



**LEADING NOW:
CRITICAL
CAPABILITIES
FOR A COMPLEX
WORLD**

{ PERSPECTIVES } **LEADERSHIP DEVELOPMENT**

C O R P O R A T E L E A R N I N G

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LEADING NOW: CRITICAL CAPABILITIES FOR A COMPLEX WORLD

By building eight key capabilities, leaders can capture the big opportunities hidden in today's complex business landscape.

BY LOUISE AXON, ELISA FRIEDMAN, AND KATHY JORDAN



It's no secret: Today's business environment is more complex than ever. Potent forces have combined to create a volatile landscape characterized by unprecedented degrees of uncertainty, ambiguity, and change.

Take globalization. By 2025, almost 50 percent of Fortune 500 companies will be based in cities in emerging markets, up from just 5 percent in 2000, according to a McKinsey Global Institute study. Executives are taking notice. In a recent survey by PriceWaterhouseCoopers, global CEOs identified the shift in global economic power to the developing world as one of the top three "megatrends." As a result of this change, new consumers, especially those from emerging markets, are flooding the global business arena, bringing fresh opportunities as well as unfamiliar challenges to businesses everywhere.

Technological advances have added to the complexity by transforming every aspect of business—from how companies interact with customers to how they craft their marketing strategies and develop new products and services. Meanwhile, workforce demographics have changed, further complicating business. With more work being done by far-flung members of virtual teams, leaders must figure out how best to leverage employees' cultural differences. Look inside most organizations and you'll also see different generations working side by side, bringing diverse expectations about career paths, work schedules, and decision-making power. To engage, retain, and maximize the strengths of their best performers, organizations have to determine how to develop policies and practices that will appeal to diverse groups.

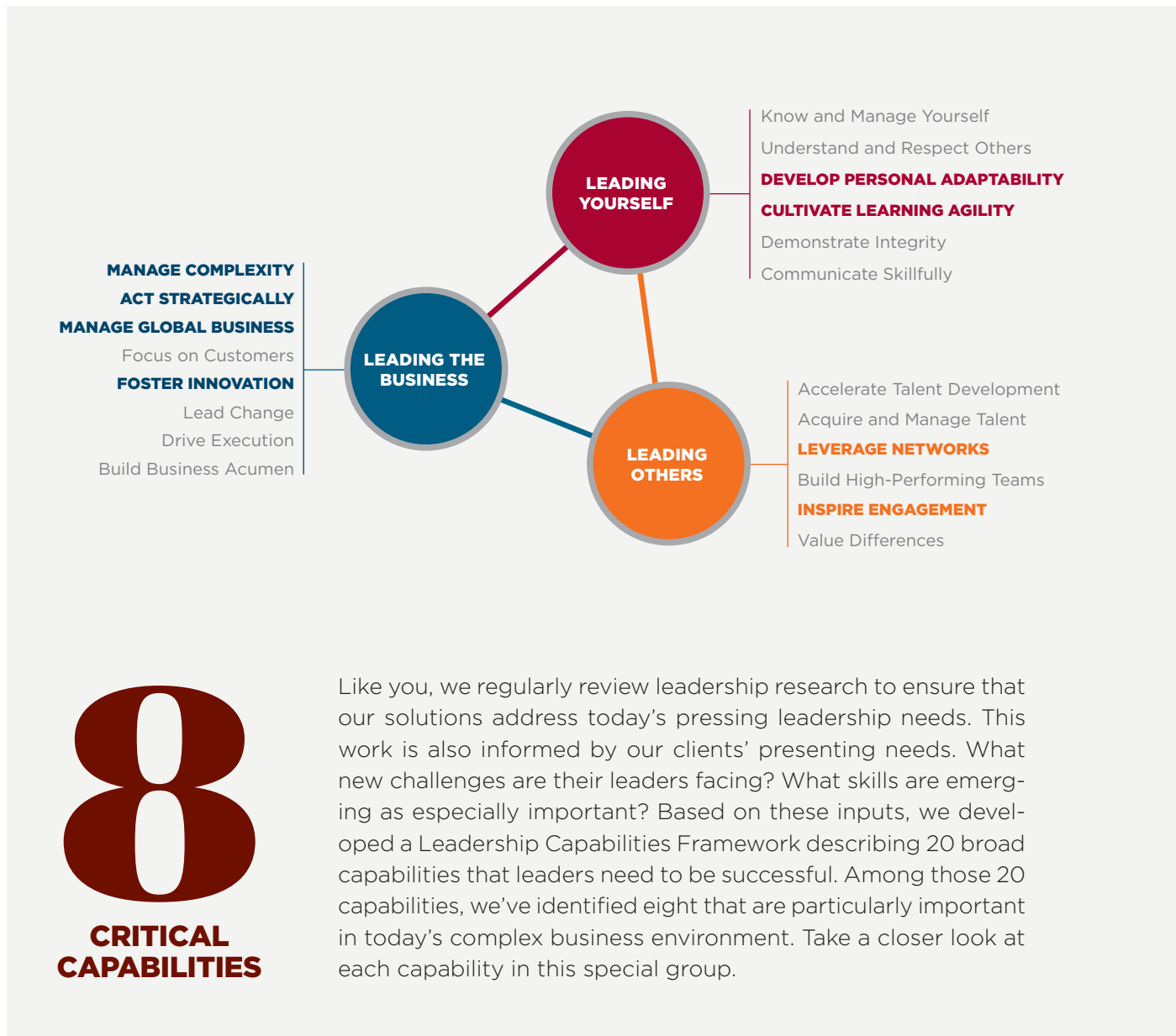
"Increasingly, the winners in today's business environment are those companies that know how to leverage complexity and exploit it to create competitive advantage."

Yves Morieux and Peter Tollman,
Six Simple Rules: How to Manage Complexity Without Getting Complicated (Harvard Business Review Press)

Hidden Opportunities for Prepared Leaders

Navigating today's dynamic business landscape presents challenges. But that landscape also holds enormous opportunities—for leaders prepared to seize them. Increasingly, winning companies are those that have figured out how to exploit complexity to create competitive advantage.

The ability to extract maximum opportunity from complexity pays big dividends. A 2014 report by The Conference Board reveals that organizations whose leaders can operate effectively in a VUCA (volatile, uncertain, complex, and ambiguous) world are three times more likely to be in the top 20 percent of financial performance, compared to organizations lacking such leaders.



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CRITICAL CAPABILITIES

Like you, we regularly review leadership research to ensure that our solutions address today's pressing leadership needs. This work is also informed by our clients' presenting needs. What new challenges are their leaders facing? What skills are emerging as especially important? Based on these inputs, we developed a Leadership Capabilities Framework describing 20 broad capabilities that leaders need to be successful. Among those 20 capabilities, we've identified eight that are particularly important in today's complex business environment. Take a closer look at each capability in this special group.

“WE’RE CALLED ON TO BE PREPARED FOR THE CHALLENGES OF A RAPIDLY CHANGING WORLD. THIS MEANS BEING READY FOR EMERGING MARKETS, ADJUSTING OUR STRATEGIES, BEING AGILE AND FLEXIBLE, SERVING CLIENTS MORE EFFECTIVELY, AND THINKING AND ACTING MORE GLOBALLY.”

DAVID SEATON, CHAIRMAN AND CEO, FLUOR



1 LEADING THE BUSINESS Manage Complexity

Leaders who know how to manage complexity are skilled at solving problems and making decisions under fast-changing conditions. A talent for systems thinking—viewing organizations and environments as complex, interdependent systems—is critical, as is the ability to continuously scan the environment in search of subtle trends and indicators of disruptive change. These leaders also establish practices that allow their organizations to respond swiftly to changes in their environments.

One of our client partners, Cargill, recognizes the importance of leaders who can manage complexity. Cargill provides food, agricultural, financial, and industrial products and services worldwide, employing 143,000 in 67 countries. Internally, the company must be structured to operate different types of businesses across the globe. Externally, Cargill must manage diverse legal and political structures, a broad range of environmental and social issues, and customer bases with markedly diverse needs.

To build leaders’ skills in managing complexity, Cargill developed a blended learning experience focused explicitly on leading under complex conditions. Cargill’s “Leading in a Complex World” program has helped participants build vital skills such as assessing a

given situation’s complexity and choosing appropriate actions, even without definitive information.

Though managing complexity is widely considered a critical leadership capability, many leaders question their effectiveness in this area. In a 2014 Conference Board survey, fewer than 33 percent of participating leaders expressed confidence in their ability to manage complexity. Given the importance of this capability, organizations would be wise to put it at the top of their leadership development agendas.

2 LEADING THE BUSINESS Manage Global Business

Given globalization’s role in intensifying business complexity, it’s not surprising that managing global business emerged in our research as a critical leadership capability. Leaders who are adept at this capability recognize that the landscape features significant growth in emerging economies.

To compete successfully in this context, leaders need to be able to identify and capture opportunities unfolding in global markets. Even while grappling with day-to-day business decisions, leaders must maintain a global focus. This includes assessing what’s happening with consumers, competitors, the economy, and the politics of the markets in which their businesses operate. It also includes accelerating development of local leaders in emerging markets.

Fluor Corporation, a multinational engineering and construction firm, grasps the importance of managing global business. As chairman and CEO David Seaton told us, “We’re called on to be prepared for the challenges of a rapidly changing world. This means being ready for emerging markets, adjusting our strategies, being agile and flexible, serving clients more effectively, and thinking and acting more globally.”

As globalization has progressed, Fluor has had to figure out how to develop local leaders for the new and emerging markets where it does business. To that end, the company initiated its Global Business Leader Track. Participants benefit from a rich combination of international and home-country assignments, cross-functional learning opportunities, and “stretch” assignments that help them build cross-cultural skills. Everything they learn helps deepen their understanding of Fluor’s business in geographies as wide-ranging as the Americas, Africa, Asia Pacific, Australia, and Europe.

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LEADING THE BUSINESS

Act Strategically

Strategic skills have always been essential for effective leadership; however, traditional approaches may no longer deliver as much value as they used to. While older practices focused on long-term strategy development, today’s world requires a more continuous process: Leaders must always be prepared to adjust their strategies to capture emerging opportunities or tackle unexpected challenges.

Forward-thinking companies are also pushing strategy formulation—historically seen as the province of senior leadership—down to mid-level leaders. Since these individuals work closer to the front lines and customers than senior executives do, they’re better positioned to spot trends indicating the need for a strategic shift. Smart companies invite these leaders to help shape the organization’s direction. Such companies also provide mentoring, coaching, and training to help mid-level leaders build strategy-related skills.

Acting strategically doesn’t stop with strategy formulation. It also includes effective execution. Given the increasing pace of change, companies must activate

their strategies rapidly if they expect to garner hoped-for business results. Companies can accelerate execution by asking those same mid-level leaders to implement the strategies they’ve helped craft.

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LEADING THE BUSINESS

Foster Innovation

Regardless of how brilliant a strategy is or how skillfully it’s executed, no strategy can sustain a company’s competitive edge indefinitely. That’s why fostering innovation—the generation of new product or service offerings, new business processes, or new business models—made our critical capabilities list. Though innovation can take numerous forms, including incremental and disruptive innovation, many companies today are putting renewed emphasis on breakthrough innovation.

Research also shows that the most successful companies approach innovation in a structured way. In the 2014 *Harvard Business Review* article “Build an Innovation Engine in 90 Days,” Scott Anthony and his coauthors suggest that leaders need to develop a reliable and repeatable process for driving innovation. For example, leaders can establish systems that enable people throughout the enterprise to easily collaborate internally and with external parties to accelerate development of new offerings.

Take Hoerbiger Holding AG, a global leader in compression, automation, and drive technology. With a 6,400-strong workforce and operations in 54 countries, the company had set an aggressive goal of doubling its revenues over seven years. Executives knew that innovation would prove crucial to achieving this objective. To speed innovation, the company needed to get its geographically dispersed management and project teams working together as one global entity. With these goals in mind, Hoerbiger launched a leadership development program aimed at boosting collaboration and communication among leaders so that innovative thinking could cascade faster throughout the organization. The result? Now that leaders understand different cultures and markets better, they’re seeing faster realization of customer opportunities.

“UNLIKE DELIVERY-DRIVEN EXECUTIVES WHO NETWORK TO DO TODAY’S JOB, EFFECTIVE LEADERS CREATE AND USE NETWORKS TO TAP NEW IDEAS, CONNECT TO PEOPLE IN DIFFERENT WORLDS, AND ACCESS RADICALLY DIFFERENT PERSPECTIVES.”

HERMINIA IBARRA, *ACT LIKE A LEADER, THINK LIKE A LEADER*, HARVARD BUSINESS REVIEW PRESS, 2015

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LEADING OTHERS

Leverage Networks

Today, networking is “the way work gets done.” Increasingly, work is being executed through networks of relationships that cross boundaries within and outside the organization. Leaders who excel at this capability demonstrate a talent for collaboration—a highly sought-after skill, according to PriceWaterhouseCoopers’s 2014 global CEO survey.

Savvy leaders dismiss the outmoded notion that networks are simply tools for gaining political influence or advancing one’s career. Instead, they embrace networking as a way to foster collaboration while serving organizational goals. They cultivate relationships not only within their organizations but also beyond their boundaries—with customers, suppliers, strategic partners, and even competitors. As Herminia Ibarra notes in her latest book, *Act Like a Leader, Think Like a Leader* (Harvard Business Review Press, 2015), “Unlike delivery-driven executives who network to do today’s job, effective leaders create and use networks to tap new ideas, connect to people in different worlds, and access radically different perspectives.”

In addition, effective leaders exploit technology to build stronger, larger networks. For example, leaders at top global brands such as Coca-Cola, IBM, Microsoft, and Google have used crowdsourcing to gather ideas—from far-flung sources—for developing new products or solving thorny problems.

MAPFRE Insurance appreciates the importance of leveraging networks. Its “Lead on Purpose” development program for high-potential leaders incorporates activities that encourage participants to network with colleagues with whom they wouldn’t otherwise

interact. Participants work across geographic distances to develop and implement action plans and provide peer coaching. Thanks to the bonds fostered by the program, leaders are more likely to reach out to widely dispersed peers to solicit ideas and resources for solving problems. As one participant said, “I now have new relationships solidified across the company, and to me that is invaluable.”

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LEADING OTHERS

Inspire Engagement

Leaders who excel at inspiring engagement know how to foster a culture that creates meaningful connections between employees’ aspirations and values and those of the organization. Workers and managers who feel engaged are more creative and productive on the job.

Engagement is also critical for attracting great employees and keeping them on board. According to global leaders and senior HR executives surveyed in Deloitte’s “Global Human Capital Trends 2015: Leading in the New World of Work,” retention has become the number-one human capital issue for organizations around the world.

But merely retaining employees isn’t enough. People can occupy jobs for years, but they won’t create value for their organizations if they’re not invested in their work. And workers today are more disengaged than ever, according to Gallup’s 2013 “State of the Global Workforce” survey. What’s more, it’s not just frontline employees who don’t feel connected to their work; multiple studies indicate that mid-level leaders are the most disengaged. This statistic is disturbing, given that organizations depend heavily on those leaders to inspire engagement in others.

ZEISS, a global portfolio company and an international leader in optics and optoelectronics, recognized that fostering engagement among its leaders began with aligning 900 senior and mid-level leaders with corporate goals and strategy. ZEISS launched a leadership development program that included deepening participants' understanding of the company's unifying identity with the cornerstone strategy, brand, and culture. Most important, the program showed participants

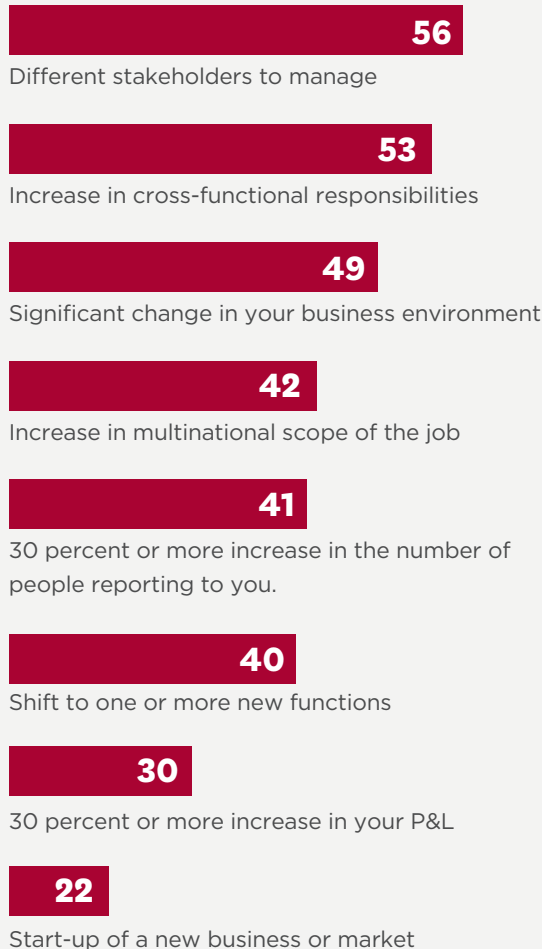
how they could personally influence the success of the company by establishing a common understanding of the opportunities and challenges—and building the capability for strong leadership as a key success factor for implementation.

Other forward-thinking organizations focus on developing additional skills that help leaders inspire engagement. Such skills include continually “reenlisting” talent by seeking to understand what employees need in order to feel fully engaged at work, and striving to meet those needs as they evolve. LinkedIn co-founder Reid Hoffman, Ben Casnocha, and Chris Yeh reinforce in their book *The Alliance: Managing Talent in the Networked Age* (Harvard Business Review Press, 2014) that one-to-one employee/manager conversations are the bedrock of every successful talent strategy. They recommend that managers help employees own their own talent development through open, honest conversations about their interests, skills, and career goals and shape their roles and work assignments to significantly increase their employability both within and beyond their current organization.

A CONSTANTLY CHANGING FOCUS

How managers' jobs are changing, 2011 to 2013

Percentage of respondents who say these responsibilities have changed over the past two years.



Source: *Act Like a Leader, Think Like a Leader*, Herminia Ibarra, Harvard Business Review Press, 2015



LEADING YOURSELF

Develop Personal Adaptability

Leaders who demonstrate personal adaptability remain focused and effective in the face of uncertainty and ambiguity. They also tend to be highly resilient. Research by the Center for Creative Leadership found that these aspects of personal adaptability were highly correlated with leadership effectiveness. Yet multiple studies show that leaders at all levels tend to be weak in personal adaptability.

To strengthen their personal adaptability, leaders need to recognize that approaches they've used in the past won't necessarily work under present conditions. In fact, given how radically the business world has changed, applying old approaches to new challenges could prove destructive. Adaptable leaders steer clear of a “that's how we've always done it” mentality. Instead, they look at new realities through fresh eyes so they can spot and seize valuable opportunities.

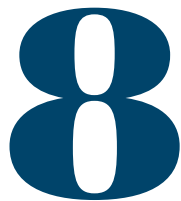
“THE QUESTION IS NOT WHETHER YOUR COMPANY’S EMPLOYEES AND LEADERS HAVE THE RIGHT SKILLS; IT’S WHETHER THEY HAVE THE POTENTIAL TO LEARN NEW ONES.”

CLAUDIO FERNÁNDEZ-ARÁOZ, “21ST-CENTURY TALENT SPOTTING,” HARVARD BUSINESS REVIEW, 2014



At the same time, they know how to nurture the resilience so critical to adaptability. For instance, they effectively manage their stress levels, their time, and their energy by applying the practices and tools that work best for them, whether they’re positive psychology, mindfulness, or meditation.

Organizations today face an unprecedented degree of complexity driven by multiple powerful forces. Focusing on these eight capabilities will ensure that your leaders are well prepared for today’s challenges. But keep in mind: As the complexities of the business world continue to evolve, we can expect that the capabilities leaders need to drive success will continue to evolve as well.



LEADING YOURSELF

Cultivate Learning Agility

Cultivating learning agility—routinely seeking out and learning from new experiences—is a crucial capability in a changed business context. What makes someone successful in a role today might not make that person successful tomorrow if conditions—such as the competitive environment, the company’s strategy, or workplace culture—change.

Leaders who master learning agility internalize a learning mind-set: They seek out opportunities to learn. They continuously experiment with new approaches, using techniques such as rapid prototyping. And they take time to reflect on their experiences so they can learn from successes and failures.

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Arthur J. Gallagher & Co., a global insurance brokerage and risk management services firm, understands how essential it is for leaders to cultivate a learning mind-set. Given its aggressive growth strategy, the company created a program aimed at empowering leaders to be agile learners in order to rapidly move the company’s vision forward. Designed to foster a desire for ongoing learning, the initiative has delivered impressive outcomes: 90 percent of participants have reported seeing improvements in their ability to learn and lead, and many cite expanded career opportunities as a result of their openness to learning.

AN INVITATION

You’ve had a chance to consider our conclusions about capabilities that are critical in today’s complex business landscape. What thoughts have come to mind? For example:

- To what degree do the capabilities we’ve described resonate with your own impressions of skills that leaders in your organization need to build?
- Which capabilities seem most relevant for your company’s leaders today? Why?
- What steps are you taking now to incorporate these capabilities in your leadership development programs? What additional steps would be worth considering?
- Which capabilities seem most challenging to strengthen, and how might you surmount those challenges?

We’d love to know your thoughts on these and other questions that come to mind, and we invite you to share your thoughts in our LinkedIn group, Harvard Business Publishing Corporate Learning Group, or with us directly using our emails on page 8.

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