

Surfing the Waves of Disruption

By all accounts, the transformation of Microsoft in 2014–2020 was dramatic and impressive. Under the leadership of Satya Nadella who took over as CEO in February 2014, the company transformed itself from a seller of packaged software—such as Windows and its suite of Office applications—to a cloud computing powerhouse, renting online storage and processing power to companies. By 2020, it had more cloud computing revenues than Google and its 17 percent cloud infrastructure market share was larger than the market share of IBM, Alibaba, and Google combined (though it was still second to Amazon’s 32 percent share). Another big change was the move away from selling its suite of business applications—Word, Excel, and PowerPoint—to renting them to customers who would pay an annual licence fee. The company now boasts more than 200 million subscribers.

The transformation was not painless. It required radical cuts in the funding of Windows and Windows-based projects in order to finance the move into cloud computing. It also required letting go of investments that did not fit the new vision—for example, in 2015 the company wrote off \$7.6 billion of its Nokia acquisition. More importantly, the transformation required a fundamental change in the Microsoft culture, away from everything being built around Windows to a world where Windows was just one client among many and where the company targeted its services at iPhone, Android, and Mac.

There is no question that Microsoft’s transformation has—so far—been a success. Its stock price climbed by more than 200 percent in a six-year period from 2014 and its market capitalization surpassed \$1 trillion on 25 April 2019. This is certainly impressive, but here is the challenge for Microsoft: Having just gone through the turmoil of one major transformation, it barely has time to take a breath or rest on its laurels. It needs to

continue on the path of continuous radical change and may even have to embark on yet another major transformation. The reason is simple enough. New and even more radical disruptions—such as virtual reality, artificial intelligence (AI), machine learning, robotics, synthetic biology, nanomaterials, big data, new business models—are making their impact felt in industry after industry and changing everything along the way. Microsoft will not be immune to them and this implies that the organization must find ways to “respond” to these disruptions—not only defend against them but also exploit them in creative ways. Imagine how challenging this must be for a leader like Nadella, who just went through the painful process of rejuvenating his organization once. Just when he has “completed” one major transformation journey and maybe is thinking that it’s time for the organization to get some much-needed rest, he needs to rally the troops again for more change and more turmoil.

To his credit, Nadella seems to be fully aware of this. In a May 2019 interview, he pointed out: “At Microsoft we have this very bad habit of not being able to push ourselves because we just feel very self-satisfied with the success we’ve had. We are learning how not to look at the past.”¹ But even if he recognizes the need to not rest on his laurels, the question he must be asking himself is what exactly to do and how. He does not know which of the many disruptions swirling around Microsoft is going to grow or require his attention the most, he does not know in what form the disruption will hit them, and he does not know when it will arrive. But he somehow needs to prepare the organization both emotionally and organizationally to embark on a journey into the unknown. Again, the question is, how can he do this?

What Is Unique About This Challenge

The need to periodically rejuvenate an organization is not new. As Figure 1.1 shows, every organization goes through a life cycle: birth is followed by rapid growth and this, in turn, is followed by maturity. Decline will inevitably follow unless the leaders of the organization step in and rejuvenate it by moving it onto a new growth curve. This is exactly what Nadella did by moving Microsoft into cloud computing. The rejuvenation can sustain the firm for many years, but it will not last forever. At a certain point, maturity will set in and the need for rejuvenation will arise again. Therefore, rejuvenating declining organizations has been a leadership requirement since the beginning of time.

FIGURE 1.1 Periodic rejuvenation is necessary

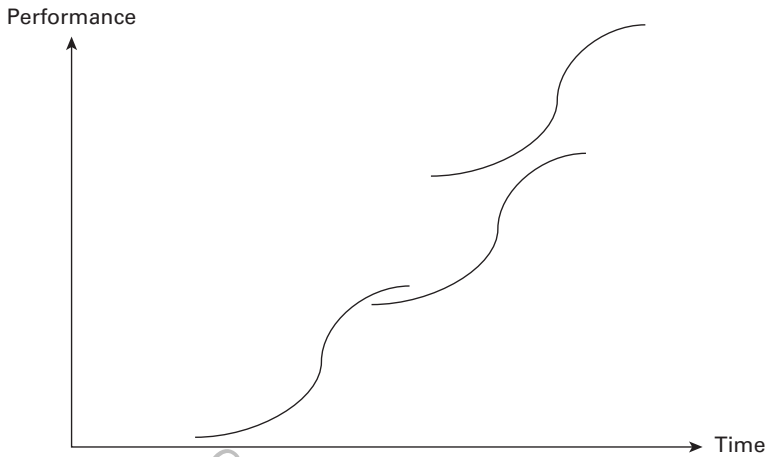


TABLE 1.1 Number of years it took for products to gain 50 million users

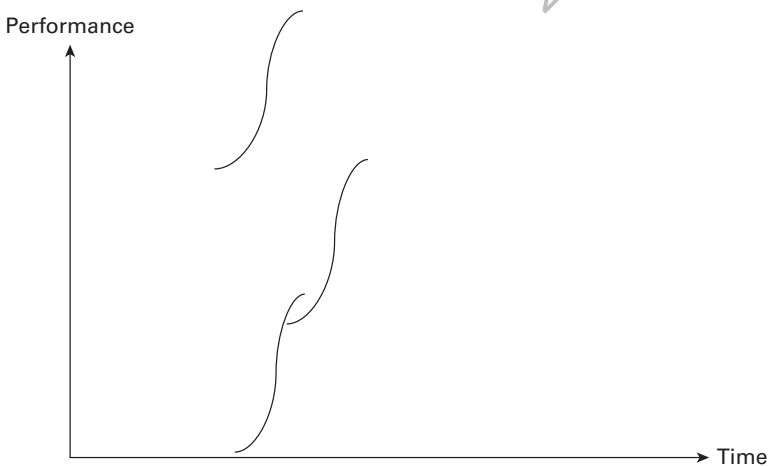
	Years
Airlines	68
Cars	62
Phone	50
Electricity	46
Credit cards	28
Television	22
ATMs	18
Computer	14
Cell phones	12
Internet	7
YouTube	4
Facebook	3
Twitter	2
WeChat	1
Pokemon Go	19 days

SOURCE Jeff Desjardins: "How long does it take to hit 50 million users?" *Visual Capitalist*, June 8, 2018.

However, there is a difference now. In today's world, everything seems to be happening much more quickly. As one example of this, consider the data in Table 1.1. A century ago, it took more than 60 years for products such as airlines or cars to reach 50 million users. By contrast, at the turn of this century, it took less than five years for products such as YouTube and Facebook to achieve the same number of users. This is just one indication that change is happening at an accelerating or even exponential pace. The implication of this has been nicely summarized in *Nature* magazine: "Many things that society now takes for granted would have seemed like futuristic nonsense just a few decades ago. We can search across billions of pages, images and videos on the web; mobile phones have become ubiquitous; billions of connected smart sensors monitor in real time everything from the state of the planet to our heartbeats, sleep and steps; and drones and satellites the size of shoeboxes roam the skies. If the pace of change is exponentially speeding up, all those advances could begin to look trivial within a few years."²

The accelerating pace of change has an additional implication, specific to companies. It is no longer the case that companies face the growth curves depicted in Figure 1.1. Instead, they are now facing the curves shown in Figure 1.2. This basically means that whereas in the past companies could expect their rejuvenation to sustain them for years to come, this will no longer be the case. Before they have a chance to complete one rejuvenation, companies need to embark on another one. There is no time to rest, no time

FIGURE 1.2 Transformation in today's world



to admire their efforts, no time to think. How do you prepare the organization for continuous *and* overlapping disruptions? How do you prepare for what is coming next while you are busily driving your current transformation? And how do you convince “tired” employees to join you on the journey? This is the challenge that every leader is now facing, no matter how successful their digital transformation of the past decade has been.

My own research has alerted me to the magnitude of this challenge. In 2016–2017, I undertook a survey of 150 senior executives in big, established firms from all over the world and asked them to evaluate how successful they had been in responding to the digital disruption of *the past ten years*. The majority said they were satisfied with how they responded and assessed their efforts as “work in progress.” However, when asked about their prospects, 7 out of 10 claimed to be “worried” or “very worried.” There were several reasons given for this, but a key one was their perception that new disruptions were invading their businesses with increasing regularity, demanding continuous attention and resources. What worried them was the challenge of lifting their people for yet another battle so soon after the last one, and the uncertainty of developing a response to disruptions whose effects and timing were still unknown or unclear.

Instinctively, these executives knew that the nature of the task facing them now was different from simply preparing their organization to respond to a *one-off* disruption. Consider, for example, the need to create urgency for change. There is no CEO in the world who does not know that you need to create a sense of urgency in the organization before you embark on a major change journey. This is standard advice in any book on change or transformation, and is an idea that is ingrained in the DNA fabric of any graduating business school student. However, creating urgency for *continuous* transformation is not at all the same as creating urgency for a *one-off* radical change or restructuring. For a start, you have the challenge of galvanizing people who may be emotionally drained from the exertions of your ongoing digital transformation journey. More importantly, your task now is to create not just a one-off sense of urgency but a “permanent” sense of urgency—a constant unease with the status quo—that sustains the organization for the unending journey of continuous change. A burning platform will not do the trick here.

Consider also how you need to frame the need for (yet more) change to your people. Everybody seems to know that it is a mistake to frame disruption as only a threat to defend against. Disruption is both a threat and an opportunity—an idea highlighted by Clay Christensen in his book on

disruptive innovation, which, according to the *Sloan Management Review*, is “one of a select handful of big management ideas the majority of executives are familiar with.”³ In fact, in a survey of 486 global CEOs that I undertook in 2019, I found that almost 96 percent of them believed that it is better to approach disruption as an opportunity rather than as a threat. The challenge, however, is to convince people who are surrounded by threatening disruptions that they should not look at them as threats but as opportunities. At a rational level, they will agree with you. But their thinking and feelings will be dominated by the fear of what disruption might do to them. It is this fear that will preoccupy them and guide their actions in the middle of the disruption. As a result, your best attempts to convince people to approach disruption as an opportunity will most likely fall on deaf ears and the majority of people will treat it as a threat. As I will explain later, this will lead to wrong actions and responses. It is therefore imperative to find ways to convince people that disruptions are indeed opportunities and should be treated as such.⁴ But how do you do that? And how do you do it again and again?

What This Book Will Cover

The purpose of this book is to explore the question: “How do you prepare the organization to respond to *continuous and overlapping* disruptions or one disruption after another in a short period of time?” Another way of saying this is: “How do you prepare the organization to be ready to engage in continuous radical change?” As I have already hinted, the challenge is complicated by the fact that you have limited time at your disposal and you are already busy with your current transformation. In addition, you are likely to be facing an organization that is emotionally tired from the transformation you are already undertaking. All this adds up to a huge and unique challenge that requires different skills and strategies from those that served us well in the past. This book will explore some of the things that leaders have to do to succeed in this. Specifically, we will explore the following issues:

- First, you need to convince your people that the disruptions coming your way are not just threats to your hard-earned success. Yes, they are threats, but they are also opportunities that need to be exploited in creative and innovative ways. Most people would claim that they have heard this

advice before but unfortunately it is easier said than done. Your people are surrounded by disruptions and all they see all day are the negative consequences of these disruptions. Sure, at a rational level they can appreciate that many benefits will come their way, maybe sometime in the future. But their immediate concern is to stay alive! Their attention will be focused on the negative aspects of disruption and no matter what you say, they will “hear” or “see” only threat. How, then, can you convince people that something is positive when all they see around them is negative? We will explore this issue in Chapter 2.

- Second, you need to create a “permanent” sense of urgency that keeps your people on a constant state of alert. You don’t know when the next disruption will hit so you need to be ready at all times. This means that creating a burning platform is not enough—that is how you create a one-off sense of urgency but it’s definitely the wrong way to create a positive sense of constant unease with the status quo. At the same time, your people are emotionally drained and tired from the transformation you are currently undertaking. Scaring them into action will not do the trick. You have to find new ways to rally them. We will explore how to do this in Chapter 3.
- Third, you need to institutionalize the day-to-day behaviors that will allow you to not only identify quickly if a disruption is heading your way but also respond to it quickly and effectively. This sentence is a mouthful and it will take us two chapters to untangle everything that this statement implies. Suffice to say that the behaviors needed are well known to everybody, so the problem is not lack of knowledge. The problem, instead, is lack of action: Despite knowing what is expected of them, few people follow these behaviors. There are, of course, reasons for this, and we will explore what those reasons are and what can be done to get everybody in the organization to behave in ways that will make us agile and ready to embrace whatever disruption hits us, whenever. This topic will be covered in Chapter 4. We will also explore how to institutionalize these behaviors in a *decentralized* way, through the actions of managers and team leaders throughout the organization. This is a far more effective and sustainable way to change the culture of the organization than the centralized, top-down way. This topic will be covered in Chapter 5.
- Fourth, giving mid-level managers and team leaders autonomy and encouraging a decentralized change process cannot be undertaken in a vacuum. It should be obvious that granting autonomy without some

constraints or guiding parameters will be a recipe for disaster. We therefore need to develop the parameters within which people can act with freedom and autonomy. The most important of these guiding parameters are the clear *strategic choices* the organization has made as to what it will do and, more importantly, what it will *not* do. This sounds simple enough, but the evidence is that organizations do not make the necessary choices that a good strategy requires, nor do they communicate their strategy clearly enough to offer guidance to their people. Another important guiding parameter is the *purpose and values* of the organization that help people decide what is right for the company and what is not. Again, this sounds easy to put in place, but the evidence is that most organizations fail to “sell” their purpose and values to their employees to win their buy-in. As a result, these remain beautiful decorations on the wall rather than becoming the guiding lighthouse for our people. We will explore how to improve this state of affairs in Chapter 6.

- Fifth, the time will come when the organization needs to develop its specific strategy to respond to whatever disruption is affecting its business. It is impossible to decide on a response strategy without knowing first what specific disruption we are responding to, but the most important thing is to ensure that our response is an innovative one. The goal should not be to defend against the disruption but to exploit it, a topic explored in Chapter 7. This raises the issue of *how* to develop an innovative response and we will consider how to achieve this in Chapter 8.
- Not only must we develop an innovative response, we must also convince our people that this is the correct response for us. In addition, no strategy will be perfect from the start, so we need to ensure that we learn from the market and adjust what we are doing accordingly. How do you know if your strategy is right and how do you convince others to support you? The answer is through experimentation, but the problem is that not all experiments are good ones, especially when it comes to experimenting with a strategy rather than a new idea or product. How can you design and carry out a “clever” experiment for your response strategy? We will answer this question in Chapter 9.
- Finally, the time will come when the organization will embark on its response strategy and the issue that will arise is how to make the transition from whatever it is doing now to what it needs to be doing in the future. Migrating to the new strategic position is a challenge and many things can go wrong along the way. We will explore how to make this transition as painlessly as possible in Chapter 10.

I hope that senior executives reading this will find nothing surprising in these steps and there should be nothing here that they do not immediately recognize. But I also hope that they are sufficiently intrigued to read further, to understand *how* to implement these steps. The contribution of my book is not the discovery of an unknown recipe for success. Instead, I will try to show that how you implement *correctly* what on paper looks obvious and common sense can be the difference between success and failure. Knowing what to do is not the same thing as doing it or doing it correctly, and this is the area where I hope my book can be useful to you.

Will reading this book make you a better leader or a better manager? This will depend not so much on whether you learn something new but on whether you translate into action any insights you develop as you read this book. The evidence is that as human beings, we very often fail to translate knowledge into action. For example, we all know we should engage in regular physical exercise, but few of us do it; we all know we should challenge and question continuously how our company operates, but we rarely do it, unless we are facing a crisis; we all know that as leaders, we should be spending a lot of our time “thinking strategically” about our business, but the evidence is we don’t. There are many reasons for this knowing–doing gap.⁵ Not having enough time is one reason, and so is an organizational culture and incentives that do not encourage the desired behaviors. But another, more personal reason is the feeling of helplessness. Many times, we don’t do something because we believe our actions will not make a difference. For example, can I as an individual really change the culture or the incentives of my organization? Can I really change how my people behave? If we believe that our efforts will have no or little effect, then why bother trying? One of the things that I will try to communicate in this book is the butterfly principle.⁶ This states that “small changes can have a big impact.” This book will highlight some of the “small things” that you can do to make a big difference in your organization. If the prospect excites you, then read on!

References

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