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

LEADING FROM THE EMERGING FUTURE

From Ego-System to Eco-System Economies

This page intentionally left blank

Otto Scharmer and Katrin Kaufer

LEADING FROM THE EMERGING FUTURE

From Ego-System to Eco-System Economies

BK®
Berrett–Koehler Publishers, Inc.
San Francisco
a BK Currents book

Leading from the Emerging Future

Copyright © 2013 by Otto Scharmer and Katrin Kaeufer
All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. For permission requests, write to the publisher, addressed "Attention: Permissions Coordinator," at the address below.

Berrett-Koehler Publishers, Inc.
235 Montgomery Street, Suite 650
San Francisco, California 94104-2916
Tel: (415) 288-0260, Fax: (415) 362-2512
www.bkconnection.com

Ordering information for print editions
Quantity sales. Special discounts are available on quantity purchases by corporations, associations, and others. For details, contact the "Special Sales Department" at the Berrett-Koehler address above.
Individual sales. Berrett-Koehler publications are available through most bookstores. They can also be ordered directly from Berrett-Koehler: Tel: (800) 929-2929; Fax: (802) 864-7626; www.bkconnection.com
Orders for college textbook/course adoption use. Please contact Berrett-Koehler: Tel: (800) 929-2929; Fax: (802) 864-7626.
Orders by U.S. trade bookstores and wholesalers. Please contact Ingram Publisher Services, Tel: (800) 509-4887; Fax: (800) 838-1149; E-mail: customer.service@ingrampublisherservices.com; or visit www.ingrampublisherservices.com/Ordering for details about electronic ordering.

Berrett-Koehler and the BK logo are registered trademarks of Berrett-Koehler Publishers, Inc.

First Edition
Paperback print edition ISBN 978-1-60509-926-2
PDF e-book ISBN 978-1-60509-927-9
IDPF e-book ISBN 978-1-60509-928-6

2013-1

Produced by BookMatters, cover designed by Steve Pisano, photo of Otto Scharmer by Sven Nieder, copyedited by Laura Harger, proofed by Anne Smith, indexed by Leonard Rosenbaum.

To

HMS and JCS

This page intentionally left blank

CONTENTS

This page intentionally left blank

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 irresponsiblity, *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 nongovernmental 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

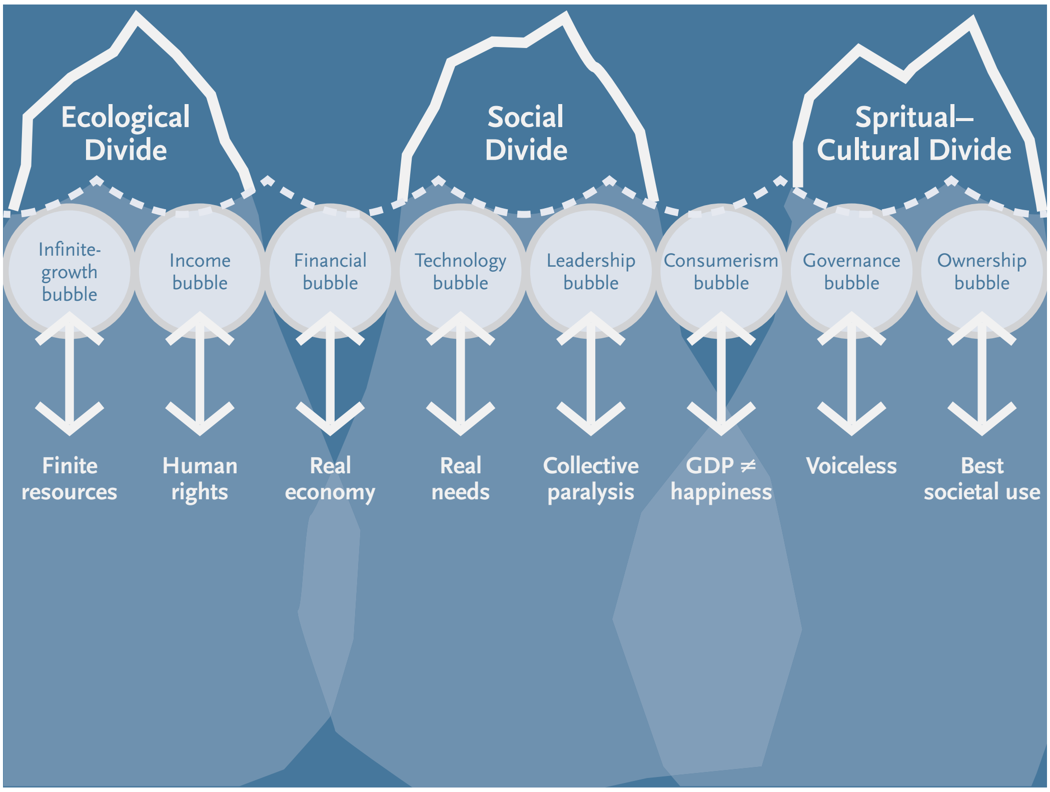

FIGURE 1. The iceberg model: a surface of symptoms and structural disconnects (bubbles) below it.

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