Organizational Playbook of The Disruptors

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What Do You Think of When I Say…

'Silicon Valley'?

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Two guys and a garage:
Again and again and again

There Is A Dated (and Dangerous) Perception Globally: 'The Myth of Silicon Valley'

1. 'High Tech' capital of the world
2. Risk taking mentality
3. Innovative
4. Huge pile of money called Sand Hill Road
5. It's OK to fail
6. Open networking, everyone helps each other
7. Fast-paced
8. Driven by money
9. Stanford (& Berkeley)
10. Isolated from rest of world, self-centered, hype machine

Silicon Valley has made a big shift…

From "High Tech Capital of the World"

- Makes technology-based products
- Sells IT to businesses globally
- Arms merchant

To "Industry-Disruption Capital of the World"

- Builds disruptive businesses
- Competes with businesses globally
- Mercenary

... and has already disrupted several industries in very significant ways

Five Examples:

Industry	Disruptors	Revenue Disrupted	Disrupted
1. Mobile Handsets	iOS ANDROID	$ 75B	Motorola, Nokia, RIM, mobile operators
2. Advertising	Google facebook	$ 45B	Broadcast & print media, big brands
3. Music	Apple PANDORA	$ 20B	Music retailers, distributors, labels
4. Movies	NETFLIX	$ 6B	Movie retailers, content creators
5. Hospitality	airbnb	$ 6B	All major hotel chains globally

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The incumbent CEO's dilemma

What's the most unsettling scenario if you're the CEO of large incumbent in a slow-growth mature industry somewhere in the world?

How about a well planned, focused attack by a fully-funded, below-the-radar disruptor that simultaneously …

… Takes on the risks of re-envisioning how your industry can operate and grow

… Builds a product or offers a service that is deemed 'much better' by your customers than your current offer

… Focuses on efficiently tearing away your most profitable customers with a better value proposition and/or business model

… Undercuts your cost structure with advanced technology and/or business model innovation

… Hits you with sustained force sufficient to inflict major damage

… Outflanks your every response with a superior battle plan and strategy

… Not constrained as you might be by a bureaucratic culture, lack of an innovative culture, high cost structure and being slow to competitive responses

▶ *Your move*

Software Is Eating the World…

Source: **Why Software Is Eating The World** by Marc Andreessen, Wall Street Journal, August 11th, 2011

An incredibly vibrant financial services cluster with 1,000 companies focused on disruptive innovation has taken root in Silicon Valley

10+ financial services centric companies who historically happened to be headquartered in Silicon Valley, combined with:

VISA · WELLS FARGO · VeriFone · PayPal · intuit

25+ traditional 'tech companies' with a strategic Silicon Valley presence who recognize the utter importance of the financial layer, combined with:

Google · amazon · Apple · facebook · SAMSUNG

500+ Silicon Valley startups broadly in the financial services space, combined with:

PROSPER · motif INVESTING · PERSONAL CAPITAL · BTCjam · SoFi · CLINKLE · KIVA · coinbase · Square · robinhood · UPSIDE · wealthfront · Stellar · ripple · LendingClub · FutureAdvisor · stripe · YODLEE

30+ financial services multinationals who have opened a strategic presence in Silicon Valley

RBS The Royal Bank of Scotland · citi · BBVA · BNY MELLON · JPMorganChase · Standard Chartered · USbancorp · AMERICAN EXPRESS · AXA · Deutsche Bank · Bank of America · BNP PARIBAS · L'ATELIER BNP PARIBAS GROUP · CapitalOne

Silicon Valley is Simply Building More Value In Greater Numbers Than Any Other Fintech Cluster Globally

Massive Sharing, Ideas Competing, Massive Learning, Fast Cycles – 'Ideas Having Sex'
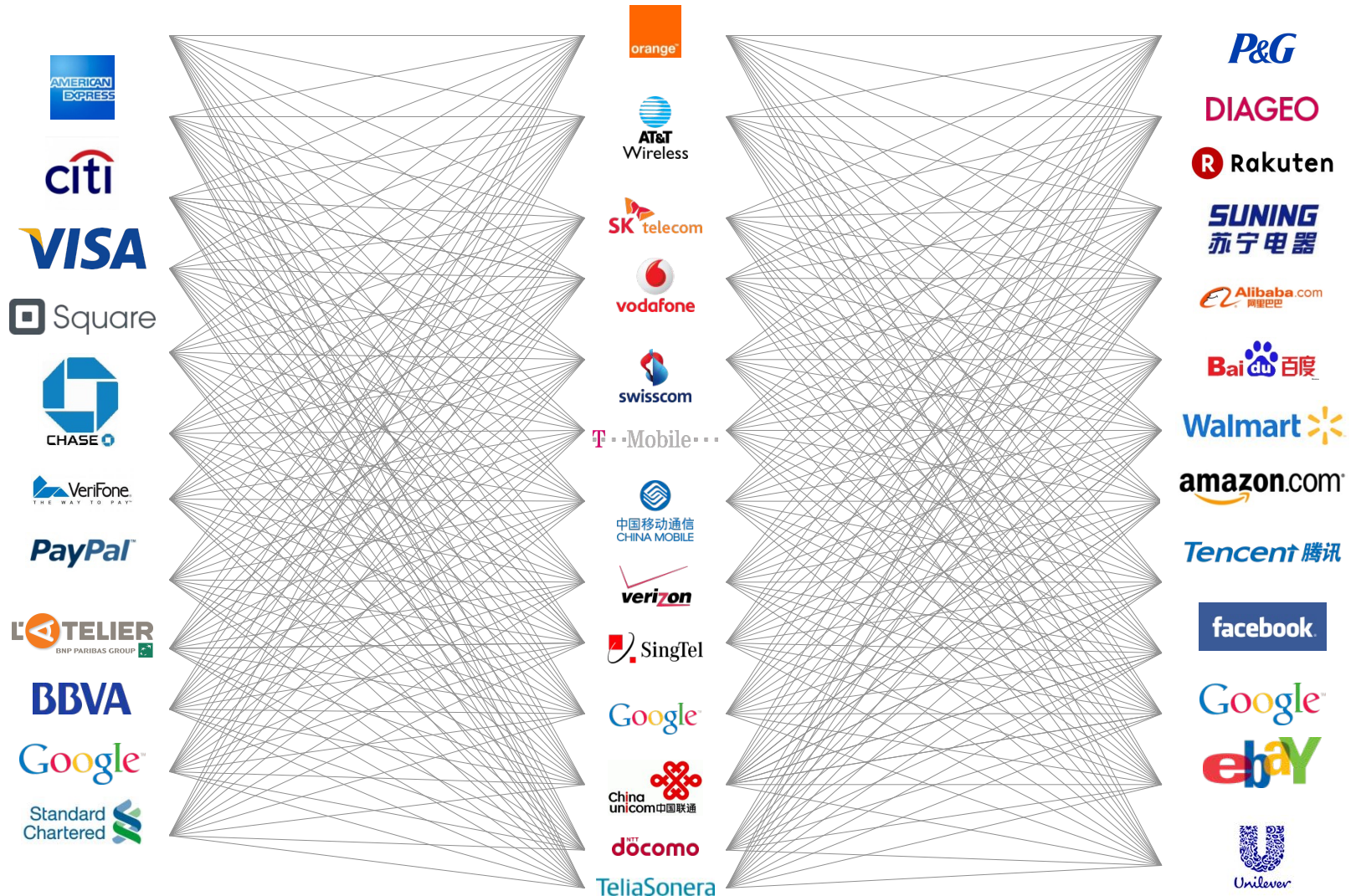
Average Age: 13.5 years
Average Shareholder Value Created: USD $108B
Average Shareholder Value Created PER YEAR: USD $8B

25 Principles used by Innovative Organizations

#1. Platforms, not Apps: Hackathons Won't Get You There

Characteristics of Platforms

① Global scale

② Creation of new sources of supply (Uber)

③ Creation of new user behaviors on the demand side (Airbnb)

④ Build scale partner ecosystems (Facebook)

⑤ Network effects (WhatsApp)

⑥ Architecting a strong curation system with transparency (PayPal)

⑦ Bring scarcity and surplus together (Kickstarter)

#4. Amalgamation: Focus on Combinations of Old (and New) Things

Silicon Valley did not invent:

- Integrated circuit
- PC
- Smart phone/feature phone
- Internet
- Browser
- Database
- Search technology

But it certainly knows how to innovate …

… creating trillions of dollars in value off others' core IP

#5. Open Organization: Relentlessly Open Innovation

#6. Disruptive Hypothesis: Challenge Conventional Assumptions

Car Rental Clichés	Disruptive Hypotheses

Car Rental Clichés

- Rent by the day
- Fill out paperwork
- Pick up at the airport

Disruptive Hypotheses

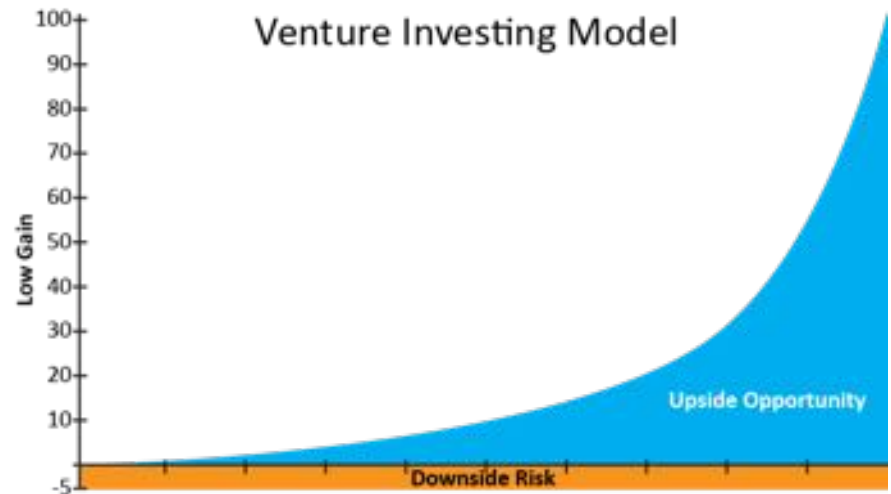- Rent by the hour
- No paperwork
- Pick up in the city

zipcar
wheels when you want them

#8. Learn: Pilots & Prototypes

#9. Asset Light: Leverage Assets of Others

Rent, don't own assets, people, resources

Traditional Corporate Investing Model

Potential Upside Opportunity

Potential Downside Risk From Costs

Venture Investing Model

Upside Opportunity

Downside Risk

Sources: Yuri van Geest, co-author "Exponential Organizations"; Joi Ito, Director, MIT Media Lab
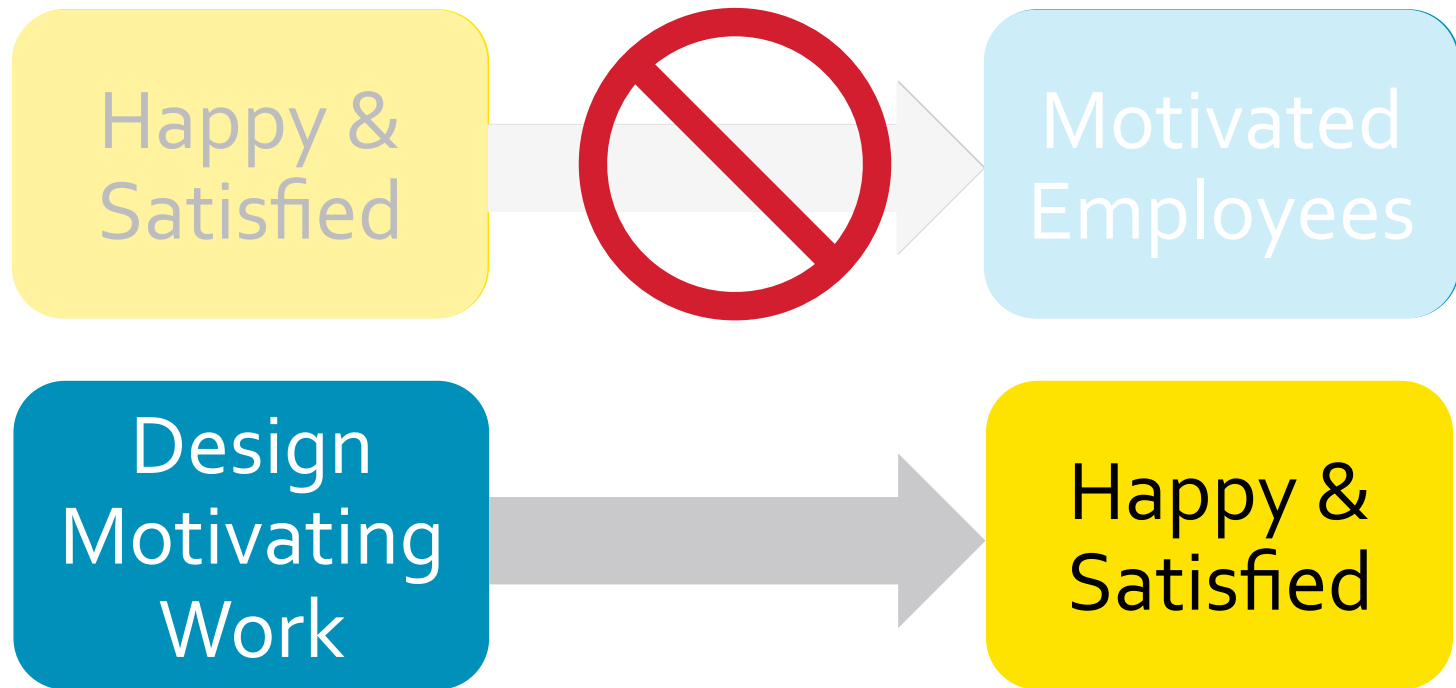
#10. Math: Become World Class at Data Science

Old School: Qualitative.

New School: **Quantitative**

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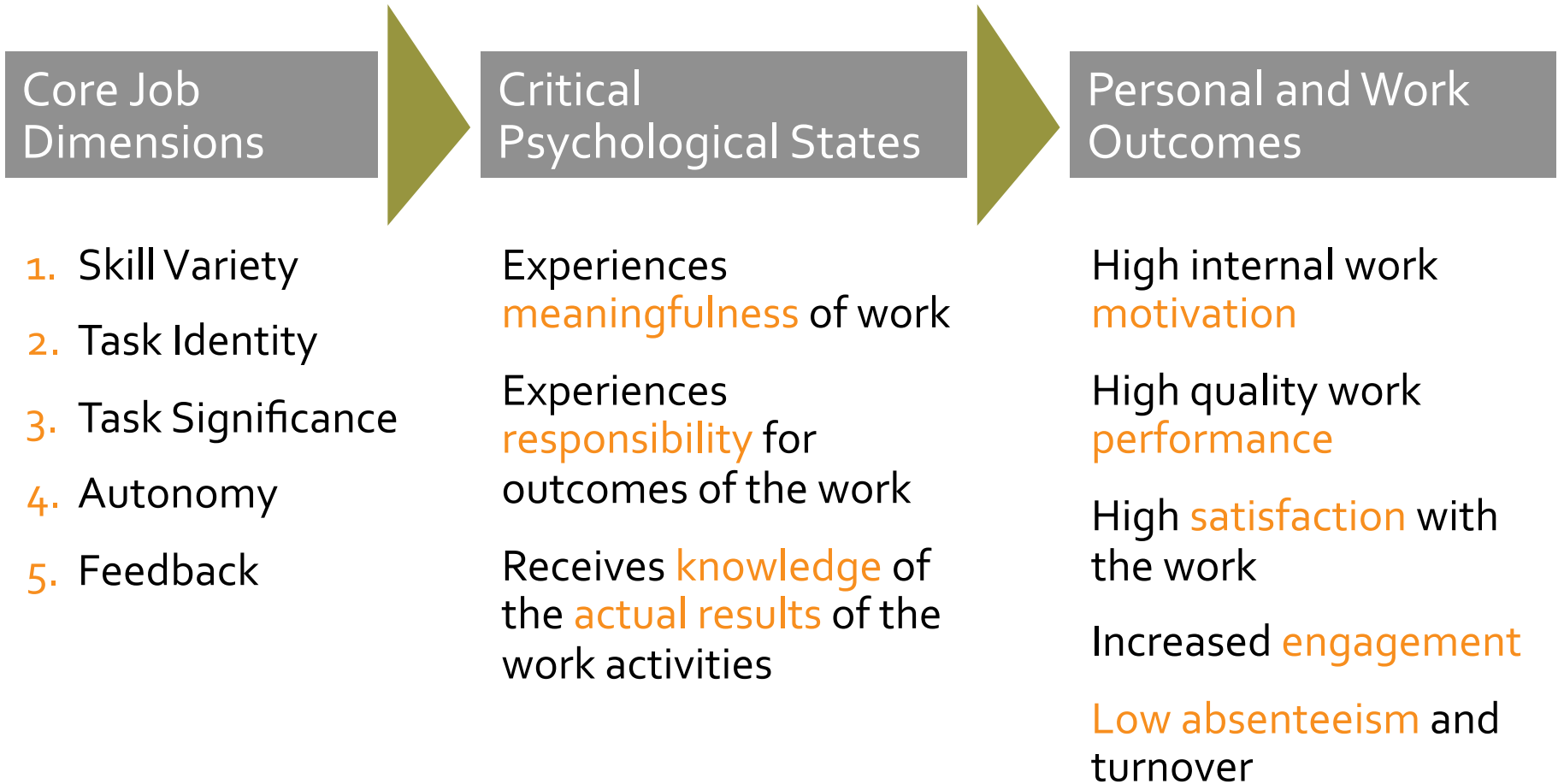
#15. **Motivation:** Overtly Design Meaningful Work

Happy & Satisfied → Motivated Employees (not)

Design Motivating Work → Happy & Satisfied

Insanely Motivated People **are** the Key to Productivity, Innovation and Disruptive Ideas

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Core Job Theory 101

Core Job Dimensions		Critical Psychological States		Personal and Work Outcomes

Core Job Dimensions

1. Skill Variety
2. Task Identity
3. Task Significance
4. Autonomy
5. Feedback

Critical Psychological States

Experiences meaningfulness of work

Experiences responsibility for outcomes of the work

Receives knowledge of the actual results of the work activities

Personal and Work Outcomes

High internal work motivation

High quality work performance

High satisfaction with the work

Increased engagement

Low absenteeism and turnover

Source: Job Characteristic Theory, Hackman & Oldham

13%

Source: Gallup Q12 Survey, November 2013

#20. Pace and Decision Making: A Relentless Sense of Urgency and Speed Trumps Consensus

#24. New Archetypes: Hire More Weirdos, Misfits, Renegades, Outliers and Pirates

'Here's to the crazy ones, the misfits, the rebels, the troublemakers, the round pegs in the square holes … the ones who see things differently – they're not fond of rules … You can quote them, disagree with them, glorify or vilify them, but the only thing you can't do is ignore them because they change things … they push the human race forward, and while some may see them as the crazy ones, we see genius, because the ones who are crazy enough to think that they can change the world, are the ones who do.'

— *Steve Jobs*

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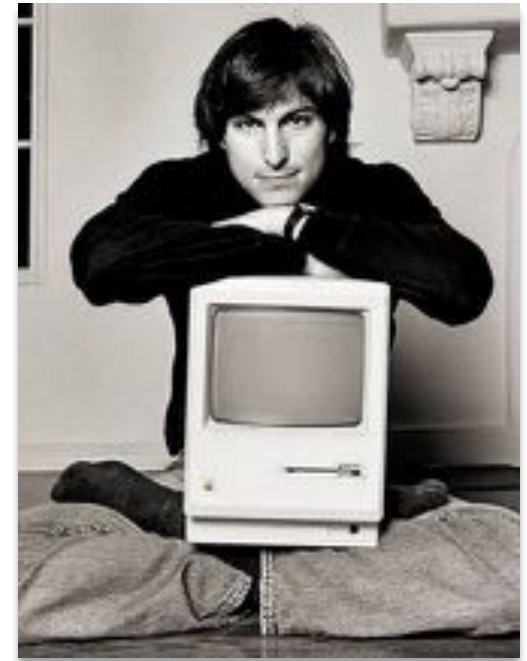
20+ Principles used by Innovative Organizations

Strategy
("ideas")

1. **Platforms Not Apps:** Hackathon Thinking Won't Get You There
2. **Value:** Growth as the primary metric
3. **Vision:** Have a *big* and *clear* vision
4. **Amalgamation:** Focus on combinations of 'old,' not net 'new'
5. **Open Organization:** Relentlessly open innovation
6. **Disruptive Hypothesis:** Challenge conventional assumptions
7. **The Magic:** Look for the Magic Moment
8. **Learn:** Pilots & prototypes
9. **Asset Light:** Leverage assets of others
10. **Math:** Become world class at data sciences

20 Principles used by Innovative Organizations *continued*

Customer

11. Customers: Understand and lead with UX

People

12. Talent: Become world class at global **and** internal talent mapping

13. Primary Organising Principle : Dunbar number

14. (Legally) Exploit Ageism: Leverage the under-35s

15. Motivation: Overtly design meaningful work

16. Finance: Kick 'em off the growth and innovation teams

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20 Principles used by Innovative Organizations *continued*

Culture
(Still "People")

17. **Independence:** Cut them loose from the mother ship

18. **Surface Cognitive Biases:** Better decision-making, faster

19. **Reference Point:** Focus

20. **Lateral Thinking:** Beyond the obvious

21. **Pace and Decision Making:** A relentless sense of urgency

22. **Leadership:** Achieved vs. ascribed

23. **Accountability:** Yes, please …

24. **New Archetypes:** Hire more weirdos, misfits, renegades, outliers and pirates

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Thank You!

Further Reading: http://www.650labs.com/disruptor-proof-points/

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Me

Strategist & Advisor, Corporate Change Agent, Speaker, Provocateur, Easily Distracte

Focus on disruption, innovation, strategy & revenue growth

300+ clients spanning 25+ years and 50+ countries – tech, media, telcoms, retail, financial services, manufacturing, public sector, CPG, oil & gas, chemicals, utilities + lots and lots startups

Adjunct professor of innovation at design school CEDIM (Monterrey, Mexico) including teaching alliance with Stanford's d.school

650 Labs   **What We Do**

Help large companies drive growth, strategy & innovation

- Organize initial projects

- Train, coach teams

- Be the 'Operating Partners'

- Educate board member and senior executives

- Help CXO drive innovation from projects into parent

Business Builders + Change Agents

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#2: Value: Growth As The Primary Metric

Innovation and Growth are Inextricably Linked

Large companies globally across industries have an extremely poor track record of innovation

4,800 public cap companies globally across all industries with revenue of USD $1B or more

What percentage of the 4,800 can grow top line revenue organically by 5% per year for 5 years in a row?

8%

Source: **Harvard Business Review**, January/February 2012, The Growth Outliers, by Rita McGrath

#3. Vision: Have a Big and Clear Vision

Bad	Good

CISCO "Shape the future of the Internet by by creating unprecedented value and opportunity for our customers, employees, investors and ecosystem partners"

Google "To organize the the world's information"

SINGULARITY UNIVERSITY "Go impact a billion people"

Large European Bank "We will become a digital company"

XPRIZE "Radical breakthroughs for the benefit of humanity"

Source: Salim Ismail, co-author "Exponential Organizations"

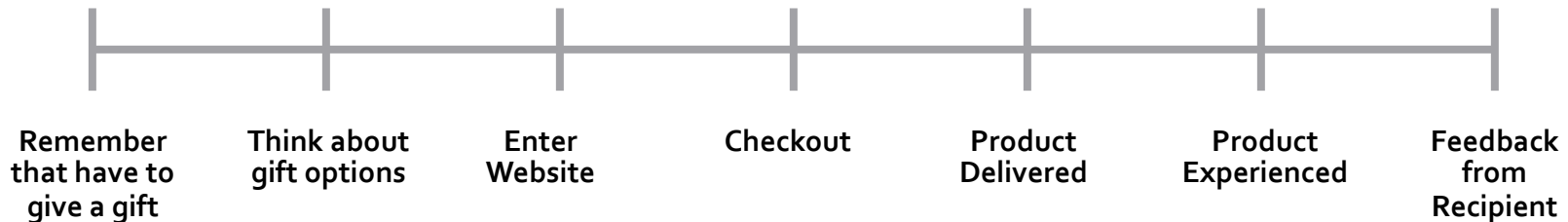# #7. The Magic: Look for the Magic Moment

The Magic Moment is the light bulb moment when the user realizes how this 'thing' changes his/her life; it does NOT come from just a cool UI
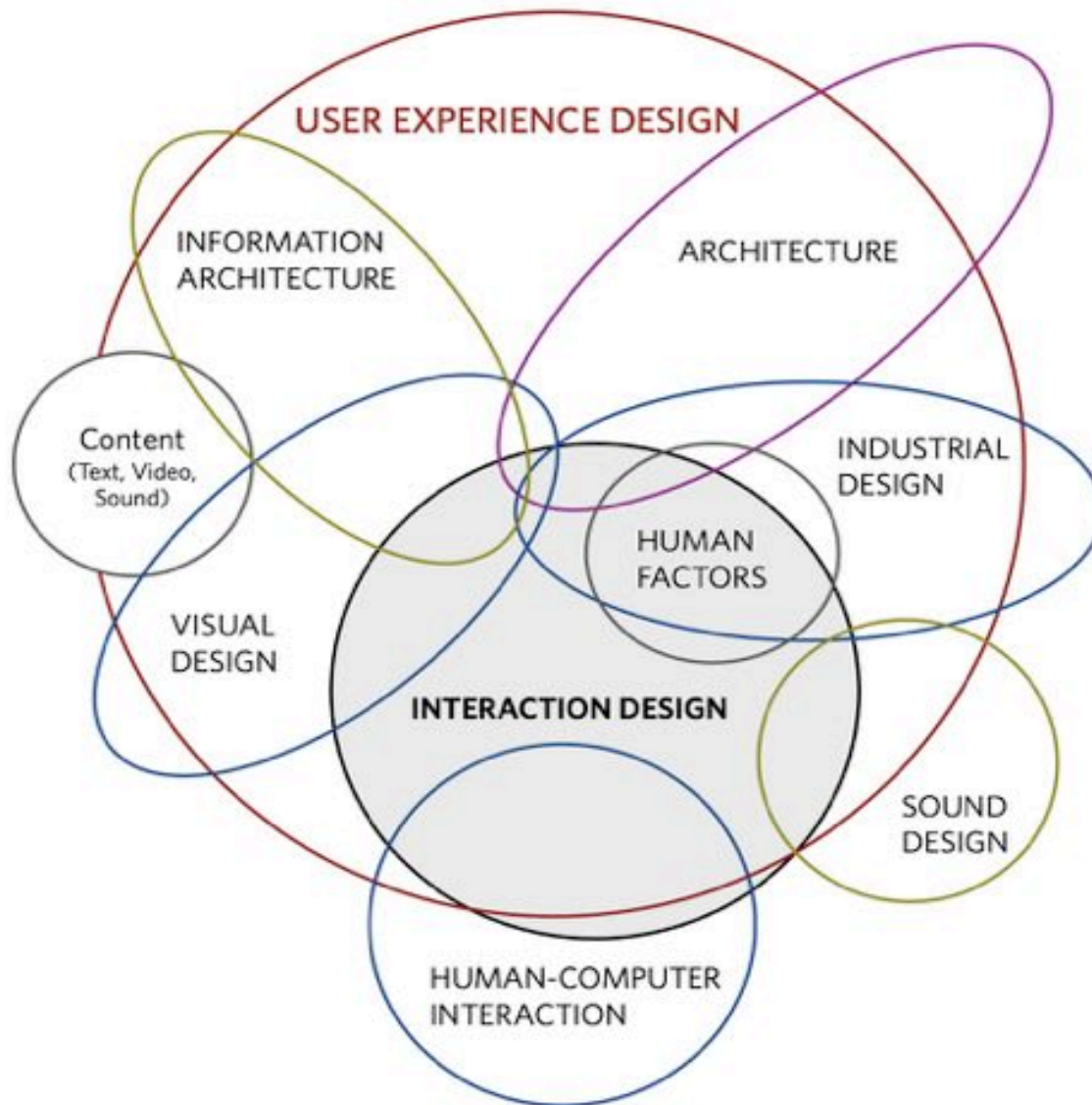
#11. Customers: Lead with UX

What is UX?

UX ≠ UI

Enter Website — Checkout — Product Delivered

Remember that have to give a gift — Think about gift options — Enter Website — Checkout — Product Delivered — Product Experienced — Feedback from Recipient
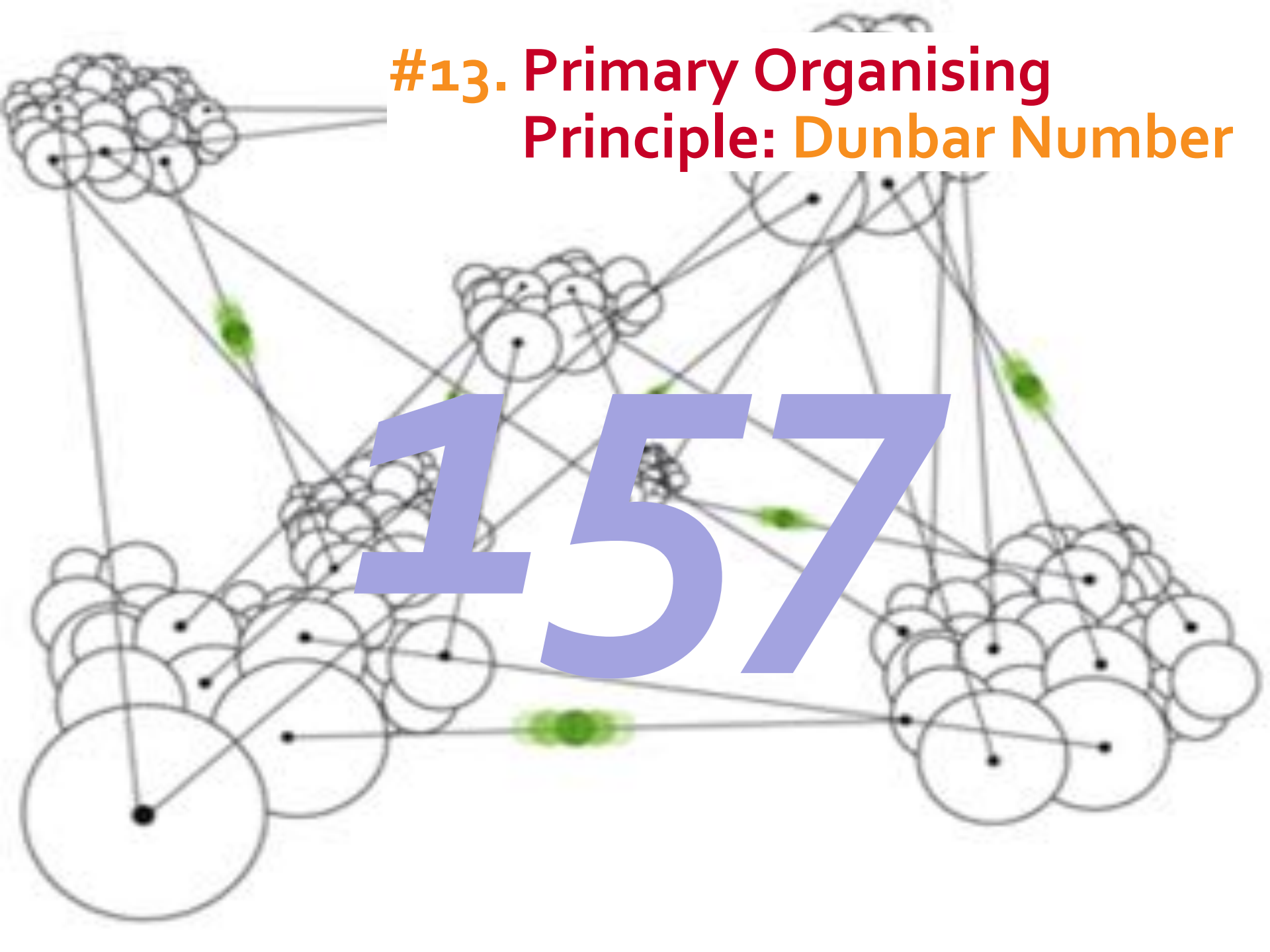
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Implications of Focus on UX

#12. Talent: Becoming World Class at Global and Internal Talent Mapping

#13. Primary Organising Principle: Dunbar Number

157

#14. (Legally) Exploit Ageism: Leverage the Under-35's!

Charles Darwin	28
Ada Lovelace	27
Albert Einstein	26
Leonardo DaVinci	23
Dorothy Hodgkin	23
Blaise Pascal	19
Alexander Graham Bell	18
George Westinghouse	18
Louise Braille	15

Age-Based Organizational Pyramids are so 19th Century...

Key employees in multinationals who should be involved disruptive innovation activities very seldom are

Neuroeconomics

- Big companies are typically ↓β
- ↓β companies tend to attract & hire ↓β people
- Personal appetite for risk? (↑β or ↓β)
- Corporate ladders & the 25 year anniversary clock

Why Under 35?

1. Nothing to lose
2. Something to prove
3. Healthy naivety
4. More physical energy
5. 'Closer to the future' – represent creative destruction
6. More optimistic
7. Not corporately formatted (yet)
8. Often recently up-skilled
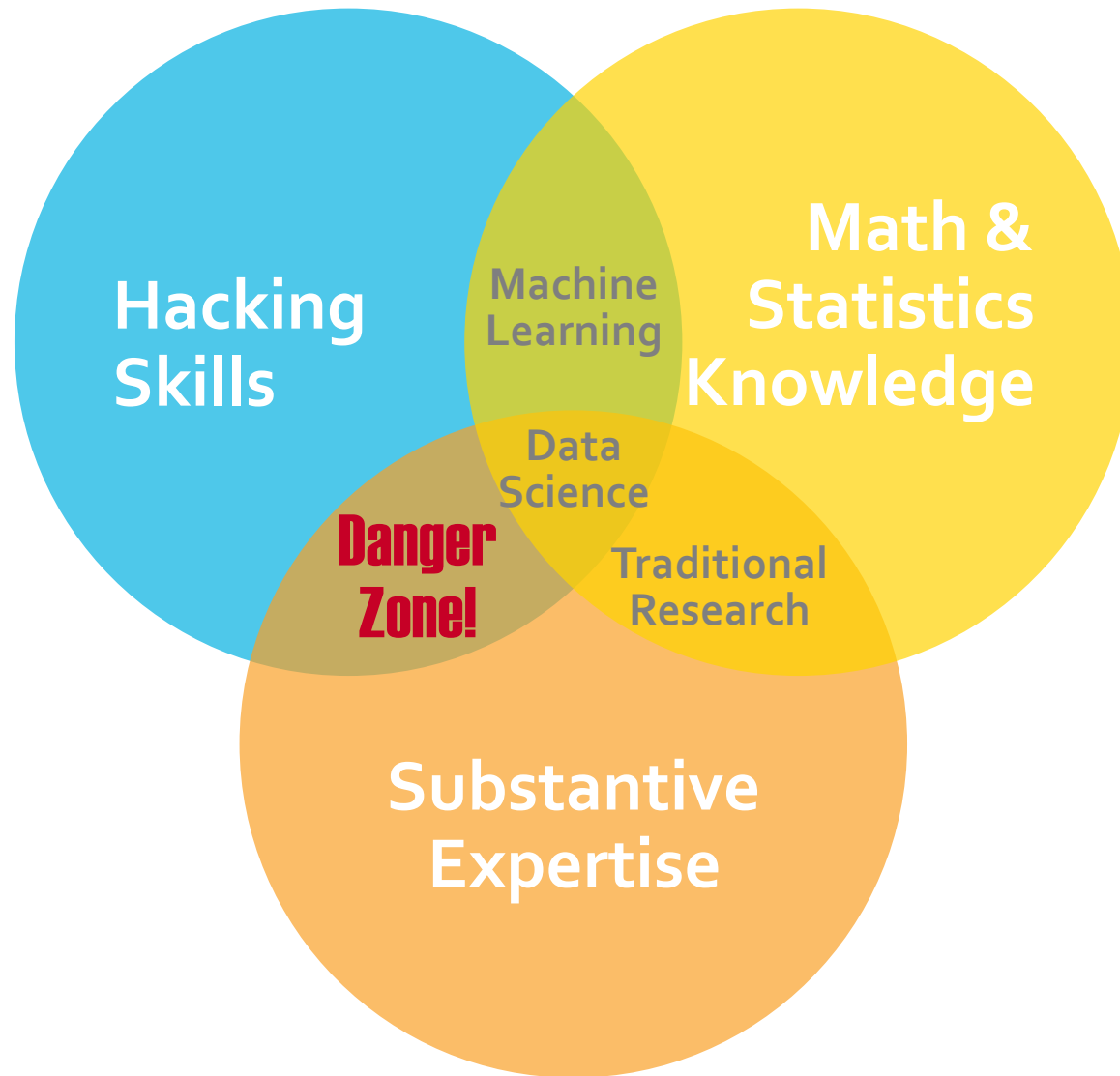9. Single = more discretionary effort
10. In peak cognitive age

...there is the whole thing about the 'Generational Tidal Wave'

% Population by Age
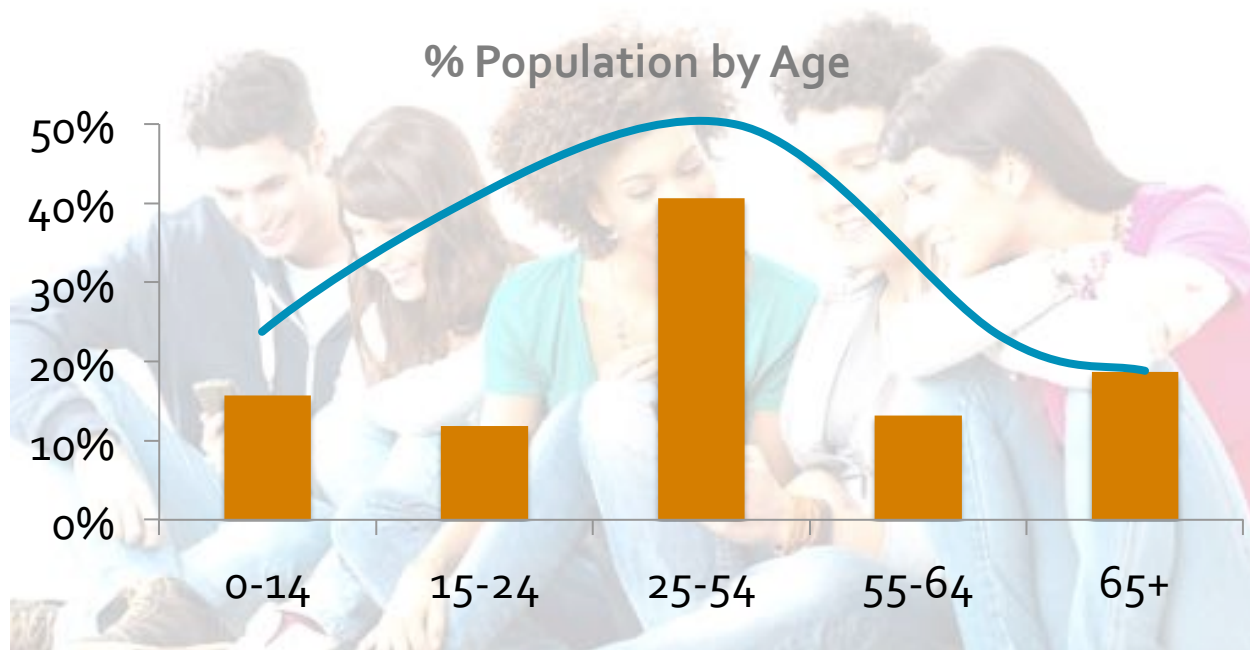
Beliefs, Behaviors & Expectations

Organizational Implications of Quant

#16. Finance: Kick 'Em Off the Growth/ Innovation Teams

#17. Independence: Cut Them Loose From the Mother Ship

#18. Surface Cognitive Biases: Better Decision-Making, Faster

FRAMING

LOSS AVERSION: We feel losses more acutely that gains of the same amount, which makes us more risk-adverse that a rational calculation would recommend.

SUNK-COST FALLACY: We pay attention to historical costs that are not recoverable when considering future courses of action.

CONTROLLABILITY BIAS: We believe we can control outcomes more than is actually the case, causing us to misjudge the riskiness of a course of action.

PERCEPTION

CONFIRMATION BIAS: We place extra velue on evidence consistent with a favored belief and not enough evidence that contradicts it. We fail to search impartially for evidence..

GROUPTHINK: We strive for consensus at the cost of a realistic appraisal of alternative courses of action

OVERCONFIDENCE: We root our decisions in an initial value and fail to sufficiently adjust our thinking away from the value.

ACTION

EXCESSIVE OPTIMISM: We are overly optimistic about the outcome of planned actions. We overestimate the likelihood of positive events and underestimate that of negative ones..

OVERCONFIDENCE: We overestimate our skill level relative to others' and consequently our ability to affect future outcomes. We take credit for past positive outcomes without acknowledging the role of chance.

STABILITY

STATUS QUO BIAS: We prefer the status quo in the absence of pressure to change.

PRESENT BIAS: We value immediate rewards very highly and undervalue long-term gains.

#19. Reference Point: Focus

#21. Lateral Thinking: Beyond the Obvious

"What should I do…?"

versus

"What *COULD* I do…?"

#22. Leadership: Achieved vs. Ascribed

#23. Accountability: Yes, Please …