openexo

# THE SUCCESS IMPERATIVE

## BEING AN EXPONENTIAL ORGANIZATION

Insights from Business Performance Analysis of Fortune100 Organizations.
An Eight-Year Assessment of the Value of Being an Exponential Organization.

# OVERVIEW

The onset of the 21st century has witnessed not only accelerated change and disruption but also the emergence of a new breed of organizations that have revolutionized how to achieve superior performance benchmarks and grow significantly better than their peers.

In 2014, a seminal book titled **EXPONENTIAL ORGANIZATIONS** by **SALIM ISMAIL** was released to decode and share the secret sauce behind such radically better business performance. The book is now one of the top-selling business books of all time.

After the book's release, a study was undertaken to **analyze the US Fortune100 organizations** through the lens of this ExO success formula – the **11 Exponential Organization attributes of MTP + SCALE + IDEAS**.

The study identified the **top10 exponential organizations** (the most scalable and adaptable) and **bottom10 non-exponential organizations** (the least scalable and adaptable) amongst the Fortune100. The study also asserted that the most exponential organizations would deliver higher levels of resilience and impact.

**So, how have these top10 exponential organizations and the bottom10 non-exponential organizations performed over the years?**

We analyzed these organizations over the eight-year period of 2014 to 2021 (including the pandemic years) and are not surprised that the ExO success formula has stood the test of time.

The top10 exponential organizations have not just done well but significantly outperformed their bottom10 non-exponential peers delivering...

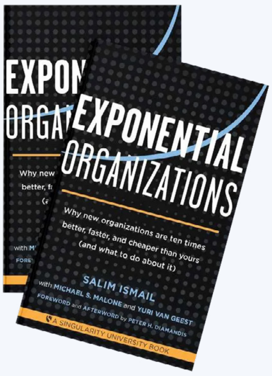
- **40x HIGHER SHAREHOLDER RETURNS**
- **2.6x BETTER REVENUE GROWTH**
- **6.8x HIGHER PROFITABILITY**
- **11.7x BETTER ASSET TURNOVER**

This report provides insights into the few best and next practices adopted by these successful exponential organizations and **learnings** from the non-exponential organizations.

The report concludes with **five critical strategic choices and ten key aligned actions** the top10 Exponential Organizations made and executed to emerge as winners. These are **essential lessons** that any organization should heed to improve its business performance, especially in the ongoing disruptive and hyper-competitive era.

It is an opportunity for you as a business leader to learn from the Fortune100 organizations and **embrace the Exponential Organizations (ExO) success formula** – to thrive and be future-ready.

# THE BACKGROUND




**Exponential Organizations**, written by three luminaries - Salim Ismail, Michael Malone, and Yuri Van Geest debuted as a **best seller** on Amazon in October 2014.

The book highlighted the emergence of a new breed of organizations that eliminated the incremental and linear ways of traditional companies to achieve performance benchmarks ten times better than their peers.

The book was rated as the top 5 Business Books by Fortune Magazine and further recognized as Frost & Sullivan's GIL (Growth, Innovation, and Leadership) Book of the Year.

The eponymous book outlined a formula for developing 10x better, bolder, and cheaper concepts and driving them 10x faster through to implementation – **Establishing an MTP** (Massive Transformative Purpose) AND thereon tap into and manage the abundance of opportunities available – to be scalable and adaptable by **embracing the ten additional exponential attributes of SCALE + IDEAS**.

## ATTRIBUTES OF EXPONENTIAL ORGANIZATION (EXO)

**Interfaces**
Customized filtering and matching to process the output of external attributes (SCALE) into the internal organization.

**Dashboards**
Make real-time information with essential company and employee metrics accessible to everyone internally with short feedback loops.

**Experiments**
Develop a culture that rewards rapid validated learning to encourage all departments to experiment with new ideas and processes.

**Autonomy**
A flat structure allowing individual employees and/or self-organizing, multidisciplinary teams to operate effectively.

**Social Technologies**
Leverage collaborative tools to have real-time conversations with transparency and connection across organizations.

### MTP

**Massive Transformative Purpose**

Your higher aspirational purpose that captures the hearts and minds of those both inside and outside the organization.


**Staff on demand**
Leverage external workers rather than 'owning' employees in order to increase speed, functionality and flexibility while decreasing fixed costs.

**Community and Crowd**
Attract, engage and leverage a community whose like-mindedness inspires support - adding creativity, innovation, validation and even funding.

**Algorithms**
Leverage automated functions, including machine learning and deep learning to uncover new insights about customers, products and processes.

**Leveraged Assets**
Access, rent, share or otherwise outsource assets to stay nimble and reduce capital expenditures.

**Engagement**
Leverage outside interest through gamification, digital reputation systems and incentive prizes to create network effects and positive feedback loops.

Later, in early 2015, **OpenExO** (the community established to enable businesses and institutions to embrace the Exponential Organizations model) collaborated with the US-based Hult University's International Business School (ranked # 15 globally by Economist in 2021) to assess the Fortune100 companies in terms of how well they were embracing the exponential attributes.

To achieve this objective, each of the US Fortune100 organizations was assessed by leaders from the OpenExO community for their **Exponential Quotient (ExQ)**. The ExQ is an aggregate score compiled from responses to a twenty-one question ExQ survey that reveals where an organization stands against the Exponential Organization attributes – MTP+SCALE+IDEAS.

This Exponential Quotient assessment and rankings of the Fortune100 revealed some obvious winners - the young technology players (from which the Exponential Organizations attributes had been gleaned) – Google (now Alphabet), Amazon, and Apple. But some of the old guards and non-technology organizations, such as General Electric and The Walt Disney Company, stood out to form the **TOP10 Exponential Organizations** within the Fortune100.

All these organizations shared key noteworthy characteristics. They were all purpose-driven and pursued strategies and practices to be scalable, adaptable, agile, and resilient.

In contrast, the **BOTTOM10** amongst the Fortune100 were large organizations (including Phillips 66 with revenues of USD 157.7 billion in 2013!) that followed a highly conventional and linear approach to business and organizational strategy design and its execution.

These were perfect case study candidates of the old-school business and operating models which worked in the 20th century but are certainly not a recipe for success in the 21st century.


**After the release of these results, Salim was invited** in June 2015 to share insights from this Exponential Quotient assessment on **CNBC's Squawk box**.

During the program, his observations certainly raised several eyebrows – how can some of the industry veterans (especially those which were successful in the 20th century) score so low! But it also triggered a fundamental question – what would the future hold for these exponential and non-exponential organizations?

Salim asserted that "an Exponential Organization will see powerful outcomes - greater customer responsiveness, higher employee and partner engagement, and better financial performance in terms of revenues, profitability, return on capital, and higher levels of resilience and impact."

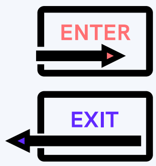
Since the Exponential Quotient assessment was undertaken nearly eight years back, the business world has become even more volatile, uncertain, complex, and ambiguous (VUCA). And the COVID-19 crisis certainly brought along an even more rapid acceleration of change.

## So, has the success formula of MTP + SCALE + I.D.E.A.S = Sustainable Better Business Performance stood firm over time?

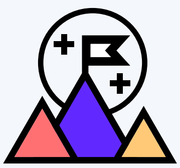
OpenExO set out to analyze how the exponential and the non-exponential Fortune100 organizations have performed over the years.

Given the absence of robust datasets providing business performance data & information across key operational, customer, employee, and social metrics - we focused on the financial metrics. And, we used the **Fortune 500** database and **Refintiv**, the global leader in financial information, as the golden data sources.

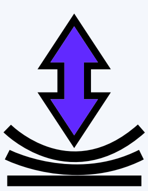
# KEY INSIGHTS



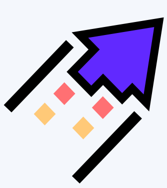

**1** FORTUNES CHURN



**2** EXPONENTIALS THRIVE



**3** IMMUNITY NOT GUARANTEED



**4** ELEPHANTS CAN DANCE

  openexo

# INSIGHT 1 - FORTUNES CHURN

This statement holds when it comes to the world's largest organizations.

**The 8-year assessment period between 2014 -2021 witnessed a 23% churn rate amongst the Fortune100 organizations.**

---

- 12 of the Fortune100 organizations from the 2014 rankings got acquired by their competitors or by private equity organizations, with Express Scripts Holdings (ranked 20th on the Fortune list in 2014) and United Technologies (ranked 45th) being the notable ones besides Aetna, Safeway, Sears, Supervalu, Tesoro amongst others.

  Except for DirecTV (ranked 12th on the Exponential Quotient amongst the Fortune100 assessed), all the other 11 organizations had scored low on the exponential quotient in 2014.

- Another 11 lost the tag of being one of the largest 100 organizations. Their revenues were lower than the USD 31.5 billion threshold (Tesla's revenues, which got ranked 100th in the 2021 list).

  The most notable organizations that witnessed a significant drop in their ranks and fell out of the Fortune100 list included United Continental Holdings, which went down 122 spots from Fortune 2014 rank 78th to Fortune 2021 rank 200, and ConocoPhillips dropping by 109 places - from 47th in 2014 to 156 in 2021.

  Once again, all these 11 organizations had scored low on the Exponential Quotient (ExQ) in 2014.

## So, need we say - no surprises!
## It is all about Survival of the Fittest.

With these 23 departures, we also witnessed 23 new entrants into the Fortune100 big league.

---

The most noticeable one is Facebook, which moved up from 341st position amongst Fortune 500 in 2014 to become the 34th largest organization in 2021 rankings, an actual 10x jump. While the recent developments, including a single-day fall of 26% in its market valuation, have raised some eyebrows about its future, we will be watching its next official ranking. Rubbing shoulders with Facebook were Charter Communications which moved from being ranked 331st to 64th, and Centene from 251st to the 24th largest listed American organization.

---

At the same time, the highest-ranked exponential organization amongst the Fortune100 - Alphabet jumped 37 ranks between 2014 and 2021 from 46th to being ranked 9th in 2021.

Similarly, the second-highest ranked exponential organization, Amazon, moved up 33 spots from 35th to become the 2nd largest Fortune organization.

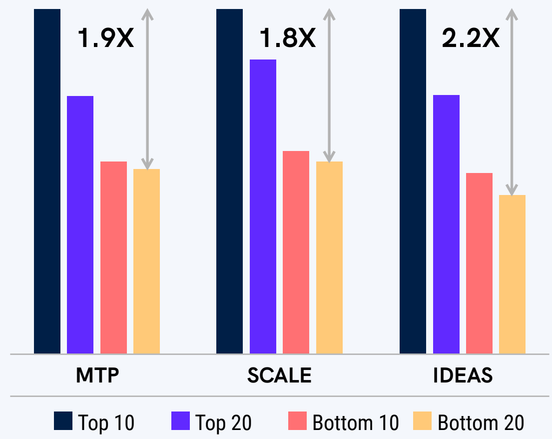
So, if Fortune rankings based on Revenues matter – the top10 Exponential Organizations proved that **flexibility and adaptability provide the relevant booster rockets** OR, as the Red Bull slogan would say – “gives you wings.”

# INSIGHT 2 - EXPONENTIALS THRIVE

The 2014 ExQ assessment had established that the top10 Exponential Organizations amongst the Fortune100 were adopting a different business and operating model.

They were **1.9x** more likely to have a distinct focus on how to improve the lives of millions or billions of people, an MTP (the Massive Transformative Purpose).

And they were **1.8x** and **2.2x** more progressive than their bottom10 peers in building capabilities of scalability and adaptability to succeed in the 4th Industrial Revolution era.




**In terms of Purpose**, the non-exponential organizations typically were driven by a mission of purely growing shareholder returns or delivering the best products & services. Sometimes they loosely defined a purpose without truly living by it.

"Provide innovative commercial expertise and strategic business solutions that support our business partners and maximize shareholder value", communicated as the purpose of one of the bottom10 non-exponential organizations demonstrates the linear and limited approach.

On the other hand, the Exponential Organizations aspired to serve not just their end customers but bring positive change to their entire ecosystem of employees and external stakeholders, society, and the environment. Alphabet aiming to "organize all of the world's information and make it universally accessible and useful.", and Microsoft shifting from "a computer on every desk and in every home" to its new purpose "to empower every person and every organization on the planet to achieve more" signify the massive transformative focus on external impacts.


Similarly, **regarding Community & Crowd**, the exponential attribute under SCALE, the non-exponential organizations typically interacted with their customers and partners in a one-to-many conversation or used them for market research and other listening activities. They didn't engage beyond traditional marketing, public relations, and conventional CRM (customer relationship management) / SRM (supplier relationship management).

Conversely, the Exponential Organizations had two-way conversations with their customers (and even the users & fans) and suppliers & partners for outreach and even marketing and product & services development. This fostered loyal, engaged, and more decentralized communities paving the way for peer-to-peer value creation.



openexo

Another example is **in the context of Autonomy**, one of the exponential attributes under IDEAS. The Exponential Organizations operated with a great deal of internal autonomy and decentralized decision making (except for purpose, vision, and culture) and had multi-disciplinary, networked, and self-organizing teams as the primary operating structure across the broader organization (often including the customers and suppliers).

In contrast, non-exponential organizations typically operated with a traditional top-down command & control corporate hierarchy with extensive, specialized groups working in silos. They had some small multi-disciplinary teams operating away from the mainstream organization (e.g., in Research & Development or New Product Development).

## So, does being an Exponential Organization matter?

The 2x differential in terms of how much more the top10 exponential organizations embraced the 11 exponential attributes of MTP + SCALE + IDEAS compared to their bottom10 non-exponential peers had had a magnifying impact when it came to their business performance.

Over the 8-year assessment period of 2014 – 2021, the **top10 Exponential Organizations** amongst the US Fortune100 organizations sustained or, in fact, **marched ahead compared to their bottom10 non-exponentials peers and delivered a staggering**

**40x HIGHER SHAREHOLDER RETURNS**

**2.6x BETTER REVENUE GROWTH**

**6.8x HIGHER PROFITABILITY**

**11.7x BETTER ASSET TURNOVER**

# 40X HIGHER SHAREHOLDER RETURNS

From April 2014 – to December 2021, the cumulative market capitalization for the **top10 Exponential Organizations witnessed a 24.0% CAGR** (compounded annual growth rate) compared to only 0.6% CAGR for the bottom10 non-exponential organizations.

In fact, the median CAGR of market valuation for the bottom10 organizations was a negative 2.4% CAGR, while the top10 Exponential Organizations returned a median positive 13.6% CAGR.

With a **5.3x increase** in their cumulative market capitalization, the top10 exponential organizations **outperformed the S&P500** benchmark index, which increased **only 2.5x** (@12.9% CAGR) during the assessment period.


Such phenomenal growth in market capitalization for the top10 was driven by the leaders in the exponential quotient scores – Microsoft, Amazon, Apple, and Alphabet. With the second-highest ExQ score, Amazon delivered a staggering 11x rise in its market value.

On the other hand, except for HCA Healthcare and INTL FC Stone (now Stonex), which witnessed increases in their market capitalization during the assessment period – all the bottom10 non-exponential organizations drastically eroded shareholder wealth. Plains GP Holdings, for example, lost 86% of its market value, and Fannie Mae lost around 60% between April 2014 and December 2021.

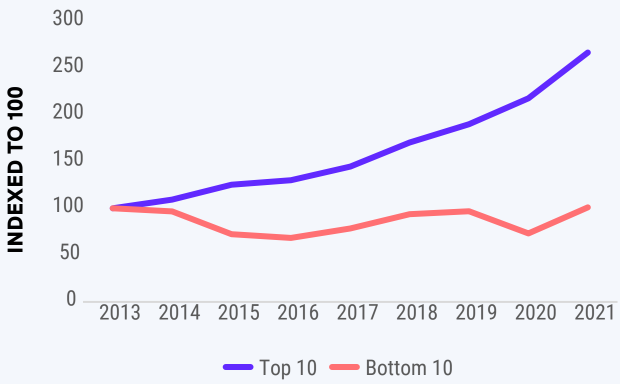
The high exponential quotient scores served as a great predictor of the potential of these top10 Exponential Organizations.

Plains GP Holdings, for example, lost 86% of its market value, and Fannie Mae lost around 60% between April 2014 and December 2021. The high exponential quotient scores served as a great predictor of the potential of these top10 Exponential Organizations.

## 2.6X BETTER REVENUE GROWTH

The combined revenues for the top10 Exponential Organizations amongst the Fortune100 **grew 2.6x more** than their bottom10 peers during the assessment period.

With cumulative revenues having a **13.04% CAGR** (compounded annual growth rate) compared to a meagre **0.14% CAGR** for the non-exponentials, the top10 leaped ahead through both product & services R&D and business model R&D.




Amongst the top10 Exponential Organizations, Amazon, with a CAGR of around 26%, and Alphabet, with a CAGR of 20% in their revenues, were the clear winners.

On the other hand, apart from Cardinal Health which had a positive 6.1% CAGR, most of the bottom10 non-exponential organizations saw declining toplines during the assessment period. In fact, Philipps 66's and Valero Energy's revenues more than halved between 2013 and 2020.

But for the sharp rise in oil prices during 2021, which turned out to be a savior, the cumulative revenues for the bottom10 non-exponential organizations had seen a negative 4.36% CAGR during 2013 and 2020.

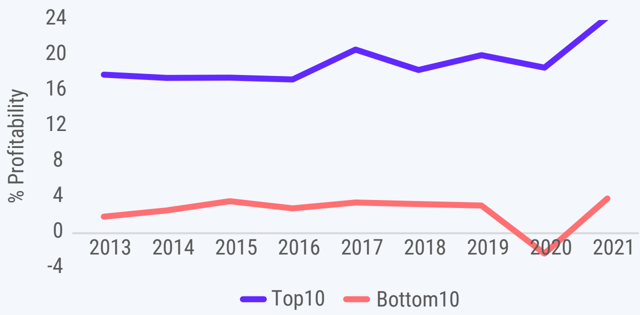
Even during the pandemic year of 2020, the top10 Exponential Organizations sustained the growth momentum and demonstrated agility and resilience. On the other hand, their non-exponential peers faltered, reflecting the intrinsic fragility of their business and operating models.

Such performance gaps can be firmly attributed to the low scores for the bottom10 non-exponential organizations on the scalability and growth enabling exponential attributes of community & engagement, and autonomy & experimentation. The top10 exponential organizations had scored 3x and 2x higher respectively compared to their bottom10 non-exponential peers on these critical attributes.

## 6.8X HIGHER PROFITABILITY

With median profitability (Net Profits / Sales) of 18.68% over the assessment period, the top10 Exponential Organizations have been **6.8x more profitable** compared to their bottom10 non-exponential peers.

Even during the 2020 pandemic year, the profitability for the top10 exponential organizations stayed buoyant at around **18.0%**, while that of their bottom10 non-exponential peers reached a **negative 2.3%**, hitting their rock bottom over the assessment period.




With median profitability of more than 20% throughout the 8-year assessment period, Alphabet, Apple, and Microsoft were the clear front runners amongst the top10 Exponential Organizations – reflecting the robustness of their business and operating models.

On the other hand, except for Enterprise Products and HCA Healthcare, all the bottom10 non-exponential organizations have struggled to increase their profitability beyond the 0-3% range over the 8-year assessment period.

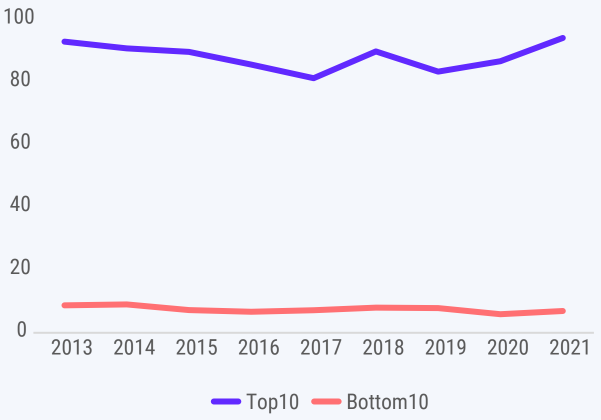
And such low profitability levels are not attributable to the industry type the bottom10 non-exponentials belong to.

For example, Exxon Mobil. It had scored low on the ExQ assessment in 2014, but relatively better than its bottom10 non-exponential peers, Valero and Philips 66. It has had median profitability of around 6% over the 8-year assessment period. Now, that's nowhere close to the profitability margins enjoyed by the Exponential Organizations, but it is certainly superior to both Valero and Phillips66, which delivered median profitability of only around 2.5%.

## 11.7X BETTER ASSET TURNOVER

With a median Asset Turnover (Revenues / Assets) of 88.2%, the top10 Exponential Organizations amongst the Fortune100 have been **11.7x** better at leveraging their assets than the bottom10 non-exponential peers.

In the 2020 financial year, when the COVID crisis truly tested the resilience of business and operating models of every organization across sectors and geographies, the top10 Exponential Organizations had around **15x better** asset turnover than their bottom10 non-exponential peers.




Once again, this is not just an industry-specific trend and nuisance.

For example, within the insurance arena, we have Humana amongst the top10 Exponential Organizations. It has had an asset turnover of around 200% over the assessment period, i.e., It generated USD 2 worth of revenues for every USD 1 worth of total assets (fixed and current) it owns.

This contrasts favorably with its bottom10 non-exponential peer HCA Healthcare, which has had an asset turnover of only 118% over the assessment period.

Such performance gaps can be firmly attributed to a median score on the specific exponential attribute of leveraged assets. The top10 Exponential Organizations had scored 2.5 out of 4, compared to their bottom10 non-exponential peer-group score of only 1.5.

## So, what have the exponentials been doing to deliver such outstanding results?

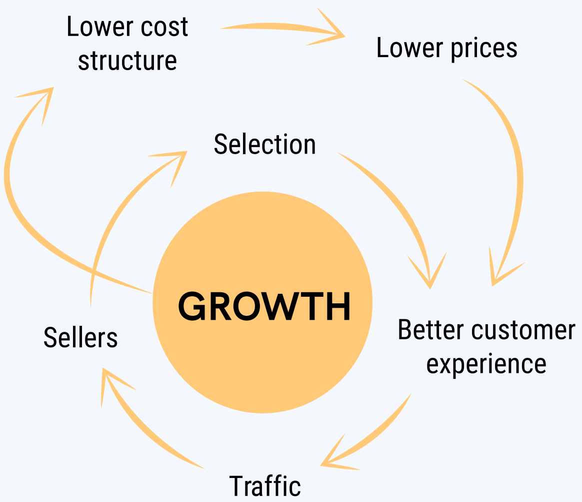
To exemplify the stark differences in the approach adopted by the top10 Exponential Organizations and their corresponding successes compared to their non-exponential peers and the corporate world, some key highlights for some leaders are provided here.

From small beginnings in 1994, Amazon has been a growth story over the last decade.

Amazon's revenues have grown at a phenomenal rate of around 26% year on year since 2013 to touch USD 469.8 Billion in 2021, making it the second-largest global corporate revenue generator after Walmart.

Its market capitalization has increased 11-fold over the last nine years, with the highest shareholder returns amongst the top10 Exponential Organizations and, for that matter, any other large-cap organization!

### AMAZON GROWTH STRATEGY




Source: RIC Merrifield and Brad Power

As the erstwhile CEO Jeff Bezos once said, "Failure and invention are inseparable twins." Experimentation and its famous flywheel have been at the heart of Amazon's success. It was ranked 2nd in terms of the Exponential Quotient score amongst the Fortune100 and has continued to embrace and embed exponential attributes over the years.

Amazon has established incredibly detailed data flows aggregated into real-time dashboards across the company. Leaders track the implementation progress and base their decisions on the daily and weekly reports from these systems.

If an employee wants to experiment, while most companies are designed to find reasons to decline the request, Amazon's Institutional Yes process aims for a "YES" by requiring managers to write a 4-page reasoning for a "NO" and posting it on the company intranet.

They invest small amounts in **numerous experiments** each year and watch the progress through the dashboards. Amazon makes 1 or 2 huge bets each year, having closely watched experiments. These are sometimes counterintuitive ideas until data shows otherwise.

For example, inviting customers to write product reviews shifted the burden of evaluating the quality, reliability, and price of products and their suppliers to customers, who benefitted from a better customer experience and being given a voice.  With no friction against growth, their customers drove Amazon's growth. Similarly, Amazon Prime risked members placing numerous individual uneconomic orders to entailing free delivery but showed an increase in order size dramatically. Furthermore, Amazon was offering its data storage skills and infrastructure to other organizations (primarily its suppliers in the beginning).  This became AWS, which provided 75% of profits during recent years and 50% now, but with 4X the profit margin than their retail operations, allowing Amazon to undercut competitors.

On the operational front, it has been at the forefront of **leveraging disruptive technologies** such as transforming order fulfillment through warehouse automation and drone-based deliveries.

Amazon embraces placing several such bets that provide learnings, writing off those that don't perform (such as USD 170 million for the Fire Phone within one year of launch in 2014), Amazon Spark and Amazon Restaurant, etc.

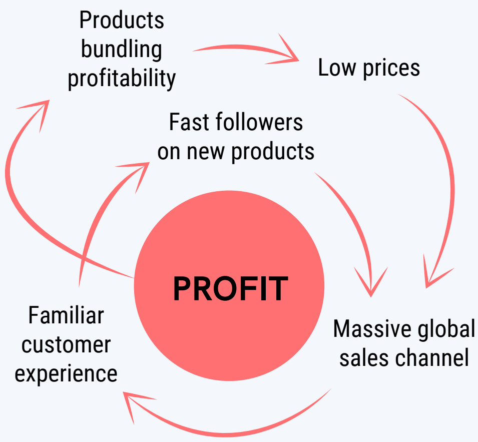
## So, is Amazon's success perpetual?

Besides the experimentation-driven failures (or learnings), Amazon has had its share of challenges in its growth journey, and the way forward is unlikely to be a fairy tale either.

Amazon's retail store rivals in the USA include big names such as Walmart and Costco which have been expanding their reach in the e-commerce space over the last few years. Alibaba in the Chinese e-commerce market has hit Amazon badly, and it is facing intense competition from the likes of Flipkart-Walmart and Reliance in India. In Web Services, Amazon has the technology giants Microsoft, Alphabet, and IBM as formidable rivals. So, only by continuing to implement exponential attributes can it stay ahead. It expresses elements of that approach in its four core principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking.

It is interesting to note that in his last letter to shareholders as Amazon CEO in April 2021, Jeff Bezos talked about his takeaway from the book "The Blind Watchmaker" and concluded with this message - "The world will always try to make Amazon more typical — to bring us into equilibrium with our environment. It will take continuous effort, but we can and must be better than that."

## MICROSOFT PROFIT STRATEGY




Founded in 1975, Microsoft has been the cornerstone of the computers or digital era over the last several decades.

Over the 8-year assessment period, Microsoft's revenues more than doubled to reach USD 168 billion in the financial year 2021.

While such growth of 10% CAGR in revenues might be considered nominal compared to its other technology and top10 exponential peers (Apple, Alphabet), Microsoft is certainly a winner when it comes to profitability.

It generated a staggering USD 61 billion net profit in 2021 –a 36% profitability ratio – double the median that top10 Exponential Organizations delivered during the assessment period.

The shareholders have acknowledged Microsoft's profitable growth with a 7.6x jump in its valuation between April 2014 and December 2021, making it one of the three members of the exclusive USD 2 trillion market capitalization club (along with Apple and Alphabet)!

Such phenomenal results were not guaranteed at the beginning of the last decade. In the early 2010s, the invention of the smartphone led to an irreversible decline in the PC market (and Windows made up 54% of Microsoft's operating profit!). While it did try to step into the mobile arena with a Windows phone and acquisition of Nokia – it indeed failed.

To stay ahead of the curve, initially under the leadership of Steve Balmer and subsequently Satya Nadella in 2014, Microsoft embarked on a transformation journey. To focus on the enterprise users and the cloud. This strategy called for a paradigm shift from being a closed proprietary technology player to having its solutions running on all platforms.

Microsoft pursued a two-pronged approach towards this.

Firstly, they shifted the culture from a fixed to a **growth mindset** where leadership and the broader organization are boundaryless in creating value by empowering its customers with the best solutions it can build with others, rather than doing it alone. Indeed, this was a new approach compared to the erstwhile winner-take-all approach to business.

This mantra got reflected in Microsoft releasing the Office productivity suite for iPhones in 2014 - a move that its executives had previously blocked out of fear that they would be helping Apple and undermining a key motivation for business users to purchase the failing Windows Phones.

Secondly, it has been extensively building partnerships with peers (earlier seen as competitors!), as reflected in its deal with Salesforce (which competed with Microsoft's CRM products) and with Linux reseller Red Hat (which competed with Microsoft's Windows Server division) to encourage them and their customers to use Microsoft's Azure cloud.

This was complemented by **collaborating** with agile startups, scaleups, and networks such as the Linux Foundation, Open Innovation Network (providing access to more than 60 thousand open-sourced patents), and acquisitions such as GitHub to foster open-source solutions development. In fact, within a year of the GitHub acquisition, more than 4,500 Microsoft employees leveraged the GitHub platform making Microsoft one of the most significant contributors.

These are clear reflections of Microsoft furthering the adoption of exponential attributes - being **engaged with customers** and **fostering experimentation** by breaking the shackles of a closed-source bureaucratic modus operandi.

An interesting example is what historically had been a closed-door retreat for the "happy few" top 150 executives. Nadella, in 2014 after taking over the reins, also invited the founders of recently acquired companies to the retreat. He also organized a tour to meet different customers as part of the retreat agenda, setting a new precedent in terms of direct leadership engagement.

The quote below by Satya Nadella from his book Hit Refresh has beautifully summarized the continuous exponential journey of Microsoft:

"Every person, organization, and even society reaches a point at which they owe it to themselves to hit refresh—to reenergize, renew, reframe, and rethink their purpose." The Quest to Rediscover Microsoft's Soul and Imagine a Better Future for Everyone.

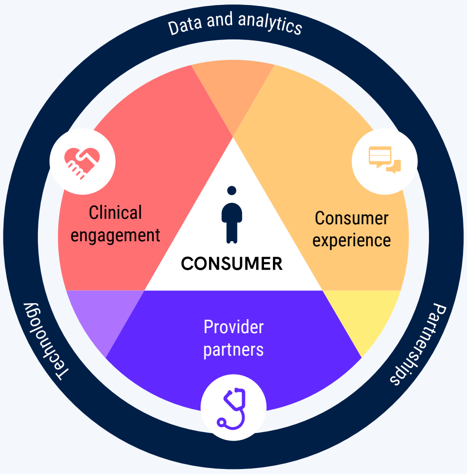
---

# Humana

Founded in 1961 as a nursing home company, Humana moved into hospitals in 1974 and then into health insurance in the 80s. Over the last decade, it initiated a shift from an insurance company with elements of healthcare to a healthcare company with elements of insurance.

Over the 8-year assessment period, Humana's revenues grew steadily and organically at 9% per annum to reach USD 83 billion in 2021, making it the 41st largest Fortune100 organization (rising from 150th rank in 2006 and 73rd in 2014).

Its market capitalization increased at around 18% CAGR between April 2014 and December 2021, reflecting shareholder confidence.



Driven by a new purpose of helping people live healthy and happy, Humana has been deepening its commitment to creating a new kind of integrated care. For this, Humana has been pursuing a digital-led business transformation to **build internal and external communities and foster engagement** to facilitate continuous improvements and innovation amongst its 48,700 strong employee base (as of December 2020).

In 2018, Humana launched a new digital health and analytics unit in Boston, Studio H, and tapped a former financial technology (and not from healthcare!) executive as the chief digital health & analytics officer with a clear vision to have the look and feel of a tech startup. It also became the first US Health Insurer in 2019 to join the Consumer Technology Association (CTA)—to initiate collaborative efforts with the likes of Microsoft and Fitbit etc.

Through its range of tools – such as the Kafka interface for democratizing data-interoperability (for real-time data management like Netflix and UBER- Humana uses events such as a sale or a customer service interaction to power real-time recommendations and decisions towards making health care easier to navigate and more effective. The COVID pandemic truly accelerated and turbocharged such efforts. In January 2020 - only 0.32 percent of the visits with primary care physicians (PCPs) and specialists were through telehealth. In April 2020, this surged to 35 percent - nearly 1.5 million telehealth visits.

During the pandemic peak, Ross Lagerblade, VP of Value-based Strategies, Humana, said, “We’re flipping the table. Instead of the practices asking how long patients will have to wait for an answer, we’re asking, how fast can we get our members the care they need.”

**Such success stories of Amazon, Microsoft, and Humana certainly didn’t come easy.**

These organizations ensured **commitment and perseverance** to be ahead of the curve. To be a better version of themselves and **deliver superior value** for all the stakeholders on a sustainable long-term basis, which is the essence of an Exponential Organization.

# INSIGHT 3 – IMMUNITY NOT GUARANTEED

Over the 8-year assessment period of 2014-2021, some industry icons and the top10 Exponential Organizations have not been able to sustain their superiority with respect to the different exponential attributes. Hence, they failed to deliver good business results.

---

General Electric

**General Electric is the most startling example.**

Once a paragon of modern management excellence, General Electric became a punchline over the last few years.

From being the 4th largest amongst the Fortune100 organizations in 2010, it fell to the 38th rank in 2021. Its revenues fell from USD 119.5 billion in 2013 to USD 74.2 billion in 2021 – a nearly 40% decline.

Over the last seven years, it has made a cumulative loss of USD 35 billion!

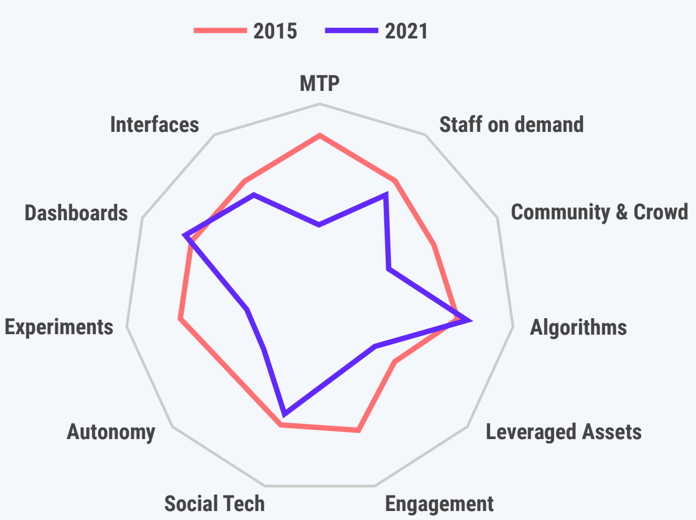
It had its market value drop from USD 500 billion at the start of the century to a low of USD 53 billion during 2020, and even got ousted from the Dow Jones Industrial, where it was once the sole name to have endured the benchmark's first one hundred years.

## So, what went wrong? We reviewed GE through the exponential attribute's lenses.

- **MTP** – from "being the best" to "making numbers at all costs." In 2020, GE paid USD 200 million to the SEC to settle charges for misleading investors.

- **Leveraged Assets** – expensive acquisitions including that of Alstom in 2014, and doubling down on fossil fuels even as renewable sources such as solar were becoming mainstream.

- **Experimentation** – focusing excessively on improving efficiencies and short-term incremental innovation, instead of long-term disruptive innovation.



In their 2000 Annual Report, GE's erstwhile CEO Jack had mentioned that "If the rate of change on the outside exceeds the rate of change on the inside, the end is near." It's ironic that GE itself succumbed to this metabolism challenge.

Now under the leadership of Lawrence Culp (the first outsider CEO in GE's 135-year history), GE is attempting to recover from its collapse. On November 9, 2021, it was announced that GE would get divided into three public companies starting in 2023, signifying an icon's end of an era.

While GE has emerged as an extreme example of what we call the "corporate immune system," we have also witnessed some of the technology giants losing steam. Being a prominent and large organization does give a business the right to play, but it certainly does not provide them with the right to win.

**IBM provides another clear testimony to this.**

The revenues of IBM fell by a staggering 42% to USD 57.3 billion in 2021 from USD 98.3 billion in 2013, including the divesture of its Managed Infrastructure Services unit (accounting for around USD 19 billion of annual revenues).

IBM's asset turnover fell from a respectable 78% to a meagre 43%, and profitability from 17% to 10% levels over the 8-year assessment period.

It is no surprise that IBM stock has been in a long swoon, falling by almost 40% since 2013, when its market capitalization at USD 200 billion was on par with that of Microsoft!

While IBM has been a corporate leader in the number of patents filed over the last decade (with 9,130 U.S. patents in 2020 alone), much of this innovation apparently didn't get directed towards strengthening the existing business or springboarding meaningful new value propositions to foster customer engagement and stickiness.

For example, Big Blue's famous supercomputer endeavor, Watson, failed to deliver despite pumping in USD 15 billion over the years. In 2015, Ginni Rometty, who was IBM's CEO at the time, went on the CNN program Charlie Rose and had said that Watson was "our moonshot." It was sold for a meager USD 1 billion in Jan'22 to Francisco Partners, a private equity organization.

In the core business, while having a head start and a staggering investment of USD 34 billion with the Red Hat acquisition, IBM's cloud offerings have been considered inferior (for example, as per the Gartner Quadrant) to that of Amazon, Google, and Microsoft.

At the Think conference for IBM clients and developers in 2020, the incoming CEO Arvind Krishna said, "The fact that IBM has been here before gives me perspective and confidence."

With Cloud, Web3.0, and Artificial Intelligence being the future of the technology arena, it certainly presents an opportunity for IBM to go back to the basics and refocus on "being innovative" Instead of just "doing innovation." We will be certainly looking at IBM closely to see if it can regain the lost glory and go back to becoming an Exponential Organization.


In today's era, organizations need to continuously rewire their ways of thinking and working, and even more so, reimagine and reinvent their business and operating model.

They need to prepare for and respond to the challenges and inflection points to survive and thrive, to build agility and resilience. **Otherwise, disruption is inevitable.**

# INSIGHT 4 – ELEPHANTS CAN DANCE

As many children's stories start with "once upon a time," even in the business context, there was a time, not so long ago when disruption was not talked about actively in management meetings and boardroom conversations.

But the 21st century has been all about hyper-competition, accelerated change and volatility, uncertainty, complexity, and ambiguity (VUCA) on steroids. Although it is normal to be apprehensive about change, great business leaders and organizations do not just allow disruption to happen to them.

While realizing that a non-linear and exponential transformation is not without hardships (especially for the giant behemoths that comprise the Fortune100), they step up to the challenges and see them as opportunities. And, as the saying goes – it is better late than never. Indeed, the sooner, the better.

Happily, some non-exponential organizations from the Fortune100 list of 2014 recognized the inflection points in the offing. Rather than becoming a KODAK, BLOCKBUSTER, NOKIA, or TOYS R US, they choose to embark on an improvement and transformation journey.

We know that OpenExO reporting the exponential scores was a trigger in some instances. And some of the boardroom and senior leadership conversations we have had with many of the non-exponential organizations may have helped.

Whatever the point of origin – it is lovely to see some of the non-exponentials embracing the exponential attributes of MTP + SCALE + IDEAS over the years.

---

**Costco is a notable example of such an exponential transformation.**

During the 2014 Exponential Quotient (ExQ)assessment, Costco had scored a low 32.0 points, compared to its industry peers Walmart at 42.7 and Amazon at 66.2.

Costco, over the years, has not just survived but outperformed the offline retail giant Target and even Walmart, while other big retailers such as Sears and JCPenny went bust.

During the 8-year assessment period of 2014-2021, while the revenues for COSTCO grew at a CAGR of around 8%, that of Walmart grew only at 2.2% and for Target at 3.1%.

Costco also improved its profitability from 1.9% to 2.5%, while Walmart's profit margins declined from 3.6% to 2.4%. These are indeed low profitability rates, but let's not forget that each basis point makes a lot of difference in retail.

## So, what led to this transformation and the business's success?

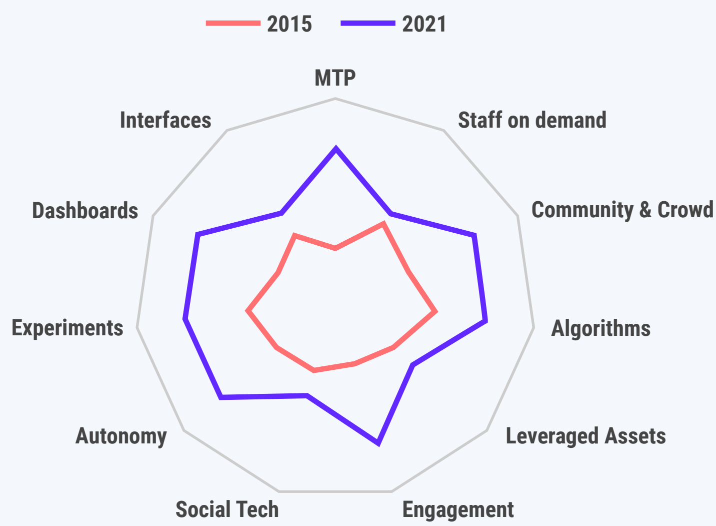
- **MTP** – Costco now gets cited as a "testimony to ethical capitalism," focusing on a broader set of stakeholders than its investors.

- **Community** –With 111 million members in 2021 (and a 90% renewal rate), it generates three-quarters of its profits from annual subscription fees!

- **Algorithms** – Costco has leveraged artificial intelligence and machine learning across the supply chain to optimize the product portfolio to minimize inventory and wastage.

- **Leveraged Assets** – Costco offers high quality but limited choices, enabling highly optimized Inventory (and low prices as well!). Most Costco warehouses sell only around 3,800 items, compared to 142,000 items for sale at an average Walmart.

- **Engagement** – Costco's in-store experience is called the thrill of discovery. It earned top marks in customer satisfaction from ACSI in 2019, knocking Amazon from the top spot it held for a decade.




The evolution of Costco's business and operating model over the years has been remarkable.

However, it still has a few apparent limitations (for example, its lack of aggressive ambition toward omnichannel capabilities and digitization across the value chain) and hence potential opportunities OR threats - leaving the company vulnerable to disruption.

We will undoubtedly be watching quite closely.

Costco's transformation is a fitting illustration of the "art of the possible" and potentially an inspiration for other organizations that have been either staying in their comfort zone, or sitting on the fence, or moving too slowly due to the fear of hardships and potential failure.

---

As Brené Brown, an American author with one of the five most-viewed TED talks, said,

> **"You can choose courage or comfort. You cannot choose both."**

# PATHWAYS TO SUCCESS

Over the years, the top10 Exponential Organizations amongst the Fortune100 have worked proactively and extensively towards sustaining and enhancing their scalability and adaptability, aka their Exponential Quotient (ExQ).

And they have done so by making **five critical strategic choices** and executing ten **key aligned actions**, the bedrock of their successes.

**ESTABLISH A MASSIVE TRANSFORMATIVE PURPOSE (MTP)**

- Aspire to create sustainable value and a better future for all stakeholders (society, investors, government and regulators, customers, suppliers, and employees).
- Drive Moonshots and Big Hairy Audacious Goals (BHAGs) through SMART Goals.

**LEAD FROM THE FRONT**

- Have an engaged and visible leadership, internally as well as with the broader set of external stakeholders.
- Establish a sharp vision and foresight, supported by dashboards and performance dialogues at all organizational levels.

**INVEST IN DUAL TRANSFORMATION**

- Exploit the current and improve performance at the CORE through operational excellence and differentiation in products & services.
- Explore the future and grow at the EDGEs through holistic business, operating, and management model innovation.

**ADOPT AGILE WAYS OF WORKING**

- Nurture diverse talent and capabilities internally across the wider organization and also at external partners.
- Embed experimentation and structured flexibility, and foster autonomy and collaboration across the broader organization.

**ACCELERATE DIGITALIZATION**

- Leverage artificial intelligence and machine learning for insights & decision-making across functions and organizational levels.
- Deploy the fourth industrial revolution technologies such as 3D printing, blockchain, IoT, Robotics, and web3.0, amongst others, not for mere automation and digitization but to improve and innovate the business model.

These, we believe are the **ESSENTIAL LESSONS** for any organization to heed to improve its business performance in the ongoing disruptive and hyper-competitive era.

# HOW CAN YOU STAY AHEAD OF THE CURVE?

It is an opportunity for you as a business leader to learn from the Fortune100 organizations and embrace the Exponential Organizations (ExO) success formula – to thrive and be future-ready.

**OpenExO** has been changing the way organizations "adopt for now," "prepare for the future," and "create the future."

Success and resilience need each other. It is that simple. And that is something we at OpenExO know a lot about.

**Our Exponential Quotient (ExQ)** survey enables you to assess and attribute a quantifiable value to your business unit's or organization's ability to scale and adapt in real-time.

**Our ExO Research and ExO Insights** help business leaders understand what is at the forefront of impacting business performance to make informed decisions that enable their organizations to shift gears.

**Our ExO Solutions** help organizations rise above everything that the ongoing VUCA era keeps on throwing at them, embrace the exponential attributes of MTP + SCALE + IDEAS, as well as identify & deliver new growth initiatives through Exponential SPRINTs.

We have established through the analysis of the Fortune100 organizations, that being an Exponential Organization enabled some to outperform the others.

**You could also change and transform the business performance of your organization, and "Be the Disruptor" instead of "Being the Disrupted."**

# ABOUT THE AUTHORS

## CHANDER NAGPAL

### Zurich, Switzerland

Chander, Founder and Managing Partner of Enabling Excellence is an advisor and coach with a passion and track record of delivering substantial and holistic business impact through strategic and complex change & transformation initiatives.

He has 25 years of global experience gained through line leadership and external consulting across the organizational value chain. He has worked with DOW Chemical, Eicher, Larsen & Toubro, Tata Chemicals, Thomson Reuters, Trident Group, and UBS, amongst others.

## SALIM ISMAIL

### Miami, USA

Salim Ismail is the lead author of Exponential Organizations' best-selling business book and the Chairman of OpenExO. A renowned technology strategist and serial entrepreneur with ties to Yahoo!, Google, and Singularity University.

He consults with governments and the world's top Fortune 500 companies on innovation and growth. His work has been featured in premier media outlets like the New York Times, Bloomberg Business Week, Fortune, Forbes, WIRED, Vogue, and the BBC.

**The authors wish to thank Emilie Sydney-Smith, Kent Langley, Kevin Allen, Lisa Pereira, Nishan Degnarain, and Pedro Lopez Sela for their contributions to this publication.**