Heidrick & Struggles

The transformation mandate

Leadership imperatives for a hyperconnected world

The transformation mandate: Leadership imperatives for a hyperconnected world is written by experts and practitioners of Heidrick & Struggles' executive search, leadership consulting, and culture-shaping services.

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Leading transformation: Five imperatives for CEOs

The transformative CEO in a hyperconnected world defends the core market *and* plays offense as a disruptor.

As we enter the Fourth Industrial Revolution, *hyperconnectivity* is emerging as the defining characteristic of the era — with profound implications for CEOs, senior leadership teams, and entire organizations. In a hyperconnected world, incremental improvement is not enough to stay ahead of disruptive competitors. Winning requires continual transformation.

Technology that has enabled the always-connected consumer is generating massive economic opportunity for nimble, asset-light organizations. Uber, Alibaba, and Airbnb now have a combined implied valuation exceeding $300 billion. Each of these innovators has been able to quickly achieve scale with platform business models that efficiently match supply and demand to create value for all parties. The result has been major disruption to established brands in formerly capital-intensive industries that seemed impervious to rapid change because of high barriers to entry. CEOs around the world are now asking, "Can that happen in our industry?" or, more pointedly, "How can we disrupt our own industry or create a new one?"

The technological catalysts for transformation in the Fourth Industrial Revolution are already emerging. "Pervasive computing" exists in a world where the cloud, sensors, and mobile devices all intersect, enabling an Internet of Everything that makes machines smarter and people more capable. Driverless cars, 3-D printing, smart homes, smart factories, and smart cities demonstrate the range of possibilities ahead. Clearly, the hyperconnected world is ripe with opportunity. It is also fraught with risk. Competitive risks associated with disruption can quickly leave a market leader irrelevant. Risks of a malevolent nature, such as identity theft on a massive scale, cyber-piracy, and cyber-terrorism, can cripple an organization and threaten stakeholder trust.

Five imperatives for CEOs driving transformation

Make no mistake: transformation can be more difficult than disruption. Disrupters are often entrepreneurial upstarts, playing offense all the time. By contrast, transformation of an established enterprise with a substantial asset base and ongoing capital requirements calls for a strong defense as well as an aggressive offense.

From our work as a trusted talent and leadership advisor to CEOs and boards at many of the world's most successful and influential organizations, we offer the following five imperatives for transformative CEOs today. The first three specifically address our hyperconnected world; the final two have stood the test of time but have additional urgency in an era of constant change.

1. ***Strengthen the core* and *embrace disruptive change.*** The transformative CEO in a hyperconnected world defends the core market *and* plays offense as a disruptor. The CEO must work diligently to continuously improve the competitiveness of the core business beyond

incremental improvements to quality and cost, while simultaneously pursuing a strategy to reinvent the business. A healthy and growing core operation provides a stable platform (and necessary cash flow) to launch disruptive ventures with value-creating potential.

2. ***Invest with courage in both the short and long term.*** Winning CEOs move fast to act decisively on pressing priorities while maintaining progress on longer-term initiatives vital to sustainable success. Long-term investments can put pressure on current margins. Activist shareholders ratchet up the pressure for immediate returns on their investment. The forward-looking CEO thinks like an activist investor without being prompted, demonstrating a compelling case to clients, investors, and other stakeholders on the promise of value to be realized down the road.

3. ***Accept that the life cycle of a winning strategy is shrinking.*** Gone are the days of strategies defined in years. In today's economy, it is no longer solely what one knows but what one is prepared to learn. Agility is now as important as strategy because the playing field is continually shifting. Strategic plans must be adapted to seize opportunities when fresh information points to emerging trends — as well as to defend against heightened risks. Winning CEOs embed a culture of innovation and a low resistance to change into the organization.

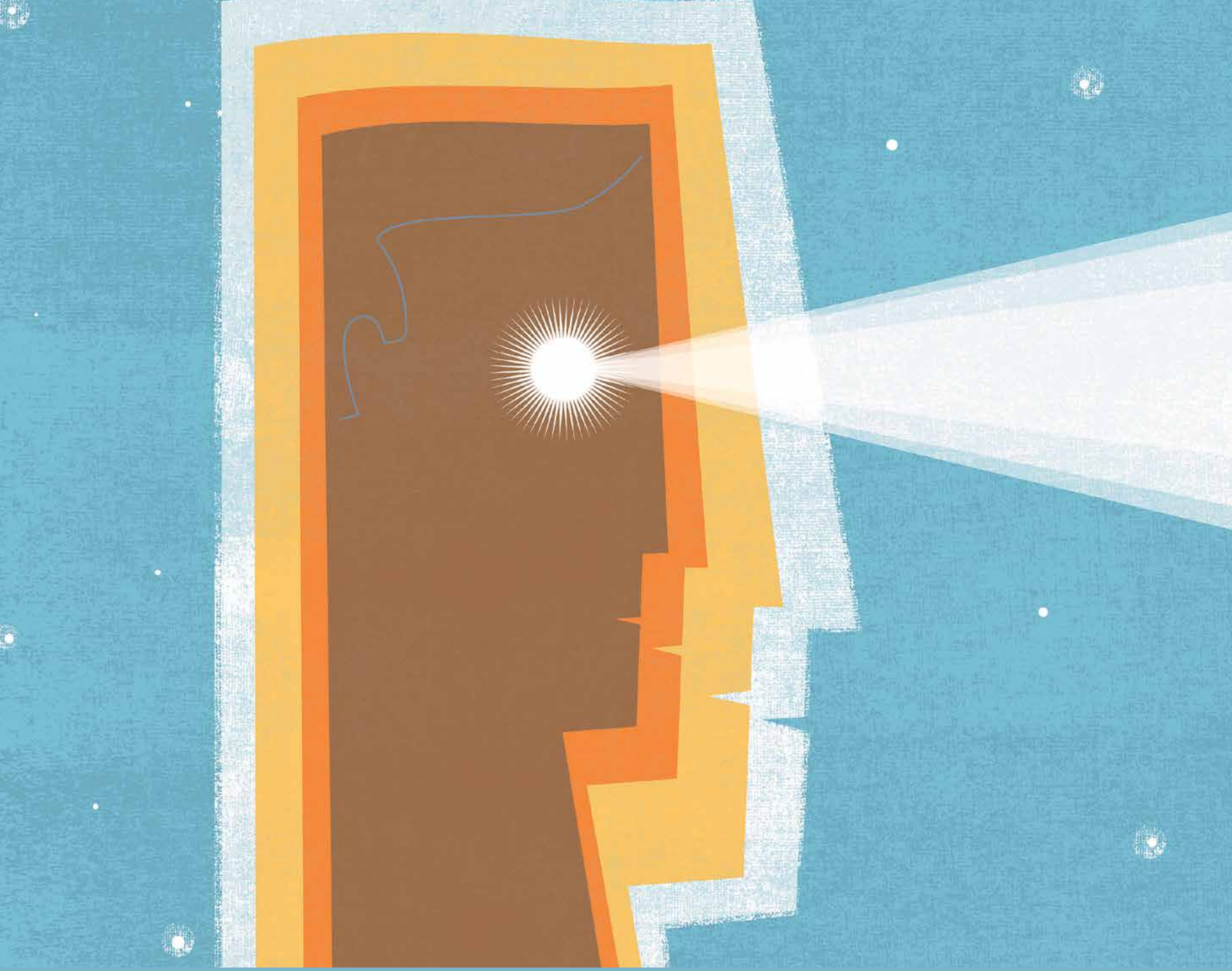
4. ***Define an enduring purpose as your compass.*** We all want to be connected to something meaningful. A well-articulated purpose serves not as strategy but provides a sense of "true north," guiding the CEO — and the entire organization — through ambiguity and rapid change. Constancy of purpose provides a bedrock for the organization that would otherwise be unsettled by the constant change inherent in transformation.

5. ***Attract outstanding talent.*** The difference between good and great talent is orders of magnitude. The winning CEO's passion, energy, drive, and vision serve as a talent magnet, attracting top talent from various backgrounds and geographies. Humbled by the scale and scope of hidden opportunities and unseen risks, the winning CEO draws strength from a truly diverse senior team, comprised of talented individuals who each bring a unique line of sight to the challenges ahead.

The successful CEO in a hyperconnected world will demonstrate, model, and cultivate each of these imperatives across three dimensions: the leader personally, the senior leadership team, and the entire organization.

These three dimensions — the individual leader, team, and organization — form the structure for the insights that follow. We hope that our perspective informs and inspires your own thinking, sparks candid and productive conversations among your teams, and encourages your organization to both embrace and fulfill its purpose, bringing positive change to the world. ■

Tracy R. Wolstencroft
President and CEO, Heidrick & Struggles



THE INDIVIDUAL

The new transformational leader

Winning with purpose in the Fourth Industrial Revolution

A new approach to leadership is needed to meet the challenges of an increasingly volatile, complex, and hyperconnected world.

Like every preceding industrial revolution, the Fourth Industrial Revolution has caused massive growing pains for businesses as they have moved through the initial shocks of disruption to a more recent, if uneasy, understanding that constant acceleration is now, in fact, "normal." Ready or not, leaders must grapple with the subsequent challenges: the impact of technology and the digital world, new and unprecedented socioeconomic implications, and significant geopolitical upheavals. All of this forces companies and their leaders to reexamine the *whys* and *hows* of their businesses — and to do so at a much faster pace than ever before. It also forces leaders to reexamine themselves.

How today's leaders navigate and lead in such a fast-changing environment is a dominant theme of *The CEO Report*, the product of a research partnership between Heidrick & Struggles and the Saïd Business School, University of Oxford.[1] Our research finds that the complexity of the new dynamics requires a changing approach to leadership. The days of leaders having complete command over their organizations are gone. Today's leaders must be inspirational yet calming, visionary yet down-to-earth, "right" and yet not afraid to "not know." They must be monarchs but also very human and able to navigate their organizations through multiple, often paradoxical demands emanating from an increasing — and increasingly active — array of stakeholders.

[1] For more, see *The CEO Report: Embracing the Paradoxes of Leadership and the Power of Doubt*, Heidrick & Struggles and Saïd Business School, University of Oxford. The report is available on heidrick.com.

The key is moving from a single-minded "command and control" mentality to a more agile form of leadership that balances command with purpose, nimbleness, adaptability, and collaboration — all features of the Fourth Industrial Revolution. However, further reflection suggests that CEOs often struggle to find the right balance between collaboration and singular leadership. One Fortune 500 CEO described the task as similar to balancing on two parallel tramlines, where it is easier to bounce from one to the other and hardest to stay on both. Certainly this CEO concludes that collaboration is vital, yet it paradoxically threatens to weaken his leadership when tough decisions are required. Since unilateral decision making often leaves organizations and stakeholders cold, CEOs need to develop a toolkit of significantly more nimble and multidimensional leadership capabilities and a self-awareness of when, and how, to use them.

Deal with speed, scope, and significance

Besides disruption, revolutions also bring opportunity, and this revolution in particular offers the potential to address the most critical societal issues facing our fragile world, most notably through digital technology. Yet there is a real danger that leaders will get lost in the clamor of disruptive technology and the speed at which it is changing businesses and even markets.

Our report highlights how speed is a challenge and how it is impossible — indeed unnecessary — to respond and react to every changing circumstance.

We argue that CEOs must instead be attuned to the scope and significance of change. Consider the tens of thousands of pieces of space junk that hurtle around the Earth's orbit. It is the job of the space station astronauts to track the largest and most dangerous lumps, and maneuver their craft accordingly, rather than deal with every possible threat. The question for leaders is: how deep and broad is the impact of change on the organization and its stakeholders? Is it a fundamental change, or a technological one? CEOs must discern the most appropriate response and remain versatile and adaptable, ready to handle the unexpected.

Lead with purpose and mission

Succeeding in the Fourth Industrial Revolution requires authentic leadership, building trust, and genuine transparency — all grounded in an abiding sense of purpose. Companies need to answer the question, "What do we stand for?" and be free to define themselves more broadly than simply "value companies" or "growth companies." Increasingly, stakeholders expect companies to have a greater purpose and a clear understanding of how to achieve good in the world in ways that extend beyond the company's direct business activities.

This creates another paradox for leaders — how to find a balance among the greater good, a sense of mission, and the ability to deliver products and services in a cost-effective, profitable way. This paradox creates friction among meeting the expectations of investors, satisfying the needs of quarterly or half-year market reporting, and the longer-term, more purpose-driven values of the business.

Embrace ripple intelligence

Striking a balance between short-term (market) performance and long-term, purpose-driven values requires leaders to have a heightened ability to anticipate complex interactions and "see around corners." We describe this ability as "ripple intelligence," a skill that leaders can develop to get perspective and distance and essentially fly above the clutter and noise of the day and look down from above at the intersecting changes affecting the business, like observing ripples on a pond. The CEO can view the intersecting ripples and anticipate disruption, allowing time to plan and protect the organization against unexpected events. Such ripples could be impending business trends, disruptive technology, geopolitical events, or environmental incidents. Each ripple has an impact on decision making and how it is interpreted by the CEO.

The principles of ripple intelligence also help CEOs understand how their own ambition and idealism (along with their conduct and performance) affects employees, investors, consumers, and the broader public — indeed all citizens of the interconnected world. We continue to hear from C-suite leaders who face pressure not only to be outstanding leaders but also to be human, compassionate, and approachable. Here the "power of doubt" can be a catalyst for positive action. Self-aware CEOs are comfortable in not knowing everything and thus will seek opinions and consult valued advisers and networks before making high-stakes decisions in uncertain conditions. (For more, see "How CEOs manage doubt," on page 8.)

Lead with empathy and authenticity

Through our research, we heard repeatedly about the paradoxes that CEOs have to navigate. CEOs must invariably use their judgment to make critical decisions that others in an organization cannot make. The paradox of the demands for leaders to be authentic and empathetic and to display their personalities, while at the same time playing the role of the bold figurehead that people will follow and admire, continues to be a tension. Increased pressure on companies to do the right thing in the world only compounds this challenge. CEOs must have a heightened awareness of their social responsibility and the impact they have on society's well-being and the environment. Leaders are expected not only to be "real people" but also to infuse a sense of direction, purpose, and meaning into the organization. Employees, clients, customers, and other stakeholders (now including social media and bloggers) want to understand what companies stand for. If the company's behavior is not coherent and beneficial to society, strident and opposing voices become galvanized more effectively than in the past. The message for CEOs: "It is not what you say but what you do."

Be a continuous student

In our many conversations with CEOs, we repeatedly hear of an acute and increasing appreciation for the widening gap between an individual's preparation to reach the CEO's chair and the actual demands of "the hot seat." In short: preparation is never enough. Regardless of the complementary roles that aspiring leaders may assume and the work experiences they have along the way — nuanced or overt — the skills needed to be CEO are different from other roles.

To be sure, CEOs will always need to be strong leaders in the traditional sense. Now, however, they must also be students, continuously acquiring experiences that are outside of their traditional career trajectory, and they must remain open and attentive to insights from an increasingly broad set of information sources. The feedback from incumbent CEOs is consistent: technical and work experience aren't enough; the missing skills are often the "soft" skills. How can you handle the dramatic increase in demand for your time? How can you hear the signals in the noise amid the cacophony of stakeholder voices now aimed your way? How do you manage your own doubt and that of others around you? How do you balance being "commander" with the expectation you will remain "human"? The key is to become a student of the role and turn your curiosity into a discipline — and a way of life.

■ ■ ■

Society's expectation of companies, and leaders, has increased dramatically in recent years. In this new, more disruptive, and faster-paced world — where CEOs are faced with leadership paradoxes at every turn — leaders must constantly carve out time to gather fresh inputs from a variety of internal and external sources, challenge their own perspectives and prejudices, and embrace continuous learning. Historically, CEOs have not spent as much time challenging their business models — or themselves — as they now must do. The Fourth Industrial Revolution is a cauldron of opportunity and change for CEOs. How leaders approach it will determine their own personal success — and the future of their businesses. ■

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How CEOs manage doubt

Real CEOs exude confidence. Radiate certainty. Act decisively. Or so popular mythology has it.

The overwhelming majority of CEOs confess that they have doubts. That's one of the striking findings of *The CEO Report*, the product of a yearlong global research partnership between Saïd Business School at the University of Oxford and Heidrick & Struggles. Of the more than 150 CEOs who sat down with us for confidential, in-depth interviews, 71% not only admit to doubt but also embrace it as a basis for better decisions.

"If you don't doubt yourself in a constructive, positive way," said one participant, "you are borderline dangerous for your company."

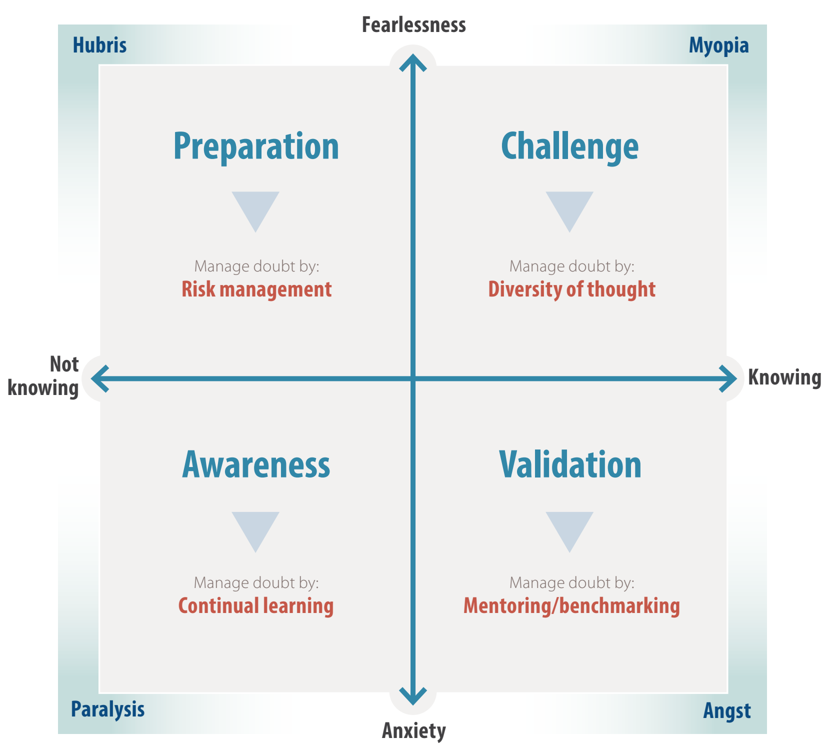
Doubt is a challenge of both knowledge and emotion. Knowledge can fall anywhere on a continuum from full not knowing to full knowledge. Feelings of doubt can fall anywhere between anxiety and fearlessness. How much knowledge do you have when you face a difficult decision? How anxious do you feel? How might you use your uncertainty as a tool?

Thinking about doubt along these two dimensions, with their four possible combinations (see figure), provides a systematic way for CEOs and other leaders to manage doubt and even use it as a competitive advantage.

Figure: **Harnessing doubt to improve decision making**

How can senior executives distinguish constructive doubt from disruptive second-guessing?

Start by acknowledging that doubt is a challenge of both feeling and knowing. Viewing doubt along these two dimensions is revealing.



Source: Heidrick & Struggles

Low knowledge/no fear. This is perhaps the most dangerous combination of all. The risk is hubris — charging blindly ahead, despite what you don't know. The remedy is preparation. The means, say the CEOs we spoke with, lie in risk management to increase the odds that what you don't know won't hurt you. Techniques can include scenario planning, including worst-case scenarios; long-term planning; contingency planning; and more. The goal, as in all instances of doubt, is to find a comfort zone in which you can act decisively despite not having full knowledge.

High knowledge/no fear. Of all the possibilities, this one would seem to entail the least doubt. Even so, there remains the risk of myopia — the chance that a false sense of security has led you to overlook other important choices. The remedy is challenge. Diversity of thought provides the means to get there. As one CEO put it, "One of the most important things is having people around you that tell you how wrong you are." You can seek diverse points of view from your management team, your board, and a wide variety of other people inside and outside the company. You can also use techniques such as war gaming or a devil's advocate to surface contrary views, and you can foster a culture of constructive dissent.

High knowledge/high anxiety. The risk here is angst — not just another word for anxiety but a deep-seated fear that could prevent you from pursuing a course of action you are convinced is right. The remedy lies in validation. You can seek it from mentors and the board, from other internal sounding boards, and through benchmarking. And if you don't get validation, you can at least learn that your fear was justified.

Low knowledge/high anxiety. This is the worst of both worlds and the condition likely to generate maximum doubt. The risk is paralysis — an unaffordable risk when a decision must be made despite the state of your knowledge or your emotions. The remedy is awareness, encompassing the cognitive and the emotional. You can constructively harness doubt in this situation through continual learning, including wide and deep reading, data collection, expert advice, and conversations with a wide variety of people about both dimensions of your doubt.

Understanding the risks and remedies for doubt enables leaders to mitigate their discomfort, whether its source is cognitive or emotional, and return to a zone where they can make more productive and well-considered choices, turning doubt into a powerful decision tool.

But what of the nearly 30% of CEOs who were reluctant to admit that managing doubt was a part of their job? Are 3 out of 10 companies led by chief executives who rarely have second thoughts? Probably not. In fact, around 10% of the interviewees who denied having any doubts went on to describe how they reduce uncertainty and gain clarity — in other words, reduce doubt. Like their peers who approach doubt more consciously and systematically, they recognize that certainty can be not only an illusion but also a dangerous one.

About the author

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This article is adapted from *The CEO Report*. For more about the research, contact **Valerie Germain** (vgermain@heidrick.com) and **Karen Rosa West** (kwest@heidrick.com).

What leadership shadow do you cast?

"A leader doesn't just get the message across; he *is* the message."

—WARREN BENNIS

The importance of culture and its effects on organizational performance should by now be well known. Yet even as issues of organizational culture lie at the heart of merger clashes, strategy failures, and change initiatives, too many senior executives approach organizational culture as they might the weather: everyone talks about it as if there's nothing that can be done about it.

Against this backdrop, it's useful to remind leaders of the influence they can and do exert on the cultures of their organizations — for good or ill. In this excerpt from their seminal book, *Winning Teams–Winning Cultures*, Senn Delaney Chairman Larry Senn and President and CEO Jim Hart describe the concept of the "The Shadow of the Leader" and contend that only when the top team lives and breathes the changes it wants and expects from its organization will such changes succeed — and stick.

A few years ago, a CEO asked us if we could help shift one aspect of his company's culture. It was a strong culture in many ways. They had high performance expectations, committed hard-working employees, good basic values, and fairly good performance. He felt they could go from good to great if they could collaborate better across the organization and get more synergies from the different business units.

As we started the cultural diagnostics, it became clear that they had turf issues between corporate and business units and between different functions. While the CEO wanted us to help "fix" the organization, it didn't take long to see that the issues were largely a reflection of the senior team members. They were not fully aligned or mutually supportive. They didn't speak with one voice to the organization. They were generally polite and non-confrontational, but they had a habit of appearing to agree on a decision in a meeting but then not supporting the decision outside the meeting. As we dug deeper, we found that many of the same behaviors existed at the second level of leadership in the teams that reported to senior team members. We asked people at lower levels in the organization why they didn't collaborate better, and they said in various ways, "Why should we? Our bosses don't."

Lack of collaboration is only one cultural trait impacted by the shadow of the leaders. You could substitute many things, including: blaming, stress, lack of coaching, resistance to change, hectic, hierarchical, risk-averse, and so on.

The central finding is that, over time, organizations tend to take on the characteristics of their leaders. This was easy to see in the field studies that were conducted of smaller firms. The values, habits, and biases of the founders and dominant leaders left an imprint on the organization. It's clearly visible in companies such as Wal-Mart, where Sam Walton had such a distinct impact on the culture. The impact Herb Kelleher had on Southwest Airlines is also apparent. The same is true in all organizations, at least from a historical perspective. There are often "ghosts" of past leaders evident. To better understand that, just ask about the values and preferences of dominant founders of a company or early leaders who left their mark. Chances are you can still see at least remnants that have made an impact many years later.

Because of the size and complexity of organizations today, the most important shadows come from teams at the top; specifically, the CEO's team and the teams of those who report to the CEO. Therefore, if you want to shape any element of your culture, your teams need to model the desired behavior.

The shadow phenomenon

The shadow phenomenon exists for anyone who is a leader of any group, including a parent in a family. That is because people tend to take on the characteristics of those who have power or influence over them.

One of the most intimate and far-reaching examples of this shadow concept happens when parents, perhaps aware of their own imperfections, exhort their children to "Do as I say, not as I do." Unfortunately, children generally tune out that message and mimic the behaviors they see. The message of any parent, or business leader, will be drowned out if the actions conflict with the words.

The role of the leader, at work and at home, requires modeling the desired behavior and letting others see the desired values in action. To become effective leaders, we must become aware of our shadows and then learn to have our actions match our message.

A former CEO of one Fortune 500 company felt so strongly about the importance of consistency between actions and words, he once said: "I would submit to you that it is unnatural for you to come in late and for your people to come in early. I think it is unnatural for you to be dishonest and your people to be honest. I think it is unnatural for you to not handle your finances well and then to expect your people to handle theirs well. In all these simple things, I think you have to set the standard."[1]

The head of an organization or a team casts a shadow that influences the employees in that group. The shadow may be weak or powerful, yet it always exists. It is a reflection of everything the leader does and says.

An example of the "shadow impact"

We learned a real-life lesson about the shadow of leaders early in the history of Senn Delaney. J.L. Hudson, a division of one of the top U.S. department store companies, Dayton Hudson Corporation in Detroit (now Target Corporation), asked us to help them work on improving customer service, with the goal of becoming more like the high-end department store Nordstrom. We piloted the process in six stores, working with the store managers, with mixed success. Some stores had measurable increases in service levels and increased market share, while others didn't. In fact, the results were almost directly proportional to our success in shifting the store manager's focus from operations to service and his or her management style. It demonstrated how the leader's shadow of influence crossed the store. This is what we would later term "The Shadow of the Leader."

We concluded that our mixed success was a result of starting to shape cultures at the wrong level in the organization. We discovered this in an interesting way. When we asked sales associates why they weren't more attentive or friendlier to customers, they would ask (in different ways), "Who's friendly and attentive to me?" When we would ask their department managers the same question, we got the same answer. That continued on up through the assistant store manager, the store manager, the district manager, the vice president of stores, and on up to the executive committee. We concluded that fixing the stores was similar to family therapy; you have to include the parents.

Soon after, the CEO of The Broadway Department Stores in California, later known as Federated Department Stores, Inc. (now Macy's), asked if we would develop a customer service process for them. We politely said, "Only if we can begin with the

[1] See Lynne Joy McFarland, Larry E. Senn, and John R. Childress, *21st Century Leadership: Dialogues with 100 Top Leaders*, Executive Excellence Publishing, 1994, page 151.

executive committee." That led to several consecutive years of increased sales and market share for The Broadway.

All too often, leaders approve training programs dealing with issues such as leadership development or culture shaping but don't attend them as participants or visibly work on the concepts themselves. More often than not, as a result, these programs are unsuccessful. That is why it is critical that any major change initiative start at the top.

Cultural implications

One of the most common complaints throughout organizations is that the senior team is not "walking the talk." Whenever a company begins to make statements about desired behaviors and people don't see those behaviors being modeled at the top, there is a lack of integrity. This can take various forms:

- The organization is asking people to be more open to change, yet the top leaders do not exhibit changed behaviors.
- Increased teamwork and cross-organizational collaboration is preached, yet the senior team does not collaborate across divisional lines.
- The organization is seen cutting back on expenses, yet the senior team doesn't change any of its special perks.
- People are asked to be accountable for results, while the senior team members continue to subtly blame one another for lack of results.

We have found that the fastest way to create a positive self-fulfilling prophecy about cultural change is to have the top leaders individually and collectively shift their own behaviors. They don't have to be perfect; they just have to deal themselves into the same game they are asking others to play. When leadership, team-building, and culture-shaping training are a part of the change process, the senior team should be the first team to take part.

Anyone who has ever conducted training processes with middle management knows the limitations of starting at this level. When attendees are asked about the value of the session, the classic responses are, "My boss is the one who should be attending," or "It sounds great, but that's not the way it is around here; just look at my manager."

Because of the critical need for the senior team to role-model the new culture, it is the group that first needs to come together to define the guiding behaviors for the rest of the organization. Whenever this is delegated to a committee under the senior team, or to expert writers, the statements of values may read well but are not owned by and don't reside in the hearts of the senior team members. When the values don't live in the senior team, the probability that the organization will live the values is low.

As a firm that specializes in culture shaping, Senn Delaney has an unwritten policy that we won't design or conduct a culture-shaping architecture for clients unless we can first work with the team that leads the organization, or a major semi-autonomous group, and its leader. It's not that we don't want the business; it's just that we know that without a positive leadership shadow, the process is unlikely to work.

In order to build a winning culture, the top teams must be seen by the organization as living the values and walking the talk. Based on the size of the organization, it is usually the top 100 to 500 people that really set the culture. ■

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Jim Hart (jhart@senndelaney.com) is president and CEO of the culture-shaping firm Senn Delaney, a Heidrick & Struggles company. **Larry Senn** (lsenn @senndelaney.com) is chairman and founder of Senn Delaney. Both are based in the Huntington Beach office.

What's your leadership signature?

Research into leadership behavior identifies eight archetypes that can help senior executives better understand their strengths, weaknesses, and blind spots.

Why do some business leaders thrive while others flounder? Professional qualifications and technical competencies (the *whats* of leadership) play an important role, of course, but far more often we've observed that success or failure depends on *how* leaders lead — specifically, how leaders' styles mesh with their teams and the cultures of their organizations.

An empirical research project we conducted to better understand these dynamics, and the behavioral patterns that underpin them, identified eight leadership styles, or archetypes. Taken together, they suggest implications for senior executives looking to better understand — and improve — their leadership skills, for teams seeking to improve their dynamics, and for organizations striving to improve the overall effectiveness of their leaders.

What we did

To better understand how leaders lead and what contributes to effective leadership, we created a psychometric survey to measure three interrelated facets of leadership that our experience suggests are important differentiators. Specifically, we wanted to see to what degree leaders possessed 1) a "thriving mind-set"[1] (including a clear sense of purpose, deep commitment to learning, and conveyed sense of optimism); 2) a combination of social, self, and situational awareness; and 3) essential leadership values such as a performance orientation, ethical integrity, ability to collaborate, and openness to change, among others.

[1] For more, see Carol S. Dweck, *Mindset: The New Psychology of Success*, Ballantine Books, 2007; and "How companies can profit from a 'growth mindset,'" *Harvard Business Review*, November 2014.

The survey included 1,006 largely US-based executives of director level and above at companies with 250 or more employees. The respondents represented a broad range of industries and functions. Importantly, our survey questions were designed to highlight the ambiguity and fluidity of the kinds of real-life situations that senior executives face. We did this by asking respondents to rate themselves on a continuum between sets of opposing, yet equally "right," choices (for example, "I prefer a changing environment" versus "I prefer a stable environment," or "I love to win" versus "I hate to lose"). Factor analysis allowed us to isolate the dozen or so survey questions (from the original 72) that together accounted for the vast majority of the variance we observed in the responses.

What we learned

When we looked at the patterns in the data and conducted further statistical analyses on them, including cluster analysis, we discovered something interesting: eight statistically distinct leadership styles distributed among respondents (see figure). Moreover, while the characteristics of each signature style, or archetype, were quantitatively unique, they also resonated deeply with our own experience of conducting executive assessments. In short, we all know leaders like these — and the strengths and weaknesses they exhibit are at once intuitively recognizable and instructive.

What it means for leaders

It's important to note that there is no such thing as a "right" or "wrong" leadership style, and in fact individuals are likely to have access to every style to a varying degree. That said, our experience and this research both suggest that leaders are likely to gravitate to a much smaller set of default styles they find comfortable or familiar — and particularly so when they are under stress or aren't consciously managing the impressions they leave on others.

What might this mean for leaders? For senior executives, recognizing their "go-to" style or styles could help them better understand and articulate the focus of their leadership (be it relationships, ideas, problem solving, execution, and so on) and thus better play to their strengths when leading teams or operating in complex environments. Moreover, it can help individuals understand the other leadership styles to which they have access, thus potentially broadening the range of situations and environments where they might be successful.

It could also help leaders recognize potential pitfalls and areas for heightened vigilance. For example, a "collaborator" whose empathetic, consensus-driven style is a strength when interacting with his or her C-suite peers could find it ineffective (or even counterproductive) when interacting with subordinates who crave clarity and direction. Similarly, a learning-oriented "forecaster" who uses his or her ability to gather information and think conceptually to help generate great ideas may not consider formulating a deeper buy-in strategy that appeals to people's hearts as well as their heads.

Figure: **The eight archetypes of leadership**

Collaborator
Empathetic, team-building, talent-spotting, coaching oriented

Energizer
Charismatic, inspiring, connects emotionally, provides meaning

Pilot
Strategic, visionary, adroit at managing complexity, open to input, team oriented

Provider
Action oriented, confident in own path or methodology, loyal to colleagues, driven to provide for others

Harmonizer
Reliable, quality driven, execution focused, creates positive and stable environments, inspires loyalty

Forecaster
Learning oriented, deeply knowledgeable, visionary, cautious in decision making

Producer
Task focused, results oriented, linear thinker, loyal to tradition

Composer
Independent, creative, problem-solving, decisive, self-reliant

To learn more about the leadership styles and to use an interactive tool to assess your own style, see our article in *Harvard Business Review* titled "Assessment: What's Your Leadership Style?" at hbr.org. The assessment provides immediate feedback about your style — potential strengths, weaknesses, and blind spots — and pinpoints the settings where you'll be most and least effective.

Similarly, a better understanding of the archetypes and how they interact with one another could help inform the talent management approaches taken by companies, including:

- Understanding how leaders are likely to react to and deal with ambiguity
- Identifying situations and contexts in which up-and-coming leaders are likely to be most successful and where they may find their leadership skills stretched
- Seeking to understand — and balance — team leadership dynamics in order to align leadership styles with organizational objectives (for example, leading a change initiative)

While our research into these leadership archetypes is in its early stages, some things are already quite clear. Human motivations and behaviors are complex, and therefore any model attempting to explain them (including this one) will always have limited power as a predictive tool. Moreover, change is constant as leaders evolve throughout their careers and accumulate experience. Nonetheless, by developing an enhanced understanding of how leaders behave and interact with one another, we might better seek to harness that ability to change in service of expanding leadership potential.

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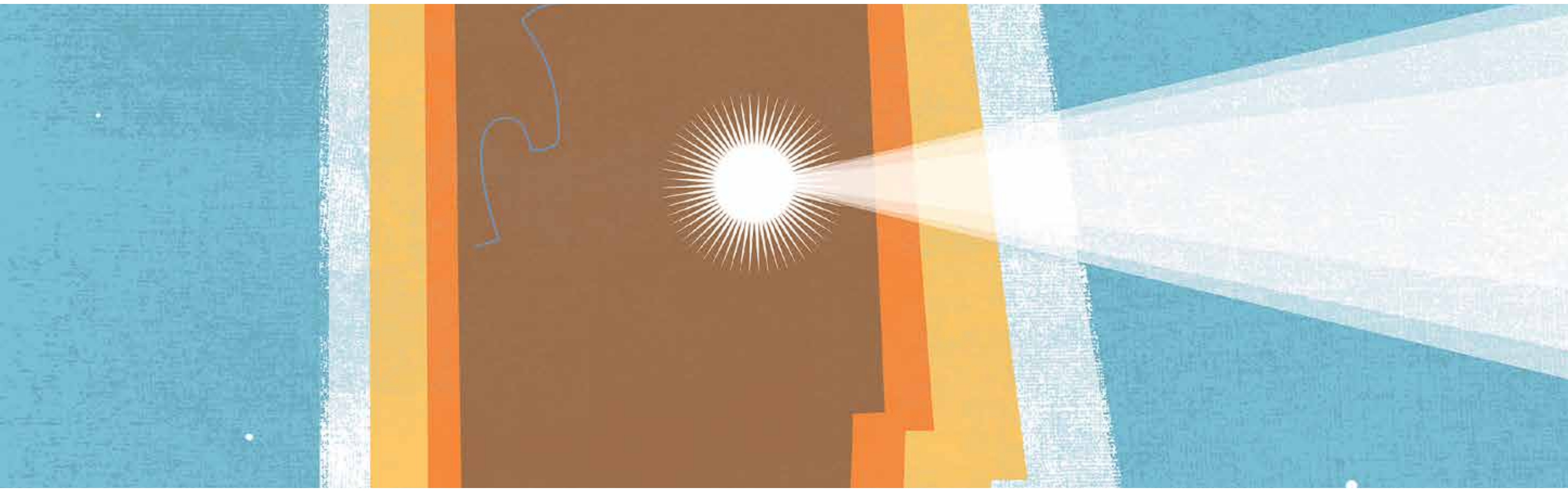


THE TEAM

Speed and stability: A winning dynamic for teams

Accelerating performance in teams

High-achieving teams enjoy a significant boost in performance over underachieving teams. Here's how they do it.

The ability of an organization to accelerate its performance — in other words, to build and change momentum to get results more quickly than its competitors — is critically dependent on its teams at every level. Most organizations, however, fail to sufficiently consider the performance of teams when seeking performance improvements overall. Indeed, the vast majority of management research on organizations focuses on either the whole organism or the individual leader; the team is forgotten. And yet teams innately tend toward chaos: personalities work at odds, purpose is muddled, and success factors are vaguely defined. When a team is dysfunctional, its energy dissipates, tensions build up, and fatigue sets in — costing the organization time, money, and talent.

After forensically studying data on the dynamics and performance of more than 2,000 teams, we have uncovered both bad and good news. The bad news is that most teams are below par and therefore suffer in their ability to build and change momentum quickly. Senior executive teams are especially poor at this. But on the upside, the energy that can be released by improving a team's ability to accelerate performance is enormous. Taking bonus payments as a proxy for corporate performance, our research finds that high-achieving teams enjoy a 23% boost in performance compared with underachieving teams. Moreover, we find that high-achieving teams reduce costs more quickly, go to market more effectively, and launch products more smoothly.

In this article we explore how high-performing teams get (and stay) that way. First, we present the results of our research on teams from a range of organizations, functions, and geographies. Then, we examine trends among both high-performing and underachieving teams. Last, and most important, we offer targeted recommendations for how to improve team performance throughout the organization and achieve performance breakthroughs — and achieve them faster than the competition.

Understanding acceleration

Our work focused on closing the gap in our collective knowledge about teams. We analyzed data from a significantly larger sample of teams than completed by researchers to date — 2,000 teams across a wide number of organizations, functions, and geographies, in industries as diverse as banking, private equity, insurance, engineering, telecommunications, healthcare, and charitable institutions. We measured a team's ability to achieve performance outcomes more quickly than others, through the application of a proprietary questionnaire — the Team Accelerator Questionnaire (TAQ) — a tool with robust statistical reliability and validity (for more, see sidebar, "The 15 tests of brilliant teams," on page 22).

Scores were calculated based on the number of respondent groups who rated the team an average of at least 3.8 on a 5-point scale across the TAQ. A team is considered:

- ***Accelerating*** when all four respondent groups — team members, team leaders, commissioners (that is, the bosses of the team leaders), and outside stakeholders — score above 3.8
- ***Moving*** when three respondent groups score above 3.8

- ***Coasting*** when two respondent groups score above 3.8
- ***Lagging*** when only one respondent group scores above 3.8
- ***Derailing*** if none of the respondent groups scores above 3.8

Room for improvement

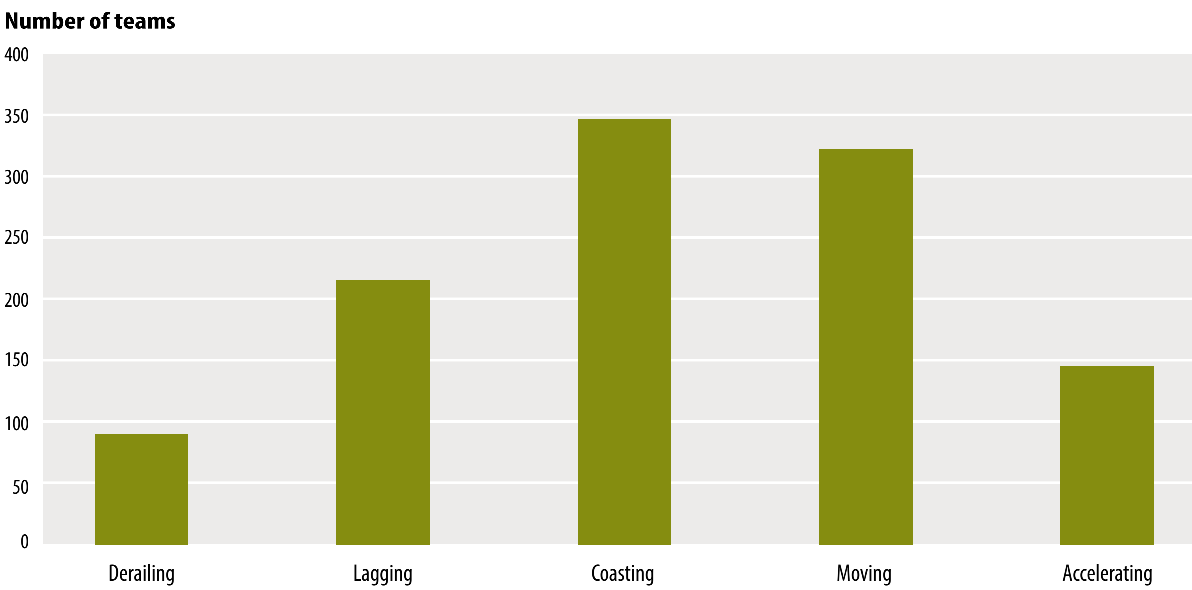
True to our prediction that high performance is not a natural state, only 13% of the teams we studied were accelerating, whereas almost 30% were lagging or outright derailing (Figure 1).

In a departure from previous academic research, we found that a commonly cited culprit — team size — actually has little to do with a team's ability to accelerate performance. In the teams we studied, there was no difference in the mean ratings on TAQ scores whether those teams were small (3–7 members), midsize (8–12 members), or large (13 or more members). What matters is what teams do and how they behave, whatever their size. Our view is not that a high-performing, accelerating team does completely different things than a lagging team. Instead, our findings suggest that an accelerating team simply gets things done faster and more effectively.

All teams — regardless of their ability to accelerate performance — set objectives, create a vision, and get rid of poor-performing people. However, the core difference is that an accelerating team does all its work quickly and effectively, whereas a lagging team does its work more slowly and poorly. What's at stake? Using corporate bonuses as a proxy for economic performance, we determined that accelerating teams, on average, had an economic impact that was 22.8% higher than the impact achieved by derailing teams (Figure 2).

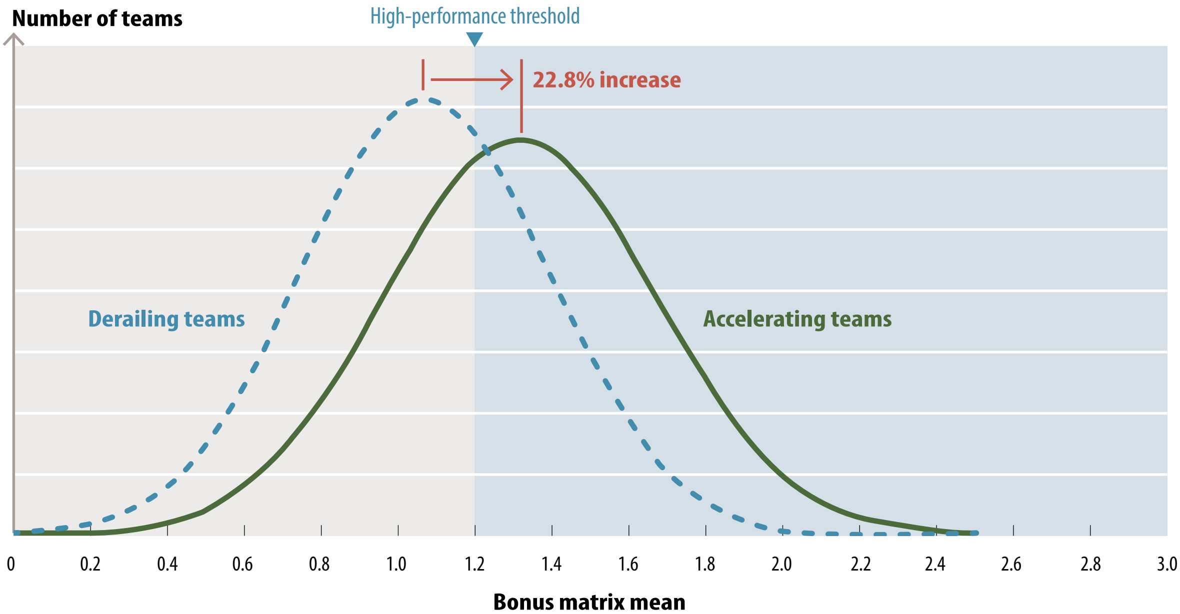
Figure 1: **Distribution of team performance**

n = 1,118



Source: Heidrick & Struggles

Figure 2: **Distribution of bonuses for "accelerating" and "derailing" teams**



Source: Heidrick & Struggles

Our research also found that, on average, 67% of accelerating teams are high performers, compared with only 41% of derailing teams that are.

When we observe an accelerating team in an organization, we are witnessing a team that builds on each member's energies and talents, generating synergy to deliver a shared purpose. We can recognize the team as accelerating because it:

- Mobilizes, executes, and transforms better — and faster — than its competitors
- Creates a shared agenda that produces competitive advantage
- Executes with a metabolic rate that drives outstanding levels of achievement
- Transforms continuously, setting stretching objectives and building improvement capabilities that outpace others
- Has high levels of trust and productive conflict
- Operates in a high-challenge, high-support mode
- Focuses on both performance and acceleration

The results of the TAQ reveal several elements and constraints that adversely affect team acceleration or the measurement of it. Several lessons can be drawn from the research and applied to team building in organizations of every sector, industry, functional specialty, and place in the corporate hierarchy.

Focus at the top

Senior teams tend to be the least likely to be categorized as accelerating among all teams in the organization. Indeed, junior teams were 1.6 times more likely to be accelerating than were teams composed of director-level members and above. In addition, we found that senior teams rate their team lower on 13 of the 15 tests of brilliant teams than do the members of junior teams. This finding aligns with previous Heidrick & Struggles research; in a survey of 60 top human resources executives from Fortune 500 companies, only 6% of respondents reported that "the executives in our C-suite are a well-integrated team."[1]

Why is it worse at the top? While junior teams are generally organized by geography, department, or product line, teams at the top of the organization are, by definition, doing quite different things: one person runs marketing, another runs manufacturing, another runs finance, and so forth. At the senior level, the challenge is to integrate a portfolio of activities into a coherent whole, and we think the explanation behind the data is that too much of the energy at this level is consumed in dealing with ego problems driven by instincts for self-protection: "I want more power than you," or "I will agree with your proposal only if you agree with my proposal," or "I'll stay off your turf if you stay off mine." Furthermore, senior team members have invested a lot in their careers by the time they've risen to the top of an organization, and by virtue of being visible and exposed, they are vulnerable. If they fail, they have a much longer way to fall. Those factors exacerbate the ego problem.

The bottom line: Just when the responsibility and impact of teams become most critical — when the team is operating at the most senior level — these teams are the least likely to have the ability to quickly build and change momentum to perform. Thus organizations must make their most senior teams the top priority. The upside of this finding is the sheer scale of opportunity for organizations to train and coach their senior teams to improve.

Connect with customers

Our research shows that the further a team is away from the customer, the harder that team must work to accelerate its performance. Teams that have their purpose for existence "in their faces" — that is, customer-facing teams — are 1.4 times more likely to be an accelerating team and 1.3 times more likely to be within reach of this goal compared with internally focused teams. In addition, customer-facing teams score significantly higher on 14 of the 15 tests of brilliant teams than do non–customer-facing teams.

The bottom line: Connecting with customers is important for team acceleration. For non–customer-facing teams, the story becomes familiar: shared purpose, foresight, and unique commission are what make the difference. Added to this mix is a focused grip on the work they set their organization to do. Concentrating on these areas will help to make a real impact on the performance of non–customer-facing teams.

Hold up a mirror

All team members tend to suffer from self-delusion, according to our research. Compared with the other three respondent groups — team leaders, commissioners (that is, the bosses of the team leaders), and outside stakeholders — team members tend to have a rosier view of their team acceleration and rate the team highest on 10 of the 15 tests of brilliant teams.

This discrepancy between perspective and reality can be ascribed to a concept described in social psychology as the fundamental attribution error — the tendency to emphasize personality rather than external factors to explain behavior. For example, if you play 100 games of tennis against somebody who is equally as talented at tennis, you would each expect to win 50 games and lose 50 games. What's fascinating, though, is that when that happens, people believe that they won 50 games because of brilliance and talent and skill, and they believe that they lost the other 50 games because of bad luck or even because their opponent cheated. In other words,

[1] Richard M. Rosen and Fred Adair, "CEOs Misperceive Top Teams' Performance," *Harvard Business Review*, September 2007.

we tend to ascribe good qualities to ourselves while rationalizing our bad qualities away — or being ignorant of them entirely.

Fundamental attribution error likely explains why the team members in our research — so far, with no exceptions — are more positive about their own team than is everybody else. The team members are not lying; they genuinely believe what they are saying. But they're nonetheless wrong. So if you talk only to your team members about how good your team is, expect a deluded and inaccurate point of view.

The bottom line: Involve multiple outsiders in your evaluation of team performance — not just team members but also the team leader, the manager of the team leader, and the stakeholders. The stakeholders' views are especially critical because they will decide whether they support the team's actions, allocate it an adequate budget, and open doors — or not.

Question optimism

Along the same lines of team members fooling themselves into a rosier view, we found that every team — regardless of its ability to accelerate performance — thinks it will be better in the future. However, the accelerating teams predict only a small improvement, while the teams that are derailing predict an enormous improvement. This is known as the optimism bias, which describes how most of us have an unrealistically positive view about the future. It is important to question this optimism because, without intervention, these teams are unlikely to achieve their performance ambitions.

The bottom line: We urge senior executives to be cautious in uncritically accepting rosy predictions of the future. When your organization's teams predict their future level of performance, apply a healthy discount to that estimate, because half of those evaluations are based on inherent, excessive optimism.

The prescription: Tailor your approach to team building

Consider two elite athletes. One is a 125-pound female table tennis player who is quick as lightning and can run around the table in half a second. The other is a 200-pound male heavyweight boxer. They're both healthy and incredibly skilled. However, their pattern of acceleration — how they build and change momentum to perform — is completely different, requiring different strategies, muscles, and reflexes. If the table tennis player gets in the boxing ring, she risks injury, and if the boxer competes in table tennis, he will likely be beaten. Athletes need to be more than just healthy; their pattern of acceleration must be appropriate to the task at hand.

All 15 of the TAQ tests are foundational for accelerating teams; however, it pays for teams with different starting points to focus on different tests. We looked at the average scores of the 15 tests of brilliant teams across all respondent groups and found the following:

A team that wants to improve its ability to accelerate performance may find it helpful to focus on:

- Aligning the team around a *shared purpose*, as a team that collectively increases its shared purpose score by one point has a 6.9 times greater chance of being an accelerating team
- Building *stakeholder influence* by connecting team members to all the different constituencies with which the team interacts. This can lead to a 3 times greater chance of being an accelerating team

Teams that are either lagging or derailing may find it helpful to focus on:

- *Unique commission* (a clear understanding of stakeholder expectations), as increasing this score by one point brings about a 6.7 times lower chance of derailing
- Defining what the future plan is to deliver, as increasing the *foresight* score by one point translates to a 7.7 times lower chance of derailing

The 15 tests of brilliant teams

According to the results of our Team Accelerator Questionnaire (TAQ), teams that operate at peak performance are strong in five distinct areas:

Mandate

A team has a clear mandate if it meets three criteria:

- ☐ **Unique commission:** The team has a deep and shared understanding of the expectations of its stakeholders.
- ☐ **Shared purpose:** Team members are mutually accountable for, and collectively committed to, a shared purpose. Focusing on work only the team can do, the team members leverage their unique position as integrators.
- ☐ **Coherent direction:** Both the vision and the strategy are aligned, tightly integrated, and clearly articulated.

Governance

A team has strong governance if it meets three criteria:

- ☐ **Tight composition:** The team contains the right "fact holders" with the right skills and mix of perspectives, while avoiding the burden of excessive size.
- ☐ **Aligned incentives:** The team is incentivized to deliver its strategy, achieve targeted outcomes, and role-model behaviors, balancing collective and individual accountability.
- ☐ **Agile processes:** The team interacts flexibly with effective cadence and with clear individual and collective decision rights.

Behavior

Team behavior supports acceleration if it meets three criteria:

- ☐ **Distributed leadership:** The team leader operates as a "first among equals," leveraging the full capabilities of the team.
- ☐ **Productive conflict:** Empathy trumps ego, and the team is able to rupture and repair, support and challenge.
- ☐ **Explicit standards:** Team members support each other when it counts, and the foundations of respect, disclosure, and directness are in place. They role-model this behavior for the organization.

Connections

A team creates strong connections if it meets three criteria:

- ☐ **Compelling story:** The team translates its strategy into a compelling story and uses it to powerfully engage target audiences.
- ☐ **Focused grip:** The team follows through and drives for impact, commissioning work that results in competitive advantage.
- ☐ **Stakeholder influence:** The team actively considers, then consciously shapes, the wider context in which it operates by managing key relationships.

Renewal

A team capable of continuous renewal meets three criteria:

- ☐ **Foresight:** The team has sufficient focus on the future and avoids shortsightedness.
- ☐ **Learning:** The team takes time to reflect and learn, drawing on external and varied perspectives and translating them into productive improvement.
- ☐ **Energy:** The team works in a way that creates rather than saps energy. It channels the energy of the organization in pursuit of accelerated performance.

- Communicating key messages powerfully across the organization, as increasing the *compelling story* score by one point leads to a 3 times lower chance of derailing

Furthermore, our research found that the top four constraints (for more, see "What's slowing you down?" on page 48) that thwart accelerated performance relate to purpose. Struggling teams would be wise to focus on tackling these areas first:

- Allowing too many priorities to pull the team in competing directions
- Becoming mired in "troubleshooting" mode and focusing only on today's problems
- Finding it difficult to integrate the different portfolios of each team member into a coherent purpose
- A tension between the team's priorities and the expectations of its stakeholders

The potential benefit of improving team acceleration is huge. Our research reveals several clear action items: team building must begin at the top, adapt for customer-facing and non–customer-facing teams, and question the team's optimism for both current and future performance. Executives who take a hard look at their teams through the lens of the 15 tests of brilliant teams will be well positioned to improve the acceleration of their teams and increase their odds of achieving breakthrough performance gains faster than their competitors.

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Five steps to better team performance

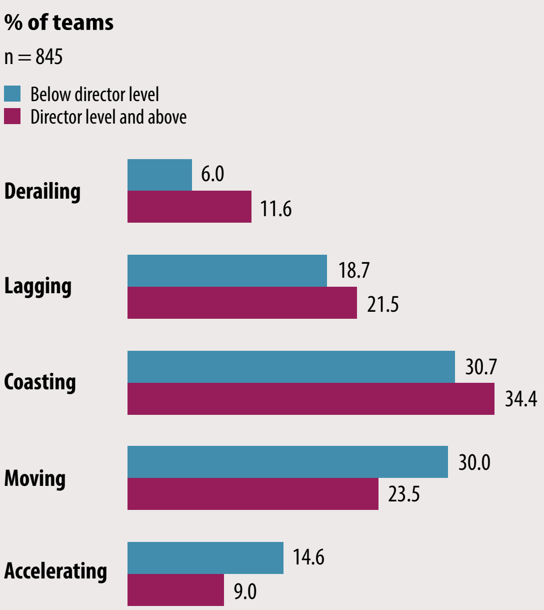
The following figures explore how top teams accelerate performance to achieve enduring competitive advantage.

Our research into team performance (see "Accelerating performance in teams," on page 17) finds that teams operating at their best have a clear mandate, demonstrate strong governance, distribute their leadership, engage in productive conflict, translate their strategy into a compelling story, manage key stakeholder relationships well, and are capable of continuous renewal.

The result? They are more healthy and thus more able to build and change momentum to get results more quickly than their competitors — in other words, to achieve *accelerated performance*. The following figures highlight the approach that teams can take to get there.

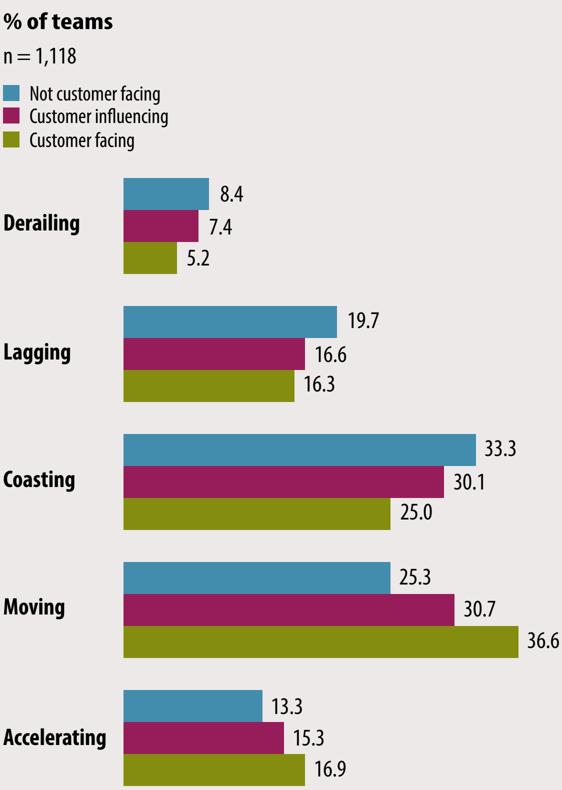
Focus at the top

Senior teams are less able to build and change momentum quickly than are junior teams — just as the responsibility and impact of doing so become more critical. Start here.



Connect with customers

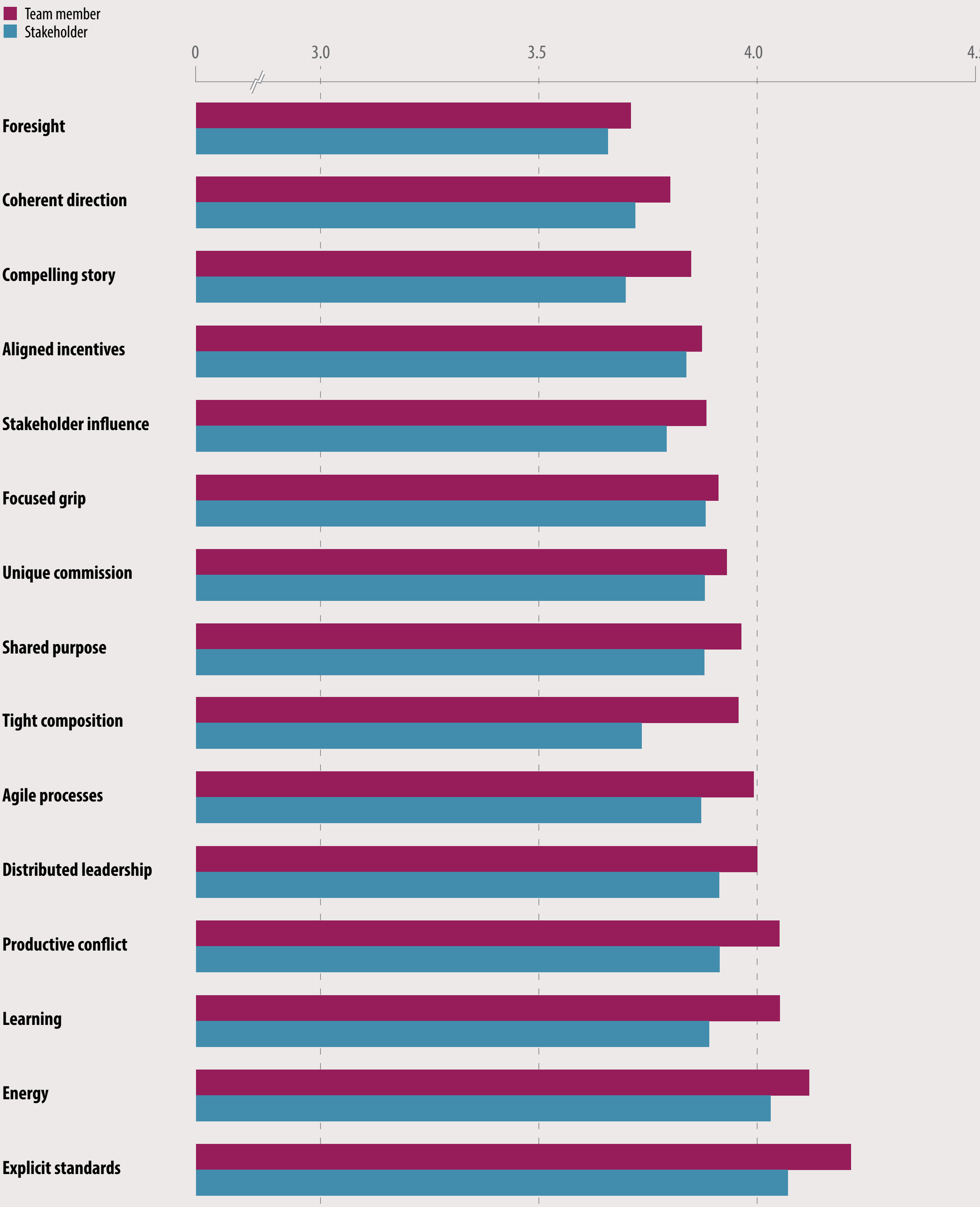
Encouraging teams that are not customer facing to spend time connecting with customers may increase the team's ability to accelerate performance.



Hold up a mirror

Gathering an outside-in view of the team is critical to ensuring teams meet the needs of their stakeholders, as stakeholders view teams differently than the team sees itself.

Mean score on Team Accelerator Questionnaire: performance ratings on 5-point scale, by criteria category (for more, see page 22)
n = 662–670



Question optimism

While both accelerating and derailing teams tend to rate their current performance in line with the performance data, the teams that are lagging the most (or derailing outright) tend to be the most optimistic in their predictions of future performance. So when your organization's teams predict their future level of performance, apply a healthy discount to that estimate.

Performance ratings on 5-point scale

n = 260

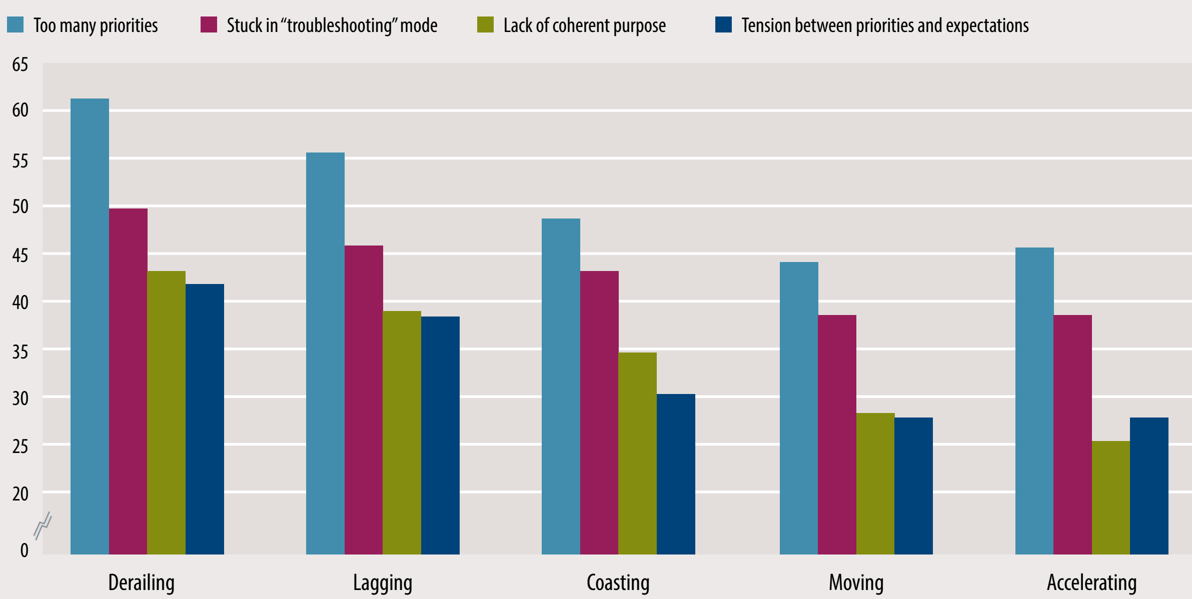
XX Current overall performance rating   XX Future performance prediction

	Derailing	Lagging	Coasting	Moving	Accelerating
Current overall performance rating	2.9	3.0	3.3	3.5	3.7
Future performance prediction	3.7	3.7	3.8	4.0	3.8

Start with purpose

The top four constraints — what gets in the way of high-performing, accelerating teams — relate to purpose; therefore, spending time on clarifying a team's purpose is time well spent.

% of teams experiencing given constraint



Source for all figures: Heidrick & Struggles analysis

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Can your leaders deliver on your growth strategy?

Seven management disciplines can help top teams (and companies) foster innovation, align culture with strategy, and improve performance.

Against a backdrop of volatile, uncertain times and increased business complexity, it is useful for business leaders to remind themselves of one essential fact: any strategy imposed on an unprepared or unwilling organization is doomed to fail. Persuasive and charismatic leaders may succeed in driving a strategy that achieves a turnaround. But unless that change is embedded in the fabric of the business, it will not last.

A chief executive may articulate a vision and then set about ensuring that everyone is "on the bus," only to find the wheels falling off before the strategy can proceed too far down the road. The key to such failures is not necessarily the value proposition — or, more accurately, the value hypothesis — put forward by a CEO or a board of directors, but rather the value delivery.

For the past two years, we have partnered with Professor Andrew Kakabadse, of Henley Business School in the United Kingdom, on a global study taking in 100 face-to-face interviews with chairmen, directors, chief executives, and senior executives to test business models against current realities. With the data collected from the survey, and insights drawn from Professor Kakabadse's leadership research, we looked at how to create diverse teams to foster innovation, ways of facilitating diversity of thinking, how to align culture with strategy, and how to engage teams and organizations to deliver on a mission.

We found that the starting point for many companies is bleak. In looking at many of the world's leading organizations, through two years of interviews, and working from a database collected over 20 years from 5,500 boards and top teams in 34 countries, we observed that in terms of strategic alignment, fully 33% of top teams do not pull together at all. Not only is there little sharing of mission, vision, and strategy, but many large businesses undermine themselves. Leadership teams, managers, and boards are fighting each other.

High-performing teams, by contrast, do things quite differently. This article summarizes the methodology followed by leadership teams in high-performing companies, as outlined in Kakabadse's book *The Success Formula: How Smart Leaders Deliver Outstanding Value* (Bloomsbury, 2015) and explores the seven disciplines required to succeed in volatile times. Taken together, they suggest ways that ordinary teams (and indeed companies) might become extraordinary and offer useful food for thought for CEOs and board chairs facing the difficult task of aligning and engaging their organizations to get there.

1 Evidence

One of the most famous success stories in global banking in recent years was the takeover by a small regional bank in Britain, the Royal Bank of Scotland, of a bank three times its size, NatWest Bank. It was an audacious move and one driven by a singular personality who was later discredited because he tried to repeat the process and failed. Why? He lacked evidence. This leader was driven by intuition, not data.

Leaders who get sustainable results are not the ones who are able to see things very quickly, or pull off a business coup once or twice, but those who are able to succeed over time because they have created a culture of evidence.

Business history is replete with examples of CEOs who went on acquisition sprees — buying companies not because they were adding value but because they were empire building. Value propositions can be left behind in a headlong rush to pursue imaginary or elusive alternative sources of value.

Interestingly, too, the very same traits or behaviors that made leaders successful earlier in their careers can derail them. Indeed, what has been a highly successful strategy for a CEO over many years can unwind in spectacular fashion when the context (inevitably) changes.

As Ed Rapp, president of Caterpillar's Resource Industries group, explains: "The biggest risk in this job — and I would say any job of leadership — is isolation and filters. Every time I look at a presentation, the question I ask myself is, how many filters has it been through before it got to me? If you maintain access throughout all levels of the organization, it really does give you the ability to bypass the filters that develop in a large company. The worry is if people don't always put reality on the table. What I keep trying to help people understand is that we've got a lot of talented people, and if we put reality on the table, I'm convinced as a group we can fix it."

2 Mission

The terms "vision" and "mission" are often used interchangeably. But a visionary leader is not necessarily imbued with a sense of mission. In organizations where leaders have a sense of stewardship, mission is powerful and long-lasting.

"Mission" carries with it the idea of purpose with humility. Its essence is authenticity, built around strong values. It is not vulnerable to personality or charismatic styles of leadership.

Values and mission are intertwined. For healthcare providers, for example, waiting lists and tick boxes may have a part to play, but they are not the same as creating patient value. In the emergency room, the mission is about providing reassurance to each individual patient — never about how many patients are treated in a 24-hour period.

Mission is about values. Do leaders live the values? And do they do so in a fast-moving context? The measure of a good leader is his or her ability

> *The measure of a good leader is his or her ability to constantly challenge value creation to support the organization's mission.*

to constantly challenge value creation to support the organization's mission.

3 Alignment

Alignment is not just about building a structure — it's about creating an alignment of thinking. But how? Look around your team. Look at your corporate center. And in your mind, identify where alignment of thinking does not take place. What's the consequence? Is it a situation that erodes you, slowly, and still nothing is done?

Creating alignment requires both IQ — the bandwidth to explain complexity in such a way that people understand what is required — and EQ, or the ability to handle the politics in a positive way. It's the ability to say, "Look, this is a difficult situation, but we're going to turn the impossible to the possible," and to take the organization along with you.

In one of our interviews, a former European telecommunications chief executive describes alignment as a common view on key market developments, customer needs, priorities, and the strategic road map, as well as a strong common orientation on the company's values. He says the challenge is to find the best alignment of structures and processes in product development — across borders — and to establish a global and local model.

Transforming from "the old telco world into the IP world" has been more than a technological transformation, he adds. "It has changed everything we do. We have developed a much better focus on customer services, proven by a lot of KPIs, which are objective so it's not just my wishful thinking. And we have integrated the different operations, particularly wireless and fixed line and content distribution services, into one face for our customers."

4 Engagement

The difference between a value-proposition leader and a value-delivery leader is the ability to engage the team. And that takes courage. This courage is often quiet, humble, and not threatening.

Our research demonstrates that when the top team does not agree, each member pulls in a different direction. The mixed messages that ensue drive general managers further away from the center. The result is a structural nightmare, with the center being seen as providing no value — a misaligned organizational quagmire rather than a dynamic, value-adding hub.

We found that for between 20% and 50% of the world's top corporate teams, strife and tension are the norm. The most common reason for the corporate lack of cohesion is disagreement over the nature of the strategy being pursued, and the next most common reason is tension over how that strategy is implemented.

A German country manager of one major multinational said: "It is not so much the global marketing strategy that is the issue but more the fact that no one in Chicago will listen to what I have to say about the buying habits of the German housewife. Just because it works in America does not mean to say it will work here. Every time I raise the issue of adapting the strategy, everybody thinks I am challenging the corporate center."

Our research suggests that the inability to raise uncomfortable issues is a deep concern for one-third of top teams in France and eight in ten senior managers in China. Similarly, the research suggests that many British board members turn up at meetings to examine the numbers and proposals but not to dig deep enough to surface the market impact of a disengaged management. Boards in the United States fare worse. We observed boards where the chairman, CEO, or president is rarely challenged.

Our message is that managers and board members need to not only listen to but digest unwelcome, undesired, or difficult-to-explain information. It can take months of hard and intensive coaching to enable a top team to listen.

The chairman or CEO needs to have the sensitivity to investigate the nature of the issues at hand and the capability to listen to unwelcome messages. He or she also needs to know the range of covert agendas and the capacity of each top-team member to face up to unwelcome truths. Only then can leaders establish the basis for engagement.

5 Leadership

Leadership that carries a high ethical and moral consciousness at the board and top-team level is now absolutely critical to competitive advantage and value delivery. Today's successful leader does the right thing because it is right, even though it may cause personal pain. Case in point: the family-owned business owner willing to sack a family member if he or she isn't suited to the role. Leaders must live their values without contradiction.

Honesty by the chief executive is a powerful force for business transformation. From the famous example of IBM's Lou Gerstner, who told his senior managers the firm was "sleepwalking off the edge of a cliff," to the more recent instance of Scandinavian Airlines' CEO Rickard Gustafson negotiating with unions, the message is clear: take your team and stakeholders into your confidence and you will get results. Respect is central. Notes Gustafson: "I think that the union representatives respect what we have done, that they realize we did it in a decent way, and that we treated people fairly throughout the process. It is painful, and they don't like it, but they respect it."

Real leaders also lead for a purpose. They believe in the organization and the value it creates. They are not simply going through the motions to collect a paycheck. It is their commitment that attracts and retains followers.

6 Governance

Governance is critical but often oversimplified. It is not simply a straightforward administrative exercise. Getting the balance right between monitoring and mentoring is a big challenge that should not be underestimated. Monitoring is all about the controls, protocols, and procedures that provide early warning signals and enable the board to take action to prevent wrongdoing or bad decisions.

The other side of governance is mentoring, which must encourage different ideas to be surfaced. In this way, the board challenges, nurtures, and guides the management team where necessary. This requires strong relationships between the chairperson and the board, both collectively and individually.

Unfortunately, boards often underplay mentoring in favor of monitoring. This is dangerous. Boards need to carefully mentor strategy execution through the governance fault lines. This type of stewardship takes time, commitment, and consideration of how and with whom to engage.

7 Wisdom

Wisdom is often hard-earned through years of experience. But experience alone is not enough. The factor that magnifies and empowers experience and turns it into wisdom is humility — knowing you cannot possibly be the fount of all wisdom. Practically speaking, it means a willingness to keep on learning.

If IBM's leaders had listened to the voices of diversity within the company when it was on the brink of collapse, pre-Gerstner, the company might have avoided much pain. Those who spoke out were seen as being disruptive and not following the company line.

A major indicator of wisdom is a leader's ability to work through a dilemma or handle seemingly no-win situations. The way to rise above dilemmas that have business, ethical, and personal sensitivities is for a leader to be committed to the team and the greater whole.

Context and corporate direction will dictate how wisdom is balanced on top teams and boards. "Old" does not necessarily mean wise, just as "young" does not necessarily mean innovative. Wisdom comes from a mind-set of diversity and openness — skills that can be learned and reinforced through coaching and mentoring.

For example, the Whirlpool board spans four decades, providing what CEO Jeff Fettig calls "crossover intelligence." He says: "We have one member in his 70s, two or three in their 60s, two or three in their 50s, and two in their mid-40s," with a balance of wisdom and subject-matter expertise being the result.

He says that wisdom is the ability of wise, savvy people to face tough situations and cut through complication to either tell the leadership to "do the right thing" or support them fully in a difficult situation or opportunity.

■ ■ ■

At a time when generational change is converging with dramatic changes in business models and businesses everywhere are facing an unprecedented degree of volatility and uncertainty, the findings from our research suggest that senior executives need to focus on:

- Value-delivery (versus value-proposition) leadership
- Better alignment and engagement of the board with the leadership team
- Aligning the culture through the engagement of all key stakeholders
- Facilitating and nurturing diversity of thinking as the glue for engagement with the company's culture

The seven disciplines outlined in this article are a starting point for thinking about the way forward, and indeed there are no easy answers when it comes to achieving sustainable growth. Nonetheless, when organizations start down the path of embedding the seven disciplines in their skills, behaviors, and processes, they dramatically improve their odds of achieving extraordinary, enduring, and transformative improvements in performance. ■

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THE ORGANIZATION

Shaping the agile organization

Leading change: Five CEOs on the power of culture transformation

Smart leaders shape their company's culture — instead of allowing the culture to shape the company.

Culture has become one of the most important words in C-suites and corporate boardrooms, yet when it comes to shaping an organization's culture to achieve enduring advantage, many companies fall woefully short.[1] As global organizations navigate the "Fourth Industrial Revolution" they are grappling with the need for urgent, dramatic, and fast-moving changes in strategies for leadership, talent, and organizational performance. Culture is the catalyst for achieving these goals, but it is too often overlooked.

Through a combination of purposeful leadership, broad engagement, and focused sustainability, smart leaders help shape their company's culture — instead of allowing the culture to shape the company. Creating a healthy, high-performing, and agile organizational culture provides companies with a measurable, lasting source of competitive advantage.

Following are excerpts from interviews with five CEOs who have focused on creating organizational cultures built on a foundation of agility, helping their companies outperform the competition and stay ahead of the curve.

Gary Shorb, CEO of Methodist Le Bonheur Healthcare

Dominique Leroy, CEO of Proximus

Basil Scarsella, CEO of UK Power Networks

Bryan Jordan, CEO of First Horizon National Corporation

Joe Robles, former CEO of USAA

[1] Deloitte's *Global Human Capital Trends 2015* report, for example, finds that "culture and engagement" is the most important issue that companies face around the world, yet only 12% of executives believe their organizations are excellent at effectively driving the desired culture.

Gary Shorb, CEO of Methodist Le Bonheur Healthcare

"Be ready to be open to changing your own style and reassessing how you lead."

Memphis-based healthcare system Methodist Le Bonheur (MLH) focused on creating and embedding a "Power of One" culture throughout its eight hospitals — including 12,500 leaders, clinical staff, and frontline employees — to help it become one of the best in the nation.

CEO Gary Shorb knew culture would be a competitive advantage and the key to realizing several goals, including achieving outstanding financial results; attaining top quartile scores in clinical quality and patient satisfaction; improving employee engagement scores; and creating a consistent, patient-centered experience across all hospitals and systems.

"All organizations have culture; it's a matter of you shaping it or it shaping you," says Shorb. "You can have all the best talent, the best plans, and you can have the best strategy, objectives, and goals. But without the culture piece being absolutely right, we were not going to achieve the kind of results we needed to achieve. It is the magic that makes everything else work."

Today, the Power of One culture serves as the touchstone for Methodist Le Bonheur's patient- and family-centered culture of compassion. At the heart of Power of One are MLH's values: service, quality, integrity, teamwork, and innovation. The values are continually reinforced to help people understand how to work together to serve patients, their families, and the community.

Shorb says the results have been outstanding: "We have seen improvement on every front. We are now in the top 5% in the nation in associate satisfaction. In clinical quality, almost every one of our quality scores is in the top quartile. We have gone from a BBB bond rating to an A+ bond rating. Our customer satisfaction — our patient satisfaction scores — also are achieving top quartile."

Shorb's advice to other leaders and CEOs on leading a culture change: "Be ready to be open to changing your own style and reassessing how you lead. The CEO, as well as his or her direct reports, needs to be totally committed. That commitment level has got to be what really sustains the effort and gets you along the journey and gets you the results that you need."

Shorb emphasizes that for a culture transformation to really take hold and become part of the company's DNA, it requires leaders at the top being fully committed and aligned and casting the right "shadow of the leader." "It is all about leadership," he notes. "We have 1,200 leaders in the organization. Getting the culture improvement fully implemented throughout the whole organization takes all 1,200 of them being aligned. The 'shadow of the leader' concept is something that you have to be constantly aware of. If you send signals that are inconsistent with the values, then you can derail the entire effort."

Dominique Leroy, CEO of Proximus

"Translate the culture you are shaping into business successes, because that's the way most of the people will then start following you."

Proximus (formerly Belgacom) — the majority state-owned telecommunications, IT, and media company operating in Belgium and international markets — had become overly complex and slow in an industry marked by increased competition. In addition, a period of leadership turmoil and market saturation resulted in years of zero growth and lost market share. The CEO and leadership team were seeking to transform the business and restore it to healthy growth and profitability by becoming more agile to stay competitive and relevant to customers.

Getting there, however, would require a transformation of company culture, as agility and a growth mind-set were not part of the organization's DNA. Notes CEO Dominique Leroy: "We had not been growing for 10 years, neither top nor bottom line. The main driver for me was to get our company back to growth by changing the environment from having silos, a bit of fear and risk avoidance, to a much more collaborative and transparent culture. I thought if we could only unleash the power of all this talent in a consistent way, with one vision and a good collaborative spirit, we could get much better results out of the company."

Leroy says that leading the company's "Good to Gold" culture for the past few years has been crucial in helping to right the financial ship. Strong financials throughout 2014 and the first quarter of 2015 continued to demonstrate positive revenue performance, a growing customer base, and good progress in cost reduction. "What made the difference was the culture," says Leroy. "This was the glue that enabled us to bring all these transformational elements together and give people an appealing goal. Having a culture with the values of collaboration, agility, and accountability — together with a clear purpose — helps people to make the right trade-offs on a collective basis. You really see the dynamic changing in the company because the learning and growth become concrete, anchored in the success of the company."

Leroy's advice to other leaders and CEOs on leading a culture change: "It's very important that you can translate the culture you are shaping into business successes, because that's the way most of the people will then start following you. It is important to engage the whole leadership team and the extended leadership team. We had to make sure that they understood where we wanted to go as a business, why we needed to shift the culture, and what their role was in the whole culture-shaping process."

She adds that culture is not a project but a journey and that "you have to continue to invest in it and make sure that, as the leadership team, you are role models to keep the new culture alive in the company."

"In the end, we are not doing things that are very different from our competitors," says Leroy. "We're investing, we're transforming, and we're cutting costs. But why are we successful so far while others are not? I think it's about the soft issues. It's about changing the mind-set of the people. What made the difference was the culture. This was the glue that enabled us to bring all these transformational elements together."

Basil Scarsella, CEO of UK Power Networks

"You can't just give lip service to engagement."

UK Power Networks (UKPN) is a power distribution company formed in 2011 when Cheung Kong Infrastructure Holdings (CKI) acquired three electricity networks in London and in the southeast and east of England. UKPN delivers electricity to a quarter of Britain's population — about 20 million people and 8 million households.

CEO Basil Scarsella decided to shape the culture at the newly formed company, which has 5,000 employees, to help enable it to fulfill its goals of delivering a first-class network as measured by reliability, customer service, cost efficiency, and safety — all while becoming an employer of choice and respected corporate citizen.

Among the awards UKPN has earned: 2012 Utility of the Year; 2013 Best Business Award for Best Customer Focus; 2014 gold award from Investors in People for the way it leads and develops its workforce to constantly improve service; 2014–15 national annual award from The Job Crowd — voted by graduates among the Top 100 companies to work for; and 2014 Utility Star Awards for Customer Service, Team of the Year (operational), Team of the Year (customer facing), and joint winner for the Long Service Award.

"The best thing we have seen is a significant improvement in performance in just about every area," says Scarsella. "Engagement from the employees between 2011 and 2012, for example, improved by something like 25%. The reliability of the network has improved by 40%. Ultimately, getting judged to be utility of the year, I think, is a reflection of everything we've done and, importantly, the commitment that the management team and the employees have put in."

Scarsella's advice to other leaders and CEOs on leading a culture change: "You can't just give lip service to engagement. You've actually got to do things that deliver the message to the employees that you care about what they think about the organization. The other important thing from one year to the next is to listen to what the employees are telling you and actually do something about it."

> *"You've actually got to do things that deliver the message to the employees that you care about what they think about the organization."*

Bryan Jordan, CEO of First Horizon National Corporation

"Your greatest strength . . . and your greatest weakness . . . can be your culture."

Bryan Jordan became president and CEO of First Horizon National Corporation on September 1, 2008. Within months, the economic crisis struck the financial services industry with a fury. As a result, there was a near-complete turnover of the executive management, followed by two years of painful downsizing — to fewer than 5,000 full-time employees, from more than 13,000 — and a winding down of the company's national mortgage lending and commercial real estate businesses. Jordan understood that to rebuild and shift strategic focus for the future, the company's leaders needed to immediately alter the long-established "Firstpower" culture to respond to an environment that was rapidly changing internally as well as externally.

"Your greatest strength can be your culture, and your greatest weakness at times can be your culture if it's not aligned to the changing circumstances," says Jordan. "In 2008–2009, we believed at the time — and I still believe today — that the financial services industry was going to go through one of the greatest periods of change because you had just such a tremendous number of external influences that were driving it: the financial crisis, consolidation, regulation, the changing economy. We felt that taking that strong culture and adding the flexibility for the future was vitally important to us."

By shifting the long-established "Firstpower" culture to one that is more flexible, nimble, and accountable, a stronger and more formidable organization emerged. As a result, First Horizon has returned to profitability and improved performance and is better prepared for significant industry changes ahead.

"We're having better conversations about the important things," says Jordan. "We're getting to the heart of issues, and we're tackling them much more aggressively than I think we otherwise would have. The culture has been one of the hallmark strengths of First Horizon and First Tennessee,[2] and I think our team was able to maintain that strength in a period of significant change. Our core companies have done very well. They've been strong and getting stronger. That shows up in our customer satisfaction data, both our internal and our external surveying, and it shows up in the anecdotes that we get, the experiences around the organization."

Jordan's advice to other leaders and CEOs on leading a culture change: "The culture of the organization and the environment that come from not only the CEO but also its leadership in totality are critical to making an organization successful. I think the pace of change and the culture need to be very much aligned, and so I don't intend to let up at all."

[2] A regional bank owned by First Horizon.

Joe Robles, former CEO of USAA

"I am, by definition, the chief culture officer."

While many companies struggled during the recent recession, USAA, the financial services company serving military families, experienced some of the best success in its 88-year history. The company is basking in robust growth, top ratings for financial strength, and accolades for customer service from the likes of *Bloomberg Businessweek* and others.

When General Joe Robles took over as president and CEO in 2007, he wanted to take the company to even higher levels of excellence to fulfill its mission. There was a need to shift the strategy from siloed lines of business individually serving members to an entire enterprise serving the members with a committed focus on the culture of going above and beyond — and doing the right thing because it's the right thing to do.

Robles took the role of leading the culture to heart and called himself the "chief culture officer." He led the creation of six cultural principles called "My Commitment to Service" that were established to engage, align, and focus individuals on USAA's mission, customers, and fellow employees. Robles, who retired as CEO in 2015, attributes a big part of USAA's success to these six cultural pillars: "People ask me all the time what is USAA's secret sauce? I keep telling them that a big piece of it is the culture of this company, and it has given us a huge business advantage. You can see the improvement in customer satisfaction. You can see the business results and how we outperformed a lot of our competitors over the past three to four years."

Under Robles's leadership, USAA grew 53% in members, 45% in revenues, and 59% in assets owned and managed — all during one of the worst economic downturns in recent history. During that same period, which included some of the costliest catastrophe insurance years in USAA history, the company returned $7.3 billion to members and customers through dividends, distributions, bank rebates, and rewards and remained among just a handful of companies to earn the highest ratings for financial strength from

> *"We believe that improving and strengthening our culture are paramount. Culture is not a gimmick, a promotion, or a one-time event."*

Moody's, A.M. Best, and Standard & Poor's. USAA also consistently receives awards and high ratings for member service, employee well-being, and financial strength.

"We believe that improving and strengthening our culture are paramount. Culture is not a gimmick, a promotion, or a one-time event," says Robles. "People think you can take a strong culture and build it up and then just move on to something else and then it's going to sustain itself. Unfortunately, that's not the way the world works."

Robles's advice to other leaders and CEOs on leading a culture change: "People ask me all the time if I think it's important for the CEO to own the culture or whether I should have a chief culture officer on my staff. I am the person most accountable to the board of directors for the results of this company and the culture of this company, so I am, by definition, the chief culture officer. One of the things that I will pass on to my successor will be a strong and vibrant culture that is focused on our customers, that is focused on our employees, and that continues our history of service and strong financial results. If I can do that, then I will have done my job as a CEO." ■

To watch videos of the full interviews, or to watch or read additional interviews with CEOs and other business leaders, visit senndelaney.com.

Winning the race

The divergent experiences of two banks illustrate the importance of organizational agility and serve as a cautionary reminder that, whatever the industry, pace decides the winners.

How does an organization outpace its rivals? By being quicker to spot and capitalize on new opportunities, adjusting its strategy and its execution of that strategy accordingly, and, if necessary, accelerating rapidly from a standing start. What role does talent and organizational development have to play in this process? Quite possibly the most important role of all.

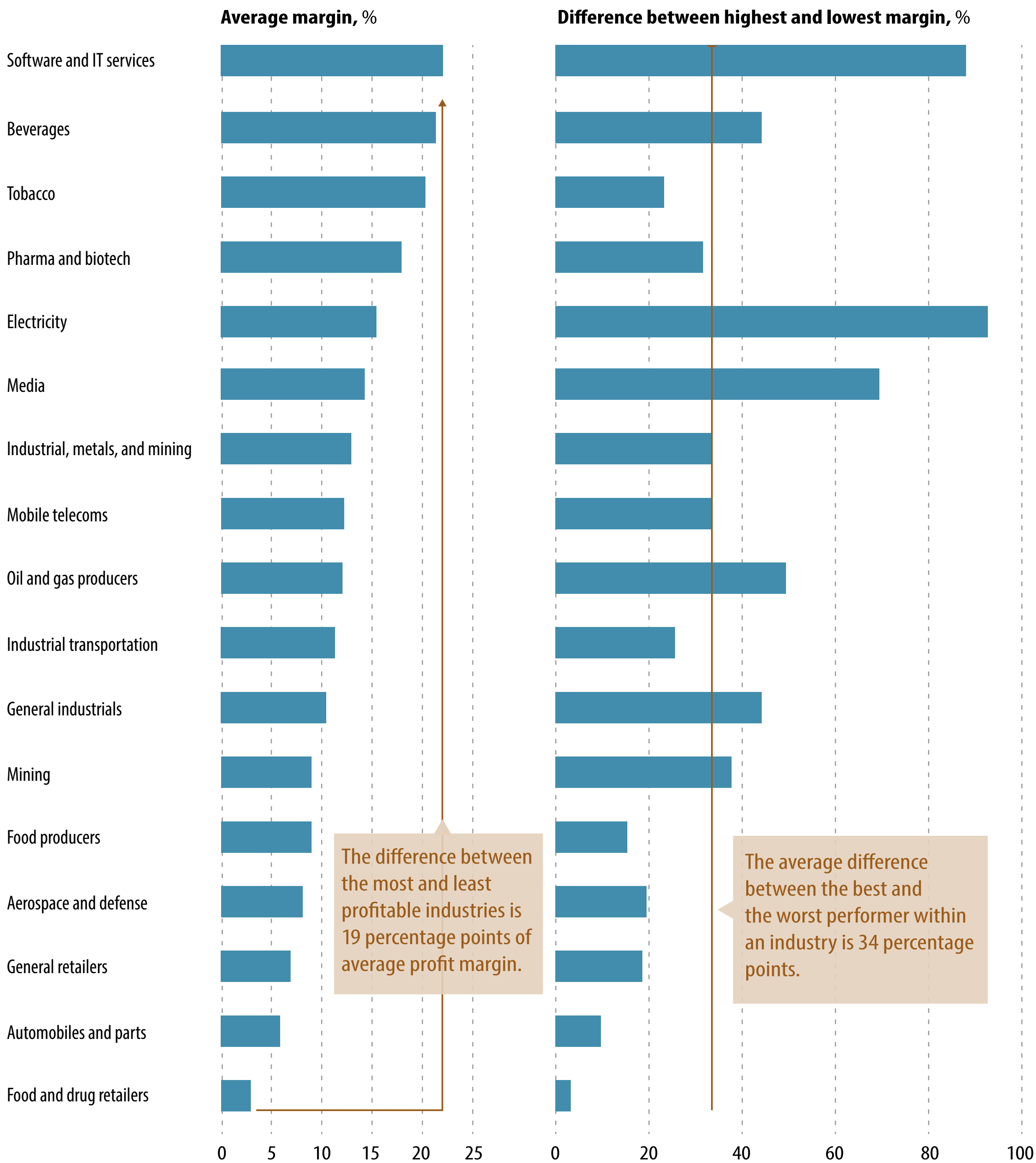
Consider two well-known, Europe-based global banks. Both have extensive investment banking, wealth management, asset management, and retail operations. Both are rocked by gross errors, from LIBOR fixing and foreign exchange rigging to rogue traders. The first acts decisively. It replaces 40% of its top 100 leaders, downsizes its complex investment banking operations, focuses on its core wealth management franchise, launches top-to-bottom culture-change efforts, and invests massively in both new processes and digital enablement as well as in the skills of its people at all levels. The second bank recognizes the same needs but decides to ride out the storm.

Fast-forward two years. The first bank has moved into less risky and more sustainable businesses, improving its overall profitability; the capital markets have rewarded the moves with an improved earnings multiple. The first bank's share price also far outstrips that of the second bank. The second bank, meanwhile, is playing catch-up, losing its best people and at risk of becoming an also-ran.

Whatever the industry, pace decides the winners. Nokia didn't lose to Apple because of an inferior strategy that overlooked the appeal of smartphones. It was just slower in spotting and exploiting changes in technology and consumer habits. Blockbuster, Kodak, Borders, and many others were similarly slow off the mark. All competitive companies are in a race, and for the winners it is never-ending; slow down and you lose. Indeed, the ability to change faster than your competitors is more important than the sector in which you choose to play (see figure). Our research finds that the difference between the least and most profitable sectors among 500 global companies was 19 percentage points of average profit margin. However, the average difference between the most and least profitable company within an industry was 34 percentage points. So while "grand strategy" choices of which profit pool to play in certainly matter, an organization's ability to outperform in its chosen profit pool matters more.

If the need for pace is driven mostly by external competitive pressures, the ability for pace is driven mostly by internal factors. Ultimately, it's a question of behavior — nothing changes unless behavior changes. The board needs to hold the executive team accountable for driving execution at pace and not just pontificate on strategy. The organization must commit to change at pace without becoming disengaged. The top team needs to put aside divisional agendas and optimize the whole. Talent

Figure: **Strategy matters, but not as much as pace**



Source: Heidrick & Struggles

must be developed, and the very best people retained. And most important of all, talent must be matched to opportunities. What does that mean? Think of your organization as a clearinghouse for the application of talent to opportunities. You have a wide set of opportunities, markets to address, customer segments to penetrate, and tech plays to make. You spot, acquire, develop, and, eventually, exit these value opportunities. And HR spots, acquires, develops, and, eventually, exits talent. The best organizations match their best talent with the best opportunities. Failure to do this well results in silos, bureaucracy, fiefdoms, stalled projects, poor collaboration, and, ultimately, market failure. Winning the race for competitive success lies in this matching.

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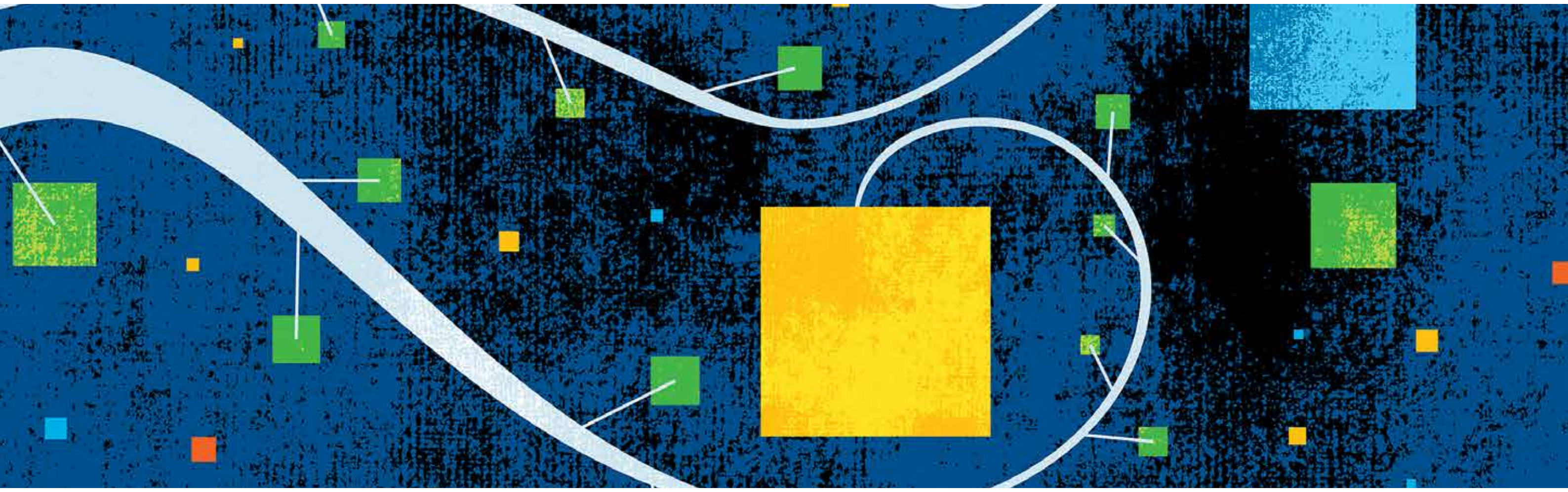

The importance of a growth mind-set in a digital world

Companies that chase digital opportunities without first understanding whether their people have the requisite mind-sets to seize them will likely fail.

Over the past decade, digital technologies have become a crucial part of global business. And for good reason: digital technology has connected the world to an unprecedented degree, giving companies the ability to reach customers in new ways, automate customer interactions, and aggregate a previously unimaginable volume of information to better understand — and influence — individual consumer behavior. Moreover, digital technology has accelerated the pace of change in business, encouraging disruptive business models that quickly create new markets, and just as quickly threaten others.

Unsurprisingly, the digital dynamic has left many senior executives struggling to ensure that their organizations are as agile, responsive, and open-minded as they need to be to survive — let alone thrive — in this environment. Put simply, the cultures of many organizations aren't prepared to change, or change fast enough, to seize the opportunities (or avoid the threats) that digital affords.

The divergent fortunes of Blockbuster and Netflix bring the value of an agile culture into sharp relief. Their story is one of two companies that essentially occupied the same DVD rental niche and ended up taking different digital paths — leading to very different results. In 2007 Netflix made the bold move to introduce video streaming, first as a complement to its DVD rentals and then as a core offering. The move was met with some resistance, particularly by longtime customers; however, Netflix's executives understood that viewer habits enabled by digital technology (notably big data and mobile platforms) were evolving. Meanwhile, Blockbuster lacked the vision to foresee the impact of emerging technologies or a culture agile enough to change gears quickly.

In 2005 Blockbuster's board blocked a proposed acquisition of Netflix for $50 million. Just five years later, Blockbuster filed for bankruptcy after losing roughly $1 billion. By contrast, Netflix now has more than 60 million subscribers in 50 countries and a market cap of $50 billion. Further, it has continued to innovate, investing in content production and reaching new customers and markets with critically acclaimed original programming (and along the way disrupting yet another industry).

Digital will continue to open up new business vistas, yet harnessing its potential requires more than an understanding of technology. In short, companies that chase the technological trappings of digital without first understanding whether their people have the requisite mind-sets to embrace the opportunities for change and reinvention that digital brings will likely fail.

By contrast, executives who look to shape the cultures of their organizations to react quickly to emerging trends and to be open to new ways of working and thinking will be more innovative and better able to spot market shifts and thus become more profitable and disruptive competitors. That translates into new, ahead-of-the-curve products, a thriving workforce, and new industry-altering business models that can outpace the competition.

How can organizational leaders embed a culture that promotes the agility required to support digital transformations? They must first recognize the characteristics of agile organizations and then seek and support leaders who model these values. From healthcare to retail to telecommunications, we have observed companies successfully nurture an agile culture to capture a range of benefits.

Recognizing the characteristics of agile organizations

Agile companies are optimistic in the face of challenge, never rest on their success, and regularly seek to improve even when they are successful. While this culture is a boon for any business, it is particularly vital for companies seeking to reap the full benefits of investments in digital technologies. We have identified five fundamental characteristics of an agile organization:

Responsiveness to strategic opportunities and shifts. Agile organizations create an environment of trust and individual empowerment that enables and rewards innovation and risk-taking.

Shorter decision, production, and review cycles. By streamlining internal processes, companies can move more quickly to pursue opportunities and adapt to changing market conditions.

A focus on individual and organizational growth mind-sets. The entire company, from the C-suite to the front line, must adopt a mind-set of continual growth and learning.

An emphasis on the voice of the customer. Creating a customer-centric mind-set helps organizations to identify and respond quickly to consumer choices and behaviors rather than playing catch-up.

Interdisciplinary, collaborative project teams. By eliminating siloed thinking and fostering collaboration both within teams and across functions, companies are able to build fruitful networks across the enterprise and also extend collaboration outward to communities as well as external stakeholders.

Collectively, these attributes give organizations the edge when it comes to integrating the kinds of digital technologies that advance strategy. Of course, embedding a high-performance culture and environment of agility doesn't happen instantly. Instead, it requires hard work and a coordinated effort from the entire organization, led by the CEO and senior executive team, over a sustained period of time. Companies should concentrate their energy and resources in four areas that together represent the principles for successful culture change.

Purposeful leadership from the top down

Senior executives cast long and influential shadows, so they must set the tone by putting the key drivers of the desired culture in place and in use. In this respect, the CEO must own, lead, and mirror the change; delegating this responsibility to others undermines the entire effort. Since becoming an agile organization is essentially an organizational change effort, clear and consistent communication and examples are critical to explain both why a new direction is required and what the organizational benefits of the new ways of working will be.

Personal change

Since true organizational agility relies on the actions of multiple employees working together in a coordinated manner, individuals need to assess their existing habits and alter their personal behavior to support the organization's digital goals. People rarely change their thinking and behaviors because they are told to do so. Employees need to understand the reason their culture is changing, the "from" and "to" of the journey, and how their individual performance can support the company's goals.

The companies with the most digital savvy recognize that excelling in the digital space is an organizational journey and a way of thinking, not simply a destination.

Broad engagement with energy, momentum, and mass

Measurably shaping a culture, particularly in large organizations, requires much more than disparate leadership development and change management processes rolled out over time. The companies with the most digital savvy recognize that excelling in the digital space is an organizational journey and a way of thinking, not simply a destination. This is true of organizational change too — leading a culture transformation is a journey, not an event or series of events. Culture change needs to be treated as a strategy and the company's culture viewed as a potential source of competitive advantage. Because cultures often resist what they need the most, the faster people are engaged in the process, the higher the probability the culture will shift positively.

Alignment of institutional practices

Shifting behaviors and mind-sets requires aligning people around the desired culture with a set of clearly articulated values and a strong organizational purpose. This in turn requires processes (and HR practices) to reinforce the principles, apply the lessons, and measure change. Even aspects such as the physical layout of office space can play a role in ensuring the new behaviors take root.

Agility's impact

When companies approach digital initiatives with a "culture first" mentality, good results tend to follow. Indeed, a number of companies in industries as varied as healthcare, retail, and telecommunications have successfully navigated the digital business landscape by emphasizing organizational change around agility. A closer look at their experiences offers lessons for other organizations looking to get more from their digital investments.

Healthcare: Miami Children's Hospital

Over the next decade, US hospitals will spend billions of dollars to upgrade their IT systems in alignment with new regulations on electronic health records and data coding. Miami Children's Hospital, with 650 affiliated physicians and a staff of nearly 3,000 clinical staff and frontline employees, stood to reduce costs, increase efficiencies, and continuously improve patient care by implementing numerous digital improvements and processes. However, CEO Dr. Narendra Kini also understood that a foundational step was needed before embarking on the major strategic and business initiatives that would harness these technologies.

The result was "The MCH Way," the institution's defined culture of values and guiding behaviors. One of Dr. Kini's primary goals in transforming the culture was to quickly introduce employees at all levels of Miami Children's to the cultural values — starting with the senior leadership team. Within 18 months, 70% of the hospital staff and leaders had participated in the initial MCH Way culture-shaping program. Just as quickly, positive results were being seen in a number of critical areas, including patient, employee, and physician satisfaction and clinical outcomes.

According to Dr. Kini, "Right after we rolled out The MCH Way, I introduced the lean process improvement methodology. One of the things that became obvious was that in order for lean, which really changes the way you work, to be introduced, it was important for people to accept that change was necessary. The culture transformation and shifting mind-set was one part of the puzzle and lean another. Together they are powerful."

Retail: Starbucks

In 2008 Starbucks was struggling: its share price had been nearly halved over the previous two years, the result of a company that had lost its innovative spirit by growing so rapidly. When Howard Schultz rejoined the company as CEO that year, he sought to instill a sense of urgency, agility, and risk-taking into the culture. The strategy focused on strengthening the connection with customers by creating a "Starbucks experience," and digital technology figured prominently in supporting the company's plans.

The challenge involved getting 150,000 employees to change their mind-sets. According to Schultz, Starbucks did this by going "back to start-up mode, hand-to-hand combat every day."[1]

Starbucks hired Adam Brotman in 2009 to head up its digital ventures, and his focus was to transition an organization that had earned its reputation for excellent service and a personal connection with consumers to one that embraced social media and other digital technologies to engage its customers.

Brotman, who became chief digital officer in 2012, noted, "Everything we are doing in digital is about enhancing and strengthening those connections (with our customers) in only the way that digital can and only the way that Starbucks can."[2]

According to Starbucks company data, the company's deep cultural understanding of how digital technology could reinforce the company's brand and customer experience helped lead to 94% of Facebook users being either a Starbucks "fan" or a friend of someone who is. In addition, the company reported that as of December 2014 it had more than 13 million mobile payment system users in the United States who now make more than 8 million mobile payments per week. More important, these efforts have translated to the bottom line: Starbucks saw its revenues increase from $10.7 billion in 2010 to $16.4 billion in 2014.[3]

Telecommunications: Proximus

Rising competition in the European telecommunications industry brought on by widespread digital disruption is pressuring companies across the sector. At Proximus (formerly Belgacom), leaders were seeking ways to restore the telecommunications firm to profitability, regain lost market share, and stay competitive and relevant to customers. To achieve this goal, executives developed a strategy that would change the company's focus from basic technology offerings to the full customer experience.

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[1] Claire Cain Miller, "Now at Starbucks: A rebound," *New York Times*, January 20, 2010.

[2] Starbucks 2013 Annual Meeting of Shareholders Conference.
[3] Starbucks Fiscal 2014 Annual Report.

However, such a journey required employees to adopt a new growth mind-set that was open to new ways of thinking and doing business. Proximus developed "Good to Gold," a culture-shaping process that defined a common vision, purpose, and strategy to align the company.[1]

Three key values — agility, collaboration, and accountability — became its guiding principles, and by instilling them deeply into the organization, Proximus began generating more openness and trust across the business, breaking down silos, and creating the "one company" growth mind-set necessary to meet its strategic and digital goals.

The potential of digital technologies is seemingly limitless, and companies of all stripes are racing to figure out how to use these tools to boost performance and reach customers. Yet the technology itself is only one part of the equation.

Before embarking on transformative strategic changes tied to digital technologies, senior executives should take steps to create a solid cultural foundation of organizational agility. Companies that do so are better prepared — at all levels of the organization — to approach the changing digital landscape not as a disruptive force but as a path to innovation and improved performance. When they do, they improve their ability to spot, and seize, game-changing digital opportunities.

[1] For more about this company's experience, see the interview with Proximus CEO Dominique Leroy on page 35.

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PARTING THOUGHT

What’s slowing you down?

In a volatile, uncertain, complex, and ambiguous (VUCA) world, an organization’s ability to change faster than the competition can be the difference between thriving and surviving. Our research identifies ten “drag factors” that most frequently put the brakes on a company’s ambitions. Leaders who remain vigilant of these warning signs in their organizations, their teams, and themselves will increase the long-term odds of achieving breakthrough — and lasting — improvements in performance.

Internal focus

Individual leaders: Short-termism; complacency and arrogance

Teams: No shared ownership for resolving service failures; missed opportunities

Organizations: Chronic service failures; high customer attrition; failure to leverage disruptions

Confusion

Individual leaders: Too many priorities; chaos

Teams: Lack of shared purpose; competing agendas

Organizations: Unclear purpose; strategy too complex

Fatigue

Individual leaders: Burnout; disengagement

Teams: Reluctance to step up; exhaustion

Organizations: KPIs and key projects in jeopardy; losing the best talent

Fuzzy accountability

Individual leaders: Victim mentality; not stepping up

Teams: Carrying “passengers” who don’t contribute; blaming others

Organizations: Poor performance tolerated; overlaps and gaps

Inertia

Individual leaders: Slow to action; delayed or avoided decisions

Teams: Too much time in meetings; perfection, not “80/20”

Organizations: Decisions take too long; “analysis paralysis”

Complacency

Individual leaders: Avoidance of feedback; not holding others accountable

Teams: Avoidance of conflict; groupthink; more stress on the best people

Organizations: Acceptance of mediocrity; taking too long to remove poor performers from key roles

Complexity

Individual leaders: Wasted effort; rework

Teams: Too many projects, committees, and metrics

Organizations: Too many layers; unjustified process variation

Micromanagement

Individual leaders: Learned helplessness; referring decisions upwards

Teams: Hiding data, insights, and resources; management by committee

Organizations: No space to lead; senior leaders are blockers

Competition

Individual leaders: Hoarding information and power; protectionism

Teams: Turf wars; no collective ownership

Organizations: Silos and politics

Fear

Individual leaders: Wasted potential; capability gaps

Teams: Old solutions to new problems; defensive actions

Organizations: Same mistakes repeated

Heidrick & Struggles

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