

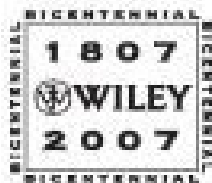
JOSSEY-BASS

EPIC CHANGE

How to Lead

Change in the Global Age

Timothy R. Clark



John Wiley & Sons, Inc.

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More Praise for *EPIC Change*

“As a serial entrepreneur and CEO of a Hi-Tech startup, I thought I ‘got’ change. I was wrong; Tim Clark has given me a model to harness change into sustainable results.”

—**Darren Lee**, CEO, NextPage

“Through a systemic approach, Tim describes the challenges and solutions to all kinds of organizational change to create competitive advantage in a global world.”

—**Juan Carlos Linares**, president, DBM Colombia,
Bogota, Colombia

“Tim Clark provides an insightful and thought-provoking description of the human dynamics inherent in change, as well as a valuable framework for executives to follow for the health of their organizations. I highly recommend this book to anyone whose responsibilities or interests involve leading others; these concepts are essential for competitiveness in the twenty-first century global economy.”

—**Mark Jennings**, managing director,
Grey Mountain Partners

“Not only a must-read . . . this is a book that deserves study over and over. It is filled with practical, substantive, and complex-made-simple concepts and tools to benefit anyone leading large organizational change. As a change

consultant, *EPIC Change* is already influencing the way I approach my work with my clients who are leading change.”

—**Marcelino Sanchez**, corporate manager,
Enterprise Change Management, Textron, Inc.

“Utah Valley State College has gone through significant change as we have moved to Utah Valley University. We have used Dr. Clark’s theory and strategy in moving us successfully to a bright future. His writing and presentations are both academically sound and organizationally practical.”

—**Dr. William Sederburg**, president,
Utah Valley University

“Only exceptional leaders can see clearly the crisis facing their organizations, coalesce their team, develop the sense of urgency, and communicate the vision and strategy needed to steer the organizations through the crisis. Tim Clark has produced an indispensable, best-in-class, road map for change leaders. Ignore this book at your peril.”

—**Joseph A. Cannon**, editor, *Deseret News*

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Change in the Global Age

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To Tracey

PART ONE

OVERVIEW

Several years ago I left the dreamy spires of Oxford to return to the United States and look for a teaching position. It was my career plan to settle down into an academic post somewhere. But that was not to be. I ultimately found myself on a very different path; I took a job with a large manufacturing organization and stayed for eight years.

During that time, I became a plant manager rather than a tenured professor. Instead of walking the halls of academe in khakis and loafers, I found myself in fire-retardant greens and steel-toed boots with metatarsal shields. When I made the theory-to-practice transition and traded the ivory tower for the shop floor, I could not have imagined the journey ahead. In the end, the company I worked for succumbed to the competitive pressures of international rivals. We shuttered the operations, declared bankruptcy, and liquidated the assets. The crushing reality of our demise appeared in the form of overseas engineers who came on site in legions, disassembled the factory, boxed it up, and shipped it back across the ocean.

I had participated in an archetypal case of global change, felt its impact on a single organization, and struggled in the bloody aftermath. From my cockpit, I witnessed the long arm of macro-economic force tap an organization on the shoulder and say, "You're out of the game!" Emotionally, I was stunned. I had given several years of my professional life to a cause that had ended in failure and loss for several thousand people. Intellectually, I recognized that I had been

thrust into a leadership issue of first importance—the imperative to respond to fearsome adaptive challenge. This is the issue that I seized upon and have tried to advance in this book.

In the field of change, we have something of a crisis of leadership today, in part, I believe because the strength of our theory has not kept pace with the magnitude of our challenge. It is ultimately not very helpful to tell leaders that the turbulence, speed, and dislocation of the global age have ushered in a monumentally challenging era. It's equally unproductive to tell leaders that the chief impulse of organizations is to rest, and that without strong leadership organizations slump into intractable and rebellious complacency. So what? Unless there is solid, empirically-based theory and a set of practical tools to help a leader respond to a change imperative, we haven't helped anybody. At the end of the day, leadership will always be an applied discipline.

When confronting an adaptive challenge, leaders need to know where their expenditure of effort should go, how to give them, and why. They need to know the mechanisms that arouse and call forth institutional will. They need to know the levers that will multiply force and bring transforming potential to an organization struggling to survive. These are the urgent questions that have driven my research agenda. Most of the leaders involved in the cases I studied make the same confession: they don't have a well-developed theory about the process and how to proceed. Hence the need to puzzle out the answers.

I understand that practitioners learn from theorists. I was one of them. What I have come to appreciate is how much theorists learn from practitioners. In this book, I have attempted to make some headway in solving the riddle of

large-scale organizational change by learning from a spectrum of cases and a stable of practitioners.

In Part One, I want to accomplish two things, First, I want to frame the issue. By this I mean that I want to explain just how central successful change leadership is in the global age. I want to show the immense stakes on the table and the torturous course and lasting consequences of getting it wrong. My second aim is to lay out the discernable patterns of large-scale organizational change from primary research and provide an overview of what I call the EPIC methodology. Once I set the stage with these two tasks, I will present a fuller analysis. I will attempt to explain how leaders can win titanic battles with the competitive forces that prey on their organizations.

CHAPTER ONE

A MORE DANGEROUS CALLING

*Everything in life can be summarized in
two words:
Challenge—Response.*

ARNOLD TOYNBEE

Consider the changing physical profile of linemen who play in the National Football League (NFL). In 1976, there wasn't a single player who tipped the scales at over three hundred pounds. Ten years later, there were 18. During the following decade, the number of players in this fleshy category swelled to 289. Fast-forward to the present, and that number has nearly doubled, with no fewer than 570 players on NFL rosters weighing in at not a biscuit under the three-hundred-pound threshold, constituting fully 20 percent of the player population.¹ Yet the beefier trend isn't new. Players have gradually been getting bigger since the early days of the game; for example, the average lineman for the Pittsburgh Steelers weighed 210 pounds in 1946. Beyond the girth, however, what catches the eye is the astonishing acceleration of the trend.

The hardwood is no different from the gridiron. Look at the mobility of labor in the National Basketball Association (NBA). When Larry Bird was a rookie for the Boston Celtics in 1979, there were six international players in the entire

league. By 1997, that number had risen to twenty-nine. In 2006, there were a striking eighty-two international players from thirty-eight countries on opening-day rosters, with players hailing from such unlikely places as Congo, Latvia, and Turkey. Eight players alone come from Serbia and Montenegro. A record seven international players competed in the NBA finals in 2006, and in 2007 the league's best and second-best players were both international players.² Again, we note a curious and almost inexplicable acceleration of the trend.

These examples of accelerating change are more than carnival curiosities; they characterize the global age. They symbolize the storms of our time—a hastening pace, intensifying competition, and a new Darwinian ferocity. There are similar examples in every industry. And it's no different in health care, education, government, and the nonprofit sector. In both scope and magnitude, the adaptive challenges confronting organizations are unprecedented. There is simply less deliverance through incremental change than there used to be. Organizations frequently require transformational change to revive their fortunes in addition to ongoing, steady improvement. One thing is clear: if there is to be no slowing down, no spontaneous return to order, and no new era of stability, the implications for leaders are permanently and profoundly important.

When competitive forces accelerate, it elevates the leadership challenge. It introduces new demands and skill requirements. The compression creates more cognitive complexity and emotional intensity. Without warning, forces may combine at any time to thwart existing plans and with a hard shoulder push you as a leader onto a different path. If you are not prepared to lead in the midst of turbulence, the global age will pin you against the limits of your ability

to respond. If you can't perform on the new leadership stage, you eventually will fail upward.

The challenge is to get comfortable with uncertainty, live on the edge of chaos, and sustain competitive advantage in the face of endless dynamism. It has become a universal aspiration to figure out how. Organizations everywhere are clamoring to infuse their leaders with the skills that will combine to produce this aptitude. Take a look at almost any Fortune 500 company's leadership development model and you are likely to find some variation of leading or managing change listed as a core competency. Non-business organizations are moving in the same direction. The Office of Personnel Management (OPM), the United States federal government's Human Resources department, for example, identifies "leading change" as its first "executive core qualification" for federal employees who advance to the executive service.

The demand for guidance and direction with issues of change is also reflected in executive education. If the offerings of topflight business schools are any indication, courses on change are in constant high demand. Open-enrollment courses on the subject have found a permanent place in the curriculum. Here's just a sampling of what the market has to offer:

- University of California Berkeley, Haas School of Business: "Leading Change: Demystifying Uncertainty"
- University of Chicago, Graduate School of Business: "Implementing Innovation and Change"
- Columbia University, Graduate School of Business: "Leading Strategic Growth and Change"
- Duke University, Fuqua School of Business: "Leading Innovation and Change"

- ESEAD (Spain): “Managing Change via Culture Reengineering”
- Harvard and Stanford Schools of Business: “Leading Change and Organizational Renewal”
- INSEAD (France): “Women Leading Change in Global Business”
- Massachusetts Institute of Technology (MIT): “Leading Change in Complex Organizations”
- University of Michigan, Ross School of Business: “Healthcare Leadership and Change”
- Oxford University, Saïd School of Business (U.K.) and HEC School of Management (France): “Consulting and Coaching for Change”
- University of Pennsylvania, Wharton School of Business: “Leading Organizational Change”
- University of Virginia, Darden School of Business: “Managing Individual and Organizational Change”

Why all of the fuss? Again, no matter how anticipatory or prophetic an organization tries to be, there will be trajectories in markets and technology that no one will predict. When organizations need to break camp, they need leaders who know how. If an organization initiates change behind a leader who lacks this competency, it has taken an intolerably high risk. Organizations recognize that leading change, especially large-scale change, is unquestionably the most formidable challenge in leadership. Think about the essence of the task: to lead change is nothing less than to summon and redirect institutional will and capacity.

A standard definition of leadership, taught in the nation’s colleges and universities, is the ability to influence people to achieve a shared goal. But if we’re talking about change leadership, this definition crucially misses the mark. It’s a midstream definition that assumes a shared goal. That is seldom the case. Once a goal is identified, the change leader’s first order of business is to make it a shared one,

something that can be the hardest and most time-consuming part of the process. Until a goal is shared, there is only dormant potential to achieve it, and people won't yet permit you to lead them. The goal will simply be denied or ignored. So my definition of change leadership starts one step back, where goals are made, communicated, and affirmed. The essence of change leadership is to respond to the adaptive cycle (see [Figure 1.1](#)).

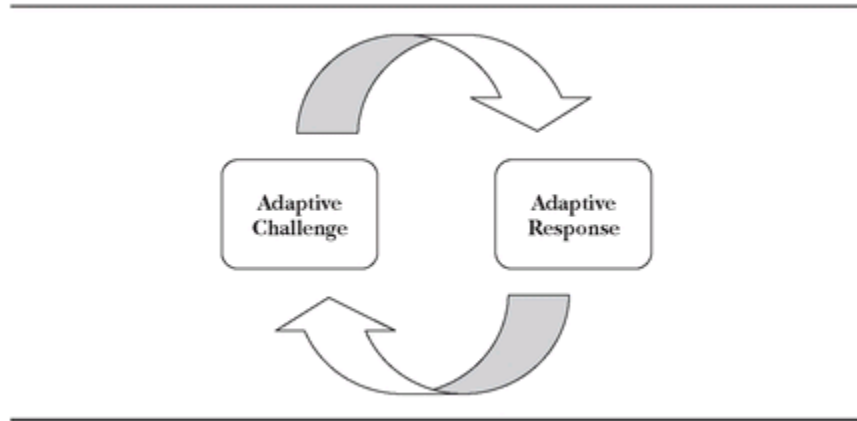
The rationale behind this book is the overwhelming evidence that too few leaders do change leadership well. No leader can afford to move headlong into a serious change effort without a solid understanding of how to navigate the process. The risk is too great. At the same time, if an organization's very existence is at stake, the leader has to act by responding to the threats, sudden shocks, seismic shifts, and rocking dislocations.

Change leadership: The ability to help an organization respond to adaptive challenge.

Here lies the dilemma: by forcing a response to adaptive challenge and at the same time by increasing the risk of failure, the global age is creating a disorienting encounter for leaders. It's making leadership a more dangerous calling than ever before.

Change in the global age is making leadership a more dangerous calling than ever before.

[FIGURE 1.1](#). THE ADAPTIVE CYCLE.



EVIDENCE OF EXECUTIVE CHURN

This isn't merely intuitive theorizing. Mounting empirical evidence casts a shaft of confirming light on this thesis. For instance, the casualty rate among chief executives continues to rise. In 2005, there were 129 CEO changes in U.S.-based Fortune 1000 companies, a 126 percent increase in turnover since 2000.³ In terms of CEO transitions among North American public companies in particular, Liberum Research reports that CEO changes rose 30 percent, from 2,106 in 2005 to 2,733 in 2006. It also reports that management changes in general rose an astonishing 68 percent, from 16,672 in 2005 to 28,058 in 2006.⁴ If it isn't out of a breach of character and fiduciary duty (which I address in Chapter Five), leaders usually fail out of an inability to lead change.

In a recent study conducted by the Conference Board, researchers interviewed 540 CEOs and found that "adaptability to change" was their top business challenge.⁵ Another study questioned over a thousand board members from business and health care organizations that fired or forced out their chief executives. Respondents reported that

the leading cause of failure was “mismanaging change.”⁶ And a study conducted by Accenture found that three out of four major change efforts fail to meet their original objectives.⁷

In all of this, we acknowledge today’s menacing environment. No leader emerges unscathed. No leader is without bumps, bruises, and scar tissue from some degree of navigational error. The leadership success rate has gone down across the board because adaptive challenges come with greater speed. A good measure of that speed is skill obsolescence. Randy MacDonald, senior vice president of human resources at IBM, which employs 330,000 people around the world, estimates that 22 percent of the organization’s workforce will have obsolete skills in only three years.⁸

I was more than a bit startled to hear a quartet of prominent leadership scholars recently declare that “superior results over a sustained period of time is the ultimate mark of an authentic leader.”⁹ My own research comes to a very different conclusion. What I find instead is a pattern in which capable leaders at every level are struggling with unremarkable results and are often checkered with failure. The leader who is able to move through a career with sustained results and uninterrupted success is the rare exception indeed. Often these are the leaders who are either not playing hard enough or gaming the system to select low-risk opportunities that are likely to return professional success. So-called Teflon leaders are more often those who have ridden market waves but successfully avoided down cycles. The vast majority of leaders are struggling with the mantle and millennial requirement to lead change.

LEADERS DON'T GET PAID TO MAINTAIN THE STATUS QUO

Organizations don't outperform their leaders; they reflect them. An organization's ability to adapt and adjust to shifting demands is really a function of a leader's ability to lead change. In today's convulsing environment, this capacity has become more central and more embedded in the definition of leadership than ever before. It resides at the core because it encapsulates a leader's essential stewardship of keeping an organization viable. Regardless of what other competencies you as a leader may have or what other achievements you may attain, if you can't lead organizational change in response to adaptive challenge, your chance of surviving in a leadership role is dramatically lower than it was just a few years ago.¹⁰ As leadership scholars Ronald Heifetz and Donald Laurie argue, "Getting people to do adaptive work is the mark of leadership in a competitive world."¹¹ Or, as Kim Clark, the former dean of the Harvard Business School, observes, "Leadership shows up powerfully and in its most relevant context when you're talking about significant change—when you are looking at the way the organization moves through time and how it adapts, grows, reacts, and responds to the stresses and strains and turbulences of life."¹²

A leader's role is not to maintain the status quo. It is to maintain competitive advantage.

THE FOUR SPHERES OF LEADERSHIP LITERACY

In the global age, change leadership is more about the authority of knowledge than the authority of position, more about consent than command, more about influence than power. In the knowledge category, there have traditionally been three spheres of leadership literacy that are essential to leading change: personal, organizational, and market. These spheres represent the arenas within which leaders perform their work and accomplish their goals. Mastering these spheres has been important to leadership effectiveness and organizational success. But the global age has added a fourth sphere to this repertoire: awareness and understanding of the global arena. [Figure 1.2](#) illustrates the four literacy requirements with concentric circles.

PERSONAL

Change leadership begins in the inner world in the sphere of personal understanding. Awareness of self is an enabling precondition to personal development. If you're a low self-monitor and carry around a heavily edited version of your own reality, you have fewer bearing points to comprehend your performance. There's a high chance that you will wander without solid and cumulative personal progress. As Warren Bennis, a noted student of leadership, explains, "Leaders, like the rest of us, have all sorts of ways of not looking at themselves, of overlooking shortcomings." [13](#)

[FIGURE 1.2](#). THE FOUR SPHERES OF LEADERSHIP LITERACY.



This is true, but the most outstanding leaders whom I've worked with are, as a group, far more submissive to the reality of their own strengths and weaknesses than the average person is. Reality has tutored them to seek the unvarnished truth of themselves, accept feedback in the unsparing light of day, and then do something about it. Those who lack personal knowledge are terribly handicapped. As Bennis further observes, "A lack of self-knowledge is the most common, every-day source of leadership failures."¹⁴ It's also the source of a lack of achievement. The late historian Arthur Schlesinger insightfully reminded us that everything that matters in our intellectual and moral life begins with an individual confronting his own mind and conscience in a room by himself. Hence, the first requirement for any leader is to become an intentional self-learner.

ORGANIZATIONAL

Literacy in the organizational realm means grasping the enterprise and understanding from a systems perspective how the organization does what it does in converting inputs into outputs. It assumes that you as the leader understand the fundamental relationships in the system and how they come together to create value. It means that you know how

to acquire, develop, and retain talent. It implies that you comprehend your organization's performance operationally, financially, and culturally and that you are fluent in all three of these languages.

MARKET

The arena of the market is closely related to the arena of the organization. You ultimately can't understand an organization outside its market context. To know the strengths of your assets and the weaknesses of your liabilities in relative terms, you have to know the topography of your market. You've got to be able to spot trends, threats, disruptions, and opportunities. Where is there waste, inefficiency, or unmet need in your market? These are opportunities.

The combination of organizational and market literacy allows you to formulate strategy and decide how you will compete. Phil Rosenzweig, a professor at IMD Business School in Lausanne, Switzerland, explains it this way: "Wise managers approach problems as interlocking probabilities. Their objective is not to find keys to guaranteed success but to improve the odds through a thoughtful consideration of factors." The reason, he explains, is that "the business world is not a place of clear causal relationships."[15](#)

GLOBAL

Keeping an eye on rivals and looking for budding opportunities in your market isn't enough. How can you innovate if your thinking is confined to your existing market? You can only emulate the competition, which will consign you, as the venture capitalist and former Apple

computer marketer, Guy Kawasaki, puts it, to “duke it out on the same curve.”¹⁶ Increasingly you must look outside your existing playing field with a wide lens.

Once considered the outer limits, the global arena represents the new literacy requirement: you must keep your eyebrows raised to macrolevel trends going on in the world regardless of how distant, remote, or removed they may seem. Leaders are now obliged to scale their awareness and push out traditional boundaries because what’s distant, remote, or removed today can threaten your competitiveness tomorrow—for example:

- In the span of fifteen years, the personal savings rate of Americans, meaning the percentage of after-tax income that the average American spends, fell precipitously from 5.2 percent to a negative 1 percent in 2006, representing the lowest rate since 1933 during the Great Depression.¹⁷
- In the span of eight years, the wind power industry has increased 500 percent, now producing 11,600 megawatts, or enough to power 2.5 million homes.¹⁸
- In the span of six years, Wikipedia has created an online encyclopedia through the mass collaboration of 300,000 volunteers, who have created and edited more than 5.3 million entries in over a hundred languages.¹⁹
- In the span of four years, the number of students in the United States being homeschooled has increased dramatically from 1.1 to 2 million.²⁰
- In the span of two years, BATS, an electronic trading network, has become the third-largest stock market in the United States, behind the New York Stock Exchange and NASDAQ.²¹

- In the span of one year, circulation among the nation's fifty largest newspapers has plummeted 3.2 percent.[22](#)

Because markets can rise and fall with breathtaking speed, situational awareness is no longer a matter of knowing the market. Your strengths today—brand, market dominance, technological superiority, customer loyalty, or something else—often provide nothing but false comfort. The ability to sense and anticipate disruptive forces requires a distant early warning system that must reach into the global context. It doesn't mean that you need international experience and a foreign posting. Rather, it's an operating framework, a paradigm, and a cognitive requirement. It's also a healthy antidote to success-induced complacency, which overtakes leaders when they are doing well. Jim Owens, the CEO of heavy equipment maker Caterpillar, warns, "Almost all good companies make their worse mistakes in the best of times."[23](#)

Ram Charan, the noted strategist, observes that "only by looking out far over the horizon and taking into account developing trends that may not seem directly relevant now can you really do the kind of analysis necessary to prepare for rapid change and new opportunities." He goes on to say that "you need to spread the net wide, then do the mental processing to identify the underlying patterns."[24](#) Global literacy has become the new requirement because it's often too late to respond when new forces and trends enter your market. Ironically, a recent CEO casualty warned, "Don't get calcified or you'll miss entire trends and you'll get passed over."[25](#)

You must now take an extra step to broaden your perspective, to move past the confines of market knowledge in order to see bottom-up trends.[26](#) Your biggest

vulnerability is probably not visible in your own market. Without global literacy, you may not see the signs of early warning. The sheer speed of external change demands that you look out into the offing.

As globalization redefines what it means to be in a constant state of readiness, global literacy can help you respond to the inevitable adaptive challenge. It can help you stay on the offensive. You may not always act preemptively, but your ability to respond will certainly be more effective if you're informed of global movements.

There are several areas in which leaders should cultivate a basic and ongoing awareness of macrotrends, including areas such as technology, demographics, business and economics, education, health and health care, politics and public policy, and the environment and natural resources. A high level of external awareness makes you more vigilant and ready for change because you're less likely to be surprised by it. But the awareness has another benefit: when you constantly scan the competitive landscape and make a habit of trying to understand trends and movements, you become better able to respond to the unexpected.

EXAMPLES OF CHANGE

Today's globalizing environment is a constant threat to successful leadership and organizational performance. It doesn't happen immediately, but change on the outside eventually calls forth change on the inside. More than ever before, it's critical to see trends in the distance, allowing you time and space to prepare for their arrival and impact. Let's review some examples of change in the areas I mentioned.

Technology

- The cost of a gigabyte of computer memory dropped from \$10 million in 1956 to \$7,700 in 1990, to \$13.30 in 2000, to \$1.00 in 2006.[27](#)
- In 2000, Japan, Korea, and China accounted for 13 percent of all patents filed with the World Intellectual Property Organization. In 2005, that percentage climbed to 21, or one in five.[28](#)
- The cost of a high-definition video camera in 1984 was \$585,000. Today it's under \$6,000.[29](#)
- The computational capability of an Intel processor, as measured in instructions per second, was 60,000 in 1971. In 2005, it was 10.8 billion. [30](#)
- An estimated 200,000 open source programs are being developed by programmers around the world today.[31](#)

Demographics

- Sales of white bread in the United States fell from \$2.3 billion in 2001 to \$2 billion in 2005. During the same time period, tortilla sales rose from \$811 million to \$1 billion.[32](#)
- By the year 2010, one in every three workers in the U.S. labor force will be people of color.[33](#)
- The percentage of people working as independent contractors and on-call workers increased from 7.9 to 9.1 percent between 2001 and 2005, a rise of 2.1 million.[34](#)
- One in eight couples who married in 2005 in the United States met online.[35](#)