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Engineering Strategic Leadership

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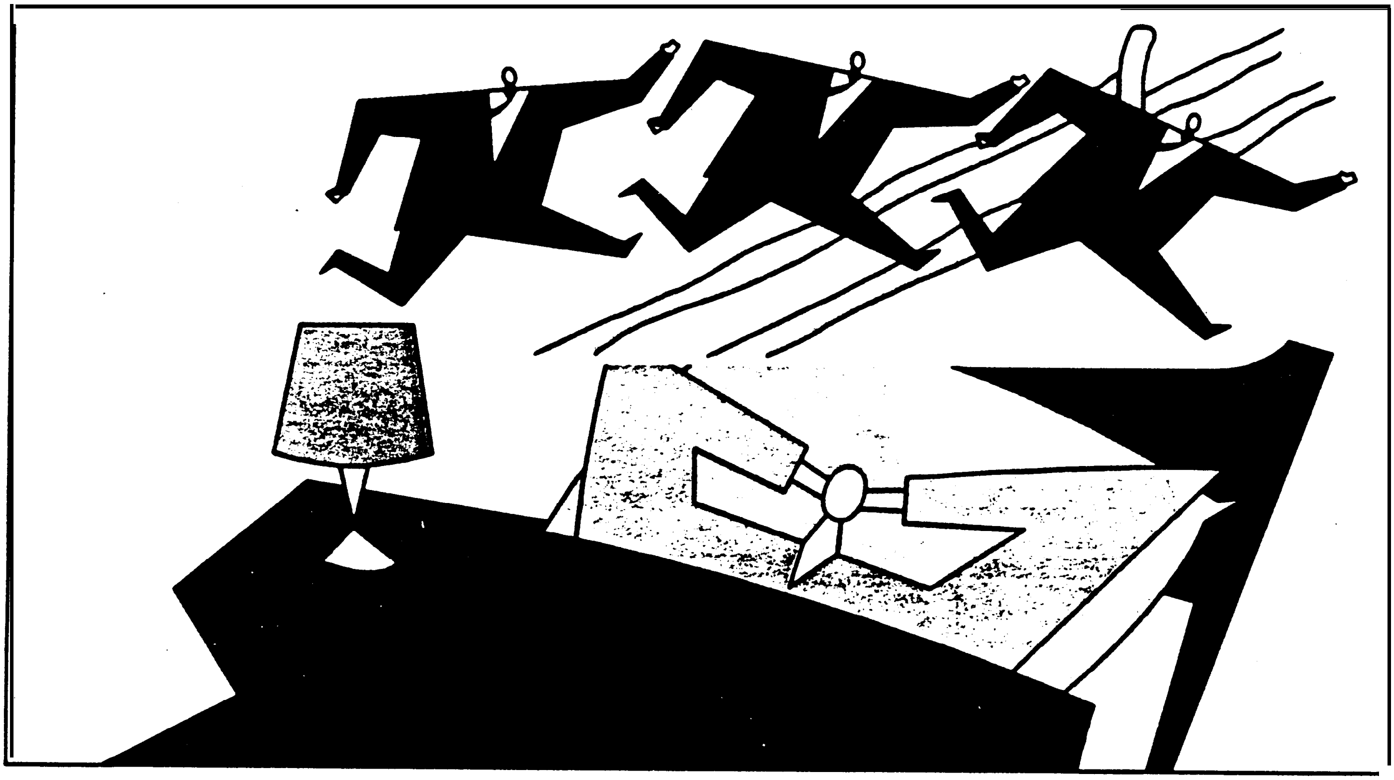
The most brilliant strategy can only succeed if the right people craft it and implement it. In this article, Mark Van Clieaf discusses these concepts, related executive assessment tools and why they're critical to organizational success in an unpredictable world. He is Managing Director of MVC Associates International, a consulting firm that specializes in strategic leadership including executive search, executive job design, and aligning succession planning with corporate strategy. He is a member of the newly established Executive Selection Research Advisory Group at the Center For Creative Leadership, Greensboro NC. He is also a member of the editorial advisory board of Human Resource Planning in New York. MVC Associates International has offices in Toronto and Tampa.



Sooner or later every CEO has a sleepless night questioning whether the right executives are on the team. Many CEO's wonder if there is a way to better align the characteristics and competencies needed for key positions, with the strategic context of the organization. These same CEO's would also like to have assessment tools that can help them to make some very difficult executive selection decisions which will ultimately influence corporate strategy.

Empirical, research supports our experience and validates the belief that indeed specific executive's skills can directly impact an organization's strategy and ROI. Related research has also identified new executive assessment tools which can be used to minimize the risks in executive staffing, and align these critical executive selection decisions with the strategic needs of the organization.

The Myth of the Generalist General Manager

Chief executive officers and general managers are not all created equal. Neither are vice-presidents of marketing, directors of engineering or controllers. Generalist managers who could step into a leading position of any business and run it effectively may have existed at some point in the past; but in today's competitive global environment, like dungeons and dragons they are no more than a myth. Strategic leadership depends on the extent to which an executive's specific perspectives (mental model of the world) and competence (cognitive power, knowledge/skills, motivation/values) match the future needs of a specific business.

In other words, strategy and structure follow peopie. This is why the ability to seek out executives whose perspectives and competencies match the future needs of the business is rapidly emerging as a critical aspect in strategic management. Rather than being viewed as identical pieces on a checkerboard, key executives should be seen as knights, rooks, or bishops in a chess game, each with different capabilities. The chess player (CEO) decides which executive to move where, depending on the strategy and business conditions. Indeed, that is the basis on which leading corporations such as Citicorp, Texas Instruments, Chase Manhattan Bank, and General Electric have for some time selected key executives. And the same trend is emerging in organizations such as Pepsico, Whirlpool Corporation, AMP, Sunoco Canada, Canadian Tire Acceptance, CRA Mining in Australia, and many others. Far from being confined to the senior executive level, the principle is equally valid throughout the organization.

What these organizations have in common is the realization that, in a world where strategic planning and implementation have become concurrent rather than sequential activities, the attributes of key executives and the way they think and make decisions will directly impact both organization strategy and structure. To become tools of strategy, CEO's, senior HR Executives and Executive Search Consultants need a more formal approach to mapping and matching specific perspectives and competencies required for key positions to the specific needs of the organization. Effective leadership just doesn't happen: it needs to be crafted and engineered.

Far from being acceptable, the common practice of trying to fill key positions by raiding direct competitors for executive talent may actually be counterproductive, because the competencies and perspectives required by a competitor may be totally different from the goals and strategies of another organization. If you are the leader in your industry do you really want to recruit a key executive and his or her mental model from your number four competitor? Sometimes you may, but the question is how to determine when it is the wrong staffing strategy.

In his research on how new general managers establish mastery and influence in their organizations, Professor John Gabarro of Harvard University found that, with few exceptions, executives in new positions tended to focus on those functional areas where they had the greatest previous experience. This was true even where, in order to succeed, the business required emphasis on a different functional area. If the executive does not adapt to shifting business conditions and fails to develop the perspectives and competencies required for the role, a previously effective leader will become ineffective.

Key executives should be seen as knights, rooks, or bishops in a chess game.

Executive Selection and The Four Business Drivers

Strategic leadership in an organization is determined by four business drivers:

- the organizational values
- the intended business strategy
- the stage of organizational development and complexity of the business
- the critical success factors

Each driver is equally important in identifying the current and future executive leadership needs of an organization that will have an impact on organizational performance.

Aligning Executive Selection and Executive Search with Organizational Values

The first driver of strategicleadership is the values of the organization. While for some. this may be "the soft stuff", more and more CEO's are using values to shape organization culture and decision making in a fast moving and unpredictable world. These values, like the lead in the keel of a sailboat, keep the organization upright in very stormy seas.

In a growing number of organizations these values are real and have become the acid test for decision making. Jack Welch has used values to bring about the revolution at GE over the last ten years. Robert Haas, Chairman of Levi Strauss has used their " Aspiration Statement" as a way of creating a culture that has resulted in a five fold increase in profits over seven years. At Hewlett Packard, they have "the HP Way", and so on. For these companies the values component is an explicit measure of that elusive "Executive Fit".

The implications for executive staffing are quite simple. If the organization is performing well and the values and culture support the performance, then any executive brought in from the outside must live these values. Like open heart surgery. the body will reject the new heart if there is not a good fit. In some cases the values and beliefs need to be changed. Companies like IBM, Kodak and Westinghouse, where they had a "promote from within" value system, have for the first time have gone outside for a new CEO. These new CEO's have stated that they will bring in additional outsiders as tools for renewal and culture change.

Aligning Executive Selection and Executive Search with the Intended Strategy

Researchers have laid the foundation for linking specific competencies to specific strategies. For example, in a study of 58 strategic business units (SBU's) engaged in a build strategy, improved SBU performance was directly correlated to the general managers' greater marketing and sales competence. a greater willingness to take risks, and a greater tolerance for ambiguity. Significantly, these same competencies hampered performance in a "harvest" strategy.

To evaluate the need for an inside or outside successor, the board of directors or corporate management team needs to achieve consensus on the direction of the business and the strategic options they are prepared to support. Failure to reach such a consensus risks hiring a key executive whose perspectives and competencies may result in a strategic direction that is unacceptable. For example, Alcoa Corporation and Addressograph-Multigraph both removed CEOs because the boards would not support the strategies of CEOs whom they themselves had selected only four years before.

New perspectives, new competencies, and lack of ties to previous organizational decisions and commitments explain, at least in part, the redirection of a business with a CEO hired from the outside. Using a random sample of 200 firms chosen from the Fortune 1000, researchers concluded that executive origin has a dramatic impact on strategy redirection. On average, firms managed by presidents, CEOs, and COOs hired from outside the organization exhibited twice as much change in their core business through acquisition, divestiture, and investment in new products than did firms managed by inside executives. In a five-year study of CEO succession in 86 Fortune 1000 manufacturing firms, those firms that recruited a CEO from the outside had a 21% increase in total revenues coming from non-core businesses as compared to a 7% increase where CEOs were promoted from within.

Forty years of research by Dr. Elliott Jaques has found that the cognitive capacity or critical thinking skills of a key executive will directly impact organization strategy and structure. Jaques' research has found that the complexity of work at each specific level in the organization structure can be measured by the time-span for planning and decision making. These time-spans define a natural order for organizations called a Stratified Structure.

The higher the role is in the organization the longer the time-span. The longer the time-span. the greater the complexity of the work, and the corresponding changes to critical thinking required to perform effectively in the role. If a President's cognitive capacity is significantly greater than the role, s/he will grow the business rapidly. If it is less than the role, s/he will shrink the business over time.

Clearly it is not enough for the executive selection and executive search process to begin simply by identifying a pool of potential candidates with the same title as the open position. Instead, the executive staffing process must start with an assessment of acceptable strategy options and the translation of those options into executive perspectives and competencies against which candidates will be evaluated and measured. This competency framework is the critical link between intended strategy, succession planning, and executive search. As such, it directly enhances organizational performance.

If the president's cognitive capacity is significantly greater than the role, the business will grow-rapidly.

Aligning Executive Selection and Executive Search with the Stage of Organizational Development and Complexity

Hiring a new Business Unit President, or functional Director is also critical to organization development, learning and renewal. As organizations grow or shrink, they pass through various threshholds of complexity. As the level of formal systems and controls increases. an organization may transcend through numerous stages including: start-up. professionalization, balanced growth. maturity, restructure/turnaround. early bureaucracy and possibly death.

In situations where a business is mature, restructuring. or declining. top managers who have been with the organization for a number of years may be slow to react to the changing environment. Prior commitments to individuals. organizational structures, compensation systems. and capital allocation may stand in the way of making change.

On the other hand, hiring a new key executive from the outside can be a lever and accelerator for change and organizational learning in moving to the next stage of development. The removal of a key executive is a critical way in which organizations terminate past procedures, past commitments. and past strategies and prepare for new learning. If an assessment of a current key executive's perspectives and competencies identifies large gaps with regard to the future direction of the organization, then the executive will need to be replaced, or the strategic direction will need to be reconsidered. This appears to have been the case recently at such organizations as IBM, Westinghouse and Kodak.

Research studies show that executives recruited from outside the organization can play critical roles in increasing return on investment in both the growth and declining stages. This research indicates that growth companies that recruited 20% of their top three levels from outside exceeded their expected return on investment (ROI) by 10%. Those that relied on inside talent fell short by 10%. Declining businesses that recruited 20% of their top management from the outside exceeded expected ROI by 20%. Declining companies with a low proportion of top executives brought in from the outside in the last three years fell short of their ROI objectives by 5%.

However, a word of caution is in order. A senior executive recruited from outside may have the right knowledge/skills for the intended strategy but still be an inappropriate candidate. Without the motivation/values and cognitive power required to mesh with the stage of development and complexity of the business, an otherwise skilled executive is a high-risk hire. This is especially true for senior executives from large, over-controlled organizations who are being considered as candidates for smaller, more hands-on, fast-paced, entrepreneurial organizations, with fewer layers and formal systems and controls.

Aligning Executive Selection and Executive Search with the "Critical Success Factors"

In order to allocate resources effectively and translate key business issues into day- to-day decision making, the critical success factors of the business must be identified.

Critical success factors are those operational activities and objectives that must be accomplished for a given business to succeed. Everything else is secondary. Understanding these success factors, how they can be changed, and how they fit into the business delivery system and value chain is fundamental to mapping executive competencies in order to create a competitive advantage.

Every business has critical success factors. Typical examples might be : an effective distribution and marketing system at Frito-Lay or Coke; a world-class research and development capability at Merck, Glaxo or Intel; creative advertising and promotion at Proctor & Gamble or Nike; efficient and quality driven manufacturing at Emerson Electric, Matushita, and Ford; and outstanding customer service at SAS Airlines and IBM.

The critical success factors provide the operational framework for linking the most critical operational activities with key executive activities. These executive activities and the way they are expected to change are then synchronized to those executive perspectives and competencies required for succeeding in a specific business over time. These same competencies map the executive experiences most appropriate for specific business conditions and ultimately for improved organizational performance.

To Get a Good Night's Sleep

In an era of increased competition, technological breakthroughs, and constant, rapid change, the search for executive talent should focus on finding and developing executives who would bring the appropriate perspectives and competencies based upon the four drivers of leadership. New thinking and new assessment techniques for executive staffing are required if executive selection is truly to become a lever for strategy. The executive search paradigm of recruiting from a direct competitor needs to be rethought. To enhance organizational performance, executive search needs to return to its roots having been born in the major strategy consulting firms.

New thinking and new executive assessment techniques are required to have strategic impact..

Choosing a key executive is not an easy task due to the complex nature of executive work and executive behavior. Executive work changes as the four drivers change. New executive assessment methodologies have emerged in the last few years that can assist the CEO in minimizing the risks in choosing the wrong executive. Structured Behavior Interviewing (SBI) and Conceptual Capacity Assessment (CCA) can provide an in-depth understanding of the competencies and perspectives embodied in an executive and how they exhibit these capabilities in performing executive work. It is the alignment of the executive assessment process with executive work and the four drivers of leadership that directly impact organizational performance. CEO's are cautioned against using simple personality assessment tools for what is a complex assessment of leadership capability that needs to be aligned with the four drivers we have described.

The challenge for the CEO, senior HR Executive and Executive Search Consultant is to map and match the executive perspectives and competencies of a role, to provide a framework in identifying the breadth of the possible talent pool. The search for executive talent can then be appropriately targeted: either inside and outside the organization; or inside and outside the industry; or inside and outside the country. Candidates should then be assessed against the specific perspectives and competencies that are synchronized with the four drivers.

To put these concepts into practice CEO's need to do three things. First, they must examine their organization's future executive resource needs within the context of the key drivers discussed. Second, those individuals in an executive hiring authority should rid themselves of the assumption that recruiting a key executive from a direct competitor or promoting from within the organization is necessarily an appropriate staffing strategy. Third, the CEO must become more demanding. Rather than perpetuating old approaches to recruiting, succession planning and promoting senior executives, it is important to recognize that the executive staffing function requires new approaches and new assessment techniques.

To do so will result in the right leaders with the right perspectives and competencies selected -for key roles that have strategic impact on organization performance and provide the CEO with a good night's sleep.