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A report by Deloitte's CEO Program

Can CEOs be un-disruptable?

Why today's best leaders are
flexible, not steadfast



About the Deloitte CEO Program

Deloitte's CEO Program is dedicated to architecting the long-term success of CEOs and the organizations they lead. The role of the CEO exists at the intersection of the external environment and the internal organization. In today's disruptive marketplace, CEOs have learned that they can no longer shield their organizations from ambiguity. The CEO Program offers unique insights and immersive experiences to help CEOs conquer a new leadership imperative: to embrace ambiguity as a means to survival and growth, while also defining and articulating a clear vision to mobilize and unify the organization.

Deloitte's US CEO Program invites CEOs who are facing or embracing change, challenge, and disruption to participate in a "Next Lab." The "Next Lab" is a custom 1-2 day experience focused on helping CEOs establish a personal vision for digital transformation, explore emerging ecosystems, and discover new value propositions for the long-term growth of their organizations.

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Introduction

What does it take to meet the challenges of today's relentless market pressures? Our study suggests a new model for CEOs to aspire to.

CHIEF executives have traditionally sat at the intersection of the external environment and the internal organization, observing chaos and translating it into clear and actionable instructions. At this “nerve center” for essential information, our popular perception of the “un-disruptable” CEO is of a rigid, impenetrable figure, successfully staring down external adversity. Whether this image ever truly matched reality is debatable, but we know one thing for sure: It definitely no longer applies. To be un-disruptable today requires much more than steering companies through singular (if monumental) events—it demands leaders navigate *constant* turbulence, continuously adjusting their actions accordingly.

Accelerating market forces and increasing environmental complexity mean companies often getting no warning before chaos, and no recovery period afterward. (For more on the accelerating pace of disruption, see the sidebar, “Putting disruption in perspective.”) Against this backdrop, leadership is about more than just translating order into chaos. Today's CEOs seem required to maintain constant pressure to transform their organizations by cultivating a high tolerance, if not a passion, for ambiguity—and to infuse others with the same mind-set. In a volatile world, today's leaders need flexibility, agility, and a willingness to extend their organization's capabilities into new and, sometimes, unexpected areas to keep ahead of relentless competition.

Five characteristics of an un-disruptable CEO

TO better understand this shifting CEO role—and to uncover the qualities and skills leaders need to meet the demands of their positions in the future—we interviewed the CEOs of 24 massive, complex, global organizations in industries spanning banking, pharma, technology, natural resources, food processing, health care delivery, retail, and manufacturing.¹ We didn't data mine for CEOs leading un-disrupted organizations—if such companies exist—but chose our interview subjects based on organizational profile and industry diversity (all firms met the criteria for inclusion in the *Fortune* 250 and either matched or exceeded their peers in terms of standard financial metrics). Our mission was to attempt to answer this question: *What does it take to be un-disruptable today, and what will be demanded of CEOs and their organizations to avoid disruption tomorrow?*

Our discussions gave us a glimpse into the CEOs' heads and hearts. We wanted to see what they wished they could do better, do more of, or do differently to fend off their interpretation of disruption. What emerged were 20 factors identified as important to cultivating resilience to disruption, and five characteristics that were particularly significant. To be sure: Our subjects are not claiming that they exhibit all or most of these factors, nor did they sug-

gest it was easy to adopt them given the challenges CEOs face both personally and, particularly, institutionally, where obstacles to change are often deeply embedded. But the leaders we interviewed viewed them as essential aspirations.

1. Embrace ambidexterity

“One of our problems right now is you’ve got to fly the plane while you’re changing it. So we’ve got to meet today’s demands efficiently while we’re simultaneously putting tens of millions of dollars into potentials for tomorrow. What’s the right balance of investing in today’s efficiency and building tomorrow’s next big idea?”

—Pharmaceutical CEO

Yogi Berra once famously declared: “If you come to a fork in the road, take it.” Deciding to pursue more than one path—focusing simultaneously on the present as well as on the riskier future—may not seem particularly radical.² Yet the CEOs we interviewed saw a different breed of ambidexterity: an urgent, continuous need to *relentlessly and simultaneously* execute both exploitation and experimentation. Rather than attempting to manage tensions

and internal conflicts by creating future-focused organizational skunkworks for exploration and risk-taking while tightly managing other units proficient at squeezing out costs (the practice of ambidexterity most used to date), they talked about the need for cultivating the tension between exploitation and exploration in a fully integrated organization. They stressed the challenge of embedding these oppositional elements across all processes, structures, and cultures, rather than extracting exploitation in one unit and experimentation in another.

Our interviewees commented frequently on this tension, driven in part by important external stakeholders—particularly analysts and shareholders—who want short-term yields, yet expect CEOs to work for the long term, take risks, and innovate. To be sure, the paradoxical ability to excel at both reliable profitability and risky breakthroughs, to seek opportunities that spark radical innovation while simultaneously optimizing existing capabilities, is no walk in the park.³ In reality, if incumbents want to stay ahead of the curve, they should forever be enhancing current operations *and* exploring the continually emerging new frontier.

Ambidexterity, with this “twist” of integrating both of these aspects across the entire firm, was a dominant characteristic among the five attributes of un-disruptability we identified. We found that, while the remaining four factors were critical on their own in important ways, they also reinforced ambidexterity by bringing talent, emotional timbre, focused attitudes, clear thinking, and sources of deep customer insight to bear on the question of how to achieve an organization that is ambidextrous across all areas.

Comfort with ambiguity and chaos is aligned with personality and temperament, but it is far from a hardwired characteristic. Many of the CEOs interviewed noted how they developed the dual view of exploration and exploitation over time and described how, as their comfort and competency with ambidexterity grew, they strove to use it as a strategic weapon.

2. Cultivate emotional fortitude

“You can’t be afraid of risk. You have to take it while figuring out how to push it down, and how to insulate yourself if things bubble back to hurt you. I’ve just gotten used to taking risks every day. If it’s the right decision, it’s good, and if not, I simply pick myself up and say, ‘OK, time to do something else.’”

—Construction-management CEO

CEOs need to display—and cultivate within their companies—an ability to use fear of the rapidly changing landscape to fuel more productive outcomes, and accept failure is a risk when placing big bets. We call this *emotional fortitude*: the need for leaders to combine a sober assessment of potential risks and roadblocks with the fearlessness to pursue lofty visions. The CEOs we interviewed stressed the importance of being vision-driven by deed, not just by word.

Consider the former chairman and CEO of Hershey Foods, Richard Zimmerman, who created “The Exalted Order of the Extended Neck” award for employees who took well-considered risks and failed. Or FedEx’s Fred Smith, who for decades has made heroes of employees who took reasoned risks in pursuit of greater customer service, whether the ideas worked or not. Symbolic moves such as these are culture-shaping rewards that convey the need for risky—but well-conceived—ideas that may or may not work. In this way, CEOs are modeling the way and encouraging others to follow.

The CEOs we spoke to indicated that emotional fortitude may very well be a powerful response to the innovator’s dilemma. They have learned to lead in a chaotic world in part by *bringing chaos into the organization* and understanding fully that failure—on some level—is inevitable. To be clear, these leaders were not supporting “chaos” for the sake of chaos, but strongly advocating a culture where the possibility of failure is embraced.

This characteristic was behind some of the most emotional aspects of our interviews, and it challenged our qualitative data analysis. But as we sought patterns, themes, relationships, and sequences, we “heard” these voices coming from the hearts of the CEOs (more so than from their heads), and this feature fell naturally into place.

When can one say a CEO is acting with emotional fortitude? It's when leaders:

- Keep an open yet clear view of the world they face, with an equally clear vision about how they want to change it. They are focused on the future and unambiguous about their organization's **purpose**.
- Hold deeply internal, emotional convictions that are directly and consistently supported by words and actions. Since they walk their purpose-driven talk, **people are predisposed to trust them**.
- Take those difficult moments when things go wrong and acknowledge them with “grounded audacity.” Symbolically leveraging such moments infuses the organization with **reasons for acting with urgency**.
- Find relative **comfort in making mistakes**. It is saying, “We've gotta try this,” and conveying a sense of confidence in a certain direction while knowing full well that it could fail. Just as importantly, they are clear about when not to act. They show a disarming capacity to acknowledge what they do not know, accept that they may not be the smartest people in the room, and own up to their mistakes.
- Manage a healthy ego that supports one's personal legitimacy while respecting the value of other, even dissenting, opinions. They display relative comfort while under attack and exude a **sense of peace** when business feels more like war.

3. Encourage a beginner's mind-set

“Among some other CEOs I know, I'm struck by a few who are actually suppressed by their know-how. And they don't know how to understand the things they don't know. They automatically look at it and say ‘we'll do it this way or that because that's how we do it.’”

—Technology CEO

The Zen Buddhism concept of *Shoshin* means “beginner's mind.” In the words of Shunryu Suzuki, “In the beginner's mind there are many possibilities, but in the expert's there are few.” This captures one challenge CEOs consistently raised: seeing the world from the perspective of someone who does not know much about it. It's not what's traditionally expected of them—nor what CEOs may expect of themselves. But rather than trying to be the “smartest” person in the room, our respondents repeatedly stressed the importance of having the “eyes” of someone who does not know everything. They found greater comfort and far better outcomes in asking questions and being genuinely inquisitive (even about things they *do* know).

Participants talked about listening more intently and considering what they hear with less judgment, and this included the way they asked new questions—asking out of true curiosity, avoiding the judgment that a question from a CEO may be perceived by many to bring. Most spoke also of the need to find patterns—to better understand not only the trees that stand in the forest, but also to become more curious about where the forest begins. “Questioning everything was something that always came easy to me, because I thought I knew the answers anyway,” one said. “But some important life experiences made me realize I didn't know it all. I had to *learn* to be curious, to express curiosity, to find a willingness to show that I do not know everything.”

As we considered this concept, we were reminded of efforts taken by Salesforce CEO Marc Benioff⁴ to remind his employees to stay nimble and not expect the current state of affairs to remain. “I respect the spirit of innovation,” Benioff says. “Sometimes that spirit is going through me and sometimes it’s going to come through someone else ... I try to cultivate a beginner’s mind; I try to let go of all the other things that have ever happened so far in our industry (which is a lot of stuff) and go, ‘Okay, what’s going to happen right now?’ and then I listen. Deeply listen. To myself, or really to others, or maybe great companies that I see, to the great innovators in the companies we bought, the organic innovators who have been in our company.”

Benioff takes time off alone annually to consider profoundly new ideas—none of them based merely on iterative refinements of current products or elements of Salesforce’s ecosystem or organizational strengths. He imagines disruptive ideas from whole cloth, many without organizational precedent, or the assumption of organizational readiness, or the need to be “merely” organizationally iterative.

Central to the notion of beginner’s mind-set are the willingness and ability to replace the confidence that comes with experience with the curiosity that comes from naiveté. Benioff shares stories about an annual exercise where, far from the bustle of business, he dreams of unconstrained possibilities, records them in a journal, encourages others to do the same, and conducts sessions with them to share and discuss. The theme of beginner’s mind-set often surfaced adjacent to the topic of talent and culture as CEOs saw those attitudes necessary not only in them but in everyone.

Finally, these CEOs understand that success depends on knowing what they do not know. They understand that they cannot rely on static pattern-recognition formulae to predict the future. We found a practicality and curiosity in the way they express doubt, ask questions, and examine their assumptions—a seemingly paradoxical dynamic in itself. In the end, it is this continual effort to under-

stand organizational purpose—which both impacts and is impacted by the environment—that keeps the CEO vital.

4. Master disruptive jujitsu

“What I’m particularly good at is identifying patterns before other people can see them. The ‘signal’ I’m looking for is often a piece of discordant data that no one else is paying attention to. But once I spot it, that blip becomes my obsession.”

—Global investment bank CEO

Remember when Blockbuster could have bought Netflix for \$50 million and didn’t? The rest is history: Not once, not twice, but three times Netflix has turned a disruptive threat into a competitive strength. The first time by renting videotapes and DVDs by mail and disrupting the brick-and-mortar model; the second time by leveraging streaming technology to cannibalize its own mail-based business; the third by recognizing the shift of value to content and deciding to invest in the creation of original content. And yet Netflix still hasn’t won the war. Amazon and others are continually updating their own business models, and unless Netflix can keep seeing around corners to identify and harness the very forces that may disrupt it, it too faces risks.

Striving to become masters of disruptive jujitsu is precisely how CEOs aspire to handle disruption: recognizing threatening disruptions, breaking them into their components, selecting those components that can strengthen their organization, and then finding a way to “hijack” these disruptive elements for their own competitive advantage.

The need for earlier and more precise pattern recognition of exogenous forces was a prevailing theme among our respondents. The first step toward harnessing disruptive threats is to identify them. CEOs reported having a relentless focus on gathering and distilling information from the out-

side, both to model inquisitiveness to others as well as to quench their own thirst for dissonant data that may have important relevance. The fertile ground necessary for surfacing this data starts with the beginner's mind-set; it then becomes possible to harness the power of the patterns and find opportunities for hijacking one or more opportunities.

Equally important to our participating CEOs was their efforts to engage others in the task of prioritizing and interpreting what has become an abundance of discordant and disorganized information. They are Sherpas in the search for identifying the nature and direction of these forces, taking with them many other climbers seeking the path forward.

Yet disruptive jujitsu goes beyond just scanning for disruptions. The second half of threat-harnessing is finding ways to turn those threats to your advantage. Some banks, for example, are finding opportunities to use the advantage of size and the dominance of regulatory rules to their own benefit. One example is the emergence of the distributed database technology of blockchain, which, through the creation of broadly adopted, fully decentralized, cryptocurrencies (such as bitcoin) has the potential to destroy a global money center's historical value proposition. Rather than trying to prevent the adoption of cryptocurrencies (as CEOs of incumbent competitors would likely have attempted to do in previous times), virtually all of the CEOs of today's established financial institutions are trying to work with the blockchain model, not against it. It's not quite what you may expect from large incumbents in a heavily regulated industry.

5. Become the ultimate end-user ethnographer

"[A customer] now has the means to express opinions, register dissatisfaction, and demand seemingly impossible conveniences. Because of this, I see my customer as the primary source of disruption themselves. If I don't get inside her head, I'm dead."

—Apparel company CEO

It's no secret that companies need to focus on their customers. But CEOs in our interviews spoke of a desire to better understand not only customer needs and attitudes, but to gain insight into experience of the ultimate end-user, becoming their most trusted champions by discovering their most subtle habits, desires, and subconscious concerns.

In the past decade, rapidly changing digital technology has empowered customers in entirely new ways. Today's customer is online, social, hyper-connected, and awash in product knowledge. This is not a bad thing. Obsessing over nuances of the entire customer experience is familiar to CEOs, and they expressed a need for much greater proficiency in achieving it. This means they are watching customers more closely—in new ways—as they are searching or sharing, trying or buying; and they are constantly striving to give customers what they want, quickly and effortlessly. It requires nothing short of an ethnography of the end-to-end customer experience, from the top of the marketing funnel to exceptional after-sales service.

Consider this example: Procter and Gamble (P&G), the owner of Crest, uses a third-party vendor to elicit selfies of people using its products. With thousands of images to mine, P&G gathers insights on consumer behavior that focus groups and surveys cannot dream of gleaning. One discovery was an enormous spike in teeth brushing from 4 p.m. to 6 p.m., correlating to the time when members of the

selfie-taking demographic are readying themselves for happy hour with fresh breath. This observation, and those like it, may impact decisions ranging from the time of day to launch social media campaigns to ways to reformulate products or develop new product extensions—as well as other important decisions around how to modify or market the product.⁵

Decades earlier at P&G, former CEO A.G. Lafley recalled when he first learned the power of seeing the world through the eyes of the end user. He was in the basements of customers who used P&G's Tide Laundry detergent, asking women about the product's effectiveness, ease of use, and packaging. They responded favorably, but he noticed—by watching them—that not a single woman opened the box with her hand. Why? They told him they'd break a fingernail if they did. Instead, each customer had her own tool sitting on the shelf next to the box of Tide to create a gash of an opening into the cardboard: nail files, screw drivers, or whatever was handy in the basement.

Customers took for granted the work-around they created and did not consciously think of it as

a problem. The verbal and written feedback about packaging was consistently positive, and yet only by watching the customer did observers learn that it was not. As Lafley noted, someone from the company had to actually experience the product being used to actually understand that there was room for improvement. Customers, he believed, cannot always articulate what they want or do not want. There are times when only by watching them use the product can one fully understand the needs they may not be able to express.⁶

While machine learning and artificial intelligence hold distinct promise for a more granular view of the practices based on large populations of consumers, they are far from a complete solution to this challenge. The CEOs we interviewed tended to focus on the entire experience a customer has with their business. They are not only willing to fight the customer wars on multiple fronts—they are all but obsessed with it. Doing this requires an understanding of customer needs and reactions that go beyond the customer's consciousness.

Putting it all together

“Sure, the future is murky. I have to meet my quarterly numbers, understand the large picture of talent issues, make choices about what business we are in, try to shape regulation wherever I can . . . We have to be on top of all of it, day in and day out.”

—Chemical manufacturing CEO

OUR conversations altered our view of the *Fortune* 250 CEO of the future, with implications for today. We acknowledge that, on some level, we subscribed to an exaggerated stereotype of the CEO characterized by rigidity, impenetrability, and a sense of all-knowing. This stereotypical CEO was analogous to the conductor of a symphony orchestra, seeking harmony among the body of performing players and adhering closely to a predetermined score. Our interviews with actual CEOs, however, suggest four alternative themes that have current and future implications:

First, we were influenced by *the strong desire CEOs have to infuse others with a high tolerance, if not passion, for ambiguity*. In this regard, they are trying not only to create organizations where others feel a relative comfort with chaos, but perhaps a mandate for them to go one step further. We were struck by the expectations they had of themselves to choreograph a perpetual flow of “micro-revolutions” from within. This notion is consistent with our colleague John Hagel’s view of the “Big Shift,” which is characterized by continuous, frequent, and unrelenting disruptions (for more, see our sidebar, “Placing disruption in perspective”).

Second, the more accurate analogy for *what organizations need most from CEOs is a jazz bandleader rather than an orchestra conductor*. Leaders feel compelled to scale innovation, yet moderately frustrated that they cannot make it happen soon enough. What they are actually trying to create—in effect—is a new genre of the role. Unlike a symphony, the innovation that characterizes jazz requires something closer to a peer-to-peer mode more than an inflexible hierarchy. As bandleaders, they are pressing others, each with their own area of authority, to collaborate far more—something that rings true with the type of ambidexterity they discussed. Certainly, there is the need for a strong leader who is the ultimate arbitrator, but it may reflect more of what we now see in open-source communities than traditional corporations. They want to constantly reinvent their work and seek fresh, new approaches.

Our colleague Eamonn Kelly has expressed deep reservations about the slow evolution of the C-suite in the face of increasing rates of disruptions. Starting in the 1920s, C-suites accomplished the needs of firms to scale quickly and provide shareholders and regulators with greater accountability—what Kelly calls C-suite v1.0. The next evolution involved far greater functional specialization in the C-suite (v2.0), creating problems with the need to achieve coherence and alignment across multiple strategies. “Functional depth in the C-suite has come at a cost, particularly as organizations grapple to stay ahead of fast-moving, complex changes,” Kelly says. “Organizations are complex systems with many elements interacting in a dynamic fashion. When ex-

ternal change takes place—for example, the emergence of a game-changing innovation, or a shift in the regulatory landscape—it rarely affects only one function inside the business. Rather, responding to changes typically requires many interdependent, mutually reinforcing strategic actions to take place across the enterprise.”⁷

What’s now needed, according to Kelly, is to move to v3.0 of the C-suite, which requires marrying the general management efficiencies of v1.0 with the functional expertise of v2.0. Under this approach, C-Suite 3.0 would fully engage as part of a team, and help others in the C-suite achieve their goals.

Third, analysis of the data evokes both questions and possibilities. If these five factors are shown to become statistically significant causal variables to explain how CEOs lead through disruption, then *what are the most effective ways to develop these characteristics and behaviors?* At which inflection points in their careers do executives step out of their comfort zones to begin to develop one or more of them in earnest? What can we learn about ways to accelerate this development? Are younger generations, now being primed for organizational leadership roles, inclined to excel in these areas? More

broadly, why are these factors so rarely practiced by CEOs today? What are the significant institutional pressures that keep CEOs locked into the old way of operating and how can these pressures be overcome by the CEOs themselves? Even more broadly, even if the CEOs succeed in adopting these factors, how do they overcome the powerful immune system in the broader organization that is still wedded to the old ways of doing things and aggressively resists any effort to change?

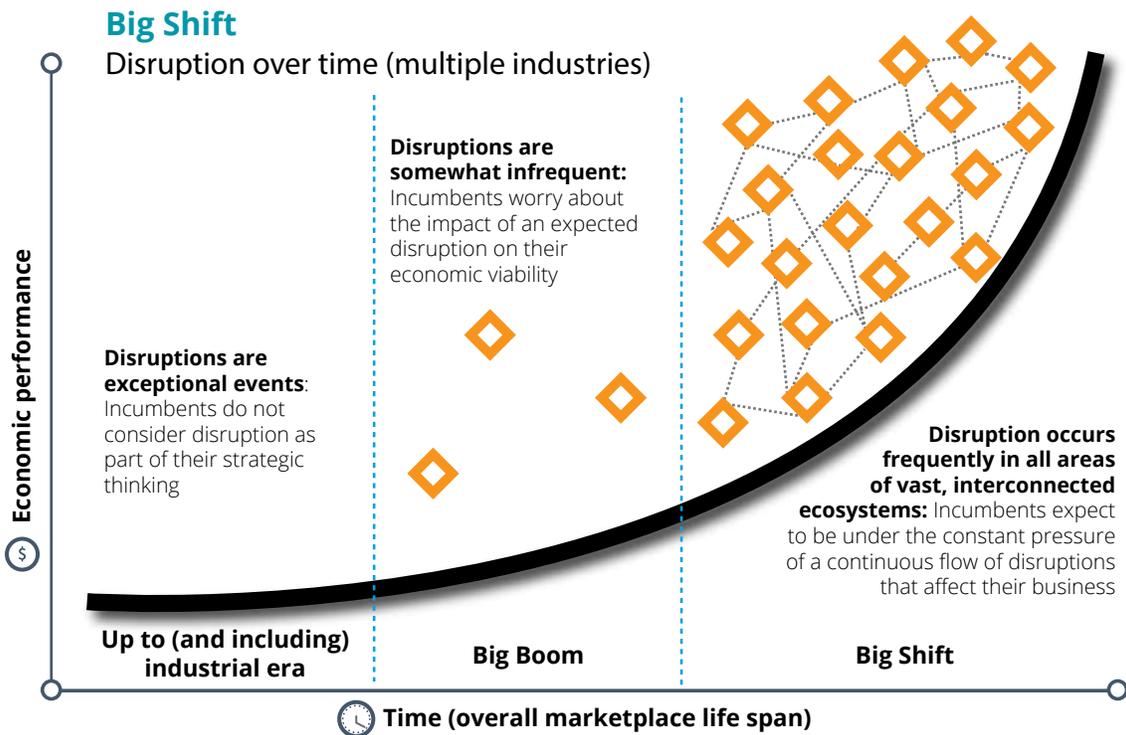
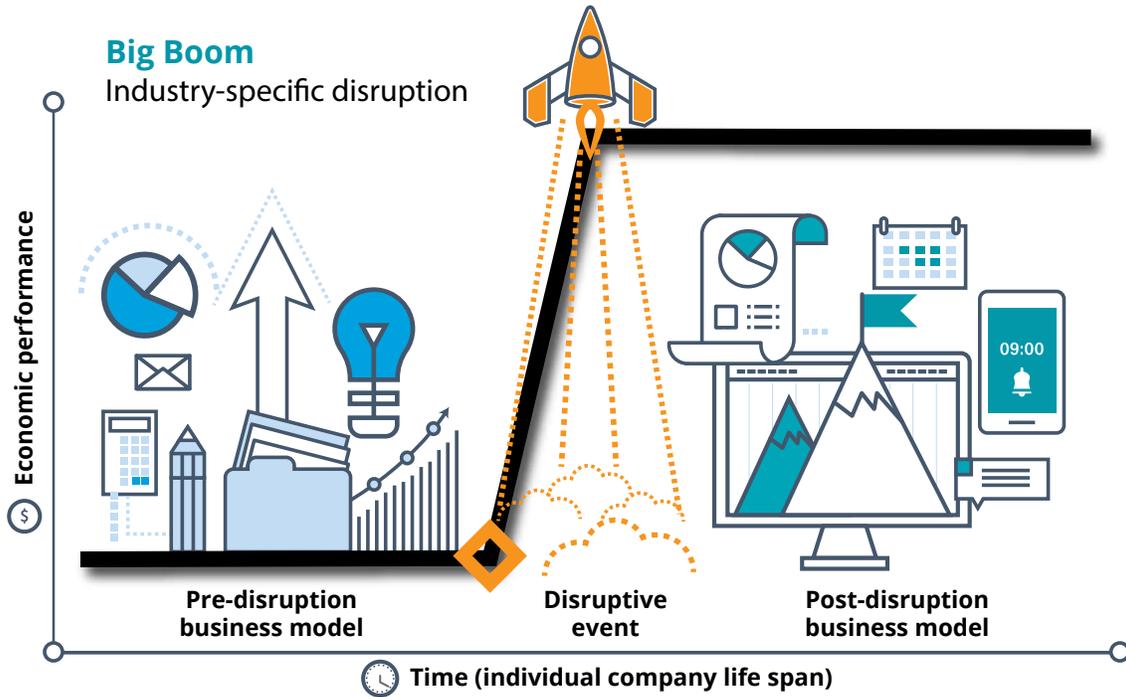
Finally, *the five attributes we identified lay the groundwork for a new or more nuanced leadership model.* Rather than five isolated factors, we increasingly see these characteristics as an organized whole, far more than the sum of their parts. The tide has turned from the belief that the CEO’s role is to resolve conflicting challenges to assure stability in the organization.⁸ On the contrary, if the role requires creating a steady stream of micro-revolutions, then it will likely require a broader way of thinking about the competencies needed for running large, complex organizations. The means for accomplishing this suggests a greater mastery of paradoxical elements within the newer, emerging role of the CEO, and the need for more adaptable organization designs to facilitate a steady stream of micro-revolutions.

PLACING DISRUPTION IN PERSPECTIVE

Looking at the past 75 years of the business environment, we see three readily distinguishable periods:

- The first, which we'll call "Stability," was characterized by enduring business models and continuous but slow evolutionary improvements in productivity. Industries experienced sharp bursts of innovation in underlying technologies and then relatively long periods of stability. For example, during the industrial revolution, the telephone and the internal combustion engine were technological leaps followed by relatively slow and incremental changes.
- The second, which we'll call the "Big Boom," saw the widespread entrance of computing; business models of dominant incumbent players were made obsolete by increasingly frequent new entrants with different business models. Retail, for example, began to move online. The tailwind behind this phenomenon was the emergence of broadly explainable—but specifically unpredictable—shifts in technology. During Big Boom, the pressure on CEOs is to focus on optimization, and the disruption, when it comes, is likely to catch the organization unprepared and result in its demise.
- The third, for which our colleague John Hagel coined the term "Big Shift" in recognition of the rise of social business that ushered it in, is characterized by continuous, frequent, and unrelenting disruptions across all industries.⁹ Enormous changes in digital infrastructure have brought greater productivity, transparency, and connectivity. These changes are then leveraged and combined to build diverse ecosystems, which, in turn, further reduce required capital investment. In this Big Shift era, the compounding effects of increasingly frequent radical disruptions occurring in multiple interconnected industries creates a performance curve that is more like a steep upward slope than a step.¹⁰ In this new construct (figure 1), markets interact across all value-chain elements, buffeted by a continuous and escalating pace of change and the intensifying effects of multiple industries. Paradoxically, Big Shift's increased frequency of disruption, by changing investor attitudes from an almost exclusive focus on optimization to an increased one on exploration and innovation, empowers CEOs to transform their organizations and enable them to survive and thrive through disruption.

Figure 1. The Big Shift: Rates of disruption over time



Source: Deloitte analysis.

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ENDNOTES

1. The research design included a list of 33 acknowledged “drivers of disruption” and 36 “levers of transformation”—actions the leaders might take to address disruptions. The 69 variables were determined through a modified Delphi technique using a panel of experts. The CEOs were asked to choose the drivers most relevant to their organization. They could choose as many as they wished, but most chose no more than 10. They were then asked to rank the drivers in order of the degree of potential or real disruption they were causing. Discussion during the exercise was facilitated but not guided. Next, the CEOs were asked to choose the most impactful levers of transformation, the factors they believed enabled their firms to ride the “white water” of disruption with the greatest positive impact and the least negative consequences. Again, after the levers were chosen (usually 5–8 in number), they were asked to rank order in importance. Though this was designed as an exploratory study, we did establish one hypothesis. This prediction suggested that a relationship among the levers of transformation chosen by the CEOs would indicate an ecosystemic relationship. In other words, we speculated that the levers chosen would show a relationship with factors acknowledged in the literature as being related to building business ecosystems outside of the organization. No ecosystemic relationship was found. All interviews were transcribed and subjects’ verbalizations were partitioned from the facilitators’ questions and comments. Analysis of the interviews resulted in *emergent* (rather than *preset*) categories, and relative importance was computed by calculating the numerical frequency of each emergent category.
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ABOUT THE AUTHORS

BENJAMIN FINZI

Benjamin Finzi is the national co-managing director of the Deloitte CEO Program. The founder and former leader of Deloitte's New York Greenhouse, he has designed and facilitated hundreds of immersive "lab" experiences for CEOs and their leadership teams, where he combines principles of business strategy with behavioral science and design thinking to address clients' challenges. Previously a senior member of Monitor Deloitte's Strategy practice and a co-founder and president of a private equity-backed 300-person telecommunications provider, Finzi has focused for over 20 years on researching and understanding how companies succeed in disruptive markets.

MARK LIPTON

Mark Lipton is a graduate professor of management at The New School in New York and is an active writer, speaker, and C-suite advisor. His book *Guiding Growth: How Vision Keeps Companies on Course* was published by Harvard Business School Press; a revised second edition is planned for release in 2018. His most recent book, *Mean Men*, looks at CEO behaviors representing the antithesis of un-disruptable CEOs. Lipton is also a senior contributor to Deloitte's CEO Program eminence council.

VINCENT FIRTH

Vincent Firth is a managing director with Deloitte Consulting LLP in the US Strategy service line, Monitor Deloitte. As leader of Deloitte's CEO program, Firth supports the success of CEOs throughout their career. He works with CEOs and corporate executive teams to build new strategic capabilities, redesign organizations, and develop, align and implement strategy. Prior to joining Deloitte, Firth was a senior partner at Monitor Group where he co-led the global leadership and organization practice.

CONTACTS

Benjamin Finzi

US CEO Program co-leader
Managing partner
Deloitte Services LP
+1 917 855 0162
bfinzi@deloitte.com

Mark Lipton

US CEO Program eminence council
+1 917 880 6360
mark@marklipton.com

Vincent Firth

US CEO Program co-leader
Managing director
Deloitte Consulting LLP
+1 215 405 5567
vfirth@deloitte.com

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Contributors

Editorial: Luke Collins, Junko Kaji, Abrar Khan

Creative: Sonya Vasiliieff, Kevin Weier, Anoop R

Promotion: Haley Pearson

Artwork: Richard Mia

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