The Challenges of Leadership in the 21st Century
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Project Outline

- **Interviews with 16 organisations**
  - ❑ 8 CEOs in FTSE 100 companies
  - ❑ 8 CEs/Chairmen in Public Sector

- Industry Sectors of FTSE interviewees
  - ❑ Facilities
  - ❑ Construction
  - ❑ Private Equity
  - ❑ Insurance
  - ❑ Aerospace
  - ❑ Detection
  - ❑ Medical
  - ❑ Specialty Engineering
  - ❑ Airports
  - ❑ Support Services
  - ❑ Built Environment

LSE Complexity Group

- Set up in 1994 and has worked with the following. They do NOT include the interviewee companies:

- BT, BAe Systems, Cabinet Office, Citibank (New York & London), Department of Trade & Industry, the Environment Agency, GlaxoSmithKline, the Humberside TEC, Legal & General, Ministry of Defense, Mondragon Cooperative Corporation (Basque Country), the National Health Service, Norwich Union Life, Office of the Deputy Prime Minister (now DCLG), Rolls-Royce (Aerospace & Marine), Shell (International, Finance & Shell Internet Works), the World Bank (Washington DC) and several companies in the aerospace industry

- The work of the LSE Complexity Group is at www.lse.ac.uk/complexity

Challenges of Leadership

- 1. Creating a new organisation post-merger*
- 2. Centralisation Vs. Distributed Leadership*
- 3. Short Vs. Long Term
- 4. Making Change
- 5. Creating a Learning Organisation*
- 6. Communication*
- 7. Relationships*
- 8. Addressing the CSR Agenda

- Regulator Specific
- Leadership Skills & Roles
- Enabling Environments

Very Brief Introduction to Complexity Theory

- Explains the behaviour of complex systems, such as organisations
- Focuses on **connectivity** and **relationships**
- CS are multi-dimensional & the dimensions interact and influence each other – they **co-evolve**
- In a human context: social, cultural, technical, physical, economic, political and global dimensions interact

Multiple Interacting Dimensions

- *"… but I have geography as a dimension, I have business line, that is whether it's buyouts, growth or venture, and I have sector knowledge. And the interplay between those three elements around a new investment will differ from investment to investment. So what I have to do is have **a mix of mindset and formal processes, informal processes, wells of knowledge** … - so I need to figure out with my colleagues what is the best set of trade-offs for the world we're moving to … ones that are right for now, but **don't rule out further change** and are not so complicated that nothing gets done. And so it's a mixture of some rule-based, some reward-based, some mindset-based, some behaviour-based …"*

Learning from Complexity

- Complexity often seen as a problem
- The *theory* helps us to understand the characteristics of complex systems
- To work with them and not against them
- To **address apparently intractable problems**
- By identifying the multiple underlying and inter-acting causes
- To create **Enabling Environments (EE) that are sustainable**
- Leadership is about creating these EE

Theories

Natural sciences

Dissipative structures
chemistry-physics (Prigogine)

Autocatalytic sets
evolutionary biology (Kauffman)

Autopoiesis (self-generation)
biology/cognition (Maturana)

Chaos theory

Social sciences

Increasing returns
economics (B. Arthur)

*Generic
characteristics
of complex
co-evolving
systems*

self-organisation

emergence
connectivity
interdependence
feedback

far from equilibrium

space of possibilities

co-evolution

historicity & time

path-dependence

creation of new order

Far-from-equilibrium

- Tipping points or critical points?

- e.g. mergers and acquisitions push organisations **far-from-equilibrium, open up new possibilities and help to create new order**

  - When the appropriate enabling environment is created to facilitate integration and create a new organisation

  - Can be a source of innovation

1. Creating a New Organisation Post-Merger

Two examples:

- **A. Successful example in private sector**
  - **New identity, values, creating a new organisation**
  - **Everything was possible**
    - *"But then the merger came along, which just gave me carte blanche to move to a significant leadership model in an environment where everything was possible"*
  - **Didn't have all the answers**
    - Needed to find the right people
  - **Setting agenda collaboratively**
  - **But the statistics show a different picture**

- **Only 23% of acquisitions earn their cost of capital**

- **50-80% of all M&A deals fail to live up to expectations**

- **Synergies projected for M&A are not achieved in 70-80 % of cases**

- **Only 17% of all mergers added value to the combined company, while as many as 53% actually destroyed shareholder value**

- **Routinely cited as problems are people and cultural issues in failing or failed integration**

Critical Point: Innovation

- Innovation takes place at the critical point, when the existing order can no longer be sustained and new order comes into being

- The alternatives are sources of *innovation* and *diversification*, through the opening up of new possibilities

- By **exploring the space of possibilities**

1. Creating a New Organisation Post-Merger

- B. Example in Public Sector – surprisingly successful!
  - *Impossible job for one person but not for an organisation with the right capability*

- Successfully brought together several departments and created a new organisation

- The objective was to help and support the expanding industry by achieving synergies of integration

- Concentrated on the social, cultural, physical, political, legal aspects to create a new way of working and new conditions

Some key elements of a post-merger success story of an Industry Regulator

- Good preparation
- Board working as a team – but avoided making decisions until the CE had been appointed
- Appointed HR Director early to oversee the transition of 5 different sets of terms of employment into one
- New building* to provide a new and neutral environment
- Separation of Chairman's and CEO's jobs – but working together
- Did not just put the departments together and then restructure
- Created new organisational structure and fresh appointments and only those who belonged to the new organisation moved into the new building
- The merged departments were mixed on each floor from the beginning
- Big party to celebrate the launch of the new organisation
- Worked on values and **new distinctive culture* emerged** that was different from any of the legacy regulators

Emergence: Culture as an Emergent Process

Emergence is a two-way process

- Bottom-up – through interaction

+

- Top down – the emergent, constrains in two ways

    a) in what actions participating agents can enact and this may limit their options

    b) at the same time it opens up new possibilities to individuals within an interacting group that are not available to individuals on their own

2. Centralisation & Distributed Leadership

- **Local decision-making – no centralisation**
  - *"… we've got that **right down to the factory floor** in a lot of cases; right down to people making decisions at machine operator level, on things we never used to have them make decisions on, like quality, like output, like planning their schedules themselves, like working in work cells and things like that. So that used to be one of the things that management did in factories - now we've got it much lower down … so that we don't need to have whole layers of people centralising purchasing. We don't believe in some of that stuff - we think it's rubbish. We've tried it and it doesn't work … (because) **lines of communication were too long to adjust**. So varying demand and supply couldn't keep up with a long chain of command - much better to do that much closer to where it can be effective."*
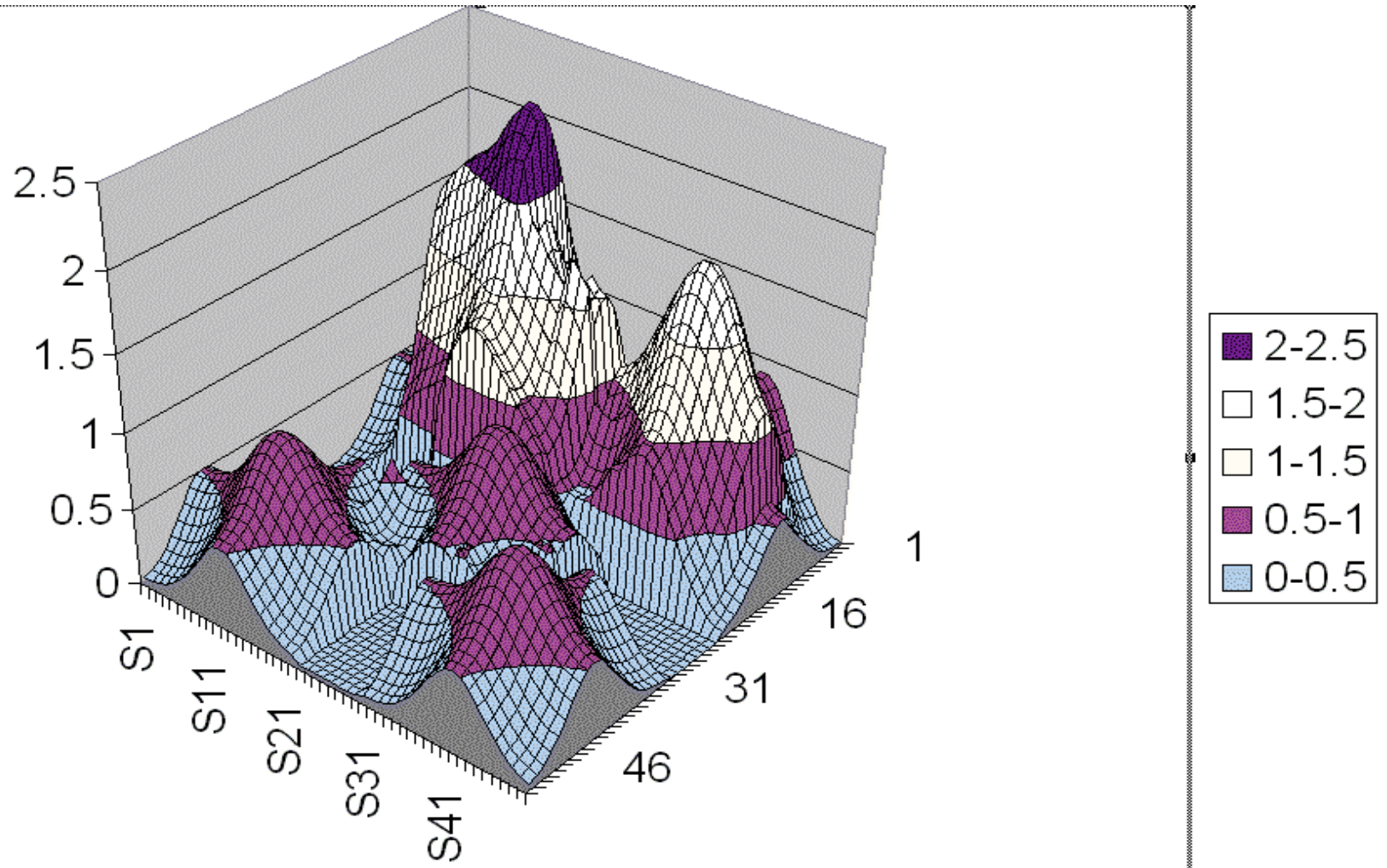
5. Creating a Learning Organisation

- Exploring alternatives and learning from each other

  - *"… because we do it in a decentralised way, we don't have any uniformity. Your choice is **uniformity versus flexibility**. Now we move to the flexibility and don't care much about the uniformity and judge the output … you can have metrics on that stuff that doesn't require you to have it universally done the same way. … I prefer it when it's <u>not</u> done the same way, because then people **can learn from one another** that there's **a different methodology for the same thing that can work**. Whereas if you try … to tell everybody in our organisation how to run 350 factory sites world wide, I think I'd be crazy. Because all of them are different with different demands on their supply chain, their customers, they've got different levels of integration, both vertical and horizontal; how can we have rules for that here?"*

5. Creating a Learning Organisation

- ## Let people make their own mistakes and learn – be patient

    - *"… delegate with trust to people that they will get it done … leave them alone, let them make mistakes, let them get on and attack the problem not the person … and work through the problem, and help them to get over it - don't do it for them. And then I think **the important part of leadership is patience**. You've got to be patient, you've got to let people get on and not worry them all the time with status reports, this that and the next thing. Give them enough time to make progress, because it's only with that progress that their confidence will gain, and it's only when they gain confidence, that they'll go on to do greater things."*

No single solution

- When success declines – organisations feel they need to re-codify instead of evolving

  - *"… many successful firms want to codify what's made them successful … and then the world changes on them, and for a couple of years firms go into denial. … And what we're trying to do is evolve …"*

- Not repeating the same formula – no single solution. Why?

- Fitness Landscape

- Importance of exploring the space of possibilities

6. Communication

- Explaining 'why'
- Multiple methods of communication both top-down and bottom-up
- Accessibility of the leader
- Listening
- Feeling that they are listened to and their contribution can make a difference
- Feedback + good connectivity

7. Relationships

- **Continuous consultation with top team: leader as catalyst and organisational thinker - also in touch with everyone in the organisation**

  - *"I now go round to all teams around the world, I meet all new joiners, … literally secretaries, receptionists, analyst associates. So I now know more people in the company than anybody else. Given that I'm an outsider … and I have everybody, literally everybody in the room, every two years … the whole world shuts and they all come to London or - next time we'll go somewhere else."*

  - Success depends on quality of relationships

Some Regulator examples

- **Too many government interventions interfere with each other**
  - *"… you can make a few interventions as Government, but if you make too many, they start to interfere with each other. (for example) … if you layer tariff on tariff, you get a complex structure with all sorts of unintended consequences and I think the same is true of regulation."*
  - **Intricate inter-connectivity & undesirable emergence**
- **If you focus on the fundamental problem then you can let go of a lot of other regulation**
- **Attract & keep talented people**
  - *"… very successful but the challenge now is to attract and keep talented people when the challenge and excitement of setting up a new organisation is gone and when their salaries are no longer competitive."*

Leadership Skills

- **Clear Strategic Direction and talented people**

    - *"Two challenges: one is being clear about **setting your strategic direction** and secondly, recognising that the way you achieve your objectives is by **assembling a really talented bunch of people**. And the two interact … you've got to have a clear strategic direction in order to persuade them to come on board, and you want them to be sharing quite a lot of that vision and be excited by it but they will then work on it. **They're the ones who will make it happen …"**

Leadership Skills

- **Delivering the present, creating the future and managing the identity of the firm**

  - *" … (my people) are paid to deliver the present, so why would I check up on the present? We've got all sorts of reports that tell us about the present so why would I, having read the report, unless there was a problem why would I spend time with them telling me stuff I already know? So an awful lot of our time is spent rolling forward and people and strategy and the direction."*

Leadership Skills

- **Leadership: about listening & connecting**
  - *"So there's a big piece in the leadership model about being listened to, about listening to people and having them see that you've listened, and having them see that you've connected. And about authenticity, to make sure that it's something that is true and connects …"*

- **Holding the boundaries and providing the space**
  - *"… people want to know there's a leader who does understand the world, because that gives them the air cover to get on with, and the confidence that life's going to be alright … it's been looked at, and yes, it's tough, but that's okay, that's what we do, and **we're going to fight these battles and win and there is a sense to it all**, there is a **coherence** to it all."*

Enabling Environments: Criteria for Success

Criteria for a successful organisation

- ❑ **Deeply understood values**

- ❑ **Capacity to renew itself – create new order**

- ❑ **Visible, respected, authentic leadership**

   *"… one that has **values** that are deeply understood, that are relevant to the business it's in, and are probably enduring. An organisation that's capable of change, and shows a capacity and a flexibility to **renew itself** relatively painlessly. It has to have visible **leadership** that is respected, believed in, authentic, that is genuinely connected with the organisation..."*

- ❑ **Be ready to respond to opportunities**

Conclusions

- Good leaders embody the principles of complexity and use them intuitively

- Complexity theory provides the language, concepts and structures

- A successful leader can derive significant benefit by understanding these principles and working with them

Conclusions

- **Two key skills of a leader:**

  - identifying challenges correctly so that problems do not become intractable

  - creating an Enabling Environment able to co-evolve with its broader social ecosystem

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… *Thank you*

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