

An Excerpt From

***Leading From the Emerging Future
From Ego-System to Eco-System Economies***

by Otto Scharmer & Katrin Kaufer
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BY THE BESTSELLING AUTHOR OF THEORY U

Otto Scharmer and Katrin Kaufer

LEADING FROM THE EMERGING FUTURE

From
Ego-System
to Eco-System
Economies



**APPLYING THEORY U TO
TRANSFORMING BUSINESS, SOCIETY, AND SELF**

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**From Ego-System
to Eco-System Economies**



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Otto Scharmer and Katrin Kaufer

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Leading from the Emerging Future

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HMS and JCS

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INTRODUCTION

Breathing Life into a Dying System

Finance. Food. Fuel. Water shortage. Resource scarcity. Climate chaos. Mass poverty. Mass migration. Fundamentalism. Terrorism. Financial oligarchies. We have entered an Age of Disruption. Yet the possibility of profound personal, societal, and global renewal has never been more real. *Now is our time.*

Our moment of disruption deals with death and rebirth. What's dying is an old civilization and a mindset of maximum "me"—maximum material consumption, bigger is better, and special-interest-group-driven decision-making that has led us into a state of organized irresponsibility, *collectively creating results that nobody wants.*

What's being born is less clear but in no way less significant. It's something that we can *feel* in many places across Planet Earth. This future is not just about firefighting and tinkering with the surface of structural change. It's not just about replacing one mindset that no longer serves us with another. It's a future that requires us to tap into a deeper level of our humanity, of who we really are and who we want to be as a society. It is a future that we can sense, feel, and actualize by shifting the *inner place* from which we operate. It is a future that in those moments of disruption begins to *presence* itself through us.

This inner shift, from fighting the old to sensing and presencing an emerging future possibility, is at the core of all deep leadership work today. It's a shift that requires us to expand our thinking from the head

to the heart. It is a shift from an *ego*-system awareness that cares about the well-being of oneself to an *eco*-system awareness that cares about the well-being of all, including oneself. When operating with ego-system awareness, we are driven by the concerns and intentions of our *small ego* self. When operating with eco-system awareness, we are driven by the concerns and intentions of our emerging or *essential* self—that is, by a concern that is informed by the well-being of the whole. The prefix *eco*- goes back to the Greek *oikos* and concerns the “whole house.” The word *economy* can be traced back to this same root. Transforming our current ego-system economy into an emerging eco-system economy means reconnecting economic thinking with its real root, which is the well-being of the whole house rather than money-making or the well-being of just a few of its inhabitants. But while the whole house was for the Greeks something very local, today it also concerns the well-being of our global communities and planetary eco-systems.

This shift in awareness from ego-system to eco-system is something that we are approaching and living through not only as groups and organizations, but also as a global community. Pioneering the principles and personal practices that help us to perform this shift may well be one of the most important undertakings of our time.

Crumbling Walls

Numerous books have been written about today’s global crises. Why add another one? We hope to contribute some frameworks, methods, and tools that can help leaders and change-makers understand what is going on and be more effective in helping communities shift from ego-system to eco-system economies.

The world has changed. Walls are crumbling. Tyrants are toppling. The polar caps and glaciers are melting. We have been watching these developments for years. But the two things that appear to be deeply frozen and unchanged are our *collective habits of thought* and the *actions* that they produce and reproduce in our world.

Why is that? Why do we collectively create results that nobody wants? What keeps us locked into old tracks of operating? And what can we do to transform these patterns that keep us firmly in the grip of the past?

The Blind Spot: How to Lead from the Emerging Future

We have written this book for change-makers in all sectors, cultures, and systems, including business, government, civil society, media, academia, and local communities. The book addresses what we believe to be a *blind spot* in global discourse today: how to respond to the current waves of disruptive change from a deep place that connects us to the emerging future rather than by reacting against the patterns of the past, which usually means perpetuating them.

In this book, we argue that responding from the emerging future requires us to shift the inner place from which we operate. It requires us to *suspend* our judgments, *redirect* our attention, *let go* of the past, *lean into the future* that wants to emerge through us, and *let it come*.

The ability to shift from reacting against the past to leaning into and presencing an emerging future is probably the single most important leadership capacity today. It is a capacity that is critical in situations of disruptive change, not only for institutions and systems, but also for teams and individuals. In the old days, we used to learn one profession and practice it throughout our working lives. Today we face rapidly changing environments that increasingly require us to reinvent ourselves. The more dramatic the changes in our environment, the less we can rely on past patterns, and the more we need to learn to pay attention and *tune in* to emerging future opportunities.

This book is a quest to answer three interrelated questions:

1. In the face of disruption, how do we lead from the *emerging future*?
2. What *evolutionary economic framework* can guide our journey forward?
3. What *strategies* can help us to function as vehicles for shifting the whole?

Let's start by taking a quick tour through what we call the iceberg model of the current system. Why an iceberg? Because the name implies that, beneath the visible level of events and crises, there are underlying structures, mental models, and sources that are responsible for creating

them. If ignored, they will keep us locked into reenacting the same old patterns time and again.

Progressing through the levels of the iceberg, from surface to depth, will illuminate several blind spots that, if attended to, can help us rebuild our economy and society to be more intentional, inclusive, and inspired.

Symptoms: Landscape of Pathologies

Like the tip of an iceberg—the 10 percent that is visible above the waterline—the symptoms of our current situation are the visible and explicit parts of our current reality. This symptoms level is a whole landscape of issues and pathologies that constitute three “divides”: what we call the *ecological divide*, the *social divide*, and the *spiritual-cultural divide*.

THE ECOLOGICAL DIVIDE

We are depleting and degrading our natural resources on a massive scale, using up more nonrenewable precious resources every year. Although we have only one Planet Earth, we leave an ecological footprint of 1.5 planets; that is, we are currently using 50 percent more resources than our planet can regenerate to meet our current consumption needs. As a consequence, one-third of our agricultural land has disappeared over the past forty years. Rapidly falling water tables are taking us on a path toward food riots. Food prices are expected to double by 2030.

THE SOCIAL DIVIDE

Two and a half billion people on our planet subsist on less than US\$2 per day. Although there have been many successful attempts to lift people out of poverty, this number has not changed much over the past several decades. In addition, we see an increasing polarization in society in which, in the case of the United States, the top 1 percent has a greater collective worth than the entire bottom 90 percent.¹

THE SPIRITUAL-CULTURAL DIVIDE

While the ecological divide is based on a disconnect between self and nature, and the social divide on a disconnect between self and other, the spiritual-cultural divide reflects a disconnect between self and Self—

that is, between one's current "self" and the emerging future "Self" that represents one's greatest potential. This divide is manifest in rapidly growing figures on burnout and depression, which represent the growing gap between our actions and who we really are. According to the World Health Organization (WHO), in 2000 more than twice as many people died from suicide as died in wars.²

What, if anything, have we as a society learned from addressing these issues over the past hundred years?

In the twentieth century we created ministries and UN agencies to deal with each of these divides. In addition, we created dedicated non-governmental organizations (NGOs) to address single issues; in academia we created dedicated university departments, scholarly journals, and professional career paths to combat each symptom. Today we realize that this silo-type approach—dealing with *one symptom cluster at a time*—isn't working. On the contrary, it seems to be part of the problem.

We seem to have a blind spot that prevents us from seeing the rest of the iceberg, the deep systemic structures below the waterline.

Structures: Systemic Disconnects That Give Rise to Symptoms

Today's system does exactly what it is designed to do. But it is a system that features a number of significant structural disconnects. Here are some of them:

1. *A disconnect between the financial and the real economy.* The total value of foreign exchange transactions worldwide amounted to US\$1.5 quadrillion (1 quadrillion is 1,000 trillion) in 2010, whereas the total value of international trade was only US\$20 trillion, or less than 1.4 percent of all foreign exchange transactions. Says Lawrence Lau, professor of economic development, emeritus, Stanford University, and chairman, CIC International (Hong Kong): "The overwhelming majority of foreign exchange transactions are thus purely speculative, in effect, pure gambles, and serve no useful social purposes."³ This disconnect between the financial and the real economy produces the

financial bubbles that keep plaguing the global economy: the Latin American debt crisis (1980s); the Asian financial crisis (1997); the dot-com bubble (2000); and the US housing crisis (2006–07), which was followed by the world financial crisis (2007–09) and the euro crisis (2010–). Such financial bubbles destabilize the real economy instead of serving it.

2. *A disconnect between the infinite growth imperative and the finite resources of Planet Earth.* The disconnect between the infinite growth that current economic logic demands and the finite resources of Planet Earth has produced a massive bubble: The overuse of scarce resources such as water and soil has led to the loss of a third of our agricultural land globally in roughly one generation's time.
3. *A disconnect between the Haves and the Have Nots.* This disconnect has given rise to an extreme inequity bubble in which the richest 1 percent of people in the world (adults with incomes over US\$ 500,000) own 40 percent of the world's wealth while half of the world's population (50 percent) own just 1 percent of the world's household wealth.⁴ The increasing polarization of wealth and income undermines equal access to opportunity and thus erodes basic human rights in society today.
4. *A disconnect between institutional leadership and people.* This disconnect results in a leadership void that shows up in the widely shared sense that we are collectively creating results that nobody wants. This collective condition of felt helplessness and disempowerment is a hallmark of our systemwide leadership void (or bubble) today.
5. *A disconnect between gross domestic product (GDP) and well-being.* This disconnect shows up as a bubble of material consumption that does not advance actual well-being. Research on developed countries shows that, contrary to popular belief, higher GDP and higher material consumption do not translate into more well-being, as we will discuss in more detail below.
6. *A disconnect between governance and the voiceless in our systems.* The disconnect between current governance mechanisms and the voices of the underserved is a governance failure in which people are affected by regimes that they are completely unable to influence or

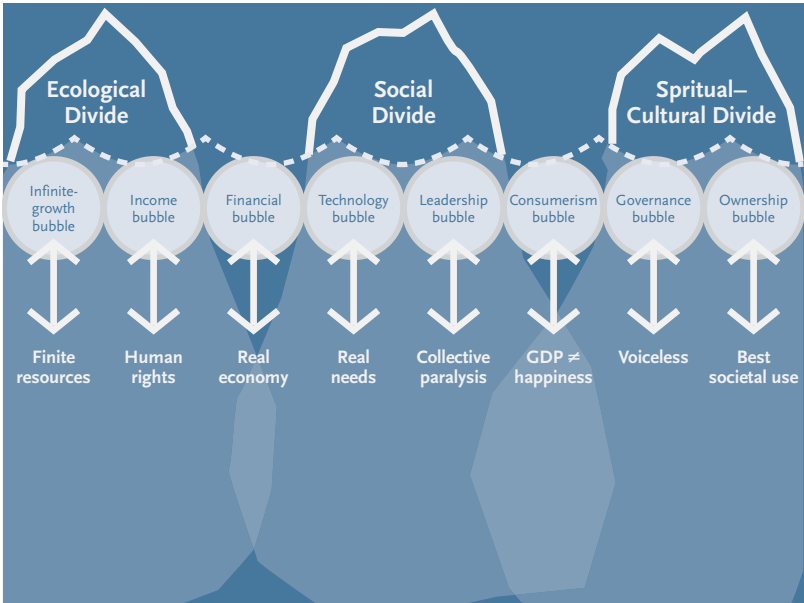


FIGURE 1. The iceberg model: a surface of symptoms and structural disconnects (bubbles) below it.

change. For example, many farmers in India have lost ownership of their seeds to Monsanto.

7. A *disconnect between* actual ownership forms *and* best societal use of property. The disconnect between actual ownership and best societal benefit results in a bubble in which state and private property, despite their merits, allow the overuse and mismanagement of the ecological and social commons in epic proportion.
8. A *disconnect between* technology *and* real societal needs. This disconnect generates technology bubbles that serve the well-being of a few in already overserved markets. For example, most R&D spending by the pharmaceutical industry caters to markets at the top while largely ignoring the needs at the base of the socioeconomic pyramid.

These bubbles and structural disconnects produce systems that are designed to *not* learn. The systems operate through *delayed* or *broken feedback loops* that prevent decision-makers from experiencing and personally feeling the impact of their decisions. In our current complex

global systems, decision-makers often affect large groups of people with their actions but never see, feel, or become aware of their actions' consequences. Without feedback, or with delayed feedback, there is no learning. As a result, institutions tend to change too little and too late.⁵

POSITIVE EXTERNALITIES FLOW TO THE TOP, NEGATIVE EXTERNALITIES TO THE POOR

A second feature that the bubbles share concerns externalities. *Externality* is a term that is used in economics to designate unintended side effects on third parties or costs that are not accounted for in prices. Externalities can be positive (benefits) or negative (costs). For example, I may enjoy driving my car, but, unlike the cyclist behind me, I rarely notice the negative externality—air pollution—that I cause.

In today's society, positive externalities tend to flow to the top, while negative externalities tend to flow to the bottom of the socioeconomic pyramid. We see this both in organizations and in societies. Globally, for centuries, raw materials have flowed from the global South to the global North, from developing to developed countries, while toxic waste and toxic products have flowed the other way. All these flows are rationalized by economic theories such as comparative cost advantage. But these theories don't include the impact of externalities.

Whenever ecological issues and environmental disasters strike, the poor pay the highest price (e.g., after Hurricane Katrina in the United States and after the tsunamis of 2004 and 2011 in Indonesia and Japan). When food prices begin to soar as result of manmade environmental problems, the 2.5 billion people who live below the poverty line suffer the most.

In the United States, the 2008 economic meltdown brought the most suffering to low- and middle-income families. Today we know that toxic home mortgages were specifically targeted to the poor by the financial industry. While Wall Street profits have rebounded, the less-privileged have continued to lose: First they lost jobs; then they lost funding for teachers, school activities and meals, and libraries; then they lost heating assistance and medical services.

Yet those whose collective behavior created the crisis, the Wall Street

bankers, are by and large back to enjoying their bonus packages. In fact, their leverage for extracting even more government subsidies in the future increased after 2008. In 1995, the six largest bank holding companies in the United States held combined assets valued at less than 17.1 percent of US GDP.⁶ Thirteen years later, on the eve of the financial crisis in 2008, these organizations' assets were 55 percent of GDP. By 2010, it had only gotten worse, with their combined assets reaching 64 percent of GDP. That is, the ability of the six largest Wall Street banks to take excessive risk in order to privatize profits and socialize losses by forcing a taxpayer-funded bailout has gone up, not down.⁷

MONEY FLOWS THE WRONG WAY

A third feature concerns the flow of money. In order to achieve *economies of scale* and minimize lending risks, banks and financial institutions organize around financing large projects for well-known clients with sufficient security who use existing business models and known technologies in familiar markets.

Smaller projects that involve new entrepreneurs without track records or security require banks to make individualized loan decisions, which are riskier and more expensive. Decisions on whether to fund innovations in renewable energy, for example, require expertise that traditional loan officers usually do not have. As a result, entrepreneurs and companies that are small or new, or that are venturing into new sectors or sectors with traditionally small returns, have the most restricted access to capital and pay a higher price.

Thus, in an externality-unaware financial system like the one we have today, money flows the wrong way: Those who are innovative, step into new ideas, or even work intentionally with lower returns in order to create societal benefits pay the highest prices, while those who may already have more than they really need pay the lowest prices.

These are all examples of the same fundamental issue: The economic playing field is tilted to favor big players that privatize profits at the top and socialize losses. Which raises a question: Why is our economic playing field tilted in this way? This brings us to the fourth common feature: the role of special-interest groups.

GOVERNANCE IS DRIVEN BY SPECIAL-INTEREST GROUPS

Many organized interest groups, including the banking, agriculture, nuclear, oil, and pharmaceutical industries, command a disproportionate influence on the very regulatory bodies that were originally designed to supervise them. At issue is not only the vast amount of money and lobbying power that these groups command, but also the revolving-door practice that is pervasive in Washington, DC, and other capitals worldwide.

To give one of many possible examples, on November 5, 2008, the day after Barack Obama was elected president, Michael Froman of Citigroup, an influential Obama fundraiser during the election campaign, was appointed to assemble the Obama administration's economic team. While working in this role, Froman remained an employee of Citigroup for two more months, even as he helped appoint the very people who would shape the future of his own firm in the following weeks and months.⁸ The result is history.

Likewise, many of the same people responsible for the deregulation of the financial industry during the Clinton administration returned to key government positions in the Obama administration, where they devised massive bailout programs for their former colleagues at their too-big-to-fail banks.

This pattern is repeated in the food industry. A revolving door between Monsanto, the agribusiness giant, and its two regulating government agencies, the Food and Drug Administration (FDA) and the Environmental Protection Agency (EPA), hinders effective oversight. The potential damage from this alliance is no less catastrophic than the alliances in the financial sector.

In all these cases, the problem arises when the political process is tilted by an uneven playing field and a lack of transparency. As we know from the economist Mancur Olson's work on collective action, groups with only a few members can organize themselves easily and speak with a common voice.⁹ Obvious examples are the big players in finance, food, health, and energy. Larger and more diverse groups usually are not able to organize as easily and consequently have more difficulty making their members' interests heard. Ordinary taxpayers, who pay for the bailouts, and future generations are two good examples.

These structural issues matter a lot and need to be fixed. But they

may not be the root cause of the landscape of pathologies discussed above. So, given all these bubbles and disconnects, what is the *force motrice* that keeps us reenacting these highly dysfunctional structures?

Mental Models That Give Rise to Systemic Bubbles and Disconnects

This force is called *thinking*. As Albert Einstein put it so eloquently: “We cannot solve problems with the same kind of thinking that created them.”¹⁰ Thinking creates the world. The structures of yesterday’s economic thought manifest in the structures of today’s institutions and actions. If we want to upgrade our global economic operating system, we need to *start* by updating the thinking that underlies it; we need to update the essence of *economic logic and thought*.

Using the iceberg model that guides the journey of this book, we refer to this deeper layer as “thinking,” “mental models,” or paradigms of economic thought.¹¹ Outmoded mental models have produced an *intellectual bankruptcy*: the bankruptcy of mainstream economic thought.

Ego-System Awareness versus Eco-System Reality

Today’s thinking shapes how we enact tomorrow’s reality. This link between thought and social reality creation is nowhere more visible than in our economy.

The eight disconnects that we listed above represent a decoupling of two worlds: a decoupling of the structure of *societal reality* from the structure of *economic thought*. We could also say that they’re a decoupling of the structures of eco-system reality from the structures of ego-system awareness. Today’s economic reality is embedded in a global eco-system of environmental, social, political, and cultural contexts that are highly intertwined and that evolve in uncertain, complex, and volatile ways. These conditions require a mindset on the part of decision-makers that is more open, attentive, adaptive, and tuned in to emerging changes.

Instead, what we often observe in current reality is a disconnect between reality and awareness; that is, between an eco-system-centric global economy and an ego-system-centric awareness of institutional

decision-makers. The result is a war of the parts against the whole. We see the impact of this disconnect, for example, in the dramatic over-use of scarce resources, which is often spoken of as “the tragedy of the commons.”¹²

Bridging the gap between eco-system reality and ego-system awareness is the main challenge of leadership today. Decision-makers across the institutions of a system have to go on a *joint journey* from seeing only their own viewpoint (ego-awareness) to experiencing the system from the perspective of the other players, particularly those who are most marginalized. The goal must be to co-sense, co-inspire, and co-create an emerging future for their system that values the well-being of all rather than just a few.

This is not just an ethical but an *economic* imperative. Let’s consider the euro crisis, which emerged after the 2008 global financial crisis, as a case in point. The euro crisis is to no small degree a function of Germany and some other countries reverting to a nation-state-centered way of seeing reality. What made the EU such an unlikely success story after World War II? A Franco-German accord with other core EU countries in which all shared an intention to create a future that was different from the past. With the memories of the war still lingering, West Germany was willing to pay a bit more than a narrow state-centric interest would have required. The resulting EU process has largely been a success. The EU today has, contrary to conventional wisdom in the United States, the world’s largest economy, with a GDP of US\$17.6 billion in 2011 (followed by the United States at US\$15.1 billion and China at US\$7.3 billion) that has benefited most of the 500 million citizens in its 27 member states.

The success of the EU suggests that good economics and good politics require defining one’s self-interest broadly (eco-centrally), not narrowly (ego-centrally), so that it is aligned with the well-being of others and the whole. Sadly, the emerging failures of the EU prove the same point. Bad economics and bad politics result from defining one’s self-interest too narrowly. In the euro crisis, we can see in a nutshell how a narrowly defined self-interest translates into poor economic and political decision-making. In September 2008, after the collapse of Lehman Brothers, the German finance minister claimed in front of the parliament that this was an American problem, not a European or

German problem.¹³ The second and bigger error of judgment happened on October 12, 2008, when the German chancellor and finance minister met with their EU colleagues in Paris at the first crisis summit and decided that each country would develop its own rescue mechanism rather than a joint European mechanism that could have taken care of all of them.¹⁴

What is missing from how this story unfolded is a moment of *reflective disruption* in which all players would have come together, looked in the mirror, and realized what they were doing to themselves. They could have thrown out their nation-centric ego-view and replaced it with a mindset that could deal with the complex global eco-system realities they're up against now. This second view is what we call eco-system awareness, because it values and accounts for the well-being of others and the well-being of the whole.

A Journey from Ego-System to Eco-System Awareness

The surface landscape of symptoms and the eight underlying structural disconnects arise from the same deep source: a framework of economic thought that is stuck in the past. The framework we use today may have been appropriate in earlier times, but it is no longer in touch with the complex challenges and demands of our time.

How did we get here? What does the evolution of economic thought over time look like? What are the different frameworks of economic thought that are available to us now, and what might be next?

Figure 2 shows four stages, logics, and paradigms of economic thought, each of which devises a different solution to the principal problem facing each modern economy: How do you coordinate collaboration processes that are characterized by a division of labor? They are as follows:

- 1.o: The state-centric model, characterized by coordination through hierarchy and control in a single-sector society.
- 2.o: The free-market model, characterized by the rise of a second (private) sector and coordinated through the mechanisms of market and competition.

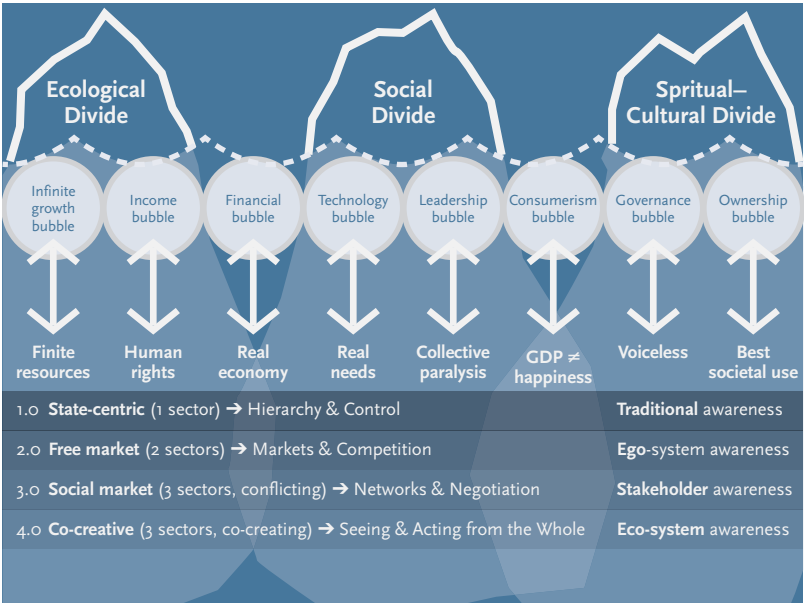


FIGURE 2. The iceberg model: symptoms, structures, thought, and sources.

3.0: The social-market model, characterized by the rise of a third (NGO) sector and by negotiated coordination among organized interest groups.

4.0: The co-creative eco-system model, characterized by the rise of a fourth sector that creates platforms and holds the space for cross-sector innovation that engages stakeholders from all sectors.

As in evolutionary stages, the earlier stages continue to exist at the later stages: That is, all four coordination mechanisms are complementary; they are not substitutes for one another.

Today, though, we are having the wrong conversation. Economic and political discourse is often framed as a choice between more privatization, deregulation, and slashing of the welfare state and more regulation, government, and stimulus-based deficit spending. This debate reflects the world of the twentieth century, not the world of the twenty-first century.

To paraphrase the quote above attributed to Einstein, we cannot solve the current 4.0 type of eco-system problems with the 2.0 and 3.0 ego-

system thinking that created them. What we need is to co-create a new economic framework that helps us to rethink and evolve all the core concepts of economics from an awareness-based view. We also need to link this framework to practical methods and tools for addressing challenges in our current reality.

Are you thinking now that this discussion of economic thought is getting a little boring? Well, it's exactly *that* pattern of thinking that keeps us from seeing past our blind spot. *The blind spot of our time is that we take mainstream economic thought for granted, as if it were a natural law.* But in reality, all so-called economic laws begin to melt and morph into something else the moment you begin to change the most important variable: the *quality of awareness* of the participants in a system. Who are these participants? They include leaders and change-makers in business, government, and civil society, as well as consumers, investors, and communities. They include you.

In chapter 3, we reconstruct the evolution of economic logic and thought as the deeper grammar that underlies the evolution of the economy. And we show that the essence of this developmental path can be traced as an evolution of human *consciousness*.

The frameworks of economic thought articulate four different economic logics or paradigms that give rise to four different operating systems. The 1.0 Economic Operating System is based on traditional awareness and hierarchical thinking. The 2.0 Economic Operating System is based on ego-system awareness and me-centric thinking (in neoclassical economics, this “me” is referred to as *homo oeconomicus*, an idea of a human being who acts only by maximizing self-interest). The 3.0 Economic Operating System is based on institutional stakeholder awareness and some negotiated coalitions that internalize concern for the well-being of key stakeholders. For example, corporations negotiate and partner with labor unions. The emerging 4.0 Economic Operating System (discussed in detail later) is based on eco-system awareness—that is, an awareness that values the well-being of all others and serves the well-being of the whole.

As the *laws* of economics morph along with the level of *awareness* that the agents in a system are operating from, we need to create a new economic science that accounts for the entire matrix (1.0 to 4.0) rather

than limiting the inquiry to just one of its rows or paradigms (chapter 3 provides a detailed discussion). What we need today, to paraphrase the psychologist Eleanor Rosch, is an economic science that is performed with the mind of wisdom.¹⁵ We need an economic science that describes and follows the journey from 1.0 to 4.0 on all levels, for individuals and teams as well as for institutions and systems.

Sources That Give Rise to Mental Models, Structures, and Symptoms

The journey from ego-system to eco-system awareness, or from “me” to “we,” has three dimensions: (1) better relating to *others*; (2) better relating to the *whole* system; and (3) better relating to *oneself*. These three dimensions require participants to explore the edges of the system and the self.

Exploring the edges of the system means going to the place of most potential: for example, walking in the shoes of some of the most marginalized people, such as residents of remote villages in Africa or immigrants in a developed country (see chapter 7). It is our experience that the new in any system shows up first at the periphery. That’s where you see the problems and the opportunities as if through a magnifying glass. Diverse stakeholder groups can use their shared experiences to become aware, to make sense of what is actually going on.

Exploring the edges of the self means shifting the inner place from which one operates. It means opening the mind, the heart, and the will. It means suspending old habits of judgment. It means empathizing. And it means letting go of what wants to die in oneself and letting come what is waiting to be born.

Over the past eighteen years, we have been working on creating environments for these types of outward and inward journeys across organizations, systems, sectors, and cultures. What is so surprising is how reliably this journey to the periphery of a system works. It’s not easy. It’s hard work. And you cannot engineer it in the old way, which is by controlling it. But you can create conditions that allow a deeper alchemy to work—that is, conditions that help leaders in a system to broaden and deepen their view of the system from ego to eco, from “me” to “we.”

A new type of awareness-based collective action is emerging from this line of experimentation and work. It doesn't use the old collectivization model in which the common DNA is imposed from above, the old top-down pyramid that we all know only too well. In this more horizontal model, each individual node is mindful of the well-being of others. It is this shared awareness that allows for fast, flexible, and fluid coordination and decision-making that are far more adaptive and co-creative than any other organizational model currently being used in major societal institutions.

The Journey to U

We arrived in the United States in 1995 to work with the MIT Center for Organizational Learning, which had been founded by Peter Senge and his colleagues, together with a group of global companies, in the early 1990s. Upon arrival, we learned that Senge and his organization were part of the same MIT System Dynamics group that had produced the influential *Limits to Growth* study, which shaped our thinking earlier and helped to spark the worldwide environmental movement in the 1970s.¹⁶

In his work, Senge kept noticing how well developed the skills of the system dynamics PhD students were in analyzing the broken systems of our current society. But their practical impact on changing any of these systems was almost zero. Based on that puzzling observation, Senge became interested in the behavioral dimension of change.

Senge's book *The Fifth Discipline* is based on blending (1) system dynamics, (2) organizational change, and (3) the creative processes. This synthesis resulted in the concept for the MIT Center for Organizational Learning and in an initial set of methods and tools developed by this small group of action researchers at MIT.

After a few years, Senge and his colleagues noticed that the tools worked very well in the hands of some practitioners, but that in other cases the application of the same tools resulted in no significant change. Why are the same tools effective in the hands of some and ineffective in the hands of others? We have investigated this question in our research, which has included 150 interviews with leaders, entrepreneurs, and innovators (many of which were conducted by Otto and our colleague

Joseph Jaworski), as well as active participation in change processes in companies, governments, and communities.¹⁷ The result of this eighteen years of work is a 2.0 framework for learning, leading, innovating, and profound systemic renewal. We call this framework Theory U for the shape of the drawing used to depict it. It has been fully described in Otto's book *Theory U* and in the book *Presence*, which Otto co-authored with Senge, Jaworski, and Betty Sue Flowers.¹⁸

The gist of this framework is simple: *The quality of results produced by any system depends on the quality of awareness from which people in the system operate.* The formula for a successful change process is not “form follows function,” but “form follows consciousness.” The structure of awareness and attention determines the pathway along which a situation unfolds.

Shifting the Inner Place from Which We Operate

We stumbled onto this deep territory of leadership research when we interviewed Bill O'Brien, the late CEO of Hanover Insurance. Summarizing his most important insights from leading transformational change in his own company, O'Brien said: “The success of an intervention depends on the *interior condition* of the intervener.”¹⁹ We might say it this way: The success of our actions as change-makers does not depend on *what* we do or *how* we do it, but on the *inner place* from which we operate (see figure 3).

When I (Otto) first heard O'Brien say that, I thought, “Boy, what do I really know about this inner place? I know nothing! Do we have *one* or *several* or an *infinite number* of these places?” I didn't know, because that place is in the blind spot of our everyday experience. We can observe *what* we do and *how* we do it. But the quality of the source (or inner place) from which we operate in “the Now” tends to be outside the range of our normal observation, attention, and awareness.

This puzzling insight into the deeper *source* level of social reality creation set us on an intriguing path of inquiring about and integrating recent findings in leadership, management, economics, neuroscience, contemplative practice, and complexity research. The essence of our

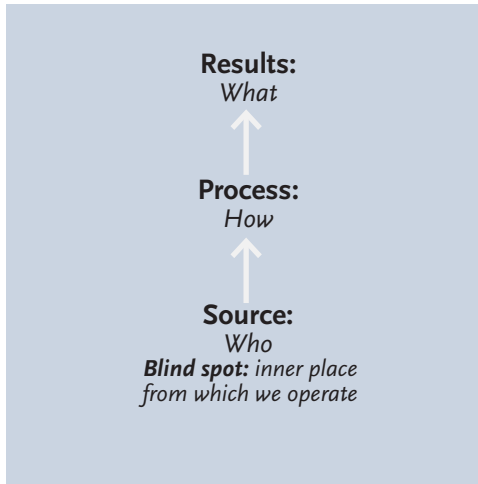


FIGURE 3. The blind spot of leadership.

view concerns the power of attention: We cannot transform the behavior of systems unless we transform the quality of attention that people apply to their actions within those systems, both individually and collectively.

Leading from the Emerging Future

In exploring this territory more deeply, we realized that most of the existing learning methodologies relied on learning from the past, while most of the real leadership challenges in organizations seemed to require something quite different: letting go of the past in order to connect with and learn from emerging future possibilities.

We realized that this second type of learning—learning from the emerging future—not only had no methodology, but also had no real name. And yet innovators, entrepreneurs, and highly creative people all express an intimate relationship with this deep source of knowing. Otto started referring to it as Theory U and presencing. *Presencing* is a blended word combining *sensing* (feeling the future possibility) and *presence* (the state of being in the present moment). It means sensing and actualizing one's highest future possibility—acting from the presence of what is wanting to emerge.

The proposition of Theory U, that the quality of the results in any kind of socioeconomic system is a function of the awareness that people in the system are operating from, leads to a differentiation among four levels of awareness. These four levels affect where actions originate relative to the boundaries of the system.

Consider the example of listening. We call the first level of listening *downloading*. It describes habitual behavior and thought and results in “same old, same old” behaviors and outcomes. This type of listening originates from the center of our habits, from what we already know from past experience. Here’s an example: When President George W. Bush and Vice-President Dick Cheney received CIA briefings about an imminent attack on the United States prior to 9/11, they were so focused on getting the war against Saddam Hussein going that they were unable to hear and recognize the numerous strong warnings from the intelligence community. They were unable to hear anything that didn’t agree with what they thought they already knew. That inability trapped the decision-makers inside the world of their preconceived notions and views.²⁰

In contrast, level 4 listening, called *presencing*, represents a state of the social field in which the circle of attention widens and a new reality enters the horizon and comes into being. In this state, listening originates outside the world of our preconceived notions. We feel as if we are connected to and operating from a widening surrounding sphere. As the presence of this heightened state of attention deepens, time seems to slow down, space seems to open up, and the experience of the self morphs from a single point (ego) into a heightened presence and stronger connection to the surrounding sphere (eco). Examples of this shift are seen when a sports team raises its level of play to be *in the zone* or when a jazz ensemble *finds its groove*.

The two intervening levels are level 2 (factual listening) and 3 (empathic listening). We will discuss all four levels in more detail when we introduce the Matrix of Social Evolution in chapter 4.

What does it take for individuals, teams, institutions, and larger systems to shift their attentional logic and mode of operating from downloading to presencing?

Principles of Presencing

We will answer this question in much more detail throughout the book. But for now let us share a few key principles that reflect what we have learned over the past few years and which may resonate with some of your own experiences:

1. *Energy follows attention.* Wherever you place your attention, that is where the energy of the system will go. “Energy follows attention” means that we need to shift our attention from what we are trying to avoid to what we want to bring into reality.
2. *Follow the three movements of the U.* We refer to this as the U process because of the “shape” of the journey. In order to get to the deep point of transformation (at the bottom of the U), it is necessary first to go down the U (the left-hand side) by opening our minds, hearts, and wills, and then, after passing through the “eye of the needle” at the bottom, go up the U (the right-hand side) to bring the new into reality (see figure 4). In the words of our colleague, economist Brian Arthur, the three main movements of the U process are:
 - a. Going down the U: *Observe, observe, observe.* Stop downloading and totally immerse yourself in the places of most potential, in the places that matter most to the situation you are dealing with.
 - b. At the bottom of the U: *Retreat and reflect; allow the inner knowing to emerge.* Go to the places of stillness where knowing comes to the surface. Here you share and reflect on everything that you have learned from a deep place of listening, asking, “What wants to emerge here?,” “How does that relate to the journey forward?,” and “How can we become part of the story of the future rather than holding on to the story of the past?”
 - c. Going up the U: *Act in an instant.* Explore the future by *doing*. Develop a prototype. A prototype explores the future by doing something small, speedy, and spontaneous; it quickly generates feedback from all the key stakeholders and allows you to evolve and iterate your idea.

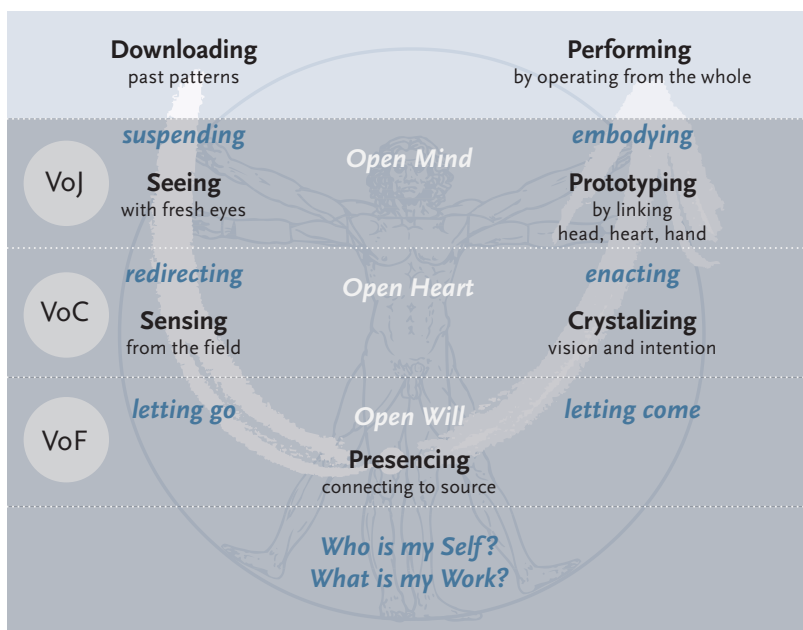


FIGURE 4. The U process of co-sensing and co-creating: presencing.

3. *Go to the edges of the self.* To apply this process in the context of institutions, we have to power it with a new leadership technology. The core of this technology focuses on tuning three instruments: the open mind, the open heart, and the open will. With an open mind, we can *suspend* old habits of thought. With an open heart, we can *empathize*, or see a situation through the eyes of someone else. With an open will, we can *let go* and *let the new come*.
4. *Pass through the eye of the needle.* At the deepest point of each U journey is a threshold. Crossing that threshold, passing through the eye of the needle, can feel like dying and being reborn. According to the Bible, “It is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God.”²¹ The phrase “eye of the needle” refers to a gate in ancient Jerusalem: For a man to fit his camel through Jerusalem’s gate, he had to remove all the bags from the camel’s back. Likewise, if we want to go through the eye of the needle at the bottom of the U, we have to let go of everything and offload all the baggage that isn’t essential. Going through that gate

means encountering the two root questions of our journey: “Who is my Self?” and “What is my Work?” The capital-S *Self* is our highest future possibility. The capital-W *Work* is our sense of purpose or calling. It’s what we are here on this earth to do.

5. *Transform the three enemies.* Why is the U journey the road less traveled? Why is it that a lot of people are aware of this deep process of knowing and yet it rarely happens in the context of our larger systems? Because the moment we commit ourselves to going on this journey, we start to encounter our three principal enemies: the *voice of doubt and judgment* (VoJ: shutting down the open mind), the *voice of cynicism* (VoC: shutting down the open heart), and the *voice of fear* (VoF: shutting down the open will).
6. *Always start by “attending to the crack.”* Where do we meet the future first? “Seek it with your hands. Don’t think about it, feel it” is the essential instruction that Bagger Vance gives to Junah in the Robert Redford movie *Bagger Vance*. The future shows up first in our feelings and through our hands, not in our abstract analysis. “Attending to the crack” means attending to the openings, the challenges, and the disruptions where we *feel* the past ending and the future wanting to begin.
7. *Hold the space for transforming the fields of conversation from debate to dialogue and collective creativity.* Each social field needs a container. Higher-level conversation like dialogue and collective creativity requires higher-quality containers and holding spaces. “Transforming the quality of conversation” in a system means transforming the quality of relationship and thought—that is, the quality of tomorrow’s results.
8. *Strengthen the sources of presencing in order to avoid the destructive dynamics of absencing.* Modern society emerges from the interplay of two powerful social fields: presencing and absencing. The field of presencing works through the opening of the mind, the heart, and the will. We know that there are plenty of inspiring examples of this process across the planet. But everyone who works in institutions and systems also knows that there is another field out there. That field is characterized by getting stuck with the idea that there is only One

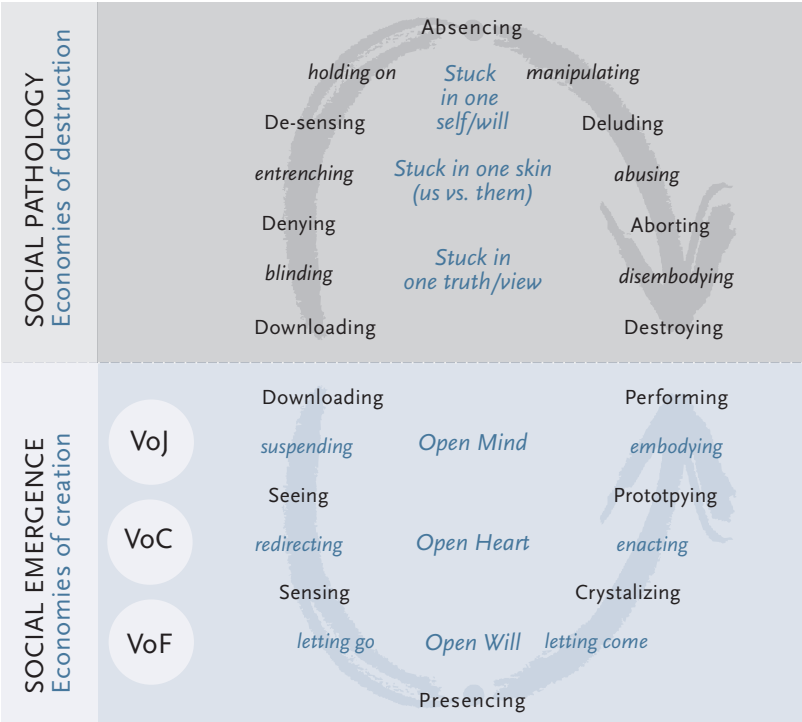


FIGURE 5. The social spaces of collective creation (presencing) and destruction (absencing).

Truth rather than operating with an open mind, by getting stuck in Us versus Them rather than operating with an open heart, and by being frozen inside one rigid identity rather than operating with an open will. What do we call social systems that have these three characteristics? Fundamentalist. Fundamentalism is the result of closing down and freezing our mind, heart, and will—as opposed to opening, warming, and illuminating them.

We live in the tension of these two fields. We are not one, but are often torn in two. Sometimes we operate from our highest future possibility (presencing). But every now and then we lose it and get stuck in old patterns of downloading (absencing). We experience this fragile nature of current reality not only in personal relationships, but also in the area of global development and change. We are torn

between these two fields, and we need to learn how to strengthen our grounding in the field of presencing.

Social reality emerges continuously from the interplay of these two forces: the field of presencing that enables us to co-create from a deeper level of humanity and intention, and the field of absencing that, through our blind spot of not being aware, traps us in patterns of destruction and self-destruction (see figure 5).

The Journey of This Book

This book journeys through an emerging framework for transforming institutions, society, relationships, and self. The first four chapters invite you to travel down the left side of the U through four levels of the iceberg, from the visible top to the less visible underlying levels:

1. symptoms: disruption, death, and rebirth (chapter 1);
2. structure: systemic disconnects (chapter 2);
3. thinking: the Matrix of Economic Evolution (chapter 3); and
4. source: traveling through the eye of the needle (chapter 4).

The next four chapters take you up the right side of the U into envisioning, enacting, and embodying the new:

5. leading individual transformation (chapter 5);
6. leading relational transformation (chapter 6);
7. leading institutional transformation (chapter 7); and
8. leading from the emerging future (chapter 8).

Chapters 5 and 6 outline the personal and relational revolution that this book tries to illuminate. Chapter 7 focuses on what we call the Matrix of Institutional Transformation, a roadmap for the evolutionary path of key institutions and societal systems from 1.0 to 4.0. This map suggests that the transformational experiences necessary in education, health, finance, business, government, and civil society are not actually all that different. They all feature similar journeys of inverting and flipping pyramid-style systems to cultivate the soil of a co-creative field

of shared intention, awareness, and action across institutional boundaries. Chapter 8 concludes with a specific view of what we, as the current generation of change-makers on this planet, are called to do over the next decade or two.

Each chapter ends with concluding remarks and practical questions for individual reflection and for group work. They are formulated to give you a practical tool to join the emerging global movement in seeing the ecological, social, and spiritual crises of our time as three aspects of a deeper issue that calls us to shift from egocentric to ecocentric as the gateway to transforming business, society, and self. The questions at the end of each chapter aid you in forming your own group. The website (www.presencing.com) and its global classroom sessions provide you ways to connect with others in order to co-sense and co-create our path forward.

On the Surface: Symptoms of Death and Rebirth

This chapter explores the symptoms at the tip of the iceberg of our current reality. We move from the toppling of tyrants to an exploration of the deeper fault lines that keep generating the disruptive changes of our time. We also look at these disruptive events from the viewpoint of change-makers: In the face of disruption, what determines whether we end up in moments of madness or mindfulness?

The Toppling of Tyrants

In the fall of 1989, two weeks before the Berlin Wall crumbled, we took an international student group to East Berlin, where we met with civil rights activists in the basement of a church. At one point, the professor who was with us, peace researcher Johan Galtung, put a prediction on the table: “The Berlin Wall will come down before the end of the year.” Everybody doubted that, including the people who were organizing the resistance against the East German regime. And we were all wrong. The Wall came down and the Cold War came to an end just months after that meeting.

Nearly two decades later, in the fall of 2008, the bankruptcy of Lehman Brothers, a global financial services firm, sent shock waves around the globe and within hours brought the financial systems of the United States and Europe to the brink of collapse. Today the remaining Wall Street megabanks and their European counterparts have survived because of massive taxpayer-financed bailouts from their governments. On October 11 of that year, the head of the International Monetary Fund (IMF) warned that the world financial system was teetering on the “brink of systemic meltdown.”¹

In December 2010, Mohamed Bouazizi, a young fruit and vegetable seller in Tunisia, set himself on fire in protest of his treatment by police, who wanted to extract bribes from him and, when he refused, took away his merchandise and beat him. In January 2011, a twenty-six-year-old Egyptian activist, Asmaa Mahfouz, posted a video online urging people to protest the “corrupt government” of Egypt’s president, Hosni Mubarak, by rallying in Cairo’s Tahrir Square.² With that video she sparked and inspired an uprising among the Egyptian population. A week later, on January 25, thousands joined her in Tahrir Square. Within days, the movement counted millions. At first the Egyptian police responded with brutality. But less than four weeks after Mahfouz had posted her initial video, President Mubarak resigned.

A month later, a 9.0 earthquake struck off the coast of Japan, generating a massive tsunami that killed more than twenty thousand people. The Fukushima Daiichi nuclear power plant was protected by a seawall designed to withstand a tsunami of 19 feet (5.7 meters). Minutes after the earthquake struck, a tsunami of 46 feet (14 meters) arrived, easily crossing the seawall and knocking out the plant’s emergency power generators. As a consequence, the radioactive fuel began overheating and put the plant on a path toward catastrophic meltdown.

As the year went on, the Arab Spring spread across the globe. Muammar Gaddafi was toppled in Libya. The Occupy Wall Street movement, which took inspiration in part from the Arab Spring, staged actions in more than a thousand cities across the globe.³

The collapse of the Berlin Wall, the demise of the Mubarak and Gaddafi regimes, the meltdown of the Fukushima Daiichi nuclear power plant, and the near-meltdown of the western financial system all share some features:

1. the end of an inflexible, centralized control structure, one that previously had been considered indestructible
2. the beginning of a spontaneous, decentralized grassroots movement of people letting go of their fear and waking up to another level of awareness and interconnectedness
3. the opening of some small cracks in the old system, followed by its crumbling and eventual collapse

4. the rebound of the old forces as soon as the memory of the collapse began to fade away; the old forces tried to obscure the actual root causes of the breakdown in order to extend their privileged access to power and influence (an example is Wall Street's financial oligarchy)

We believe that these kinds of events will keep coming our way. These disruptive changes mark the beginning of a new era that we have entered as a global community, an era of increasing disruption. Sometimes such movements will give rise to movements that bring about profound change, and sometimes they will falter and fail. In many cases, as we discuss later in the book, these disruptions are already on their way. It is too late to prevent all of them. So where is our point of control? It is in how we respond to the impact that these disruptions have on how we work and live.

A disruptive change affects not only our outer world, but also our inner self. Such moments bring our world to a sudden stop. They may be terrifying, but they also constitute a great blank space that can be filled in one of two ways: by *freezing* and reverting to the patterns of the past, or by opening us up to the *highest future possibilities*. The second response—leaning into, sensing, and actualizing one's emerging future—is what this book is about.

Presencing

At the moment when we reach the point of meltdown, we have a choice: We can freeze and revert to our deeply ingrained habits of the past, or we can stop and lean into the space of the unknown, lean into that which wants to emerge.

This second possibility—to lean into and connect to our highest future potential—we refer to as presencing. As noted in the introduction, the word *presencing* merges the terms *presence* and *sensing*. It means to sense and operate from the presence of an emerging future field. As we connect with this field of heightened awareness, our attention morphs from *slowing down*, *opening up*, *redirecting*, and *letting go* to *letting come*, *crystallizing*, and *embodying* the new. Figure 4 (see the introduction) summarizes this process.

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From Ego-System to Eco-System Economies***

by Otto Scharmer & Katrin Kaufer

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