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LEADERSHIP CONSULTING PRACTICE

Busting leadership myths in an uncertain world

Challenge four destructive myths—on how to set strategy, deal with failure, build consensus, and make decisions—to be a better leader.

A global industrial company badly battered by the Great Recession saw its profits evaporate, its markets shrink, and its debt reach dangerous levels. With its stock at an all-time low and the company teetering on the brink of bankruptcy, the CEO instituted a relentless regime of operational efficiency and cost-consciousness. It worked. In the ensuing five years, the approach turned the company around and helped it generate billions in profits.

But now the company's future has darkened again. By locating manufacturing facilities near sources of raw materials, it established a great cost advantage. But in the current market conditions, that advantage is disappearing as those raw materials become cheaply available everywhere. The company, which had ceded the high end of the market, now finds itself being beaten on the low end by more agile competitors. Its markets have once again sharply contracted, and its stock has plummeted.

Worse, just as the company needs to make big changes in order to survive, its culture (and many of its leaders) are proving inflexible. The pursuit of operational efficiency above all other considerations is hardwired throughout the company's leadership and exacerbated by a culture where performance traditionally has been driven by fear and intimidation. Consequently, company leaders tend to be risk averse and resist strategic alternatives—even in the face of new and serious challenges. Although a new CEO recognizes the problems, old habits have been hard to extinguish, and the company's survival is once again in question.

Such rigidity can be fatal in a VUCA—volatile, uncertain, complex, and ambiguous—world. The term VUCA gained currency in the military during the late 1990s to characterize unpredictable, unstable, and asymmetric warfare with agile, dispersed opponents no longer fighting under the rules of traditional military engagement. Today, VUCA describes the world of business as well, which is posing profound new challenges for leaders who must constantly deal with volatile markets, uncertain economies, global and technological complexities, and ambiguities at every turn. *What could upend my industry? Where might a surprise competitor come from? What am I to make of today's brash millennial talent? Am I really safe from cyberattacks? What should our approach to China be? What will happen to the European Union? How can I anticipate the systemic failures that precipitate financial collapse, political upheaval, shortages in critical resources, or environmental disaster?*

In this turbulent world, many long-held principles of leadership are under strain or even no longer apply. Yet they enjoy a surprising persistence, with companies and leaders clinging to what are by now essentially myths. Here are four of the most persistent—and destructive—of those myths.

Myth #1: Leaders must develop a strategic direction—and stick boldly to it

While all leaders need to set a strategic direction, it must be flexible and adaptable to rapidly changing market conditions. Sticking to one vision and ignoring signs that it must change is a recipe for disaster. Business history is littered with full-speed-ahead types who resolutely ran their companies aground, as the leaders of the global industrial company described earlier are in danger of doing.

Remember Webvan, the online grocer? One of the largest start-ups during the dot-com bubble, it burned through cash at an alarming rate—more than $800 million in less than three years.[1] Even when it became obvious that the impossibly thin margins on groceries couldn't support Webvan's business model, the company forged ahead, buying HomeGrocer, which was also losing millions of dollars. Bankruptcy soon followed. By contrast, Netflix CEO Reed Hastings, in the face of a customer revolt over his decision to divide the company's DVD-by-mail service into a separate business named Qwikster, scrapped the plan in less than a month.

An unreasonable persistence often occurs at the portfolio level as well. Top management, including CEOs and division heads, can't bring themselves to pull the plug on their products, their markets, and the deals they have engineered—throwing good money after bad, despite what might be best for the enterprise as a whole. In fact, according to research reported recently in the *Harvard Business Review*, "8 in 10 managers say their companies fail to exit declining businesses or to kill unsuccessful initiatives quickly enough."[2]

Instead of trying to sustain advantage unreasonably—in a market or region, a product, a line of business, or an acquisition—smart leaders move on before decline sets in. (Branch Rickey, the legendary Brooklyn Dodgers executive, famously said that it is better to trade a player a year too early rather than a year too late.) Moreover, investors often reward preemptive corrections. In fact, one of the authors of this article, Roch Parayre, studied 10 years' worth of announcements by major companies indicating their intention to kill a division or a line of business. Over that span, the stock price for such companies rose, on average, 4% on the day of the announcement.

Myth #2: Leaders need to manage risk and minimize failure

Risk is scary; mistakes are embarrassing. But in today's world, the winners are likely to be leaders and organizations that learn fast, fail fast, and incorporate the lessons learned into the next experiment. The following companies are doing just that:

- Engineers Without Borders (EWB), a non-governmental organization that works worldwide to help disadvantaged communities and people through engineering projects, accelerates learning by posting its mistakes online for all to see, including especially the engineers at EWB organizations in other countries.

- SurePayroll goes so far as to present an annual "Best New Mistake" award. Each year the payroll-services company awards cash prizes for the failed efforts that led to the most significant learning.[3]

- Google takes the counterintuitive approach of prioritizing learning aptitude over what might be considered "safer" functional expertise

[1] Greg Bensinger, "Rebuilding history's biggest dot-com bust," *Wall Street Journal*, January 12, 2015, wsj.com.

[2] Donald Sull, Rebecca Homkes, and Charles Sull, "Why strategy execution unravels—and what to do about it," *Harvard Business Review*, March 2015, hbr.org.

[3] Sue Shellenbarger, "Better ideas through failure," *Wall Street Journal*, September 27, 2011, wsj.com.

(excluding, of course, technical coding skills). In seeking flexible thinkers who approach challenges in new ways, the company recognizes that, in our fast-paced world, continuous learning is essential to success.

The good news for leaders whose organizations lag in learning and fear failure is that they can turn it around. A team of 40 senior leaders from a pharmaceutical company, including the CEO, discovered from a self-assessment that learning was its weakest collective area of leadership. At all levels of the company, the tendency was to punish mistakes rather than learn from them. The CEO, realizing that the culture had to change if the company was to become more innovative, launched three initiatives: (1) a program to publicize stories about projects that initially failed but ultimately led to creative solutions; (2) a program to engage cross-divisional teams in novel experiments to solve customer problems—and then report the results regardless of outcome; and (3) an innovation tournament to generate new ideas from across the organization.

Myth #3: Leaders need to be consensus builders

Consensus is in fact often the enemy. A domineering leader can get a team to reach consensus on almost anything, including nonsense. There are also people who go along to get along, even when they strongly disagree. Further, when consensus is reached through compromise, you are likely to wind up with the lowest common denominator among conflicting positions.

Consensus seeking can also be a painfully slow process. At a large consumer-finance company where a culture of consensus reigns, challenging someone in a meeting is considered impolite (and impolitic). Further, the organization is heavily matrixed, with blurred lines of authority. As a result, important decisions involve round after round of pre-meetings, meetings, post-meetings, and hallway lobbying. Even pressing strategic decisions are routinely deferred, escalated upward, or resolved only by default. That may have been tolerable when financial services was a largely stable industry, but not today when it is ground zero for uncertainty and change.

There is also the ever-present danger of groupthink, where consensus arises almost automatically. Decisions are made quickly, but they are often poor. In a VUCA world, particularly when tackling major strategic decisions, leaders should seek out genuinely diverse views to see multiple sides of complex issues and purposely explore important problems from numerous angles.

A global private-equity firm does this, in part, by using devil's advocates to research and debate the opposing side of investment decisions to make sure that the company doesn't fall prey to groupthink. Similarly, one of Amazon's cherished leadership principles states: "Leaders are obligated to respectfully challenge decisions when they disagree, even when doing so is uncomfortable or exhausting." That does not mean giving everyone a say, as at the consumer-finance company, but instead asking if the team has sought sufficient contrarian input and been exposed to all sides of an issue before reaching a decision.

Myth #4: A good leader is always a confident leader

Certainly, when it comes to executing on a carefully deliberated decision, a leader needs to move with all deliberate speed and remain calm in the face of uncertainty. But when it comes to *making* the decision, a little humility is in order.

The problem is that most executives—and indeed most successful people—have a strong bias for overconfidence. In workshops we have conducted with thousands of executives, we do an exercise that quickly measures overconfidence. Fully 9 out of 10 executives who undertake the exercise exhibit unwarranted confidence in their judgment. Other researchers have found similar evidence of "distortions in corporate investment due to CEO overconfidence."[4] Indeed, in our own research, a survey of 150 global CEOs conducted in partnership with the Saïd Business School at the University of Oxford, we found that nearly one in five CEOs say they never doubt themselves.[5]

By contrast, forward-looking CEOs not only admit doubt but embrace it as a basis for better decisions. Some CEOs we know, for example, conduct "pre-mortems" when deliberating with their teams before starting new projects. In effect they ask, "If this project dies six months from now, what are we likely to say killed it?" The teams then brainstorm all the potentially fatal flaws, make the plans more robust, identify early warning signs of trouble, and develop contingency plans. Such humility isn't confined to CEOs. "Fear is my fuel," director Steven Spielberg recently told the *New York Times*. "I get to the brink of not really knowing what to do and that's when I get my best ideas. Confidence is my enemy and it always has been."[6]

■ ■ ■

Taken together, these four leadership myths suggest a counter-truth: *In today's turbulent world, great leaders are, above all, agile*. They are able to spot opportunities and threats and adapt faster than their competitors. They are able to prepare for, withstand, and recover from setbacks quickly. They build diverse teams that generate creative friction. And they embrace change as an opportunity for continuous improvement. All vital skills to have in a business environment where the only real certainty is that certainty itself is in short supply. ■

[4] Ulrike Malmendier and Geoffrey Tate, "Does overconfidence affect corporate investment? CEO overconfidence measures revisited," *European Financial Management*, 2005, Volume 11, Number 5, pp. 649–59.

[5] Heidrick & Struggles and Saïd Business School at the University of Oxford, *The CEO Report: Embracing the Paradoxes of Leadership and the Power of Doubt*, January 21, 2015, heidrick.com.

[6] Manohla Dargis, "A word with: Steven Spielberg," *New York Times*, May 15, 2016, nytimes.com.

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Leadership Consulting Practice

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