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Living strategy

Strategic leadership

Balancing risk and reward

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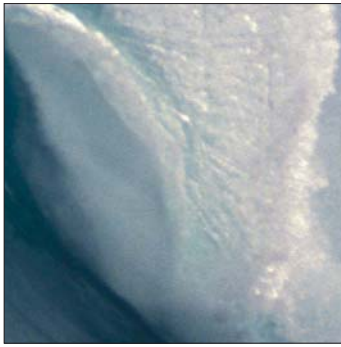
A new view of strategic leadership

Business success is not achieved by developing great strategies or plans, nor by great leadership alone. Without a clear direction, even the best leadership is ineffective, and excellent strategy with poor leadership is pointless. *Doug Ross* discusses how strategic leadership needs to adapt to a world of continuous and rapid change.

The world demands a new view of strategic leadership. Organisations often inappropriately invest significant resources in their strategic planning and management processes, thus diverting executive focus away from the real issues and the need to run the business in step with its changing environment. Square Peg's thought leadership research focuses on the interaction of strategic leadership, planning and the creation of value in times of change, and will significantly change the way executives look at their strategic leadership and planning process.

To keep one step ahead of its competitors, every year Square Peg invests in thought leadership research that adds value to its clients while contributing to the body of knowledge of strategic leadership. In autumn 2006, there were 937 participants representing organisations from all over the world.

The findings of this study have been integrated with client input and other emerging research in this area, setting the stage for a discussion about how strategic leadership needs to adapt to a world of continuous change and where implementation drives competitive advantage even in a world where strategies can change in a heartbeat.

This research, its conclusions and its insights need to be understood in the light of the dynamic, holistic and constantly changing environment in which all leaders operate. It is important to remember that it is thought leadership, and as such it cannot provide answers to all the questions it presents. Some of the findings may be overly academic and not currently offer sound practical best practices for implementation in your organisation, but at least they will force leaders to question the value of their current approach to strategic leadership.

There are four areas of discussion:
- Traditional alignment models – time to challenge our paradigms
- Planning – dynamic, real time, and ongoing

- Processes and policies – enablers not barriers to making things happen
- Leadership capability – building ahead of the performance curve.

Traditional alignment models

Hypothesis: given the rate and pace of change, our alignment models are becoming outdated.

Given the rate and pace of change, our alignment models are becoming outdated.

As leaders we have historically agreed that leadership should align with strategy; after all, it is conceptually compelling and inarguable. But we have also found that, given the amount and speed of change in our strategies, the theory is simply not operationally relevant. In short, it is becoming impossible to effectively use the old strategic concept of 'aligning the organisation to the strategy'. It is more important than ever that senior leaders ensure the organisation's DNA (values, culture, brand) is instilled in the minds of the leaders as this will provide the map for sustained success.

The research findings were as follows:
- **The speed and magnitude of change continues to impact organisations.** No one is surprised that change is significant and constant. All participants in the survey identified that their organisation had recently been though a major and significant change initiative. Almost 70% of organisations had been through more than two significant change initiatives such as a merger or acquisition, new regulatory environment, or new leadership team.

- **To drive high value, organisations need to significantly grow, change and address old strategies that no longer work.** Growth is not optional. The survey shows that those organisations with high growth rates drove considerably more value (54%) than those with lower (22%) or medium growth (27%). Moreover, those who did not address old strategies that no longer work significantly reduced their value compared to those who changed to meet the new requirements.
- **More change at the top negatively impacts value.** If an organisation is nimble and reactive in the face of change, it is more likely to be successful. But it is a different story when it comes to making major changes of leadership. The more change at the top, the survey reveals, the more fatigued and demoralised the employees are likely to be and the less value is created. Among low-performing organisations, 73% had been through significant leadership changes over the past two years while only 48% of the high-performing organisations had seen such change.

Given the correlation between the percentage of organisations that have undergone leadership change and how they rate the organisation, one conclusion is that the more leadership change an organisation goes through, the less successful it is, and the less value it is perceived to offer its customers.

We also looked at this from another point of view. Do low-value organisations have a significant change in leaders in the hope that new blood will be able to turn the organisation around, or are the old leaders abandoning ship? We could not come to a clear conclusion, but in either case, high turnover of leaders erodes value and needs to be addressed.

If strategy is determined by a combination of leadership decisions and the environment in which the organisation must operate, then it is the stability of these two elements that is needed to align resources to ensure focused implementation.

Organisations should organise around and develop core competencies that will allow them to be successful, allowing for frequent changes in their strategy and competitive approach to the market.

Looking at traditional strategy alignment models, we typically find a linear process that links mission and strategy to key organisational resources and building blocks such as structure, budget, planning, performance management and reward. In a time of relentless change and uncertainty, it is increasingly unlikely that our organisations will be able to plan for a clear continuous strategy and the pressure will be on for us to become more expert at emergent strategy management. So organisations should organise around and develop core competencies that will allow them to be successful, allowing for frequent changes in their strategy and competitive approach to the market.

Strategy directors and organisational leaders may want to question the logic behind their traditional alignment models and understand that:

- where there is stability in assumptions and predictability of change, the old alignment models continue to work
- where strategy is in constant flux a flexible approach to the old paradigms is needed, for instance:
  - Structure. Does form really need to follow function? Is a flexible structure able to rapidly adapt to emerging challenges what is needed?
  - Leadership development. Do we really need to align leadership development to current organisational needs? Given the level of change, will investment in core competencies better prepare employees for any given strategy they are asked to implement?
  - Systems and processes. Should systems and processes be aligned to strategy or simply engaged to provide short-term decision making and processing support?

However, even in our new thinking strategic management is still relevant. We need to be clear about the business model, how we are doing competitively, how we serve our customers and most importantly how we actually make money. We need to find effective processes so that our senior leaders don't simply talk strategy – they prioritise and make strategy work.

Implementation idea 1: develop and instil the organisation's DNA

If emergent strategy is becoming a necessary guiding strategic concept, developing and instilling the organisation's DNA in the minds of the leaders is critical for sustained success. Below are three ideas to be considered when looking for alternatives to linear alignment models:

- **Paint the big picture.** We have successfully used scenario planning as a tool to help clients think through the big picture and be prepared for emerging changes and strategies.
- **Identify your success formula and learn when to review it.** A company's success formula is like a recipe. It contains the critical ingredients of how the business will get revenues, make profits and keep

solvent, and it sets out the distinctive capabilities and skills needed for success given any change in strategy or leadership.

- **Provide the inspiration.** Deliver on the employer brand promise. Provide the inspiration to anchor the organisation and its people. Values, norms and beliefs are often the glue that allows leaders to manage and survive through the necessary changes in their success formula.

Planning – dynamic, real time and ongoing

Hypothesis: our approach to planning and budgeting is becoming outdated and may distract us with 'red herrings'.

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Leaders need to manage their organisations as dynamic, real time, going concerns, not as bureaucratic annual systems that have a distinct stop and start point. Planning adds value, but it also needs to be flexible and ongoing. Executives may need to break free from traditional fixed planning and budgeting processes so they can successfully prioritise and reallocate resources in real time. Aligning to annual plans, targets and reward incentives may cause leadership behaviours that do not maximise the organisation's potential but are instead focused on making the annual numbers.

The research findings were as follows:
- **Organisations invest a lot to get annual strategic plans in place.** Organisations invest significant time and effort in a formal, annual strategic planning process, as 72% of participants confirm.
- **Planning adds value.** The correlations demonstrate that organisations that apply significant resources to planning (time, energy, resources) drive significantly more value then those that don't.
- **Once in place, annual plans typically need to be changed.** During the year most organisations revise their assumptions and their plans significantly, resulting in re-forecast budgets and reallocated resources (55% quarterly or more frequently and 30% biannually).
- **High-value organisations regularly review their assumptions and their plans.** Organisations that are open to changing plans based on changing environments, events and opportunities create dramatically more value than those that adhere to the

targets and objectives agreed in the annual plan. Yet even in the light of needed changes, almost 40% of respondents believed that their firms were reluctant to deviate from their agreed annual plans.

Given the level of investment in annual planning and the need for constant revision of such plans, leaders should:
- Acknowledge that leadership is burdened with passive resistance and corporate gaming in the traditional annual planning model. Annual plans can drive behaviours that suboptimise investment and cause inappropriate behaviours that reinforce individuals' resistance to change. After all, many have personal bonuses based on fixed annual targets and static measures.
- Accept that real-time thinking is needed for competitive success. Flexibility is essential for prioritisation and planning. The real world does not operate on a 12-month cycle – the competition and the environment are changing every hour, every day.
- Recognise that annual planning with fixed targets influences structures and can stifle true entrepreneurial ability. Silos, closed teams and 'it's not my job' attitudes are only some of the unintended consequences of the annual budget mentality.

Implementation idea 2: eliminate or readjust the annual planning process

Real strategy does not happen in boardrooms and hotel conference rooms – it happens in the marketplace.

Planning needs to be reborn. Real strategy does not happen in boardrooms and hotel conference rooms – it happens in the marketplace. We may want to experiment by eliminating or at least changing the annual strategic planning and budgeting processes as we know them. We must accept that the planning process is not designed to make strategy but to:
- Engage the minds of leaders. Prepare them to make real-time decisions in the future with full information, especially around the assumptions on which they craft their strategies
- Create the conditions for 'creative accidents to happen'. Think of planning as a contact sport. The more contacts you have, the more likely you are to view the future differently and start to think of the organisation from various perspectives. Rather than planning in silos, force thought and social networks together and create an environment where complex social structures can be sustained.

- Relentlessly dictate needed macro changes. It is senior leadership's job to identify the broad macro changes needed across divisions or functions and to force the organisation to address them. Leaders must not shy away from shaking up the organisation and disrupting the status quo. They must ruthlessly hold their leadership teams accountable for delivering on key systemic changes while balancing bottom-up input, ideas and opportunities.

Processes and policies

Hypothesis: we are becoming addicted to processes and these processes are becoming barriers.

We are becoming addicted to processes and these processes are becoming barriers.

Uncertainty and the speed of change create the need for faster responses and shorter planning cycles, but bureaucracy acts as a barrier stopping good people from adding value. In a world where processes can only be shortened so much, support functions – especially strategy and HR – will increasingly have to ensure that policies and processes enable knowledge workers rather than constrain them. Competitive advantage can be achieved by allowing people to make things happen with the speed and flexibility that markets demand.

The research findings were as follows:
- **Processes and policies frustrate the 'right' behaviours and drive the 'wrong' ones.** 50% of participants' policies and practices frustrate 'right 'behaviours or drive inappropriate and/or 'wrong' behaviours.
- **Employees in high-value organisations feel less hamstrung by organisational bureaucracy than those in lower-value organisations.** A staggering 55% of respondents stated that their organisation's employees were hamstrung by organisational bureaucracy.
- **HQ initiatives are only sometimes perceived to deliver value.** Over 70% of participants perceived that headquarters only sometimes deliver real value in helping the divisional, operational or geographical units.

Given the need to balance control with autonomy, leaders should acknowledge that:
- They may be trying to manage HR/people risk with process and thus suboptimising personal impact and effectiveness. For example, they hire expensive thought workers and then force them to complete forms, restrict their thinking and bind them into processes, so that it looks as though control comes from the centre or HQ. To some extent the desire for control can often drive inappropriate and suboptimal behaviour.

- Processes and rules can constrain productivity and creativity. Organisation rules, decision rights, development systems, reward structures and other related processes clearly have a role to play to ensure consistency, increase effectiveness and manage risk. However, organisations can get process overload and use processes that have a negative impact on the very elements they were designed to support. One company was found to have 26 key decision points to launch one simple standalone product, thus extending the anticipated time from concept to implementation from three months to over nine months.

Implementation idea 3: discard your annual processes – review your rules

More processes and rules are not necessarily better. For organisations operating in environments of high predictability and low levels of change, extensive processes and controls may well add value. Conversely, organisations with low predictability in their business environments and high levels of change should keep processes and rules to a minimum:
- Eliminate planning and management processes that do not add value and can be used for employees to hide behind or blur accountability.
- Review your rules to ensure that the thought workers you have invested in can deliver on the value that you are paying them for – free them up to use their brains.

Leadership capability

Hypothesis: we are limiting the risks we allow our leaders to take and thus restricting their ability to develop.


Businesses require strategic leaders who can both plan and execute, often in uncertain environments.

Executives are being challenged to think one step ahead and build organisational capability to meet future strategic requirements. Businesses require strategic leaders who can both plan and execute, often in uncertain environments. But they are increasingly facing a dilemma. Employees need to gain experience to be successful as strategic and emerging leaders gain experience by being allowed to take risks. But the pressures of change mean that today's leaders are often reluctant to allow juniors to take risks. So there is a lack of home-grown talent and new leaders are brought in from outside. Yet we know that significant changes in leadership mean less value is created.

The research findings are as follows:

- **High-value organisations have considerably better leadership talent.** High-value organisations identified that 18% of their leaders were 'fantastic and extremely talented', while 67% had 'the right stuff' but needed development. Low-value organisations identified 58% of their leaders as 'void of any real leadership talent'.

- **Half the leadership teams can neither plan nor execute.** Surprisingly, 50% of participants identified that their senior management teams could neither plan a direction and strategy for their organisations nor execute the plan or strategy. If leadership teams can execute, they are also typically good at planning. However, the reverse is not always true. If leadership teams are good at planning, they are not necessarily good at executing.

Exhibit 1: Half of the leadership teams can neither plan nor execute
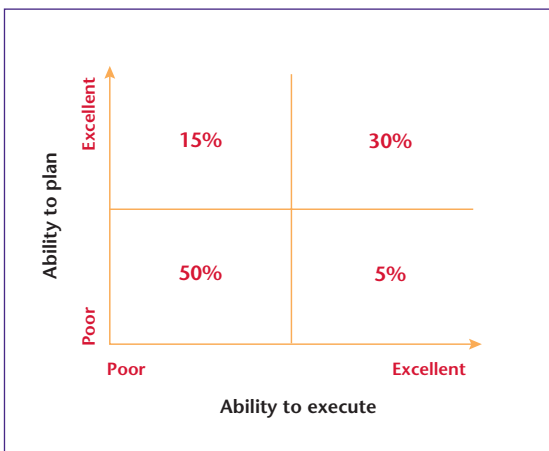
- **There is a distinct need to develop our leadership talent.** The survey revealed that 24% of participants' leaders seem to be simply 'hanging on', as they are both void of any real leadership talent and ineffective at either setting direction or making things happen. They need to be moved out of their current roles, if not out of the organisation. It also revealed that 17% of participants' leaders are high performers whose potential needs to be maximised.

Some leaders were extremely talented but perceived to be ineffective and needed to be activated in their roles, whereas some seemed to have learned the ropes and were seen to be effective even though they had little or no leadership talent. In both cases, almost 60% of organisations' leaders needed some form of development.

Exhibit 2: There is a distinct need to develop our leadership talent
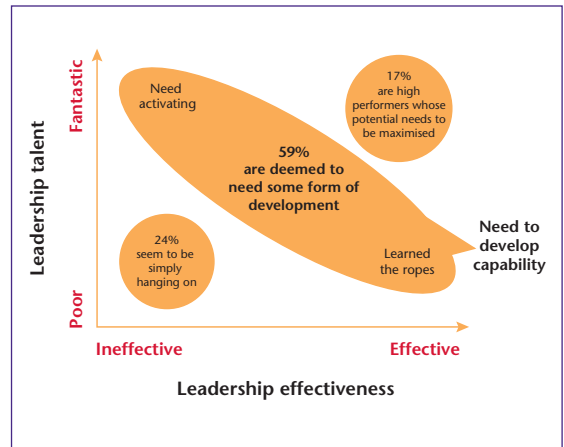
- **Development needs to focus on the dynamic areas of leadership.** Participants played down the need for mechanical training (planning, strategy, technical, industry knowledge and so on) when it comes to strategic leadership. Instead, they strongly suggested (more than 75%) that investment in leadership development should be spent in the softer dynamic areas of development, including:
  – developing their interpersonal and communications skills (24%)
  – personally displaying the organisation's behaviours and values (21%)
  – developing an approach that minimises their personal agendas (20%)
  – influencing others to do the work rather than doing it themselves (11%).

Given the significant need for strategic leadership to both plan and execute strategy, organisations should be aware that:

- They need the strategic leadership capability to drive their organisations forward, often in multiple directions with the same teams. Given that they cannot fire 80% of their leaders, it is incumbent on organisations to invest in their development.

- Senior teams must provide the inspiration and development and then let leaders get on with both crafting the strategy and ensuring its implementation.

- Senior leaders need to take risks and allow leaders to gain the experience they need to develop.

Implementation idea 4: use battleship diagnostics and tactics to guide leadership development

Using 'battleship' diagnostics and tactics can help guide leadership development. In the game of 'Battleships', two players each hide a fleet of ships in a two-dimensional matrix and then try to find the location and orientation of each other's ships by taking turns to 'shoot' at individual squares in the opponent's matrix until they 'hit' something.

Leadership capacities – bundles of competencies – are rather like ships, hidden in the N-dimensional matrix that is every organisation. They are found at all levels of the organisation: some are large (like battleships); others are small. But many of them are hard to find. Thus the structure and functioning of the organisation's core group (or dominant coalition, as it has been called) is usually a large, highly significant leadership capacity, whose very existence is often denied in favour of the official leadership.

The uncovering of leadership capacities is not a matter of hit-or-miss exploration, but a real skill.

Leadership teams should undertake a segmentation analysis of their leadership cadre. The uncovering of leadership capacities is not a matter of hit-or-miss exploration, but a real skill. It helps to know what capacities you are looking for as well as where and how to search for them. Once you have found them there are several questions to answer:
- How well-developed are the capacities?
- How well do they fit together and support each other?
- How appropriate are they to the new contexts in which the organisation finds itself?
- How appropriate are they to the new contexts in which the organisation is likely to find itself in the future and to the transition required to get it there?

From these questions, battleship diagnostics leads directly to 'interventions' at many levels of the organisation: individuals, teams and larger units. These interventions accelerate learning by increasing individual energy, focusing attention and enhancing feedback to change behaviour and increase effectiveness.

Conclusion

There is a business case for change in our approach to strategic leadership, management and planning. We want to call for revolution, but we are also pragmatic and recognise that organisations are operating in the real world.

If we were really radical, we would advocate:
- stopping all non-essential planning and management processes and ensuring clear accountability
- embracing the concept that traditional organisational alignment models no longer work
- eliminating the annual planning process.

We appreciate experimentation may not be practical for our clients. So we advise on getting things 'righter'.

In day-to-day terms, our recommendations look more like this:
- Develop and instil the organisation's DNA.
- Don't allow your annual planning process to become a corporate game.
- Challenge your management and planning processes, then challenge them again.
- Future proof the organisation by developing the leadership capability today so that leaders can both create good strategy and successfully implement change.

Strategic leadership and management, and planning systems such as strategy development, leadership decision making, succession planning, budgeting, performance management and reward allocation, need the flexibility to adjust in an evolving environment. Fixed, bureaucratic and complex systems make organisations unresponsive to change. We need to go beyond historical planning processes and take a common-sense, real-world approach to leading organisations in an ever-changing environment.

Doug Ross is managing director of Square Peg International and specialises in areas related to the people side of change. He is known for his dynamic and practical consulting approach that has evolved during an unusual career spanning CEO, theatre producer, soldier and manufacturing manager. He has been honoured by the Canadian government for his leadership work and has been recognised by the *Independent* newspaper as one of the top 10 management consultants in the UK. Doug is chairman of the Strategic Leadership Forum and a sought after speaker and author.

Tel: +44 (0)7717 665007
Email: doug.ross@squarepeg.com
Website: www.squarepeg.com