

Francisco Palao Reines describes how business school students are being exposed to a new type of business to match today's exponential environment, the 'Exponential Organisation'

Exponential Organisations:

Helping students to build
the businesses of the future



People often say that beginners are lucky. I believe this was exactly my case when I launched my first start-up at the age of 19. I was in my second year of university studying computer science when I teamed up with two friends to start *BuscarAmigos*, a dating website we successfully sold three years later.

We built this first company with no money (we were so young we had nothing to invest), with no experience (it was our first job), with no knowledge (we learned how to code websites by researching on Google); yet, even so, the company prospered.

We loved the challenge and the success but the highpoint came for us when we began to receive pictures of people who had met on our dating website and gone on to marry each other.

The first picture we received was from a couple in Mexico. We had changed the lives of people on the other side of the planet in a country I had never even been to. This was when I learned that nowadays anyone could change the world and the only thing you needed to have was the passion and commitment to do so.

The thing about luck though, is you don't realise you've been lucky until life teaches you otherwise. I continued to study and finished a PhD on Artificial Intelligence (AI). With this background I launched a new start-up focused on AI.

During the early years we were quite successful with a service-based business model. But as this was very difficult to scale we decided to evolve the company into a product-based business model, which would be easier to scale if it worked. We hired an experienced team (keep in mind I was only 24 at the time), raised €3million and spent two years developing the product.

During this time I also completed an MBA at IE Business School in Spain to complement my technical background (we'll come back to IE later). I was a good student, I applied all the things I had learned at university with what I learned at business school. I was excited about the future.

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What happened when we launched the product? We failed spectacularly. We didn't sell a single product license. I learned a new lesson: how to pick yourself up when everything has gone wrong and convert failure into learning.

I applied to Singularity University, a Silicon Valley think tank that offers educational programmes and a business incubator, and was lucky (again) to be accepted.

There I would be introduced to exponential technologies and innovation methodologies. I learned about lean start-ups, design thinking and many other new ways of managing innovative projects. I began to apply everything I was learning to the new business initiatives I was working on and saw that it worked really well.

We began to launch new products and companies that were successful. We even sold two of these companies. I began to understand that new types of technologies and environments require new ways of doing things.

Today you don't need luck to understand the changes taking place in industries and the business world nor to understand how to move forward with these new changes. Klaus Schwab of the World Economic Forum describes our current period as part of the early stages of the Fourth Industrial Revolution.

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This means businesses need to operate in a different way than they have in the past. In the same way that technologies are growing exponentially, there's a new type of businesses able to scale in an exponential environment, the Exponential Organisation (ExO).

I believe ExOs are the businesses of the future. The ExO Model was introduced by Salim Ismail, Yuri Van Geest and Michael Malone in their bestselling book *Exponential Organizations* in 2014.

They didn't invent a new type of organisation out of nothing. They researched and analysed the business landscape for four years and determined there are 11 key elements that allow successful businesses to scale 10 times faster than their competitors.

These key elements, "ExO Attributes", include:

- identifying and connecting with a massive transformative purpose
- accessing staff on demand
- connecting with the community and crowd
- using algorithms
- making use of leveraged assets
- using engagement
- working with interfaces
- working with dashboards
- experimenting

- fostering autonomy
- activity with social technologies

Companies that effectively manage ExO Attributes are able to operate exponentially. Examples of ExOs include AirBnB (which is currently the world's biggest hotel chain even though it does not own a single hotel), Uber and Netflix.

The ExO Model is not only about using technology, actually only three out of the 11 ExO Attributes are focused on technology (algorithms, interfaces and dashboards). The main focus of ExOs is a new way to set up organisations that connects with the abundance produced in digital environments and to manage it to scale exponentially.

One of the most important ExO Attributes is the creation of a massive transformative purpose. This asks companies to focus their purpose beyond just making money but also on changing the world for the better. The biggest business opportunities are also the world's biggest challenges.

A few years ago Salim Ismail, who was also my advisor at the last company I sold, called me to ask whether I wanted to join him to help organisations around the world to implement the ExO Model. Salim was aware of my passion and experience with innovation methodologies.

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Of course I said yes. I really believed that the ExO Model could be the next big thing in terms of innovation methodologies.

However, applying the ExO Attributes is not easy to do, so we decided to create a process to help companies to implement them. We came up with a 10-week process called the ExO Sprint, which helps companies to evolve their business models in order to navigate industry disruption and to achieve exponential growth. In other words, the ExO Sprint helps companies to come up with the next version of their business adapting to the new exponential context we are living in.

For the past three years, we have been running the ExO Sprint in companies all around the world in almost every industry. However, we wanted to go one step further to really help any organisation in the world to transform for the better. We decided to open source the ExO Sprint methodology by writing a book that details every part of the process.

A few months ago we released the book, *Exponential Transformation*, focusing the title on the exponential as it is clear that organisations need to become more than merely digital (it's not only about technology) but also to evolve in a way that they can become an ExO or at least be able to navigate the exponential technologies wave.

Nowadays, organisations and entrepreneurs do not only have access to exponential technologies that allow anyone to change the world, they also have access to innovation methodologies that work. Building successful organisations is not a matter of luck anymore.

How does all this apply to business schools and executive education?

Almost two years ago Marc Smelik, associate dean at IE University, asked me to share my experience with the IE Business School students. I told them how my business studies had helped me to better understand industries and my clients but how difficult it was to create the businesses of the future by looking at the past. Most MBAs are focused on case methods where you analyse real stories of different companies from the past.

I shared my view on the impact that exponential technologies are having in different industries and the fact that most of these disruptions cannot be foreseen due to the impossibility of predicting their impact. This is why business plans and other traditional business tools do not work for innovative businesses although they may work for traditional ones.

Marc suggested that we apply the 10-week ExO Sprint methodology to one of IE's courses where students would not look to the past but to the future. Groups of students would work as ExO Sprint participants emulating the work they would do for a specific organisation and building the future version of it.

I thought it was a brilliant plan. As Abraham Lincoln said, "The best way to predict the future is by creating it". IE University has implemented this process now for two years and the results have been amazing. Students are learning how to create the businesses of the future.

To do this, they are learning to build businesses using new types of innovation methodologies that work and about the importance of purpose in businesses and for themselves. I believe that business schools should not only teach students how to work in a more efficient way or to get a better job; they should also support students in finding their purpose. That's the key to success, to happiness and to building a better world.



About the Author

Dr Francisco Palao (PhD, MBA) is an award-winning innovator passionate about building a better world by leveraging technology, social change and positive values.

IE University – Case Study

With the support of Marc Smelik (Associate Dean at IE Business School), in September of 2017 Soledad Llorente (professor at IE Business School and an ExO Ecosystem member) started a course based on the ExO Sprint methodology with the BBA students.

