

# PART ONE

## **The Challenge**

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# Navigating the Perfect Storm

## Complexity, Diversity, and Uncertainty

**I**T STARTED LIKE ALL STORMS—THE BREEZE BEGAN TO PICK UP, but people didn't notice it right away. Then as technology made home computers and more efficient work systems a reality, people sensed that something was in the air. Everyone began talking about how these new inventions would reduce costs and allow people to enjoy life more with less effort.

As technology's impact grew stronger, it generated waves of new information, access to new markets, and the ability to incorporate diverse views and interests when making decisions. People grew excited about these changes because things seemed to be coming together—integrated solutions, integrated organizations, global perspectives combined with local needs—all addressed simultaneously in increasing detail through integrated technology.

But sometime around the turn of the twenty-first century, the speed of technology joined with the increased diversity of perspectives and possibilities, and the climate became highly uncertain. Old assumptions about business began to be swept away, new voices entered the discussion, and leaders began to feel challenged and worried.

Suddenly, even the most accomplished leaders became uncertain about how to lead in this volatile, unpredictable environment.

The metaphor of a perfect storm captures the current environment perfectly. We are witnessing the rare convergence of complexity and diversity, a convergence that challenges all our leadership assumptions. Imagine leaders as captains steering ships through this perfect storm. The old charts are outdated, and even the smartest strategists have not yet been able to adequately map a new world. Every time someone conducts a study of the new territory, the storm starts shoaling the terrain and changing the navigation lanes. As fast as leaders develop new strategies, powerful external forces render them obsolete.

In such times, leaders need to rely on their own beliefs and instincts, and on those of their people. During a perfect storm, things move too fast amid too much chaos to permit long periods of study and deliberation. Like the best captains trying to keep their ships afloat during the fiercest storms, leaders have to depend on what they know to be true. They also have to depend on the advice and suggestions of others. Judgment can be skewed when things get rough and it's impossible to see any blue sky ahead. In these difficult moments, leaders must lean on a range of advisers and then make their decisions. This is true not just for a day or two, but for weeks, months, and even years, since the storm shows no sign of abating. Even though goals may change and directions shift, leaders must keep moving.

These are not times for average leaders or for those who cannot appreciate and use the skills of all their key people. If this perfect storm is to be navigated, it will take whole leaders who use their full potential to move the enterprise through an enormously complex, diverse, and uncertain era.

## TRANSLATING METAPHOR INTO META-CHALLENGES

Leaders now confront huge challenges that must somehow be understood and acted upon. As formidable as these challenges might be during normal times, during a perfect storm they appear insurmountable. They're not, but that's not to deny how confusing they are when you can't get your bearings. Consider these very real scenarios, which senior executives we know have recently faced:

- You would like to charter a new team to look at business prospects in an emerging market. None of your direct reports have lived or

worked extensively outside your home country, but your growth projections for emerging markets next year are expected to triple.

- You have been asked by colleagues in another sector of your company to work together to develop a global franchise of products that will cut across country business units. You wonder if getting involved in such an intangible project is wise, given the daunting numbers you must achieve by year-end and the amount of effort that will be required to get country managers on board.
- Your top team of analysts is proposing a business idea to sell a new type of financing to accompany your major product line. The underlying debt will be repackaged and sold to various investors and financial institutions. You're familiar with business finance but don't fully understand the debt structure and degree of risk. However, you have watched your competitors make huge profits by offering financing to their customers and you have confidence in the "quants" proposing this product. Do you follow the herd and, if so, how much of your own balance sheet are you willing to commit? What is your appetite for risk?
- You are preparing next year's business plan, and your strategic planning group is unable to predict with any degree of precision the price of commodities for the next twelve months.
- You want to visit some key customers who have called to complain about the lack of innovation in your product offerings. You open your electronic calendar and realize that every hour of every day is scheduled for the next three months.
- You work in a regulated industry and are leading a task force reviewing clinical trials of a future product offering. The clinical results are ambiguous. Sponsoring additional trials will cost millions of dollars and cause months if not years of delay before introducing the new product, which may generate millions in new revenue. However, product liability could also create years of litigation.

These are simple, even simplistic, examples of the types of challenges leaders face every day in dealing with complexity, diversity, and uncertainty. But they are real and capture the dilemmas of

leading in modern companies. The perfect storm is here. The extent to which leaders are able to meet these new challenges will determine whether they (and their companies) survive, much less succeed.

## A VIEW FROM THE BRIDGE: WATCHING COMPLEXITY, DIVERSITY, AND UNCERTAINTY IN ACTION

We have served as business advisers to CEOs and boards on issues of talent and leadership for many years in many companies and in many countries. We have built one of the premier firms for educating senior executives outside business schools; every week, around the world, we work closely with CEOs, executive teams, and individual leaders. We have had the privilege of working with some of the best leaders in some of the best companies, including Nike, Johnson & Johnson, Avon, Colgate-Palmolive, Fidelity, Doosan, Merck, Novartis, and many others. We routinely hear that the intersection of technology, media, regulatory bodies, shareholder activism, politics, people, and competition has created a dynamic playing field with almost unfathomable risk and uncertain opportunity. Everywhere leaders are saying the same thing: The complexity, diversity, and uncertainty of their world have increased, and their leadership ability is not keeping pace.

The *complexity* of issues faced by leaders at each level of every company today is significant. More information, more opinions, more connectedness, and more options have made understanding what is going on difficult; it is even more difficult to make decisions, often quickly, about matters that you don't understand. Organizations now comprise multiple reporting relationships, often in far-flung geographies, that all require numerous inputs before decisions can be made. New information appears daily—even hourly—over the Internet. Customers, competitors, and partners often overlap, and loyalties are often unclear.

As a result, many leaders feel trapped and sometimes overwhelmed by complexity. They try to figure it out by increasing the amount of information they digest each day, or holding more meetings, or reading and responding to all the e-mail they receive. They search for decision tools, time-saving approaches, and new ways to organize

themselves. They recognize the leader's job is to sort through complexity, but are unclear how to read the ever-changing environment.

Complexity multiplies upon itself. Organizations, information, markets, globalization, and people all come together to confuse and confound many leaders today. More than one leader has told us, "I try to focus on the high-priority, high-payoff activities." But this usually means sacrificing the long term in favor of the short term—in effect, giving up efforts to find a map through the storm and concentrating on getting to the nearest shore.

For leaders, the world has become flatter, faster, more interdependent, and riskier. Regulatory decisions in one country now spread worldwide. The outcomes of clinical trials in China now influence regulatory approvals in the United States. Consumer reactions to product introductions are now instantly global. Financial decisions made in one country by one company—and even one leader—can shake the global financial system. Large corporations such as Bear Stearns, Countrywide, Lehman Brothers, Merrill Lynch, Arthur Andersen, and (as everyone knows) Enron, can disappear overnight as a result of a few wrong decisions. Brands that have enjoyed trust and allegiance for decades can be eroded instantly by the actions of a few people. In the face of increasing complexity, is it any wonder leaders tread more carefully as they assess their choices?

But what feels like a trap is really a paradox, and there is an important difference. For example, no one disputes the importance of knowledge—but too much knowledge can be a bad thing. Most leaders look for the "sweet spot" between making problems overly complex by analyzing them to death and overly simple by ignoring critical facts that can tilt a decision in one direction or another. We'll talk a lot about understanding paradox as a tool for managing complexity, because facing a range of conflicting choices is often what drives the perception of complexity.

No one will argue that the diversity of people—diverse in terms of their backgrounds, values, and cultures—has increased exponentially and also presents a challenging piece of the new leadership environment. Because of globalization, immigration, and, yes, technology, diversity has become a priority for every company and leadership team. Leaders who fail to acknowledge and capitalize on the increasing differences among their employees, customers, and markets run the risk of losing touch with these key stakeholders.

Changing consumer tastes, widening generation gaps, and intensifying cultural differences, accompanied by proliferating product and service choices, create daunting diversity and complexity.

Most leaders have never had to operate in such a complexly diverse and diversely complex environment. Just consider one issue to glimpse the magnitude of the problems (and opportunities) for leaders. Immediate access to information through multiple channels has put the power of choice in the hands of consumers, customers, clients, and patients, placing extraordinary pressure on leaders to truly understand their needs at a deep level. Companies such as Nike, Kraft, Harley-Davidson, and Colgate are all focusing on developing markets as an important source of growth. However, simply exporting U.S. products and marketing to developing countries does not do the job. Leaders in these companies are working hard to see the world through the eyes of their diverse new consumers. We take senior leaders in our action learning programs to India, China, Vietnam, and Brazil and immerse them in the lives of their future customers—sitting on the beds in one-room huts to understand the daily routines and grasp the hopes and dreams of the people they hope to serve. Diversity today is mastering the art of walking a mile in someone else's shoes—someone with whom you have little in common—so you can adapt to their expectations and appreciate their strengths—or else prepare to be overtaken by competitors in emerging markets who will soon be expanding into the developed world. Diversity is both an urgent challenge and an urgent opportunity.

Leaders tell us constantly about the challenge of taking action in the face of *uncertainty*. Or, more specifically, they complain about the difficulty of doing so. The world is becoming a less predictable place, but the demand for action in the face of uncertainty is unrelenting. One executive recently said that in his job, complexity creates uncertainty. While the overall amount of information is increasing, he must make highly complex decisions based on less information than he's used to having. Because the speed of change has increased exponentially, he lacks the time to agonize about what he doesn't know. As he put it: "All you can ask is whether you're missing something that is available." At that point you have to rely on your personal beliefs, values, and sense of purpose to move forward. Otherwise, you will be left standing on the sidelines while your customers, competitors, stakeholders, and employees move on.

One aspect of uncertainty for all leaders, whether they realize it or not, is the intersection of climate change, oil prices, environmental concern, and alternative energy, which may impact every business model of every company throughout the world. In *Flat, Hot and Crowded*, Thomas Friedman points out that destabilizing climate change and competition for energy will soon affect everyone—especially companies seeking energy, transporting products, and producing waste—and will forever change how business is conducted. Friedman also points out, however, that the opportunities created by the demand for alternative energy will be as significant as those of the information revolution.

The other aspect of uncertainty for leaders today is the global financial and credit system, which has absorbed significant shocks recently, consolidated in the aftermath of many bank failures, and faces a period of regulation, conservative decision making, and credit tightening likely to last for years. The global credit crisis, which began with sub-prime lending in the United States, has demonstrated that the financial system, including derivatives, hedge funds, collateralized debt, currency trading, and energy speculation is now fully global, not very transparent, and extends around the world. The business plan of a leader in Iowa to acquire a competitor in Denmark is subject to disruption by the lending practices of a bank in New York with a creditor in Thailand. Of course, no leader can be expected to track all this interdependency, but the resulting complexity is a structural factor that creates insecurity and more uncertainty today than ever before.

## THE WHOLE LEADERSHIP IMPERATIVE

We work with many global companies to prepare their leaders for the future. The first step is to define what successful leaders will look like. Here's what one of our Fortune 100 clients expects its successful executives to be able to do:

- Find continued sources of innovation and growth with an emphasis on emerging markets.
- Navigate through a set of complex external legal challenges, regulatory hurdles, media onslaughts, and policy threats.

- Demonstrate resiliency in the face of uncertain challenges.
- Be accepted by employees as a reputable steward of the firm.
- Represent the company externally and be its credible public face to multiple stakeholders.
- Display the will and physical energy to do the job.

It's a long list, but this description is not unique given the future environment most companies anticipate, and it acknowledges that complexity, diversity, and uncertainty will be the ongoing context for leading. Given the increasing demands on organizations and those who lead them, becoming a "whole leader" will be critical to navigating this perfect storm.

We've watched successful leaders manage this new environment, from companies as diverse as BP, Nike, Novartis, Doosan, Fidelity, and many others. Many of their stories are contained in the following pages. One lesson emerges as a starting point: *you can't break down complexity, diversity, and uncertainty into piece parts and manage each separately*. Too often, we see top business executives attempting to solve problems or seize opportunities using only their head . . . or heart . . . or guts. We've learned that no matter how smart you are, you can't outthink every problem; that no matter how empathic you are, your people skills will be ineffective in certain situations; that no matter how quick you are to roll the dice and take action, getting the wrong things done will not help the business.

As a leader you must bring it all together by bringing yourself together. You must use your head to anticipate, understand, analyze, and respond to new strategic directions, your heart to see the world from the perspective of a diverse range of stakeholders, and your guts to make tough decisions based on clear values. This is a simple description of "whole leadership," and one companies such as Bank of America, Kraft, KPMG, Colgate, Merck, and many others are adopting because it captures in simple terms the complicated components of leading today.

Keep our metaphor in mind: A perfect storm requires leaders to possess a wide range of navigation tools. You can't lead as you have in the past. You must tap into the capacities of your head, heart, and guts as increasingly volatile and unpredictable situations dictate.

We've written this book because we see a shortage of talented leaders in most organizations to deal with the perfect storm, and we see so many companies continuing to rely on, promote, and reward one-dimensional leadership. Leaders and companies are unprepared for the spiraling technological, environmental, and global demands on leadership, which require radical rethinking of what constitutes effective leadership and how to produce it.

In the next chapter, we present what we mean by complexity, diversity, and uncertainty. Subsequent chapters describe the how-to when it comes to navigating the storm. At the end, we provide ways you can develop yourself, build your team, and lead your company through the tumult and confusion ahead.

The challenges that leaders face today have no easy answers, and what works for one leader may not directly apply to another. But we hope this book will give you some ideas, insights, and even tools that will help you survive and thrive in uniquely challenging times.