

CHERRY PIE



By Nigel Lake

As 2016 approaches, how big a slice of the future are you ready to eat?

As 2015 draws to a close, are you looking back in awe at the extraordinary changes that have unfolded around the world in the past 12 months? Or is your focus more strongly on disruption and the opportunities for dramatic outperformance or decline that lie ahead?

In more and more industries, the leading businesses have learned to love innovation and to embrace change. The benefits of being a first-mover—and indeed a fast-mover—appear to be increasing. Meanwhile, the dangers of sitting back, reflecting for a while, and attempting to be an effective fast-follower appear to be increasing too. In consumer markets, fickle consumer attitudes may result in preferences changing so rapidly that your leading market position may disappear too quickly for you to adjust course in time to avert disaster. RIP Nokia and Blackberry, both once hundred-billion-dollar companies.

There are implications for nations too. The regions that have become the natural home to innovative businesses and new technologies have achieved huge advantage. This has happened time and again throughout history. Whether it was the invention of the wheel, or the smelting of metals, or the development of firearms, or the agricultural revolution, or the industrial revolution, economies

and populations at the forefront of revolution were clear winners. In contrast, those that held onto the status quo, or were simply left behind by evolution, suffered significant disadvantage.

Over the past 50 years, these advantages have come in the form of better access to capital (through financial innovation), better healthcare, and better technology, among others. Importantly, they have also come through the related magnetic effects on human capital, whereby the best, brightest, and most innovative will pack their bags, throw caution to the wind, and relocate their careers, families, and financial resources to live where they perceive the best opportunities to be. These innovation hotspots thus have access to better people, more money, and more ideas than anywhere else in the world, creating extraordinary advantage.

Despite the obvious advantages of winning the innovation arms race, countries and cities have been relatively slow to seize the opportunities. While many countries have sought to build financial centres, for 50 years or more Silicon Valley has dominated global innovation in technology, particular since the internet age dawned. It is only in relatively recent years that new tech hubs have emerged in other cities and other countries. These new centres are growing rapidly. They may be far behind the

Sandhill Road in writing their own histories, but they are far ahead of everyone else. Why did this take so long?

There are important implications for organisational cultures and recruitment strategies too. If you hire only in your own image, the chances of spotting new trends and opportunities are surely reduced. If everyone looks the same and thinks the same, making a smooth transition to a new paradigm will be all the more challenging. Even more importantly, if leaders in business all fit the same organisational mould, will they be prepared to support innovators and innovations that look and feel dramatically different from what has been successful in the past? If you are older, wiser, and more experienced (in the way the world used to be), will you be best placed to seize those seemingly weird opportunities that emerge from left field?

Of course, this is not an age thing per se, but is rather all about mindset. Simply visiting San Jose and being excited when the latest start-up pitches its skills is not enough. Nor is it sufficient to open up innovation labs or host hackathons within large enterprises. Big business needs to do more than talk digital and cheer new B2B technologies from the sidelines. Businesses and governments need to buy new technology and develop a strong



bias towards favouring innovation over the tempting reliability of incremental change. Done right, innovation and new technologies are cheaper than ever before—the bleeding edge now cuts more deeply into those at the back of the queue, rather than the front.

These principles apply in politics too. Fluid consumer sentiment manifests as rapidly evolving voter preferences, and year by year there appears to be less and less tolerance for leaders that are not delivering. Just as CEO tenure has shortened over the years, in some countries at least this appears to be happening to politicians too.

The past 20 years have also seen an explosion of superficiality. Whether it is the consumer's love of low-brow reality television, or the stinking detritus that flows down the rivers of social media, or products and brands that are built on perception and advertising spin more than product quality and reliability, superficial products, services, and entertainment have been warmly welcomed into many areas of our lives. Perhaps unsurprisingly, however, a growing yearning for authenticity has also emerged, particularly in relation to leadership.

The inherent tension between these two systemic trends should give every leader significant pause for thought. The world and its population face enormous challenges over the next couple of decades. Irreversible decisions made since the 1970s have led and will continue to lead to enormous environmental issues in the form of climate change. Even if all use of fossil fuels were to cease within a decade (an almost unthinkable outcome), it's like the world will experience close to two degrees of warming, with risk remain of significant runaway effects.

As populations grow, the competition for natural resources, including agricultural outputs, fish stocks, and minerals, continues to grow. Competition for financial resources will also become more intense as the effects of increased concentration of wealth in the hands of the richest individuals

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(and, to a degree, the richest nations) lead to increased domestic and international tension. The huge refugee flows seen in 2015 are no more than an early sign of what may follow if these issues are not grasped.

As a lifelong believer in the power of competition to drive efficiency, it's critical to differentiate very clearly between the economist's competitive market paradigm and the real world experience of a free market. The two are, in practice, very different in nature and effect. The former pitches thousands of small, equally powerful (or weak) competitors against each other in a Darwinian search for the best possible result—leading to the most efficient and profitable use of the resources in question. The latter allows the strongest and most competitive organisations to rise above all others to the point where they control the markets and can write their own rules. Some companies may use this to their customers' advantage, offering better services at lower prices. But the mantra of short-term shareholder value creation frequently drives others to seek to extract the highest possible price and build an unassailable monopoly, unimpeded by regulations designed to prevent anticompetitive behaviour.

Whether in the form of the Volkswagen 11-million-vehicle recall, or extensive market manipulation by global investment and corporate banks, or the reported endemic corruption within FIFA, free market behaviours have shown a tendency to be exceptionally costly and damaging for consumers. Worse, the examples are not limited to individual companies. Some industries have invested billions of dollars to inhibit change and defend the status quo, resulting in tremendous damage to consumers and whole economies along the way. As the pace of change accelerates, the number of established businesses facing existential threats will surely increase, creating more pressure to break society's rules to survive. These examples are (you would hope) far from the rule, but the number, nature, and

extent of infringements across many industries should never be forgotten.

So what does this mean for 2016?

First, you must enter the year with a bias for action, and for favouring innovation over the status quo. Fortune will favour the bold first-mover more strongly than ever before. As the heat increases in the melting pot of change, the laggards will sink out of sight incredibly quickly.

Second, you must act like an early-adopter too. At a trivial level, there are still far too many leaders who talk digital but don't act digital, as evidenced very simply by the lack of a presence on Facebook or Twitter (which depends somewhat on the nature of your customers and workforce). Being late to adopt email was one thing (your approach just looked old fashioned). Being late to use social media effectively will result in your being out of touch, and increase the risk of your making bad decisions.

Finally, embrace failure as a learning experience. Where an environment is changing rapidly, the creatures with the shortest life cycle adapt and evolve the most rapidly, and hence are the most likely to survive. Similarly, those that innovate rapidly and are prepared to experiment and accept failures along the way will be the quickest to identify successful new paradigms. And there is no doubt that they will have a great deal more fun along the way! •

About Nigel Lake

Nigel is CEO of global advisory firm Pottinger and an entrepreneur with a passion for diversity, innovation, environment, and action. He is author of *The Long Term Starts Tomorrow* and is a senior associate of the University of Cambridge Institute for Sustainability Leadership. Follow him on Twitter at @Nigel_Lake.

About Flashpoint

Very few businesses can rely on incremental growth to ensure long-term success. The safety of the status quo has been consigned to history by technological innovation and the accelerating pace of change. In Flashpoint, we explore potential disruptions and inflection points in major industries, and provide tools to help leaders guide and support their teams through this environment.