

**The Blind Spot of Institutional Leadership:  
How To Create Deep Innovation Through  
Moving from Ecosystem to Ecosystem Awareness**

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## Tectonic Shifts

We live in an era of massive institutional and societal change. During my lifetime I have seen four major tectonic global shifts happen: the collapse of the Berlin Wall in 1989; the collapse of the Apartheid system in the early 1990s; the rise of the World Wide Web during the later 1990s; and the rise of Asia as the new center of gravity of the 21<sup>st</sup>- century global economy over the past three decades. Four major tectonic shifts. Four times a massive wave of profound societal change that almost no one saw coming. And yet, four times, the seemingly impossible happened and all of a sudden the tectonic plates started shifting.

Seeing and participating in these massive societal change is what defines me and my generation—that is, the emerging generation of change makers and leaders within and across all institutions of society. Though the impact of these four shifts has been monumental, I personally believe that the biggest of all shifts is yet to come. It's a shift that does not deal with a technological transformation but with a social transformation: the transformation of the relationship between business, government, and civil society from manipulation and confrontation to dialogue and co-creation. The purpose of this relational shift will be to facilitate profound innovation at the scale of the whole ecosystem.

## Torn Between Two Worlds

Today, leaders and change makers across all institutions are torn between worlds: on the one hand they are confronted with a set of unprecedented 21<sup>st</sup>- century leadership challenges; and on the other they find themselves equipped with a 20<sup>th</sup>-century management toolkit that is inadequate to fix the problems they face. Between these two worlds there yawns a wide chasm that today's leaders struggle to bridge.

For the past 15 years I have worked on numerous initiatives seeking profound innovation and change in business, health, and education, and on sustainability issues. In all of these large systems, I have found that the biggest roadblock to moving from institutional paralysis to profound systemic renewal is the same: it's the missing collective leadership capacity to draw together all key stakeholders and involve them in a process that begins with uncovering common intention and ends with collectively creating profound innovation on the scale of the whole system.

This missing collective leadership capacity seems to be the scarcest resource in society today—and yet that precious societal capacity seems to be nowhere nurtured, developed, or even focused on in our entire system of higher education. We have business schools that focus on business leadership. We have public policy schools that do the same for the government sector. And we

have a range of departments that focus on the social sector. And yet, nowhere on campus do we have a place in which we actually focus on how these three societal sectors interact today and how they will need to interact in the future in order to address and solve the pressing challenges of our time.

This gap constitutes an important blind spot in our institutional design and in our intellectual frames about leadership. Unless we address this blind spot we will continue to produce results that nobody wants, such as poverty, pollution, and institutional paralysis.

## The Blind Spot

The blind spot in current leaders' thought is that they know all about what leaders do and how they do it—but not know about the source level, that is, the inner place or the state of awareness from which leaders and social systems operate. I first recognized this when I interviewed Bill O'Brien, the late CEO of Hanover Insurance. Summarizing his own leadership learning as a CEO, O'Brien said: "The success of an intervention depends on the *interior condition* of the intervenor." Success, according to O'Brien, does not depend on What leaders do, or How they do it. Instead, it depends on the "interior condition," that is, the Source or the inner place from which leaders operate (see Figure 1).

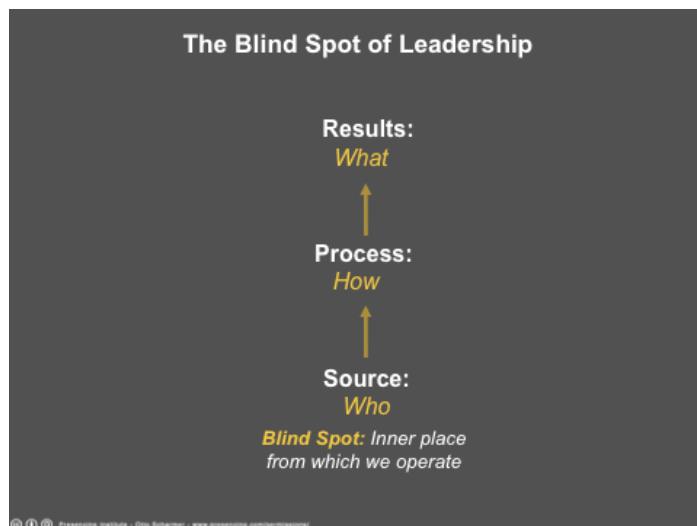


Figure 1: The Blind Spot of Leadership

When I first heard this idea, I realized that he had touched upon something profound in contemporary leadership research and thought. Usually we are not aware of the source dimension from which effective leadership and social action come into being. It is this source that "Theory U" attempts to explore.

# Theory U: The Framework

Theory U is the foundation for a process built on 15 years of action research. It's a tested pathway for learning and leading change in individuals, groups, organizations, and larger systems.

The basic premise of Theory U is  $r = f(a_i)$ . The reality ( $r$ ) that a system of players enacts is a function of the awareness ( $a$ ) that these players operate from. Put differently: The quality of results in a system depends on the quality of relationships between the players in a system, and the quality of relationships depends on the quality of awareness that these players are operating from. Theory U is a social field theory that differentiates among four states of awareness (or "field structures of attention") that individuals, groups, institutions, or larger systems can operate from. Those four states of awareness are: "I-in-me" (habitual awareness); "I-in-it" (egosystem awareness); "I-in-you" (relational system awareness); and "I-in-now" (ecosystem awareness) (see Figure 2).

Field: Structure of Attention	Micro: <b>ATTENDING</b> (individual)	Meso: <b>CONVERSING</b> (group)	Macro: <b>ORGANIZING</b> (institutions)	Mundo: <b>COORDINATING</b> (global systems)
 I-in-me 1.0: habitual awareness	<b>Listening 1:</b> Downloading habits of thought	<b>Downloading:</b> Talking nice, politeness, rule-reenacting	<b>Centralized:</b> Machine bureaucracy	<b>Hierarchy:</b> Central plan, regulation
 I-in-it 2.0: ego-system awareness	<b>Listening 2:</b> Factual, object-focused	<b>Debate:</b> Talking tough, rule-revealing	<b>Decentralized:</b> Divisionalized	<b>Market:</b> Competition
 I-in-you 3.0: stakeholder awareness	<b>Listening 3:</b> Empathic listening	<b>Dialogue:</b> Inquiry, rule-reflecting	<b>Networked:</b> Relational	<b>Negotiation + Dialogue:</b> Mutual adjustment
 I-in-now 4.0: eco-system awareness	<b>Listening 4:</b> Generative listening	<b>Collective Creativity:</b> Presencing, flow, rule-generating	<b>Eco-system:</b> Context, field-based	<b>Awareness-Based Collective Action (ABC):</b> Acting from the whole

Fig. 2: Matrix of Social Evolution: Four Fields of Awareness; Four System Levels (Micro - Mundo)

Columns 1-4 spell out how these four states of awareness result in four evolutionary stages of social systems at all levels: from the individual (listening) to large systems (coordinating). They are:

- Four types of attending and listening. Listening 1 means to attend to what you already know (downloading); listening 2 means to recognize some

- new external facts (factual); listening 3 means to see a situation through the eyes of another (empathic). Finally, listening 4 means to sense the highest future potential of another person or a situation (generative). Each type of listening results in a different outcome and conversational pathway. In short: depending on the state of awareness that I operate from as a listener, the conversation will take a different course. “I attend *this* way, therefore it emerges *that* way.”
- The stages and states of conversation change from “talking nice” and conforming (Field 1: downloading), to “talking tough” and confronting (Field 2: debate), to reflective inquiry—i.e., seeing your self as part of the larger whole (Field 3: dialogue), to collective creativity and flow (Field 4: presencing). Through conversation, we as human beings create our shared reality. The different field states of conversation determine the possible pathways of thinking, collaborating, and innovating in teams and organizations. The quality of collaboration depends on the interior condition from which we operate.
  - The institutional forms of social reality creation also evolve according to the field states of awareness outlined above. They give rise to the evolution of four different geometries of power (centralized; decentralized; networked; ecosystem) and four mechanisms for coordinating complex systems (hierarchy and regulation; markets and competition; dialogue and negotiation; awareness-based collective action) (columns 3, 4).

The problem with our current approaches to leadership and systems change is that we try to solve level 4 problems with level 1-3 mechanisms. But, as Albert Einstein once famously noted, problems cannot be solved at the same level of consciousness that created them. That is the essence of the great leadership challenge today: Leaders face level 4 challenges but find themselves equipped and surrounded with level 1-3 toolkits, mindsets, and institutional designs. Unless we address this issue we will end up producing more of the same.

## **The Road Less Traveled**

How can we access level 4 leadership across all four systems levels mentioned above?

Most people relate to the future by reflecting on the trends of the past. The future, from this view, is an extension of the past—like an empty vessel that you fill with a somewhat modified version of the past. But what I have learned from studying leaders, innovators, and creative people is that they relate to the emerging future at a deeper level. They see the emerging future as an advent, a coming-into-being of something profoundly new. To connect with such a field of emerging future opportunity we have to open up, let go of the past, and tune in to what we feel is a field of future possibility, something that might be possible, something that we could bring into reality, a future that would be very different from the past.

I call this deeper learning from the emerging future *presencing*. Presencing blends the two words *presence*, the now, and *sensing*, the capacity to detect what is to come, to sense with your heart. *Presencing* means to sense an emerging future possibility and then to act from that state of awareness in the now (“sensing and actualizing emerging futures”).

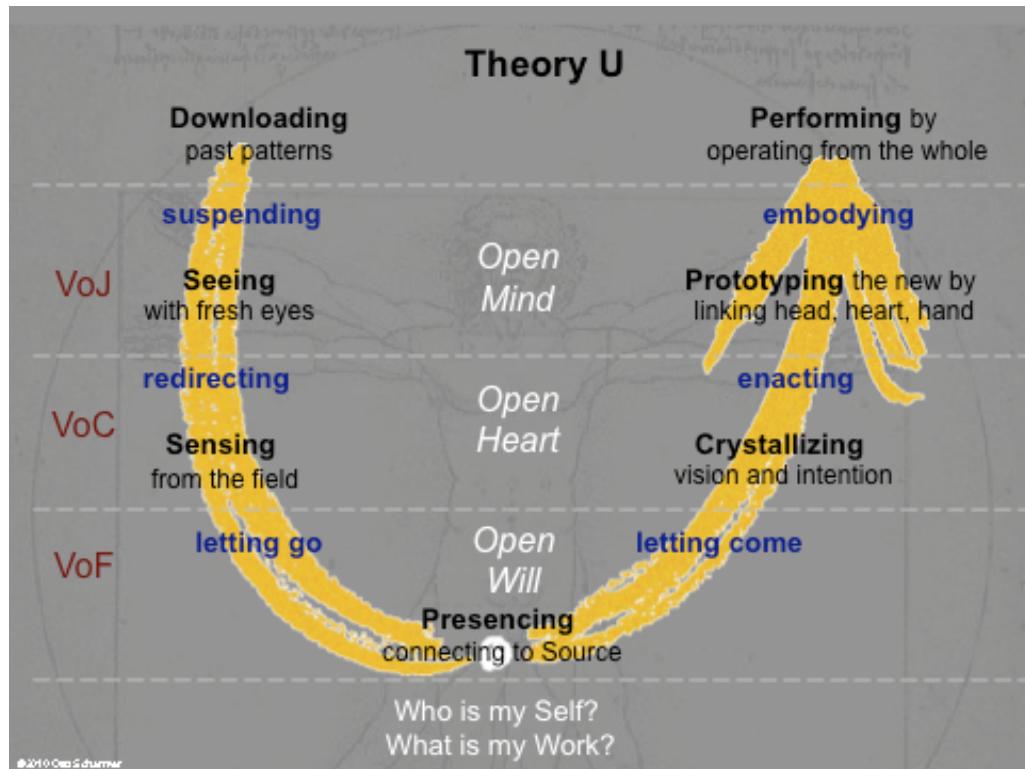


Figure 3: The U Process of Presencing

Figure 3 summarizes the process of accessing this deeper source of creativity and knowing. I call this process the U Process because it follows three basic movements in the shape of a U:

1. The first movement (moving down the left side of the U) is about opening up and connecting horizontally. This stage is about suspending old habits of judgment, putting yourself into the places of most potential, and immersing yourself in these places while listening with your mind and heart wide open (“observe, observe, observe”).
2. The second movement (at the bottom of the U) is about going to a place of stillness and connecting vertically to the deeper sources of knowing and self-knowing: who I am and what I am here for, what difference I want to make in the world. This stage is about deep reflection and about allowing one’s deeper inspirational and intuitive knowing to emerge.
3. The third movement (moving up the right side of the U) is about acting in

the now—that is, using rapid-cycle prototyping to explore emerging future possibilities by doing something together, which then generates feedback that helps generate new iterations of the initial prototype until it reaches a form that all stakeholders feel good about.

Let me sum up the U Process and its underlying premises (Theory U) with the following seven propositions:

- (1) The essence of 21<sup>st</sup>-century leadership is about shifting the fields of collective attention and intention. The leader's work in our age is to shift the fields of attention from ecosystem awareness to ecosystem awareness. "We attend *this* way, therefore it emerges *that* way."
- (2) That leadership process requires three movements: (1) establishing a horizontal connection ("observe, observe, observe"); (2) establishing a vertical connection ("connecting to Source"); and (3) acting from what emerges in the Now ("acting in an instant").
- (3) To establish this deep innovation process within and across institutions, leaders need a new social technology that allows them to tune three instruments: the Open Mind (IQ); the Open Heart (EQ or emotional intelligence); and the Open Will (SQ or spiritual or self-intelligence).
- (4) The most important tool in that leadership technology is the emerging Self—the leader's highest future possibility. Theory U is based on the assumption that each human being and each human community is not one but two: one is the current self, the person that exists as the result of a past journey; the other is the Self, the self that we could become as the result of our future journey. Presencing is the process of the (current) self and the (emerging) Self listening to each other.
- (5) The deeper levels of the U Process are well known to many experienced innovators and leaders. They say, "Sure. I know this way of operating from my own peak performance experiences. I know it from people whom I consider highly creative." But then, when asked if that's how things happen in their own institutions, they roll their eyes and say, "No, hell, it's different. We're not operating at peak performance at all." So why is that? Why is the U Process of presencing the road less traveled in our current world of institutions? Because the moment you commit yourself to going on this journey, you meet three enemies, or three sources of resistance: the Voice of Judgment (VoJ), the Voice of Cynicism (VoC), and the Voice of Fear (VoF), each of which blocks the entry to one of the three instruments that are required to access the bottom of the U (Open Mind, Heart, and Will).
- (6) On the right-hand side of the U, the process of prototyping is slowed down by three dysfunctional (but common) patterns of behavior: abstract thought that is disconnected from action ("analysis paralysis"); mindless action that is disconnected from reflection ("lack of learning"); and too much noise in our communication patterns ("blah-blah-blah").

(7) The massive leadership challenges of our time require leaders and institutions to extend their vocabulary from level 1 and 2 responses to level 3 and 4 responses—i.e., to transform their institutions from ecosystem awareness to ecosystem awareness. On levels 1 and 2, people, teams, organizations, and systems are completely separate from one another (transactional relationships). On levels 3 and 4, these boundaries of separation collapse and begin to form a single field of cross-institutional awareness, learning, and leadership (transformational relationships).

## Practical Implications

What would it take to build that missing collective leadership capacity discussed above? It would require us to broaden our concept of leadership (from a few people at the top to all change makers across all institutions in a system) and to deepen it (from What and How to the Source level of leadership action). It would also require us to radically rethink and reinvent the entire delivery system of leadership learning in society today.

<b>Types of Knowledge/ Systemic Intervention Points</b>	<b>Individual</b>	<b>Institution</b>	<b>Whole system</b>
<b>Technical knowledge (technical skills)</b>	Individual technical skill building/training	Institutional technical skill building/training	System-wide technical skill building/training
<b>Relational knowledge (stakeholder management)</b>	Individual relational capacity building/training (multi-stakeholder dialogue)	Institutional relational skill building/training (multi-stakeholder dialogue)	System-wide relational capacity building/training (multi-stakeholder dialogue)
<b>Transformational Self-knowledge (identity, will)</b>	Individual transformational capacity building (multi-stakeholder innovation)	Institutional transformational capacity building (multi-stakeholder innovation)	System-wide transformational capacity building (multi-stakeholder innovation)

Table 1: The Leadership Learning Matrix

The Leadership Learning Matrix below maps nine spaces of leadership learning. They are defined by three types of knowledge (technical, relational, self-knowledge) and three levels of systems intervention (focusing on the individual, the institution, or the whole system).

Most of the current delivery system of leadership learning focuses on the first row (technical knowledge) and the first column (the individual). Together they combine for probably 85% of all leadership and learning activity today. Yet the real problem is not there. The real bottleneck in all deeper systemic change efforts (across all systems and sectors) is not on the top left but on the bottom right side of the matrix: relational and transformational capacity building that not only touches individuals but engages and empowers the entire system. That's the real bottleneck today. And that's where we have almost no effort going on.

So what would a radical refocusing look like that leverages the whole matrix rather than just the upper left corner of it? Here are a few ideas:

- (1) Close all business schools, schools of public policy, and departments of urban studies—and reopen them in the form of tri-sector leadership schools that bring together students and mid-career executives from all three sectors (business, government, civil society), that teach them in the language and the logic of all three sectors (rather than one), that move them from primarily sitting in the classroom to engaging with and being immersed in a global network of hotspots of societal innovation. Such new leadership schools would equip students with an effective set of listening, management, and reflection tools that help them to be effective social entrepreneurs and change agents in the societal renewal processes they choose to become involved in.
- (2) Bring together key younger leaders across institutions in specific and deeply broken ecosystems (like maternal health or sustainable food production) and give them the process, methods, and tools that helps them to see, sense, reinvent, and reshape their system.

I would like to close with a few examples of places where both of these ideas are already working.

## Examples

ELIAS, which stands for Emerging Leaders Innovate Across Sectors, is a global initiative that focuses on regional platforms for facilitating multi-stakeholder innovation across entire systems.<sup>1</sup> The purpose of ELIAS is to prototype and help

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<sup>1</sup> ELIAS was launched in 2006 with a network of global partners, including BASF, BP, JAC-Anhui (China), the Industrial Federation of Paraná (Brazil), InWent (German Ministry of Development and Cooperation), the Indonesian Ministry of Trade, Nissan, Oxfam Great Britain, the UN Global Compact, UNDP, UNICEF, Unilever, the World Bank Institute, and the World Wildlife Fund

advance an inclusive and sustainable global market system.<sup>2</sup>

## ***ELIAS: Emerging Leaders Innovate Across Sectors***

In March 2006, 27 high-potential young leaders from the ELIAS partner organizations went on a year-long innovation and learning journey that followed the U Process as outlined above (while continuing to work in their home institutions), including intensive training in how to use a new set of tools for innovating within established systems. These tools include co-sensing and co-creating emerging future opportunities through deep sensing journeys, strategy retreats, idea creation, and rapid-cycle prototyping of their ideas in order to explore the future by doing. Three years on, the small-scale prototype initiatives they developed have been tested by ELIAS teams around the world and have blossomed into a dynamic and rapidly growing landscape of profound innovation and change. They involve dozens of institutions and thousands of people and are continuing to inspire new initiatives and ideas:

- One ELIAS pilot group was called the Sunbelt team. It wanted to explore methods for bringing solar- and wind-generated power to marginalized communities. To do so, it used a decentralized, democratic model of energy generation to reduce CO<sub>2</sub> emissions and foster economic growth and well-being in rural communities. Today, the project has changed the strategic priorities of a global NGO and resulted in the formation of a mission-based company called “Just Energy”<sup>3</sup> that is now beginning operations in South Africa.
- In the Philippines, one ELIAS fellow from Unilever teamed up with former colleagues working in the NGO sector to form MicroVentures, a support organization that advises and finances women micro-entrepreneurs in the Philippines by leveraging the Unilever business and its network at the community level.
- An ELIAS fellow from the Indonesian Ministry of Trade applied the U Process to establishing new government policies for sustainable sugar production in Indonesia. His idea was to involve all key stakeholders in the policymaking process. The results were stunning: for the first time ever the Ministry’s policy decisions did not result in violent protests or riots by

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<sup>2</sup> See Scharmer, C. O., 2010. Seven Acupuncture Points for Shifting Capitalism to Create a Regenerative Ecosystem Economy, Oxford Leadership Journal, June 2010, Volume 1, Issue 3.

<http://www.ottoscharmer.com/publications/articles.php>

<sup>3</sup> <http://just-energy.org/>

farmers or other key stakeholders in the value chain. Now, the same approach is being applied to other commodities and to standards for sustainable production.

- The Indonesia-based ELIAS team created a successful country version of the ELIAS project in 2008-2009. Now in its second year, a second group of 30 leaders from all sectors, including the media and academia, are working on their prototype initiatives. They are focusing on (1) green community living, (2) social entrepreneurship, (3) corruption prevention (in a region whose regent [governor] happens to be a participant in the group), (4) *merah putih gaya gue* (Indonesian lifestyle products—making Indonesian products cool for Indonesian youth), and (5) *Pancasila regenerated* (regenerating the founding spirit of the country’s constitution and adapting it to the 21<sup>st</sup> century). All of these ideas are being explored through practical multistakeholder experiments.

Similar countrywide applications of the ELIAS approach are under way in several countries, including China, the Philippines, and Brazil, and in Europe.

Not only did most of the prototype projects have a much bigger impact than one would expect from a small-scale learning initiative, but the vibrant cross-sector web of inspired connections among the ELIAS fellows continues to generate new ideas and initiatives. For example:

- One group of ELIAS fellows teamed up to form a new collaborative research venture at MIT, the Green Hub. The focus of this group is to link the green retrofitting of buildings in inner cities with the achievement of social justice by involving all of the key constituencies: the building trades, marginalized youth, the mayor’s office, and business owners.
- An ELIAS fellow from InWent (the capacity-building arm of the German Ministry of Development Cooperation) helped to co-create a climate change lab. Beginning in Fall 2010, the lab will work with emerging leaders from all sectors in South Africa, Indonesia, China, and Brazil for a period of at least three years.
- Three of the WWF’s emerging leaders built on their ELIAS experiences to spark a multi-stakeholder project in the Southeast Asia/Pacific region. Their “Coral Triangle” involves hundreds of stakeholders in six countries in linking sustainable fishing practices with revenue-sharing and economic opportunities. The Coral Triangle project has raised more than \$100 million and is on its way to establishing collaborative innovation infrastructures that could help to improve ecosystem management in one of the largest biodiversity reserves on the planet.<sup>4</sup>

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<sup>4</sup> <http://www.worldwildlife.org/what/wherewework/coraltriangle/>

## ***Maternal Health: African Health Initiative***

Another offshoot of the ELIAS innovation ecology is the African Public Health Initiative. This program combines hands-on systems innovation with focused leadership capacity building for emerging leaders inside the existing Namibian health system, including civil servants in the Ministry of Health and other government officials.<sup>5</sup>

## ***The Sustainable Food Lab***

The Sustainable Food Lab is another project that started as a U Process-based multi-sector learning journey among key stakeholder across the entire food value chain in the Americas and Europe and today has turned into a consortium of business, nonprofit, and public organizations working together to accelerate the shift toward sustainability.<sup>6</sup>

The Sustainable Food Lab focuses on facilitating progress on key issues—including climate change, soil quality, poverty alleviation, and clean water—that are necessary for a healthy and sustainable food system to feed a growing world. The Sustainable Food Lab uses U Process tools like learning journeys and collaborative learning to incubate innovation at every stage along the supply chain, from producing food to distributing and selling it.

Current innovation efforts include: addressing climate change through “low-carbon agriculture”; overcoming poverty through new approaches connecting small-scale producers to formal markets; linking distribution infrastructure to the regional food supply; and piloting sustainability metrics. The Food Lab today has more than 70 member organizations, including SYSCO, Unilever Foodsolutions, Sam’s Club, Food Marketing Institute, Bolthouse Farms, the Nature Conservancy, and Sodexo.

## **In Conclusion**

Social transformation and the path to a green, regenerative, and just economy require more than just building a collective leadership capacity, as I have argued in other places.<sup>7</sup> The transformation of leadership must involve all key stakeholders in a journey of profound innovation and renewal. All of the

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<sup>5</sup> <http://www.synergos.org/partnerships/publichealthnamibia.htm>

<sup>6</sup> <http://www.sustainablefoodlab.org/>

<sup>7</sup> See Scharmer, C. O., 2010. Seven Acupuncture Points for Shifting Capitalism to Create a Regenerative Ecosystem Economy, Oxford Leadership Journal, June 2010, Volume 1, Issue 3.

<http://www.ottoscharmer.com/publications/articles.php>

examples presented here share two common features: they deploy most or all of the leadership capacity-building matrix, and they engage the whole system in a personal, concrete, and hands-on way.

The leadership capacity that I believe is necessary is one that emerges when a constellation of leaders see and sense together what is going on. The U Process does not diminish different institutional interests and views. Instead, it gives diverse peoples a way to deal with their differences in an openminded and collaborative way. As one of the ELIAS participants said at the end of the program: “I no longer work *for* my company. I am working *from* my company.” I believe that by this he meant: with the awareness of the larger social and environmental context on which the company can have either a significantly positive—or a significantly negative—impact.

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