions from headquarters. This level of autonomy, unprecedented in the steel industry, extends all the way to the front line, where working teams of about 20-40 people have the latitude to resolve issues around supply-flow, quality, holiday schedules, and even disciplinary actions. At Nucor, employees even write their own job descriptions.

While employees are highly empowered, they are also highly accountable. Every week, Nucor calculates how productive each team was in terms of tons produced relative to a planned target. If the target is met or exceeded and quality standards are upheld, the entire team gets a bonus. Since there is no upper limit to the bonus, this incentive can become a significant driver of compensation. It typically averages between 80 and 150% of base wages.

1. Each team at Nucor operates like a profit center and is measured and rewarded on its own productivity. This creates a strong sense of ownership among front-line workers, who are highly motivated to search for the latest quality- and productivity- boosting innovation. Nucor's front-line workers regularly spend time at their customers' facilities to get better ideas on how to improve quality. And teams are always tinkering to find new and better ways of producing steel. For example, workers at Nucor's Crawfordsville, Indiana plant discovered that they could fine-tune the surface characteristics of their galvanized steel—a benefit valued by many customers—simply by making small adjustments to the air pressure of a coating process. Changes such as these do not require management review or approval and are implemented on an ongoing basis.
2. Entrepreneurial peer pressure is also a boost to innovation. Each team has access to its performance data and the performance data of every other team within the plant—in fact, each team's weekly output and bonus is displayed at the front entrance of the plant. No team wants to be at the bottom of the list for long, so they stretch themselves to improve and innovate every week.
3. This exceptional degree of autonomy conveys a simple but invigorating message: You control your success—not some distant manager. That freedom is matched by a high level of accountability, ensuring that workers use their discretionary power in ways that drive the business forward. Unlike so many other companies, front-line employees at Nucor have the freedom to do the right thing for customers and the incentive to do the right thing for profits. That's the heart of entrepreneurship.

Nucor says its businesses 'operate independently and compete collectively'. What this means is that the pursuit of autonomy shouldn't prevent the company from coordinating activities where that adds value. Interestingly, Nucor is able to achieve coordination without resorting to bureaucratic mechanisms such as C-level 'czars', centralised services, or a matrix of reporting relationships.

Ultimately, it is leadership's role to ensure that the innovation and adaptability process within your business environment is human-centric. It is only by proactively owning the innovation and adaptability process that organisations will be able to create new, relevant jobs, to seek the talent they need based on capability more than occupational skill, and to reinvent their workforces.

Adam closed by encouraging organisations to question their assumptions. The process of questioning should come before you talk about culture, risk, strategy, and/or ambitions. This is what is required to organise for the day after tomorrow.

Throughout the event, there were formal Q&A sessions, informal opportunities to ask questions, and a closing panel discussion. Some highlights from these sessions are summarised below.

- **Question:** How can HR keep up to date and informed about the broader environment?
Answer: Build a scout network for your company. The future is being distributed; you need people in your organisation or network who are regularly engaged and understand what's happening in the space. Go to see the start-ups; read widely in areas that you don't think are relevant to you (e.g. if you're in education, start reading up on blockchain). Occasionally attend conferences that specialise in things you don't think are immediately relevant to you.
- **Question:** What is the value of going into university, given today's environment?
Answer: The university system is broken. It comes with a debt burden, a commercial imperative, and there is a gap between the skills being taught and what is needed in the future economy. If you're recruiting talent over the next five to ten years, why do you care what certificate they have? What you want in your employees is aptitude, culture fit, motivation, and a learning orientation. Look for those qualities.
- **Question:** Quite often we can see a change coming, but we fail to react. How can HR get the organisation to respond when they see something coming?
Answer: HR is uniquely qualified to deal with this. But there are DNA-level obstacles that prevent organisations from reacting to changes (bulky systems, processes, incentives, etc.). In this, the person at the top who defines the language, voice, and culture of the organisation is critical; if they don't make it easy for people in the organisation to speak truth to power, the organisation is in trouble.
- **Question:** What is common about the leaders in the businesses you have referenced? Can their qualities be developed or are they unique?
Answer: Motivation, high self-belief, and an ability to excite others to exceptional performance. These qualities can be developed to some extent.
- **Question:** What do we really need to do to create more agile organisations?
Answer: This is difficult because we think it has to do with trying harder and moving faster, but actually our organisations are burdened by old systems and processes. Organisations should ask themselves: 'Can we drop the sack?' (i.e. old systems and processes). It also comes down to using data effectively. Data empowers decision-making; an agile organisation measures constantly and iterates according to changing realities. Agility is a data-led view of what the market wants.
- **Question:** What are the critical future skill sets? Can we define them?
Answer: Adaptability and tolerance for reinvention (both personal and organisational). We should also ask what skills are uniquely human and/or suited to working with machines.
- **Question:** What does the move to autonomous teams/decentralisation mean for HR, in terms of making these teams successful?
Answer: Maybe HR itself needs to be organised into small, agile teams. Become more fluid; HR doesn't necessarily have to be stratified itself. HR may evolve to be much more about psychological support; whatever it is, it must be data-led. 'Context making' may be the main goal of HR of the future, which means helping teams and organisation learn how to figure things out for themselves.
- **Question:** When an organisation is in decline, what can you do?

Answer: Use your existing platform to facilitate change. There is a risk of making short-term tactical decisions on back of a burning platform. Organisations in this situation often focus on putting out the fire (so they can go from losing business to breaking even). But organisations should use this situation as a wholesale reinvention opportunity.

- **Question:** Given the stagnation in education and its current model of learning, what are some of the techniques we should be thinking about for developing tomorrow's leaders?

Answer: 1. Changing the way we teach (for example, some learning organisations are experimenting with having no lecture halls and no tenured faculty). 2. Convening diverse populations 3. Creating radical transformative experiences (we can't lock people in a room to get a different result, but maybe we can immerse them in a different environment, such as that of another company). 4. Use social media to crowd-source solutions. David Rowan discussed the example of 42, a university in Paris that is funded by a tech billionaire. There are no teachers, no curriculum, and no fees. The university runs competitive technology exercises online. Three thousand students may start a course. The best 300 will be invited to come to the school for a week to do various exercises. The best 100 are then given a place. Their education consists of working through 21 modules with targets of things to build, and they are rewarded for teaching each other. This university is very effective at identifying highly gifted talent from marginalised communities. They feed their talent into large French companies. They are entirely focused on ability rather than status. This university is responding to changing real-time needs.

- **Question:** In terms of 'best of times, worst of times' thinking, what do we face in this technological revolution?

Answer: Adam's optimistic take is that Generation Y can force new mindsets to be the new norm. His pessimistic take is that the tension that will emerge in trying to get there will be huge. David's optimistic take is that new technologies are going to solve a lot of problems, such as extending our lives and raising our income levels. His pessimistic take is that the benefits of technology will continue to be unfairly distributed. We need to reform monopoly capitalism, which requires effective political leadership that is in short supply. We should also be rethinking the role of status in human life, and having ethical debates about some of the new technologies, but we don't yet see this happening.

John Whelan closed the event with some key questions we should be thinking about now:

- How can we bring new talent and new ideas to our organisations?
- With regard to our definition of diversity, in addition to gender and racial diversity which are critical, are we thinking about diversity of thinking in our organisations?
- Do we allow time and space for creativity and innovation in our organisations?
- Can we set up systems that allow experimentation and make it a positive thing in our organisations?
- Are we doing enough 'up and out' thinking? What are we doing to scan the environment and to get our organisations to think about these challenges?