

Why Large Organizations Still Struggle With Disruption



IN RECENT MONTHS I've been working with a large, well-known organization whose very existence is being challenged by an onslaught of technology — AI, autonomy, quantum, cyberattacks, access to space, etc. — from aggressive competitors, both existing and new. These competitors are deploying these technologies to challenge the expensive (and until now, incredibly effective) legacy systems that the client organization has built for decades — and they are doing it at speed that looks like a blur to them. But the organization is also challenged by the inaction of its own leaders, who cannot let go of the expensive systems and suppliers they built over decades. It's a textbook case of the 'innovators dilemma.'

This company's fate is not yet sealed. Inside it, I have watched incredibly innovative groups create autonomous systems and software platforms that rival anything a start-up is doing. They have found champions in the field organizations and have run experiments with them. They've provided evidence that their company could

adapt to the changing competitive environment and even regain the lead. Simultaneously, they've worked with outside organizations to complement and accelerate their internal offerings.

They are on the cusp of a potential transformation—but leadership is hesitant to make substantive changes.

The 'Do Nothing' Feedback Loop

I have seen this play out time and again in both commercial and governmental organizations. There is nothing more frustrating for innovators than to watch their organization being disrupted while its senior leaders hesitate to take more than token actions. On the other hand, no one who leads a large organization wants it to go out of business. So, why is adapting to changed circumstances so hard for these organizations?

The answer starts at the top. Responding to disruption requires action from senior leadership — including the CEO and board of directors. Fearful that a premature pivot could put their legacy business or forces at risk, senior leaders

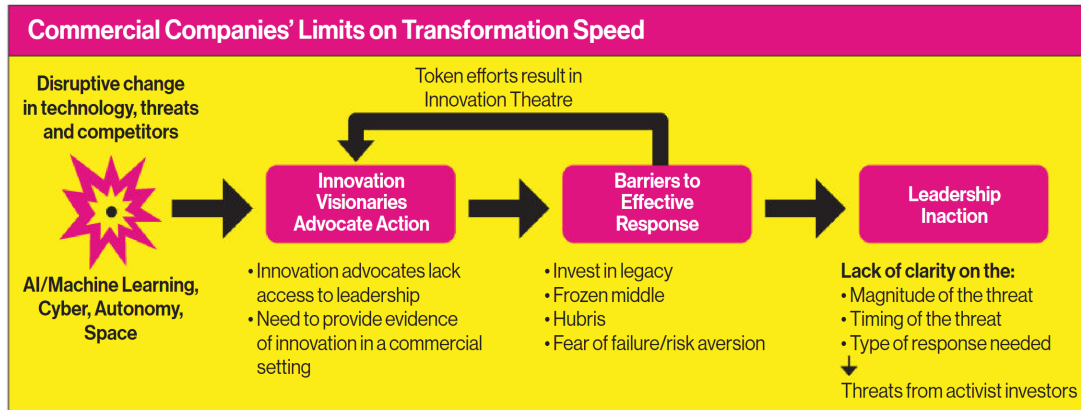


FIGURE ONE

delay deciding — often until it's too late. My time with this particular company has helped me appreciate why adopting and widely deploying something disruptive is difficult and painful for organizations. Following are the key reasons:

DISCONNECTED INNOVATORS. Most leaders of large organizations are not fluent in the new technologies and resulting disruptive operating concepts/business models they could create. They depend on guidance from their staff and trusted advisors — most of whom have been hired and promoted for their expertise in delivering incremental improvements to existing systems. The innovators in their organization, by contrast, rarely have direct access to senior leaders. Innovators who embrace radically new technologies and concepts that challenge the status quo and dogma are not often welcomed, let alone promoted or funded.

LEGACY. The organization I've been working with, like many others, has decades of investment in existing concepts, systems, platforms, R&D labs, training and a known set of external contractors. Building and sustaining their existing platforms and systems has left little money for creating and deploying new ones at the same scale (problems that new entrants/adversaries may not have). Advocating that one or more of their platforms or systems are at risk or may no longer be effective is considered heresy — and likely the end of a career.

THE 'FROZEN MIDDLE'. A common refrain I hear from innovators in large organizations is that too many people are resistant to change (*'They just don't get it.'*) After witnessing this behaviour for decades, I've learned that the *frozen middle* occurs because of what's called the 'Simmelweis effect' — the unconscious tendency of people to stick to preexisting beliefs and reject new ideas that contradict them, because it undermines their established norms and/or beliefs. This group is most comfortable sticking with existing process and procedures, and hires and promotes people who execute the status quo. This works well when the system can continue to succeed with incremental growth, but in the face of more radical change, this normal human reaction shuts out new learning and limits an organization's ability to rapidly adapt to new circumstances. The result is organizational blinders and frustrated innovators. And you end up with world-class people and organizations for a world that no longer exists.

Not everyone is affected by the Semmelweis effect. In my experience it's often mid-grade managers/officers in this same 'middle' who come up with disruptive solutions and concepts. However, unless they have senior champions (VP's, Generals/Admirals) and are part of an organization with a mission to solve operational problems, these solutions die. These innovators lack alternate places where the culture encourages and funds experimentation and non-consensus ideas. Ironically, organizations tend to chase these employees out because they don't conform. Or, if

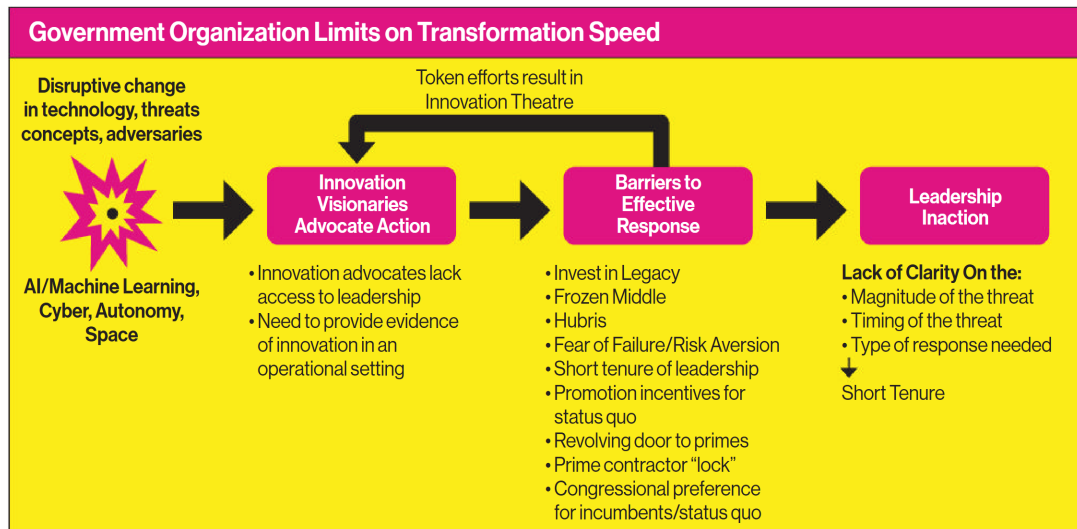


FIGURE TWO

forced to conform, they grow disillusioned and leave for more innovative work in industry.

HUBRIS. This term describes the managerial behaviour of overconfidence and complacency. Unlike the unconscious Semmelweis effect, this is an active and conscious denial of facts. It occurs as some leaders/managers believe change threatens their jobs as decision-makers or that new programs, vendors or ideas increase the risk of failure, which may hurt their image and professional or promotional standing.

In the organization I've been working with, the internal engineering group offers senior leaders reassurances that they are responding to disruption by touting incremental upgrades to their existing platforms and systems. Meanwhile, because their budget is a zero-sum game, they starve innovators of funds and organizational support for deployment of disruptive new concepts at scale. The result is 'innovation theatre.' In the commercial world, this behaviour results in innovation demos, but no shipped products and a company on the path to irrelevance or bankruptcy. In the military, it's demos, but no funding for deployments at scale.

FEAR OF FAILURE/RISK AVERSION. Large organizations are built around repeatable and scalable processes that are designed to be 'failsafe.' New initiatives need to match existing budgeting, legal, HR and acquisition, processes and procedures.

However, disruptive projects can only succeed in organizations that have a 'safe-to-fail' culture. This is where learning and discovery happens via incremental and iterative experimentation with a portfolio of new ideas and failure is considered part of the process. Fail-safe versus safe-to-fail organizations require different cultures, different people, different development processes and a different risk tolerance.

FEAR OF ACTIVIST INVESTORS. A limit on transformation speed that is unique to commercial organizations is the fear of 'activist' investors, who push public companies to optimize short-term profit by avoiding or limiting major investments in new opportunities and technology. When these investors gain control of a company, innovation investments are reduced, staff is cut, factories and R&D centres closed, and profitable parts of the company and other valuable assets are sold.

Unique Barriers for Governmental Organizations

Governmental organizations face additional constraints that make them even slower to respond to change than large companies. To start, leaders of the largest government organizations are often political appointees. Many have decades of relevant experience, but others are acting way above their experience level. This kind of mismatch tends to happen more frequently in government than in private industry, resulting in the following challenges to innovation:

When will a disruption happen that will make your core business design or operating concepts obsolete?

LEADERS' TENURES ARE TOO SHORT. All but a few political appointees last only as long as their president in the White House, while leaders of programs and commands in the military services often serve two- or three-year tours. This is way too short to deeply understand and effectively execute organizational change. Because most government organizations lack a culture of formal *innovation doctrine* or *playbook* — a body of knowledge that establishes a common frame of reference and common professional language — institutional learning tends to be ephemeral rather than enduring. Little of the knowledge, practices, shared beliefs, theory, tactics, tools, procedures, language and resources that the organization built under the last leader gets forwarded. Instead, each new leader relearns and imposes their own plans and policies.

GETTING ALONG GETS REWARDED. Career promotion in all services is primarily driven by 'getting along' with the status quo. This leads to things like not cancelling a failing program, not looking for new suppliers who might be cheaper/better/more responsive and pursuing existing operating concepts even when all available evidence suggests they're no longer viable. The incentives are to not take risks. Doing so is likely the end of a career. Few get promoted for those behaviours, which discourages non-consensus thinking. Yet disruption requires risk.

REVOLVING DOORS. Senior leaders leave government service and go to work for the very companies whose programs they managed, and who they had purchased systems from. The result is that few who contemplate leaving the service and want a well-paying job with a contractor will hold those contractors to account or suggest an alternate vendor while in the service.

What to Do About It?

It starts at the top. Confronted with disruptive threats, senior leaders must actively work to understand:

- The *timing* of the threat. Disruption never comes with a memo, and when it happens its impact is exponential. When will a disruption happen that will make our core business design or operating concepts obsolete? Will our competitors get there first?

- The *magnitude* of the threat. Will this put a small part of our business/capabilities at risk, or will it affect our entire organization?
- The *impact* of the threat. Will this have a minor impact or does it threaten the leadership or the very existence of the organization? What happens if our competitors/adversaries adopt this first?
- The *response* to the threat. Plan for small experiments, department transformation, and company or organization-wide transformation — and its timeline.

To counter disruptive threats, the typical reporting relationship of innovators filtered through multiple layers of management must be put aside. Senior leaders need a direct and unfiltered pipeline to their internal innovation groups for monthly updates and demos of evidenced-based experiments in operational settings and the new operating concepts to go with it.

In closing

In the commercial world, creative destruction happens all the time. You get good, you get complacent, and eventually you get punched in the face. The same holds true for government organizations, albeit with more serious consequences. The struggle is real. But it doesn't have to be. **RM**

Steve Blank is an Adjunct Professor at Stanford University and Co-Founder of the Gordian Knot Center for National Security Innovation. Described as the father of modern entrepreneurship, he is credited with launching the Lean Start-up movement and the curriculums for the U.S. National Science Foundation Innovation Corps and Hacking for Defense and Diplomacy. He is the author of *The Four Steps to the Epiphany* and *The Start-up Owner's Manual*.