Chapter 1

What Is Strategic Leadership?

Imagine that you are standing on a beautiful beach, with the sand between your toes, looking out over the deep blue-green water. You feel a fresh and invigorating breeze on your face. You hear the roar of waves breaking in the distance. Every once in a while your warm feet feel the relief of cool water when a particularly strong wave makes its way up the beach.

Watching the ocean has a purpose, for you have a surfboard in hand. You've practiced at home: lying on your board in your living room and working to pop up to your feet in a quick and flowing motion. You've practiced with small waves: picking those big enough to pick you up, but not big enough to toss you over.

Now you want to try the bigger waves. You walk into the water, get on your surfboard, and paddle out to where the waves are breaking. The wind is strong today, and the waves are big. As you reach what appears to be the best spot, waves are crashing around you, and you are tossed about in the water. You try to catch a wave, turning the nose of your surfboard toward the beach and popping up to your feet on the board, but your timing is off and you find yourself back in the water with the wave and your surfboard crashing over you. You try again, and this time you make it to your feet, but as you stand up, you lose your balance and fall. You try again but are unable to catch the next wave as it rapidly passes by you. Attempt after attempt is met with sour results. You try to figure out what is going wrong, but waves are passing you by and your day of beautiful surfing is turning into a day of frustration.

Paddling back to shore, you are not sure what you did wrong, but you hope that the next time will produce a different result.

Now imagine yourself at work. You've worked hard for a number of years and have been rewarded with several promotions. But you've recently learned from your boss that while the organization values your operational leadership skills, people do not view you as a strategic leader. You asked your boss what that means, only to receive a long and confusing reply without any specifics. Just as it's difficult to learn to surf when you don't know what you're doing wrong, it's also difficult to become strategic when you don't understand how you are not that way now and no one can tell you what to do differently.

Increasingly organizations are calling on people at all levels to be strategic. Even if you have not heard that you need to be more strategic, we bet you can think of others with whom you work who need to develop their strategic capabilities. However, the path to that end is neither clear nor well defined. In some ways, it may feel a bit like learning to surf. You find yourself in the middle of chaos, business issues and initiatives swirling all around you like waves. You're not quite sure which one calls for your best energies (which waves to catch), and even if you pick one, you might not be able to find your balance and ride it to a satisfactory conclusion.

Our intent in this book is to help you become strategic. We also intend to help you help others throughout your organization become more strategic and help teams with strategic responsibilities to meet those demands more effectively. In this chapter, we lay a foundation and explore the nature of strategic leadership as we consider the following questions:

- What are the definition and focus of strategic leadership?
- How does strategic leadership differ from leadership?
- Who should be strategic?
- How is "being strategic" about making strategy?
- How is "being strategic" about making strategy come alive in the organization?

With this groundwork in place, we will turn our attention in successive chapters to the specific question of how individuals and teams exercise strategic leadership.

The Definition and Focus of Strategic Leadership

Individuals and teams enact strategic leadership when they create the direction, alignment, and commitment needed to achieve the enduring performance potential of the organization.

This statement is a real mouthful. But because it encompasses all of the critical elements of strategic leadership, we offer it as our definition. The focus of strategic leadership is the enduring performance potential of the organization—achieving the potential of the organization over time so that it will thrive in the long term. This is true whether the organization is for profit or nonprofit, governmental or nongovernmental. It depends only on whether your organization seeks and achieves enduring capabilities that provide distinctive value to stakeholders over the long term in whatever sector your organization operates or whatever bottom line you are measured by.

Later in this chapter, we discuss the strategy process in more detail and how to use it to help achieve enduring performance potential. We begin by considering two organizations that demonstrate the difference between an organization that achieves enduring performance potential and one that did not achieve that potential: IBM and Digital Equipment Corporation (DEC). Both companies faced challenges over the course of many years but navigated those differently and with different enduring results. IBM was founded in 1911 as the Computing Tabulating Recording Company, and in 2012 it was ranked the ninth most profitable company based in the United States ("Fortune's 20 Most Profitable Companies," 2012). DEC was founded in 1957 and ceased to exist after being acquired by Compaq in 1998. We focus on a particularly turbulent time in the industry: the 1990s.

IBM: A Strategy Story

In 1993, many experts in the technology industries had concluded that IBM was inching toward its last days as an organization. Although the company had its most profitable year in 1990, the early 1990s saw big changes in the world of computers. Smaller, more nimble companies were innovating their way into the hearts of consumers and businesses, and the traditional big computers that IBM produced were seen as outdated, old technology. IBM stock had dropped from its 1987 high of forty-three dollars a share to less than thirteen dollars a share at the end of the first quarter of 1993 (Gerstner, 2002). Lou Gerstner joined IBM as its CEO in April 1993. IBM was on the verge of being split into autonomous business units when Gerstner arrived, a move that would have dissolved the organization that had long been a computer industry icon.

Gerstner chose a different path for the company. He kept the company together and took critical and bold steps not only to keep the company alive but to revitalize it to the point where it again led the industry. Most notably, Gerstner adopted a new strategy that moved the company from a product-driven approach to a service-driven approach. This was no easy task. It required a complete retooling of the people, processes, and systems in the organization. But the work paid off, and IBM's stock rose every year except one until Gerstner retired early in 2002.

IBM continues on the path of constant retooling among segments and markets served. According to its website, in 2000, 35 percent of its pretax income came from hardware/financing, 38 percent from services, and 27 percent from software. By 2012, that distribution had shifted to 14 percent from hardware/financing, 41 percent from services, and 45 percent from software. Software alone is expected to bring in 50 percent of segment profit by 2015. Similar changes are being made regarding the geographic reach and scale. In the year 2000, 11 percent of revenue came from growth markets. In 2012, that figure was 24 percent, and it is expected to be 30 percent by 2015. Clearly IBM continues to identify and execute changes needed to perform as the industry shifts and grows.

Digital Equipment Corporation: A Strategy Story

Contrast IBM's story with the story of one of its key competitors, Digital Equipment Corporation (2004). Ken Olsen founded DEC in 1957 and ran the company until the 1990s, when Robert Palmer replaced him. DEC was known for several advances in the computer industry, including the first commercially viable minicomputer and the first laptop. It was also the first commercial business connected to the Internet.

With more than a hundred thousand employees, DEC was the second-largest computer company in the world at its peak in the late 1980s. But it does not exist as an organization today. With the successes of the 1980s, the company became more and more insular. Its products were well designed, but they would work only with other DEC products and so customers tended to overlook them. Olsen also believed that DEC's products, with their superior engineering, would stand alone and did not need advertising. When the new RA-90 disk drive came to market very late and several other products ran into trouble, competitors overtook the company with similar products at lower prices. DEC experienced its first layoffs in the early 1990s. The company was sold to Compaq in 1998, and then Hewlett-Packard acquired Compaq in 2002. Clearly DEC was led with great fervor during its early years, and the company was able to achieve great things. But that greatness was not sustained.

What Makes Strategic Leadership Different?

What led IBM to thrive and DEC to die? Why was IBM able to weather a very difficult storm, make necessary changes, embark on a new path, and reach success in a new way, while DEC was swallowed up by its competition? Was it just that IBM had smarter people? We know the DEC employees were smart enough to develop new technologies that pushed the technology industry forward. We also know the individuals who ran IBM before Gerstner arrived were also bright—in fact, he was taken aback by the potential and capabilities of the people he met when he arrived there: "How could such truly talented people allow themselves to get into such a morass?" (Gerstner, 2002, p. 42). Both organizations clearly had smart and capable people. So what differentiated IBM? The short answer is that effective strategic leadership—leadership focused on achieving enduring performance potential—was enacted at IBM.

When we discuss enduring performance potential as the focus of strategic leadership, some of the executives we work with ask us, "Isn't that just leadership? How are they different? If you're a good leader, aren't you, by definition, a good strategic leader?" Not necessarily. In general, leadership exists when a group of two or more people has created common direction, alignment, and commitment. However, this can happen in any context. For example, when a leader works with a direct report to structure assignments, provide resources for accomplishment, and checks on progress along the way, this is a form of leadership. The key to leadership that is strategic in nature is the context within which that leadership is occurring: it must have strategic implications for the organization. Specifically,

- Strategic leadership is broad in scope.
- The impact of strategic leadership is felt over long periods of time.
- Strategic leadership often involves significant organizational change.

Scope

The broad scope of strategic leadership means that it has impacts on areas outside the leader's own functional area and business unit—and even outside the organization. This broad scope requires seeing the organization as an interdependent and interconnected system of multiple parts, where decisions in one area provoke actions in other areas. The waves in our surfer's ocean provide an analogy: as each wave crashes to the surface, it disturbs the water, which moves in reaction to the falling wave. External forces such as the wind also affect the waves. In the same way, the scope of strategic leadership extends beyond the organization, acting on and reacting to trends and issues in the environment.

The scope of leadership does not necessarily extend this far. For example, a person who facilitates the decision-making process of a group demonstrates effective leadership even if the decision is small in scope, such as assigning group members to parts of a project.

Duration

Like its scope, the time horizon of strategic leadership is also far reaching. The strategic leader must keep long-term goals in mind while working to achieve short-term objectives. Nearly half a millennium ago, the Japanese military leader Miyamoto Musashi said, "In strategy, it is important to see distant things as if they were close and to take a distanced view of close things" (Advice on Strategy, n.d.). His apt observation describes the tension between short-term and long-term perspectives that strategic leaders must balance.

Many of our Leading Strategically program executives feel a tremendous pressure to make short-term numbers. In fact, it is the most frequently mentioned issue when we ask them to define the major personal challenge to their becoming strategic leaders. One executive characterized the challenge as "balancing current operational needs versus looking at the long-term perspective of growth and development of our staff and business practice." Another said, "I need to let go of the busy day-to-day activities and spend more time thinking about the future." In our experience, such executives have typically risen through the ranks by being rewarded for their strong operational leadership—their ability to fight the daily fires and come out ahead. In fact, one executive commented that he was so good at fighting fires that he sometimes created them just so that he could fight them! When a person has developed such strength in a particular area, it is very difficult for him or her to shift focus and do something different.

Lou Gerstner provides a potent example of someone who was able to make a decision for the long run, even though it clearly had negative short-term implications. When he took over IBM in 1993, the company was bleeding cash. Mainframe revenue had fallen from $13 billion in 1990 to around $7 billion in 1993, and competitors were slashing mainframe prices to levels significantly below the prices of IBM products. Customers were asking IBM to do the same, so keeping prices above the competition ran the long-term risk of losing key customers. However, cutting prices would threaten IBM's cash position even further in the short term. Gerstner (2002) chose to slash prices, and he believes this was one of the key decisions to saving IBM.

In contrast, not all leadership requires this forward view to be effective. Very good operational leaders manage day-to-day functions effectively and are skilled at working with people to ensure that short-term objectives are met. This is important work, but it does not always need to take the long term into account.

Organizational Change

In order to achieve enduring performance potential, organizations need to undergo periodic transformation, and therefore strategic leadership requires successfully navigating and leading these changes. To the extent that strategy involves interconnected patterns of choices throughout the business, strategic transformation requires a shift in these interconnected patterns, and this is complex and multifaceted.

The shift IBM made from a product company to a service company is one potent example. But there are others as well that may not involve the entire organization. Consider the strategic impact of a new compensation system that touches all parts of the organization, provides a structure for defining differences in roles and appropriate salary ranges, and ties performance plans and measures to the strategic objectives of the organization, giving people a clear understanding of what is required to advance along various career ladders. The human resources team that designed and implemented this system, replacing one that included no common understanding of appropriate salary ranges for roles, criteria for raises, and career progression, exercised genuine strategic leadership.

Effective leadership does not necessarily institute significant organizational change. For example, leading a team to complete a recurring task, such as closing out the organization's quarterly books, requires effective leadership but does not create significant change.

A final example of leadership that does not have strategic implications is leading a team to complete a task that is not strategic in nature. A team assigned to open up a new retail outlet store in a global company that has thousands of such stores worldwide is a case in point. The team may consist of several members whose collective goal is to open the new store in a timely and effective way. Such a setup team will move from one store opening to the next. Although this work is absolutely critical to the successful implementation of the organization's overall strategy, it is not in and of itself strategic in nature. The scope and time frame are not far-reaching, nor does this work involve significant organizational change. However, if members of this team work with others to review the distribution of stores across the world, understand trends among consumers, and create plans for new store openings and closures, then that work would have strategic implications.

Who Should Be Strategic?

Consider the case of Dennie Welsh. Does his name sound familiar? Probably not. In 1993, Dennie was running the Integrated Systems

Services Corporation of IBM, that is, the services and network operations in the United States. While the fact that he was running a unit within IBM may sound big, his role was relatively small given the size and structure of IBM at the time. As Lou Gerstner indicates in *Who Says Elephants Can't Dance?* "[This part of the organization was] a promising but minor part of IBM's portfolio. In fact, it wasn't even a stand-alone business in IBM. It was a sub-unit of the sales force" (2002, p. 129). So Dennie was not exactly a top manager within IBM.

Yet in many ways, Dennie can be credited with the major shift in IBM's strategy from a product company to a service company. Here is an excerpt from Gerstner's book in which he describes a meeting with Dennie:

> It was our first private meeting, but he didn't waste much time on small talk. He told me that his vision of a services company was not one that did just IBM product maintenance and strung together computer codes for customers. He envisioned a company that would literally take over and act on behalf of the customers in all aspects of information technology—from building systems to defining architectures to actually managing the computers and running them for the customers.
>
> My mind was afire. Not only was he describing something I'd wanted when I was a customer (for example, I had tried unsuccessfully to outsource the running of RJR Nabisco's data centers), but this idea meshed exactly with our strategy of integration. Here was a man who understood what customers were willing to spend money on, and he knew what that meant—not just the business potential for IBM, but the coming restructuring of the industry around solutions rather than piece parts. (pp. 129–130)

Gerstner might well have come on this idea himself given his desire to integrate the various parts of the company rather than sell them off; however, he did not need to do it himself. He had good people below him he could rely on, and he recognized the need to rely on those people. True, the CEO is ultimately responsible for choosing a path for the organization. True, the CEO often involves some team of senior management in that decision-making process. But that does not mean that these people are the only strategic leaders within an organization.

The competitive forces in today's environment require us to be as in tune with our environment as possible, and often those who are at middle and lower levels of the organization are best suited to know the customers, competitors, and industry trends. As they work to implement the strategic intent, they learn new information that informs and shapes the strategy. In this way, the lines between strategy making and strategy implementation, and the lines between planner and implementer have become blurred.

So the notion of organization as hierarchy with clear roles and responsibilities, and clear power distribution through levels, does not in fact adequately reflect the messiness of real organizations. Many people have referred to organizations as biological organisms—entities made up of interconnected and contiguous parts and self-sustaining processes. In these organisms, the power of change, influence, and leadership lies not at the top but throughout the organization and, in fact, in the connections between different parts of the organization that have the potential to be magnified and leveraged in new and different ways. In this way, we also think of achieving organization performance potential as nurturing the well-being of the organization and its inherent connections in the long run.

These are the reasons we've advocated for the notion that strategic leadership exists beyond the executive ranks. It also exists in individuals and teams throughout the organization who are close to the customer, consumer, and client and have access to data and information that are important for the long-term success of the organization. In this way, the best CEOs rely on and nurture input and insights throughout the organization to set the strategy, enact the strategy, and help in understanding how well the strategy is working. It is no wonder that more and more people throughout organizations are feeling the need to become more strategic.

The definition of strategic leadership, the ways in which is it distinguished from leadership in general, and a realization that the need for strategic leadership extends far into the organization are helpful in many ways. Yet they do not fully address the question that executives looking to develop in this area often have: What does it *really* mean to "be more strategic"?

There are at least two interpretations and approaches to this question, and both are important. First, leaders are more strategic when they are strong strategy makers, that is, when they develop effective organization strategies. Much progress has been made to help leaders understand what and how to do this, and we summarize essential components of the organization strategy process in the next section, including a discussion of areas that in our experience still need more attention and emphasis. We also illustrate the different components of the organization strategy process using the case of Netflix, a now global player in the movie and television show distribution industry.

We then address a second approach to the question: How do leaders, through their behaviors and interactions with each other, create the direction, alignment, and commitment needed to make the strategy come alive in the organization? In our experience, this is the question that receives less attention from scholars and consultants, yet it is critical: without an effective approach here, it almost does not matter how good the strategy is. This second question lies at the heart of this book.

What Do Effective Strategy Makers Do?

No question, much attention has been paid to the world of strategy over the past few decades. Leaders have been searching for answers regarding "how to be a better strategy maker" in their organization, especially as they balance the tensions inherent in a volatile, uncertain, complex, and ambiguous (VUCA) world. Investors, employees, partners, and all stakeholders are also keenly interested in the long-term viability and potential of the organization, so the need to do strategy well is something leaders feel strongly.

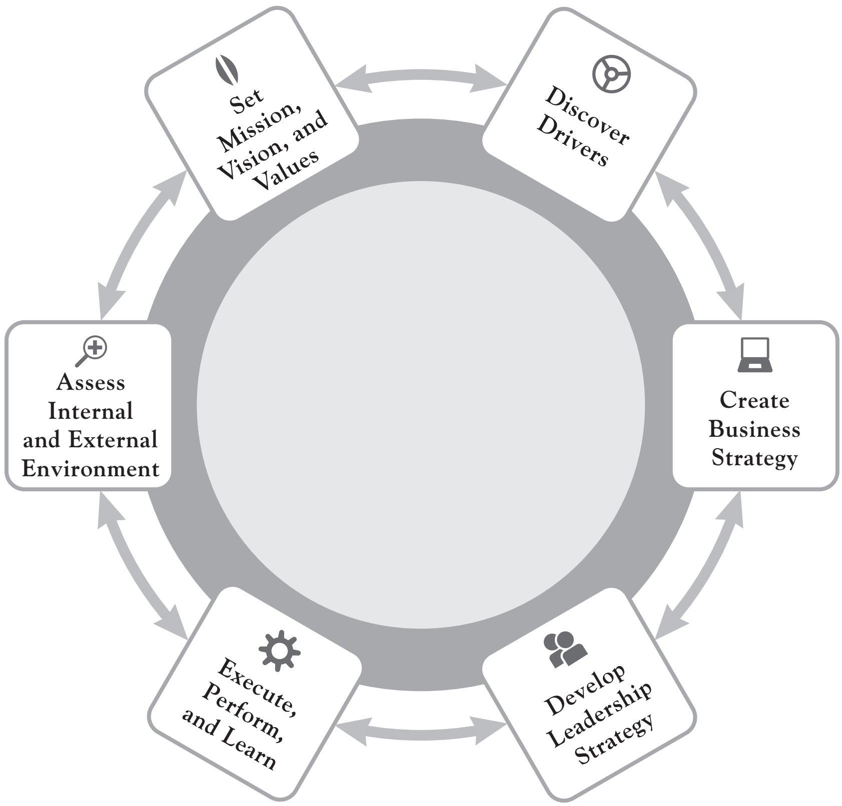
In an effort to meet this need, business schools have multiple courses on strategy, articles on strategy are plentiful in various business publications, and as of this writing, a search on Amazon.com for books using the word *strategy* returned over 142,000 results. These resources, as well as our experience with leaders striving to create strategy, have helped to highlight the "what" that must be accomplished in strategy making—that is, the elements of strategy.

While we use the term *elements*, we would not want to imply that strategy involves simply going through a list and checking off tasks that have been accomplished or questions that have been answered. In fact, strategy making involves fluid movement between and across these elements. It also involves successive iterations on them over time, such that the organization learns and enhances its capabilities in the VUCA world. In this way, the organization strategy process depicted in figure 1.1 is in fact a learning process, and leaders must enter into it with a learning orientation, including curiosity, inquiry, humility, and collaboration with others.

Strategy Is a Learning Process

We've never heard of a strategy to "keep doing everything the same." Strategy involves change, and achieving long-term performance potential in an ever-changing environment requires continuous change. The critical issue for strategic leaders is how to make changes that progressively build on each other and represent an evolving enhancement of the organization's well-being. That is, they must not just keep trying different things; although that is good, it is not enough. Rather, leaders must mine their trials for new information and knowledge that might in fact negate their strongly held opinions, and they must use this new information to guide the decisions and actions taken. In this way, they make changes that help the organization endure in the midst of a dynamic environment, not changes that sap energy and that cumulatively don't reflect developing capabilities and value.

Figure 1.1 The Organization Strategy Process



Imagine yourself again as the surfer we described at the beginning of this chapter. Remember how, when going for a big wave for the first time, you made changes to your approach by pointing your board in a slightly different direction, changing the timing of standing up on the board, making subtle changes to your weight distribution to keep your balance, and trying to catch waves at different points relative to their crest. But your changes had little impact because you did not understand the underlying issues that were keeping you from success. You just kept trying whatever came to mind without stopping to reflect on and learn from each of your attempts.

Leading an organization is clearly more difficult than surfing, but both require learning. Successfully achieving enduring performance potential through changes that progressively build on each other requires a learning engine that runs throughout the organization. Strategy-making and strategy-implementation processes provide the foundation for that learning engine, and strategic leadership is what drives it. Conceiving of strategy as a learning process requires a specific mind-set—a way of thinking about how to craft and implement strategy—that views successful strategy as operating in an ongoing state of formulation, implementation, reassessment, and revision. In figure 1.1, you can see those states represented in a circle with continuous arrows between them. And although the elements appear sequential, leaders and organizations in reality move around the circle in ways that are not step by step.

As we examine the different components of the organization strategy process shown in figure 1.1, we will illustrate some of the key concepts using Netflix. Netflix was founded in 1997 when Marc Randolph and Reed Hastings saw potential for a new way to approach the movie rental business. It has endured now for over fifteen years, adapting and changing as technology and the competitive landscape have changed. Netflix has moved through a major change in business model (and several smaller changes), and as of this writing, it is making yet another move to reshape itself.

Assess Internal and External Environment

The development of strategy clearly involves some level of analysis, and beginning with an assessment of internal and external factors impinging on the organization is a reasonable place to begin. Here, the work is to collect and make sense of information about the internal and external environments. The challenge in this element of strategy is to develop a collective and shared understanding of the situation (so that it is not just in one person's mind) and uncover and give focus to the tough facts in front of you. Most critical, you must understand how your organization might satisfy the critical wants and needs of your customers.

It is important to understand and gain agreement on the various external factors in play in the industry and the geographies in which the organization competes. For example, what are the economic, governmental, and social influences in a given region? What technological developments are at play? What demographic trends might be important to the industry? Who are the primary competitors? What are the factors on which they compete—for example, price, quality, service, selection, convenience?

Internally, what are the strengths and weaknesses of the organization that stack up against the customers' needs? How does capacity match demand? What are the current capabilities in the system? What are the strengths and attractiveness of the various products and services in the markets within which the organization competes? How satisfied are customers? How effective and sustainable is the current business model? Are the mind-sets of people in the organization ready for something new and different? What barriers need to be broken in order to move forward? What momentum is building?

The environment at the time of the founding of Netflix was marked by the advent of the DVD player. This new technology brought many possibilities for how digital media could be accessed inside and outside the home, and it clearly set the stage for a digital revolution. The DVD discs themselves were quite different from their predecessor, the VHS video; for example, they were easy to ship through the mail. Also at this time, the movie sales and rental industry had grown significantly, surpassing $24 billion in 2003 (Chatterjee, Carroll, & Spencer, 2010). Although the growth of DVD sales was outpacing the growth of rentals, DVD rentals were still growing. Generally, with the ticket and snack prices rising at the major movie theaters in the United States, people were turning more and more to watching movies at home on a frequent and regular basis. This type of family became the target market for Netflix.

On the competitive front, one key player was Blockbuster, which had established stores in major cities and operated under a fairly classic rental business model. People were used to going to the store, paying for their movie rental, and taking it home to watch. If by chance they returned it late, they paid a late fee. Other players were Hollywood Video and Walmart.

One final and critical environmental trend concerned the Internet. Internet retail sales were becoming more common and were growing as customers enjoyed the convenience of shopping in their homes and grew more trusting of online providers. In addition, there was the potential for future technology that could bypass physical storage devices such as the DVD, allowing direct download of films, movies, and music to various devices in one's home. This technology was still years away, but with the Internet interface for the retail aspects of the business, there was the possibility for a totally new way to distribute movies—one that Netflix intended to leverage.

Clarify Mission, Vision, and Values

Strategy is maximized when it also involves aspirational dimensions that touch the emotions of all the stakeholders involved: employees, current and future clients and customers, the general public, owners, and shareholders. Organizational mission, vision, and values are important aspirational components that create meaning and purpose for these stakeholders. These components serve to help people understand why the organization exists, how it intends to make a difference in the world, and what the important beliefs are that drive and connect the people in the organization.

These aspirational dimensions are an important part of strategy because they create a lens through which internal and external conditions are understood and evaluated; they are not derived from internal or external conditions. What is the identity of the organization? In what ways does that identity shape organization members' views of what is possible or not possible? For example, does the organization's mission suggest that certain strategies should not be considered?

Similar to the environmental assessment, a challenge in this area is developing shared understanding of these aspirational elements and the meaning they have for the organization and its stakeholders. In fact, in working to develop strategy, leaders often find that they do not have a shared vision of the future, and therefore are not even starting from the same place in strategy development. No wonder there is conflict about how to get from here to there.

The Netflix vision in its early days was fairly straightforward: to provide a premier film entertainment subscription service to a large and growing subscriber base (Chatterjee et al., 2010). Netflix was clear: it would cater to the high-volume consumer of movies who enjoyed a variety of films, especially those beyond the popular big screen titles. From the consumer's point of view, Netflix would help them get the movies they love (Keating, 2012). From the studio and producer's point of view, Netflix was a unique distributor that allowed them to bypass the larger, more expensive channels.

Discover and Prioritize Drivers

Whether or not there is a shared sense of the future, leaders frequently want to jump to defining a strategy for achieving it. In our opinion, they are missing one of the most critical components of the strategy process: an articulation and prioritization of the key strategic drivers.

Strategic drivers are those relatively few determinants of sustainable competitive advantage for a particular organization in a particular industry or competitive environment (they are also called *factors of competitive success*, *key success factors*, and *key value propositions*). These are the potential areas of investment that will have a significant impact on the organization's ability to achieve its performance potential—for example, its distribution system, global manufacturing capacity, or customer service. There are typically many possible drivers, so they must be prioritized to help to clarify where the organization's investments will be made. In this way, drivers are the levers the organization chooses to pull and the areas where they will excel. Drivers differ from outcomes, such as market share or revenue earned, but if they are done well, they should have an impact on those outcomes. Most organizations do not have more than three to five key (prioritized) strategic drivers at any one time, and these invariably represent a subset of factors on which different companies in the industry compete.

Organizations must make choices about which strategic drivers they want to invest in—and excel at—in order to differentiate themselves in their industry. The reason for identifying a relatively small number of strategic drivers for your organization is primarily to ensure that you become focused on what pattern of inherently limited investments will give you the greatest strategic leverage and competitive advantage. The challenge of identifying a relatively small number of drivers is that it forces choice: some things have to be more important than others, and consequently, they receive more organization attention and investment of time, energy, and financial resources. This challenge leads to inherent conflict and tension, and in fact may be why this part of the strategy process is frequently overlooked.

How do we know this part is frequently overlooked? Information collected from strategic leadership teams as part of CCL's Leading Strategically program indicates that it is rare for organizations to have a strategy that is discriminating (clear about what will be done and what will not be done). In addition, different surveys and polls (e.g., Beatty, 2003; Lazere, 1998) indicate that lack of a clear, well-defined strategy is a key issue. Collis and Rukstad (2008, p. 83) note, "It's a dirty little secret: Most executives cannot articulate the objective, scope, and advantage of their business in a simple statement. If they can't, neither can anyone else."

Avoiding difficult choices and refusing to focus and discriminate can lead to a "kitchen sink" strategy—one that includes a little bit of everything. The result is that people feel overcommitted and do not have a sense of what can come off their plates. In addition, a lack of common understanding about the strategy allows personal agendas to form and be pursued. Politics runs rampant as individuals try to look good against criteria that they have developed without having reached consensus across the organization that those criteria are indeed the right ones for measuring success.

Another challenge with strategic drivers is that leaders must be in a state of continuous discovery about those drivers. Several writers on strategy (e.g., Beer & Eisenstat, 2000) talk about the process of defining strategy as if a person or group of people can go into a room, talk about what their strategy should be, and as long as it is clearly defined, all should be fine. The word *define* implies that we can sit back and determine what drivers and strategy are best for us. Many writers (e.g., Treacy & Wiersema, 1995) have even gone so far as to define a limited number of categories of drivers and strategies—for example, product innovation, customer intimacy, and operational effectiveness—and declare that the work of leadership is to determine which one is right for the organization.

Instead, crafting strategy is more of a discovery process than it is a determination process or a process of choosing among a limited set of possibilities. It involves discovering the few key things—strategic drivers—the organization needs to do well and can do well to differentiate it in its industry. In *Good to Great*, Jim Collins (2001) describes this process as coming to understand the "hedgehog principle," a term based on the Isaiah Berlin essay "The Hedgehog and the Fox." Berlin divided the world into foxes, which "know many things" and see the complexity of situations and create different strategies to deal with that complexity, and hedgehogs, which "know one big thing." In this way "hedgehogs" in organizations simplify the complexity of the world into one unifying concept that fosters clear direction and alignment.

Collins also found that both good and great companies had strategies. However, while the good companies set theirs from bravado, the great companies set theirs from understanding. He summed up his findings with this statement: "A Hedgehog Concept is not a goal to be the best, a strategy to be the best, an intention to be the best, a plan to be the best. It is an *understanding* of what you *can* be the best at. The distinction is absolutely crucial" (p. 98). Collins (2001) notes that coming to an understanding of the hedgehog concept is an iterative process that takes four years on average. Bravado, however, can happen instantaneously. Perhaps that is why it is so appealing.

This discovery process is modeled week after week in our Leading Strategically program. We use a business simulation where executives run a company called Hawley-Garcia. In the simulation, participants have use of a computer model to simulate five years of operations at the company. Over the course of those years, their articulation of the drivers and strategy of Hawley-Garcia changes as they come to a deeper understanding of the industry dynamics and their company's position in that industry. For example, early on, one regional group articulated key points of its strategy as follows: "Maintain market share in the home market. Leverage alliances to become a leader in specialty tools." This statement suggests that *alliances* is the area of focused investment, and therefore the driver. *Market share* is the outcome or goal.

As their understanding deepened, they changed how they articulated their drivers and strategy: "Increase capacity and quality of manufacturing lines to support growth in high-end product lines while investing in research and development to support innovation." Here, *capacity, quality*, and *research and development* are drivers. More important, the two statements reflect profoundly different things. The first was essentially set through bravado—putting a stake in the ground with little understanding. The second evolved as they studied their industry, the key drivers in their region, and their region's role in the company overall. It represents a much more informed articulation of drivers and strategy.

In the early days of Netflix, video rental companies were competing in a number of ways. For example, in 2003 Blockbuster had clearly established itself with its nearly nine thousand stores that were conveniently located in large population areas (Keating, 2012). Since its inception, its leaders had chosen to focus on big-name movies that would be popular because of their marketing and recent release. Walmart continued to play in its niche: price leader.

Netflix chose a slightly different set of drivers: convenience through technology and selection. For this company, convenience was defined as the use of the Internet to order movies from home, with an interface that was intuitive and easy to use. Selection involved a focus on older, harder-to-find films. A sophisticated recommendation engine brought technology and selection together in a unique way that allowed customers to find movies they could not otherwise easily access.

In the early 2000s Blockbuster began to notice the impact Netflix was having on its business, and its executives decided to embark on an online offering. They surmised that the unique value they could bring is the combination of stores and online service: customers could easily access both. The challenge, however, is that they struggled to win people inside Blockbuster over to this strategy. In fact, two camps formed within the company (Keating, 2012): those who believed in the need to experiment with this new business model and those who believed it detracted from the work of maximizing the in-store experience. There were many such initiatives under way then, including experimenting with video games and trading programs. How could Blockbuster do all of these things?

This lack of prioritization and choice meant that the online work at Blockbuster was significantly underfunded for some time, and it also resulted in not really attacking the work of maximizing the integration between the stores and the online channel. In fact, leaders kept them separate so as not to cause more disruption. It wasn't until 2006 that Blockbuster introduced a promotion that leveraged the integration between the two, and at this point, it had a serious impact on Netflix's new subscriber rates (Keating, 2012).

Create Business Strategy

To the extent that drivers are agreed on and prioritized, business strategy will flow. *Business strategy* is the pattern of choices an organization makes to position itself for superior performance over time. It should clearly reflect the drivers and the organization's unique manifestation of those drivers.

Strategy involves a pattern of choices reflected in different parts of the business—that is, the choices are *coherent* throughout the organization. For example, if being a high-quality provider is a critical element of an organization's strategy (i.e., quality is a driver), then investments related to quality would be visible wherever you look: product design would include high-end features, manufacturing would ensure consistent production, customer service would be fully staffed with highly capable and knowledgeable people, the sales force would ensure a personal touch with customers, and so on.

In addition, strategy involves a series of choices. In order to dedicate more money to quality, the organization purposefully spends less money elsewhere. For example, it may realize that mass advertising does not play a role in its success, and so it limits expenditures there. These choices, of course, are related to the prioritization of drivers.

At Netflix, several strategies were enacted to address the drivers of selection and convenience. For example, Hastings and his team put significant energy into building relationships with various film studios and distributors. Whereas Blockbuster focused on recent big-name movies, Netflix found a niche in creating access to a wide range of films. It had unique relationships with independent film studios in particular—those that could not afford distribution through the typical channels (Chatterjee et al., 2010).

Netflix also leveraged the power of the Internet and the online shopping experience to create an entirely new way of providing selection and convenience. Specifically, it developed CineMatch, a powerful tool that assesses decisions each customer makes regarding films he or she chooses and watches for patterns across them. It also provides the opportunity for customers to rate films they watched and provide feedback. This information allows Netflix to learn from its customers which types of films they might enjoy, and it uses this information to make recommendations for new films to rent. People can find films to enjoy that they never could find in a store or in a large list of possible rentals that weren't attached to anything. This personalized film recommendation system is a core element of Netflix's strategy (Brochet, Srinivasan, & Norris, 2013; Chatterjee et al., 2010; Keating, 2012; Wesley, 2012).

Develop Leadership Strategy

Too often leaders assume that once they have the direction figured out, everyone should just align with it. While they may not say it exactly, the fact that human emotions, needs, beliefs, and desires are part of the change equation is often frustrating for those in leadership roles. Why can't they just follow? Why can't we all agree this is the best way to go? Why can't you get them to do what is needed? This frustration and the underlying assumption that human emotion is neither helpful nor needed are related to the statistic that 75 percent of change efforts fail to reach their potential. Organizations are full of human beings, and while we might wish that these humans wouldn't bring belief and emotion to the workplace, indeed they do.

In our experience, too little attention is paid to the human element of strategy: What must happen to ignite the new connections within the organization needed to enact the business strategy? Organizations must be as intentional about leadership strategy as they are about business strategy. *Leadership strategy* describes the organizational and human capabilities needed to enact the business strategy effectively. What type of culture should an organization engender to create success? What perspectives and abilities must individual leaders and teams have to be successful? What will they do to develop these skills and perspectives?

Leadership culture is the set of beliefs and practices that have an impact on how direction, alignment, and commitment are created (McGuire & Rhodes, 2009) and how things get done. When these beliefs and practices are not aligned with the needs of the

Figure 1.2 Culture Eats Strategy for Breakfast

business strategy, the strategy in fact has little chance of succeeding. That is, culture can overpower or "eat strategy for breakfast," as figure 1.2 shows. Because this is such an ignored element of the strategy process, we devote chapter 6 to the work of creating and engendering a leadership strategy.

Execute, Perform, and Learn

Once there is clarity about strategic intent for the business and the human component of the organization, leaders translate that intent into action by identifying and implementing tactics consistent with the strategies. It may sound easy, but even with a common understanding of the strategy, making choices that are consistent with that understanding can be hard to do. A study by Benchmarking Solutions (cited in Banham, 1999) found that only

27 percent of companies fully integrate their tactics and strategies. More companies (58 percent) have some form of integration at the highest level, but transferring that integration to lower levels does not often happen.

Tactics may be misaligned because people throughout the organization don't really understand what the strategy means for them on a day-to-day basis. Information collected from strategic leadership teams we have worked with supports the notion that individuals at all levels of their organization rarely understand how their roles support the organization's mission and strategy. In some cases, this is because the strategy does not create focus. But in other cases, formal and coordinated communication systems are ineffective or nonexistent, so people get mixed messages about the strategy. A Watson-Wyatt survey of 293 organizations in the United Kingdom (Stewart, 1999) found that 67 percent of employees in well-performing organizations have a good understanding of their overall organizational goals, whereas only 38 percent do in poorly performing organizations. Furthermore, the survey revealed that in all organizations, communication could be significantly improved.

The ability to make accurate predictions of Netflix customer preferences for movies was a critical factor in its early success. These predictions would drive customer satisfaction and loyalty. They would also help the company manage inventory, a significant contributor to costs. So the development and continued enhancement of the CineMatch technology was critical, and they adopted specific tactics to ensure its success (Keating, 2012). For example, after many starts and stops in its development, the CEO eventually invested to bring in mathematicians to assist. Cinematch was formally launched in 2000 using a "movies for two" promotion whereby Netflix advertised that it could assist couples in finding movies both would like.

By 2004, Blockbuster had launched its online service and was seeing successes at integrating that service with its store operations, posing a serious threat to Netflix. A large portion of Netflix's survival ability was in CineMatch. So in 2006 it launched a contest with a $1 million prize to the individual or group of scientists who could surpass its predictive ability by 10 percent. It took three years and fierce competition from teams of scientists and mathematicians around the globe before a winner was declared.

The "Execute, Perform, and Learn" component of the strategy process also involves assessing effectiveness against the organization's performance potential by measuring key indicators related to their drivers and their strategies. For example, Netflix pays attention to core metrics in the areas of sign-up rates, viewing, and subscriber retention (Netflix, 2013). It is also important for organizations to attend to their future capability. Are there measures to indicate success (or not) in building that future capability?

If the key indicators are as they expect, executives consider the organization to be on track. If the indicators reveal unexpected results, leaders will typically make changes. But all along the way, they need to keep the mind-set of learning: looking for patterns and trends that inform and deepen their understanding of the organization and the industry, as well as their sense of what the key strategic drivers are and what needs to happen within the organization to maximize those drivers. That is, the results as measured by the key indicators lead to a reassessment at the organization's new level of performance, starting the cycle all over again.

In this way, organizations go through life phases, which may be difficult to differentiate in the moment, and the transitions between phases are not perfect. But in hindsight, leaders can map the history of their organization to these phases and use them to describe the organization's evolution and growth. The evolutionary phases build on each other, progressively contributing to the organization's well-being. There is evolution, possibly even an occasional revolution, as the organization tries different approaches, learns from those attempts, and implements strategic change.

One key example of strategic change from Netflix began in 2005 (Wesley, 2012) when its competition was moving to replicate its model: both Blockbuster and Walmart went to online rentals in 2004. Netflix had invested heavily in distribution centers to decrease delivery time and increase perceived value and convenience. At this point, video on demand was emerging as a viable Internet-based technology, and it allowed customers to instantly download films directly to game consoles, computers, and mobile devices. This was an exciting development that had potential to significantly change the way consumers access their entertainment. Netflix began discussions about a possible partnership with TiVo, setting the stage for customers to have immediate access to movies versus waiting for them to arrive in the mail. In this way, this new technology directly supported their key driver of convenience. It also opened up the possibility of expanding globally. Netflix began to offer streaming in 2007 at a low flat fee of ten dollars per month for each kind of service. Their revenue continued to grow as it adapted its business to support this new model and began to expand internationally into Canada, Latin America, and the Caribbean.

By 2011, the streaming business had grown significantly (Brochet et al., 2013). There were some challenges, though, because the laws for distributing content using a streaming model were different from those for distributing the content through the rental of the physical DVD, and required direct negotiation of distribution rights with the studios. This added significantly to costs. At this point, revenues were over $2 billion, and there were more than 20 million subscribers.

As the business was growing more complex, a decision was made to split it into three parts: domestic streaming, international streaming, and domestic DVD rental (which still accounted for a portion of the business). Subscribers were informed of the change and the resulting impact: they would now need to subscribe separately to the streaming and DVD rental parts of the business. In addition, a price increase was announced not long after this change. Customers were extremely unhappy. Following these announcements, Netflix lost 805,000 subscribers, and its stock dropped 50 percent (Brochet et al., 2013). Eventually, having realized the impact of these decisions on the key driver of convenience, the decision to split the businesses was reversed. The leaders were learning and continuing to test their theories of the business, not always with positive results—but they were learning.

One lesson stood strong throughout this period: streaming technology was here to stay and was going to change the home entertainment landscape significantly. Netflix was placing a strong bet on consumers' desire to access any form of entertainment when they wanted it and where they wanted it: their television set, computer, mobile device, or something else. According to Netflix (2013), "Over the coming decades and across the world, Internet TV will replace linear TV. Apps will replace channels, remote controls will disappear, and screens will proliferate." It continued to invest in its streaming business, as well as the technology for members to rate movies and shows so that Netflix could make recommendations to each customer based on his or her prior choices and ratings. And sales continued to grow. In 2012, they passed the 30 million subscriber mark.

In 2013, Netflix made yet another move—still consistent with its drivers of convenience and selection. Specifically, it began producing original shows, building off its database of subscriber preferences to choose projects its executives thought would pay off in the long run. In fact, Netflix believes it is in a strong position to compete against television shows. Not only does it have the most extensive database available about consumer preferences, but its streaming technology means it does not have to attract audiences for a particular time slot on a given day. Rather, it just has to make the shows available for streaming, and consumers can download an entire series of multiple episodes at once. This level of flexibility is seen as a key strategic advantage (Netflix, 2013).

Throughout all of these phases, Netflix has stayed true to its key drivers of selection and convenience. Yet as technology and consumer behavior have evolved, so has the company even as it remains true to its mission, vision, and values:

> Netflix is the world's leading Internet television network with more than 36 million members in 40 countries enjoying more than one billion hours of TV shows and movies per month, including original series. For one low monthly price, Netflix members can watch as much as they want, anytime, anywhere, on nearly any Internet-connected screen. Members can play, pause, and resume watching, all without any commercials or commitments. (Netflix, 2013)

This mind-set of both learning and adapting along the way, yet being focused and disciplined enough to fully test out the theories of the business, is a tension that is inherent in the strategy process. In fact, it is a polarity that must be leveraged. It does not take having the knowledge of a process like that depicted in figure 1.1 to create learning and focus in an organization, but having knowledge of this process allows a common language to exist within the organization and might make navigating that process a bit easier. Successfully driving this process—whether it is explicit or not—does require effective leadership—the type of leadership we call strategic leadership.

Conceptualizing the strategy-making and implementation process as one of continuous learning is not new (Mintzberg, 1987, 1998; Senge, 1990). Yet, we find in our work with executives that strategy is not often thought of as a learning process. In fact, when we ask executives to describe how strategy is crafted in their organizations, we get long descriptions of off-site retreats with agendas filled with rigorous steps and analyses. The outcome of such a retreat is often a strategic plan that is so long and involved it fills binders and weighs down shelves. Once the retreat is over, the binders tend to sit on the shelf and gather dust.

Why don't executives explicitly talk about strategy as a learning process? One reason may be that learning implies that something is not currently known—and the cultures of many organizations emphasize *knowing*. Aren't those who know the most those who are promoted? Other executives are open to learning yet feel there isn't time for it. The reality is that organizations must learn, and those that have the best learning practices in place have a significant competitive advantage. As Senge notes, "It is no longer sufficient to have one person learning for the organization, a Ford or a Sloan or a Watson. It's just not possible any longer to 'figure it out' from the top and have everyone else following the orders of the 'grand strategist.' The organizations that will excel in the future will be the organizations that discover how to tap people's commitment and capacity to learn at *all* levels in an organization" (1990, p. 4). His words make us reflect that the concept of organizations as biological systems is not new either.

It is helpful for leaders to understand the elements and nature of the organization strategy process we have described, as it gives them a sense of what they must accomplish as they work to help their organization achieve its enduring performance potential. In many ways, articulating these elements and assisting with various tools and methods to complete them is the heart of the field of strategic management. Strategic management is defined as the "systematic analysis of the factors associated with customers and competitors (the external environment) and the organization itself (the internal environment) to provide the basis for maintaining optimum management practices. The objective of strategic management is to achieve better alignment of corporate policies and strategic priorities" ("Strategic Management," 2013). Strategic management is definitely the field on which leaders play.

Accomplishing the "what" does not ensure that strategy will necessarily come alive in organizations, however. The ultimate result of this work is heavily affected by how leaders engage in it: they need to engage the hearts, hands, and minds of people in the work to ensure shared direction, alignment, and commitment.

How Are Leaders "Strategic"?

Where should we take this business in the future? How do we capitalize on new developments in technology? What moves are our competitors making, and how can we outsmart them? How is our ecosystem evolving, and how do we shape that evolution? How do we continue to grow globally and scale the capabilities we have developed? How do we, as a nonprofit, continue to stay attractive to our funders? Questions like these are in the hearts and minds of leaders all over the globe. These are the types of questions that keep leaders awake at night and energize them to persist in the long days, weeks, months, and years of building and growing their organizations. In fact, they are so compelling, exciting, and exhilarating that they consume the energy of leaders at the expense of another critical question: How do I, as a leader of this organization and in this ecosystem, approach my leadership interactions with others to engage their hearts and minds in this work?

In our experience, the first set of questions can be answered with primarily a cognitive approach: "If I just figure it out and come up with a good solution, all will be fine." The second question is fundamentally different, however. It involves an exploration and examination of one's behavior, values, and identity as leader and therefore includes potential answers that challenge a person's sense of self. That is, these are not questions about what one does, but instead are questions about how and who one is.

Cynthia Montgomery (2012), past chair of the Strategy Unit at the Harvard School of Business, shares her experience with executives when they are asked to list three words they associate with strategy. In over two thousand responses, executives have provided 109 unique responses, including terms like *plan* and *competitive advantage*. Only two of these unique responses have anything to do with people as part of the equation, and they are *leadership* and *visionary*. If executives have such little inclination to associate strategy with people, imagine how rare it is for them to easily see their own behavior, values, and identity as critical to effective strategy.

This is one of the reasons we purposefully identify and include leadership strategy as part of the organization strategy process. Calling out the need to develop the human capabilities of the organization creates the opportunity for leaders to intentionally address the human element of the equation. Frequently, however, as leaders begin to address the questions associated with leadership strategy, they focus on "them," that is, others throughout the system. They still seem to fail to turn their perspective inward toward their own behaviors that support the leadership culture and practices they are trying to create in others.

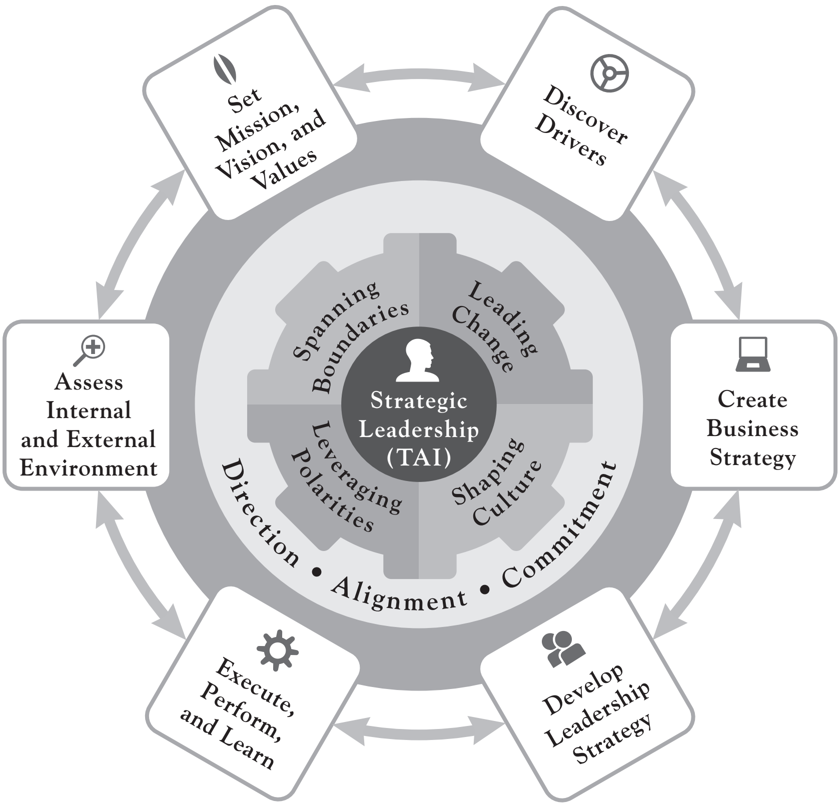
In figure 1.3, we have added a core to the organization strategy process, and it is at the core of the model for a reason. Specifically, our research and experience have demonstrated that the core of strategy is indeed an examination of how strategic leaders do what they do and involves them first turning inward to look at themselves to examine and reflect on how they go about the strategy process. It involves questions in three areas:

- Have we achieved the leadership outcomes of shared direction, alignment, and commitment?
- How are we personally and collectively navigating the key leadership challenges in today's VUCA world? These are challenges of leveraging polarities, leading change, spanning boundaries, and leading culture.
- How am I personally demonstrating the core strategic leadership competencies of strategic thinking, strategic acting, and strategic influencing?

Direction, Alignment, and Commitment

Achieving the enduring performance potential of the organization requires the hearts, minds, and hands of all to be engaged. It is one thing to have that sense of engagement yourself. It is totally another thing to create, engender, and fuel that engagement with others. This distinction in fact is the heart of leadership. That is,

Figure 1.3 The Strategic Leadership Model



leadership is engaging others to create shared direction, alignment, and commitment (DAC).

Conceiving of leadership as its outcomes (DAC) allows the flexibility that the ways in which those outcomes are achieved are varied and context dependent (Van Velsor, McCauley, & Ruderman, 2010). In addition, defining leadership by its outcomes acknowledges that in today's VUCA world, leadership is demonstrated as much (if not more so) by collectives (groups, teams, the organization) versus one person. In the world of strategic leadership, it is clear that no single person can do what is needed to achieve the enduring performance potential of the organization. There is too much information to digest, the decisions are too complex, and success is too dependent on the blending of capabilities across the enterprise. Therefore, we often say that the most crucial work of a strategic leader is to engender strategic leadership in others by igniting the power and potential of the entire organization in service of its performance potential.

DAC serves as signs or indicators that the leadership processes associated with strategy are working effectively. When there is shared direction, each person in the organization knows the goals, priorities, and plans to achieve those goals and also knows that other organizational members see these in the same way. So there is a common understanding about why various decisions are made and a sense of how they are connected to the overall goals of the organization. Alignment exists when the decisions and tactics throughout the organization are coordinated, coherent, and consistent with the overall strategy. Commitment is the attitude that people hold toward the strategy. People are committed when they are willing to expand effort toward the needs of the organization over and above the effort needed to meet their own individual goals.

Key Leadership Challenges

How DAC is created is context dependent, and the VUCA environment of the world today helps to define some challenges of the context that are particularly relevant for strategic leaders. In this context, leaders must create the environment that fosters capabilities necessary to be honest and real with each other, make difficult choices even in the face of politics and conflict, attend to the human element of the system and not just the mechanical element, and foster learning along the way. Several such capabilities come to mind, including:

- Leveraging polarities
- Spanning boundaries
- Leading change
- Shaping culture

When done well, these capabilities result in new direction, alignment, and commitment in service of the strategic change needed for the organization to achieve its performance potential.

Leveraging Polarities La Quinta Inn and Suites is unique in the limited service hotel industry, as it both owns properties and franchises properties. While most of the competition relies heavily or exclusively on the franchise model, about half of the La Quinta properties are owned by the organization and about half are franchised properties. La Quinta must be successful at both to be successful overall. This is not easy, as there is a tension between the two. For example, it is relatively simple—and advantageous—to be entrepreneurial in the franchised part of the business, because this keeps the brand fresh and franchisees must stay up with the standards. However, the ownership side of the business must pay careful attention to costs and therefore is cautious about implementing new ideas. La Quinta must be doing something right. In a Canadian Imperial Bank of Commerce World Markets study (Katz, Rosa, & Slavin, 2007). La Quinta was the number one most profitable hotel for an investor of any hotels in their segment. In part, La Quinta is profitable because it is successfully leveraging the ownership-franchisee polarity inherent in its business model.

Polarity thinking—the art and science of leveraging two opposing poles, or interdependent pairs of forces that support a common purpose and one another—is a critical capability for organizations and individuals seeking to be more strategic (Johnson, 1996). Too often people see the world as either-or—for example, "We need to centralize our structure." "No, we need to decentralize." Or, "We need to focus on operations and efficiency." "No, we need to focus on innovation." Polarity thinking is both-and thinking. It recognizes that both poles of the polarity are needed to thrive, and if we emphasize one to the detriment of the other, we will experience the downsides of that pole and miss the upsides of the other pole. Polarities are at play all the time in organizations. With respect to strategic leadership in particular, several different types of polarities are common—for example:

- Both "I need to know what to do because I am the leader here" and "I need to be in a state of learning, which means I don't always know what to do"
- Both "We need to be successful in the long term" and "We need to make our quarterly numbers"
- Both "My function must meet its goals" and "The organization as a whole has to survive."
- Both "Strategy is a top-down process" and "Strategy is shaped from the bottom up"
- Both "We need a strategy for our business" and "We need a leadership strategy."
- Both "The organization must thrive" and "The organization's ecosystem must thrive"
- Both "We must focus on our key drivers" and "We must be competitive on other factors important to our customers"

Let's examine the short-term, long-term polarity. This is clearly a difficult one to leverage, particularly for publicly traded companies that are under their investors' microscope every day. For these organizations, balancing the pressure of investors is critical not only in the short run but also over the long run, because significant and sustained drops in stock price can have tremendous long-term impact. We are not saying that short-term success is not important. But when an organization consistently favors the short term over the long term by, for example, neglecting to make investments to keep resources and technology up to date, the organization will suffer in the end.

Another polarity—both success of the organization and success of the ecosystem—is being highlighted more and more often and is related to the notion of organization as biological system. Imagine if our surfer is in an ocean that is becoming so polluted the waters around him in fact are dangerous: toxic, full of rubbish, so much foam on the waves it is difficult to see or navigate his way. Also imagine if the surfer himself is contributing to the decay of the water through his choices that ultimately increase his ecological footprint. Surfing becomes more difficult for sure, and the surfer may not recognize his role in creating his own difficulties.

Michael Porter and Mark Kramer have (2011) emphasized the importance of this polarity for business and capitalism today. They note that a lack of attention to the social, economic, and environmental ecosystem on the part of organizations (for profit, governmental, nonprofit) today is shortsighted, and in fact, if organizations put the health of their ecosystems front and center as opposed to on the periphery, they can create shared value of the system as a whole.

Spanning Boundaries Syngenta, based in Basel, Switzerland, was formed in 2000 when Novartis and AstraZeneca merged their agribusinesses; as of this writing, the organization has more than twenty-seven thousand employees in over ninety countries. Syngenta's core mission is simple: bringing plant potential to life. The history of Syngenta and its predecessor companies shows a strong focus in two areas: seeds and crop protection. Until recently, these two areas of focus operated primarily independently. However, according to its website (Syngenta, 2013), Syngenta's integrated strategy is based on putting the grower at the center of everything it does, and in the grower's mind, seeds and crop protection are not separate. Therefore, it will be critical for Syngenta to span the boundaries between the two areas to fuel the innovation needed to meet the grower's needs.

Strategic opportunities exist in possible new patterns in the organization and its ecosystem. As such, strategic leadership happens in the white space on organization charts: between functions and groups, between levels of leadership, and between the organization and other external entities. Strategic leaders must encourage people to span boundaries and create direction, alignment, and commitment in service of strategic change. Boundaries can be vertical, horizontal across the organization, geographic, demographic, or with external stakeholders.

Leading Change Samsung Electronics was ranked twentieth on Fortune's 2012 Global 500 list, in large part due to its excellence in technology-based consumer products and a successful challenge to rival Sony. Samsung Electronics did not always excel in the consumer products sector, however. In fact, after entering it in the late 1980s, its products were of inadequate quality and were underperforming. So Samsung's leaders decided to step back and do something different: they changed course to focus on component manufacturing for other companies in the sector, with the intent of learning more about how to succeed in the sector in the future. This step required significant change—for example, exiting product lines and focusing instead on solving specific technology changes, such as dynamic random access memory—to create a real difference in the industry and impact for its products. As Samsung became successful here, it underwent a second era of focus on consumer products, and this one has carried it into the twenty-first century as a strong global player. Again, significant levels of change were required to reorient the company in a return to this sector (Michell, 2011).

Strategies inherently require change from the organization and the people within it. And strategic change by nature requires a shift in the connected, interdependent patterns of choices that the organization has made in the past. It is substantial, widespread, and transformational. Strategic leaders need to help people navigate the change process, assisting in learning new skills and capabilities, working with others in different ways, and acknowledging and authentically managing emotions through that change.

Shaping Culture The Broad-Based Black Economic Empowerment Act was put in place in South Africa in 2007 in an attempt to distribute wealth across a broad spectrum of South African society in the postapartheid era. This act requires organizations of various sizes to adopt management practices designed to promote equity among previously disadvantaged groups. Accordingly, the Foschini Group (TFG), a retailer with over two hundred stores in South Africa, is working to transform its workforce through various employment equity initiatives, with some success and some challenges. According to its website, "Whilst employment equity and diversity are embedded into succession planning, talent management and recruitment, black representation at senior management levels remains an ongoing challenge. TFG's strategy of choice is to develop from within and it thus takes time to achieve transformation at senior management levels."

There is no doubt that in order to be successful in this kind of transformation, a number of different processes and systems related to talent management will need to change. But that is not all. If employment equity is to become a way of life, the transformation will require a shift in core beliefs about people, their value, the importance of equity, and many other areas as well. The behaviors associated with those beliefs will need to change too.

Beliefs drive behavior in organizations, so in order to change behavior to a new way of doing things, beliefs need to change. This isn't easy to do: people can easily keep their beliefs to themselves, and they may not even be aware of them. Changing beliefs requires a level of open, honest dialogue that creates vulnerability in the organization.

Senior leadership in particular plays a strong role in shaping culture, and if the culture is to change, senior leadership has to hold out and examine their individual and collective beliefs as well. In fact, when senior leaders fail to examine their own role and identity, and acknowledge and demonstrate they need to learn, grow, and change as others are too, the culture will not shift as needed and the change effort is much more likely to fail. By allowing themselves to demonstrate some level of vulnerability with others, senior leaders invite people to engage with each other in different ways (McGuire & Rhodes, 2009). This is the core of the process to shift the beliefs and practices necessary to shape culture.

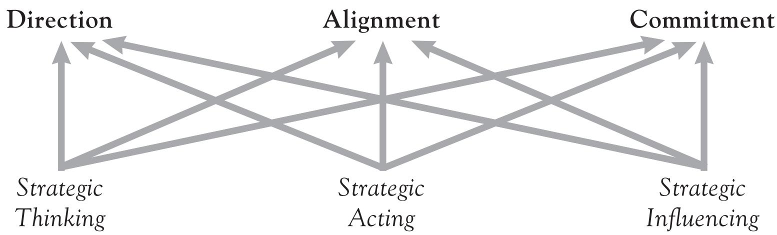
Individual Skill Sets

Strategic leaders navigate the challenges we have noted to create DAC. At the most concrete level, they do this by exercising the skills of strategic thinking, acting, and influencing. They use these skills throughout the cycle of learning to bring clarity and focus to the strategy, enact that strategy with purpose and direction, and engender the commitment of others to the future of the organization:

- Strategic thinking involves the cognitive and social processes that lead to a shared understanding of the complex relationship between the organization and its environment. It also involves using that understanding to set the direction for the organization's future.
- Strategic acting is taking decisive action consistent with the strategic direction despite the inherent ambiguity, chaos, and complexity inherent in organizational life. At its core, it involves translating thinking into priorities for collective action.
- Strategic influence is engendering commitment to the organization's strategic direction by inviting others into the strategic process, forging relationships inside and outside the organization, and using organizational culture and systems of influence.

Each skill set has a specific role and purpose, but it would be a mistake to view them as totally separate. It's not the case that a strategic leader first thinks to determine what to do, acts to make the necessary decisions and choices associated with that thinking, and then influences others to get them onboard. In reality, thinking, acting, and influencing are interdependent. For example, if learning is at the core of strategy, a strategic leader will take action that then informs future thinking about the strategy. She will also invite others into the strategy-making process—not just to facilitate their buy-in to it but also to produce a better strategy than could have been developed in isolation. Finally, the more that people are engaged in crafting the strategy, the more they understand its nuances that are important to creating coordinated actions.

Figure 1.4 Integration of Thinking, Acting, and Influencing in Service of DAC



Not only are thinking, acting, and influencing interdependent, they also work in tandem to produce the leadership outcome of direction, alignment, and commitment. It's not as if thinking is all that is needed to lead to direction, acting is all that is needed to lead to alignment, and influencing is all that is needed to lead to commitment. Each is needed to produce each outcome, as shown in figure 1.4. In the chapters ahead, we focus on each area, but the best strategic leaders weave them together to leverage the power of the people throughout the organization toward the ultimate performance potential.

What Lies Ahead

The chapters that follow focus on the leadership necessary to enact the organization strategy process successfully. We take the organization strategy process in figure 1.1 as context, but primarily focus on who you are in this task. How do you define your leadership identity in the midst of the strategy process? What are your strengths and weaknesses with respect to the work of engaging with people to develop and implement strategy to achieve the enduring performance potential of the organization? How do you lead teams and the organization as a whole to learn over time such that the organization can endure? In short, this book focuses on the human element of strategy.

We begin with the individual, core skill sets of strategic thinking, acting, and influence. Each chapter covers specific competencies and perspectives related to each of these skills and each skill's place in driving the learning required for the organization strategy process. These chapters are full of concrete exercises for you to apply the lessons and competencies explored in the chapter. As you read the next three chapters, keep in mind the various ways that thinking, acting, and influencing work together. Each chapter concludes with a discussion of that interdependency to help you make that connection.

Chapters 5 through 7 focus on areas related to the climate for strategic leadership around you. Chapter 5 addresses teams as the vehicle for strategic change and provides an overview of how you can help key teams in your organization lead with collective purpose in mind. Chapter 6 addresses the important role that leadership strategy plays in engendering the human capabilities needed to enact the business strategy. Finally because strategic leadership is a lifelong process of developing and molding yourself and those around, we conclude the book with chapter 7 focused on that development process.

As we close out this chapter, we invite you to read this book with yourself and at least one other person in mind—someone you are working with who needs to be more strategic. Think about ways you can apply the assessments and exercises throughout this book to guide this person's development. You might even consider working alongside that person as you both develop so that you can provide support to each other.