
David Williams

Leadership as the starting point of strategy

Even the best strategy can fail if a corporation doesn't have a cadre of leaders with the right capabilities at the right levels of the organization.

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When it comes time to implement a strategy, many companies find themselves stymied at the point of execution. Having identified the opportunities within their reach, they watch as the results fall short of their aspirations. Too few companies recognize the reason.

Mismatched capabilities, poor asset configurations, and inadequate execution can all play their part in undermining a company's strategic objectives. Although well-regarded corporations tend to keep these pitfalls squarely in their sights, in our experience far fewer companies recognize the leadership capacity that new strategies will require, let alone treat leadership as the starting point of strategy. This oversight condemns many such endeavors to disappointment.

What do we mean by "leadership"? Whereas good managers deliver predictable results as promised, as well as occasional incremental improvements, leaders generate breakthroughs in performance. They create something that wasn't there before by launching a new product, by entering a new market, or by more quickly attaining better operational performance at lower cost, for example. A company's leadership reaches well beyond a few good men and women at the top. It typically includes the 3 to 5 percent of employees throughout the organization who can deliver breakthroughs in performance.

Since bold strategies often require breakthroughs along a number of fronts, a company needs stronger and more dominant leadership at all levels if these strategies are to succeed. A defining M&A transaction, for example, requires leadership throughout an organization's business units and functions in order to piece together best practices and wring out synergies while striving to carry on business as usual. In addition, leaders throughout both companies must transcend the technical tasks of the merger to rally the spirits of employees and to communicate a higher purpose.

As the number of strategic dimensions and corresponding initiatives increases, so does the pressure on leadership. Not surprisingly, our work in many industries with companies of all sizes has shown that high-performers, especially those with lofty aspirations, have the most difficulty meeting their leadership needs. Of course, companies that perform poorly are also lacking in leadership capacity. The higher a company's aspirations or the more radical its shift in strategic direction, the larger the leadership gap. This rule holds true for high performers and laggards alike.

The consequences of inattention

Most CEOs will agree that leadership is important, yet few assess their leadership gap precisely. Fewer still build an engine to develop the right quantity of leaders with the right mix of capabilities, at the right time, to match opportunities.

If the number of leaders needed to achieve a strategic goal—for example, expanding current operations or developing new businesses—were set against the number of existing leaders, a company could uncover the numeric leadership gap it must address. Even if an organization has enough leaders, it may discover a shortfall in their capabilities. A company expanding internationally, for example, could find that its current leaders lacked the cultural sensitivity to operate in unfamiliar geographies. Or a corporation entering new markets could find it had too many engineers and not enough business builders.

The failure to assess leadership capacity systematically before launching strategic initiatives can leave top executives scrambling to fill gaps at the last minute—with significant consequences.

In the short term, companies that undertake new strategies without the right leaders in place are forced to burden their existing ones with additional responsibilities. As such leaders take on the new challenges, the demands from day-to-day operations invariably increase, leaving less time for other tasks. Often these leaders drop the activities with less tangible outcomes, such as staff development, for which the effects are not immediately evident. If a company stretches its existing leaders too far, their overall effectiveness takes a nosedive. From the start, this trade-off compromises strategic objectives. Companies executing strategies under these circumstances assume either that they can get by with suboptimal leadership or that achieving just part of their initial objectives will capture a corresponding percentage of the strategy's net present value. We know from experience that these assumptions can be fatally wrong: one critical misstep can jeopardize the entire investment.

In the longer term, a persistent leadership gap will be responsible for an inexorable decline in the number and quality of leaders. Companies create a vicious cycle in which good leaders become overextended or are moved haphazardly and thus have less time to develop younger talent. The day will come when they hand over the reins to a less experienced, ill-prepared group of successors. Left unchecked, this cycle can ultimately put the company's core operations and strategic growth at risk.

Leadership first

Given the severe consequences of a leadership gap—the best-planned strategy is no more than wishful thinking if it can't be translated from concept to reality—why do so many companies discover their leadership shortfall only when executing their strategies? This question raises another, more fundamental one regarding strategy and leadership: which is the chicken and which is the egg? Companies have taken a number of useful approaches to this puzzle.

One successful US conglomerate with global operations routinely holds discussions that integrate both strategy and leadership. Any consideration of a strategic initiative invariably includes the question, "Who exactly will get this done?" If the company does not have a sufficient number of the right leaders, the plan does not proceed.

Another approach is to weigh a corporation's strategic options against its ability to launch new businesses, new approaches, and other forms of breakthrough performance—in other words, its leadership. Consider, for example, the global-expansion strategy for a successful resource company. The effort included identifying the leadership required to drive breakthrough performance over five years in areas such as running and expanding existing businesses, developing new ones, renovating corporate processes such as risk management, and providing overall change leadership. The company then gauged its leadership gap by comparing these requirements with the qualities of its current leadership bench. It made a number of strategic decisions to determine, among other things, which path was best for realizing the strategy, whether to revise its aspirations, and whether to develop leaders internally or hire them from outside.

A third approach is to plan the path toward a predetermined strategic goal by taking into account the quantity, timing, and mix of leaders that the various alternatives require. Companies using this framework may rule out some possibilities if developing the requisite depth of leadership is unrealistic in the time frame dictated by the marketplace. A leading food company in Asia, for example, aspired to become the dominant regional player. With five strong national brands, it had at least three clear options for how to achieve that goal: take a cautious approach by launching one brand as a pilot in each overseas market before introducing other brands; focus on China by building a beachhead with one brand in a single city, then sequentially rolling that brand out region by region within China; or, finally, acquire a player in one regional Chinese market, thus gaining outlets and local expertise, and use this opening to roll out all five brands to more markets in China over time.

While many factors, including the company's appetite for risk, weigh on these decisions, in this case each option had distinct leadership requirements. The first, for example, would initially require at least five to ten well-rounded leaders—entrepreneurs capable of establishing local networks, operating under unfamiliar conditions, and managing all five brands. The second option called for a business builder who was deeply familiar with the beachhead city to direct a team of four to six emerging leaders who could spearhead the subsequent expansion. A business-development leader would also be helpful in seeking an alliance partner to speed up the company's pace and bolster its confidence during the regional expansion. The third possibility, by contrast, would immediately require an expert to structure, valuate, and negotiate deals and, in the medium term, a few executives capable of operating in each of the regional Chinese markets. After the company critically reviewed its current and potential leaders, it made the decision to adopt the third of those options.

***Thinking** about leadership up front can affect the direction, the path, and the actual outcome of a strategy*

These three cases illustrate how thinking about leadership up front can affect a strategy's direction, path, and outcome. But can a company bring leadership considerations into its strategic discussions even earlier, before it chooses a general direction? To do so, the company must think rigorously about its current leadership pool—the types of leaders and their mix of capabilities—and lay out the strategy accordingly. If a manufacturer's strong suit is leaders with superb marketing capabilities, for example, a market-driven strategy would be implied and might include selling another manufacturer's products. Taken to this level, leadership becomes the true starting point for strategy.

Filling the gap

A clear picture of the leadership gap can help guide strategic thinking, but to retain as many options as possible, companies must also consider ways to fill that gap. To reduce the risk of strategic failure, they need to direct their approach to leadership with three time horizons in mind.

Long term: Position

Companies need to position themselves today to meet their strategic objectives during the next three to five years. In an 18-month period, for example, a South Korean consumer goods company successfully expanded its core business into Japan, where it diversified into noncore sectors such as low-cost lodging. It achieved such deep penetration of this notoriously closed and mature market so quickly by building its leadership bench in advance. At least five years before the initiative's launch, the company began hiring managers and sending them to Japan—through exchanges with friendly Japanese partners—thereby creating a cadre of South Korean leaders trained to operate in Japan.

In many of Asia's key growth markets, local leaders with a global perspective are highly sought after and often unavailable at almost any price. Returning nationals, typically trained in Europe or the United States, may be another option, but many companies have found these prospects to be expensive and lacking in the tacit knowledge needed to operate successfully in the cultures of many corporations—and the industries they compete in. A company must hire and groom potential leaders as much as a decade or more ahead of market need and then help them build the internal networks necessary for long-term success.

To cite another example, for decades a US financial-services giant systematically hired the best global talent, regardless of the market, and rotated these leaders through every critical aspect of its operations. This investment in human assets paid off handsomely. In most of the new economies the company enters, it enjoys an almost unparalleled ability to field full-service teams with strong leaders in the vanguard. Competitors, by contrast, are forced to expand more selectively or to offer expensive packages to lure top talent.

Medium term: Cultivate

Companies must also begin cultivating leaders for specific roles one to two years down the road. This effort requires recognizing the skills, behavior, and mind-set that leaders must possess to be prepared for future roles. Many executives spend years building their technical skills and industry knowledge but rarely develop expertise in areas such as managing stakeholders and building networks. In a prominent resources company, for example, top executives identified potential successors for key leadership positions. It highlighted the measures needed to bring each one up to speed, including counseling, training, and new assignments, by considering individual profiles (strengths and weaknesses, past experience, and skills) as well as the key success factors for upcoming leadership positions (industry or functional expertise, personal or change-management skills, and local knowledge).

Another company informed appointees of their next assignment six months ahead of time and then enrolled them in self-directed preparatory programs. All of the leaders wrote a personal-development contract related to the challenges of the new role and created a list of learning opportunities and developmental activities that would prepare them for their new responsibilities. These tasks could include, for instance, seeking advice from veterans or drawing up a plan for the first 100 days in the new role. The company also provided four categories of learning modules: “lead self,” for self-awareness, skill mastery, and developmental planning; “lead others,” for getting the best performance from colleagues in specific settings; “lead context,” for understanding and identifying trends in the competitive environment; and “lead change,” for aligning key stakeholders, steering the organization to breakthroughs, and challenging conventional approaches and thinking.

Short term: Match

Job experiences and stretch assignments are the primary development vehicles for leaders. Opportunities to achieve performance breakthroughs are critical not just for reaching a company’s performance goals but also for developing its best people. Unfortunately, corporations that are particularly risk-averse often match their people to opportunities by looking at track records and job experiences, which they see as indicators of future performance. But such an approach is unlikely to succeed, since the experience and skills needed for earlier successes are not necessarily precursors for those required to achieve performance breakthroughs in subsequent opportunities.

A better approach is to use corporate-performance objectives and personal-development goals to match current and potential leaders with opportunities. This multifaceted approach uncovers a better fit between the individual and the opportunity. For this process to be successful, top managers need to acquire a holistic understanding of each individual, including professional abilities, such as leadership qualities, track record, and potential, as well as key personal traits, such as style and preferences, character and motivation, and current attitudes and mind-set. Companies can assess these qualities through information—objective and subjective—from superiors, peers, mentors, and other sources.

To help leaders develop throughout any of these three time horizons, a company must first accurately identify who its leaders are and then convince them of an opportunity's potential. Companies often underestimate this challenge. Top managers typically assume they know which of their best people are willing and able to take on new challenges, but the reality is often very different. At one multinational corporation with an ambitious growth agenda, the CEO asked the 20 members of his management committee for written nominations to fill leadership positions for 30 initiatives. Most committee members couldn't confidently name more than five to ten candidates, and large overlaps existed among the members' lists. Each had nominated the "usual suspects"—managers who were well known in the executive suites. If the company pursued all 30 initiatives simultaneously, it would overload these candidates while denying other potential leaders the chance to develop and shine. Corporations must instead look out along the three time horizons we have described to build a more systematic leadership engine.

Strategy will not succeed in a void, and leadership often makes the difference between merely reaching for great opportunities and actually realizing their potential. Top managers must assess their company's leadership gap and find ways to close it over the short, medium, and long term. Better still, they should integrate leadership with strategy development and thoughtfully match their portfolio of leaders with opportunities. Q

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