

Leadership, disrupted



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The latest *2017 Deloitte Human Capital Trends report* shows that leadership development continues to be a significant challenge for companies around the world, and that leadership capabilities are not keeping pace with digital disruption.

Risk Management

Australian boards and executives need to ask themselves what digital leadership means to them in this day and age, and if the leadership has what it takes to lead through this digital age.

Today, high performing leaders need different skills and expertise that in the past, and it is vital in this day and age that C-suite executives and boards develop digital leaders as part of their business strategy.

The *2017 Deloitte Human Capital Trends Report* survey of more than 10,000 executives around the world, including 197 Australian respondents, shows that 42 per cent of C-suite and HR executives agree that leadership development is important, and yet only five per cent feel that they have strong digital leaders in place.

A deep dive into Australian executives' priorities shows that building the organisation of the future is ranked as their second highest priority (84 per cent of respondents), and yet only nine per cent of Australian companies say they understand how to build a future-ready organisation.

Leaders who are agile and digital ready

Organisations of the future do not just need more strong leaders; they need a completely different kind of leader — one that is younger, more agile, and 'digital-ready'. Leadership today is less about the 'art' of leadership and more about the challenges leaders are facing.

Above all, the dramatic transformation of business is driven largely by the switch to digital.

The report reveals that many CEOs and boards do not understand the gravity of the issue. In a recent industry study of 800 top business executives, 67 per cent believed that technology will drive greater value than human capital (and 64 per cent believed people are a cost, not a driver of value).

Some executives still continue to focus on the technology side of the business at the expense of developing leaders. Of course, technology is critically important, human capital remains indispensable in the organisation of the future.

The concept of 'leader as hero' no longer works for this generation. Highly effective modern companies such as Google, Lyft, WL Gore, MasterCard, and Atlassian look at leadership as a team effort and recruit leaders who can work together, complement each other, and function as a team.

- Many of today's leaders are not keeping pace with the impact of digital disruption on leadership requirements.
- While technology is critically important, human capital remains indispensable in the organisation of the future.
- Risk-taking has become one of the most important drivers of a high-performing leadership culture.

The report shows that when older business models are no longer working, leaders need new capabilities. Yet most companies are digital 'immigrants,' new to this world and built on older models such as control mechanisms and financial returns. Now, companies are scaling for different goals, such as innovation and moving at high speed.

The Deloitte report shows that ninety per cent of companies are redesigning their organisations to be more dynamic, team-centric, and connected. These changes require not just new operating models, but a different type of leadership to mobilise and execute these models.

Because of these shifts, organisations need people who can lead teams and partner with the broader ecosystems. This new type of leader must understand how to build and lead teams; keep people connected and engaged; and drive a culture of innovation, learning, and continuous improvement. They must also be able to lead a workforce that now includes contractors, the contingent workforce, and crowd talent.

A natural corollary of this is that leaders need interdisciplinary skills. Companies such as GE, IBM, Nestlé, Xerox, and MasterCard now bring leaders together for collaborative design and problem-solving exercises, challenging them to understand how different business functions, industries, and technologies come together to form solutions. The days of a line leader reaching the executive level in a sole function have ended.

In the words of Mark Zuckerberg, CEO of Facebook, The biggest risk is not taking any risk. In a world that is changing rapidly, the only strategy that is guaranteed to fail is not taking risks.

The days of a line leader reaching the executive level in a sole function have ended

More locally in Australia, the recent social media tweets of Tesla's CEO to raise the debate of the South Australian energy supply issues as an example of how innovation and risk-taking now define high-impact leadership.

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Our future leaders

The next generation of leaders also have a new approach. Millennials expect to be developed throughout their work life via opportunities, mentoring, and stretch assignments. Likewise, the report shows that most sophisticated organisations view leadership development as more than training. They combine organisational design, job design, mentoring, and development programs to create the leaders they need.

In many companies today, the leadership pipeline remains too top-heavy, preventing Millennials from getting the on-the-job learning and development they need and leaving organisations struggling to build their leadership pipelines earlier.

More than 44 per cent of Millennials are now in leadership positions, but most believe they are receiving little to no development in their roles.

In this year's Deloitte survey, 54 per cent of companies report they have excellent or adequate programs for Millennials, up from only 33 per cent two years ago. Despite this shift, Millennials still feel left out; only 28 per cent believe their organisation is fully taking advantage of their skills.

To address business needs and satisfy the desire for lifelong development and more rapid advancement, many formal leadership programs are being supplemented with developmental assignments, external experiences, stretch projects, and exposure to internal and external leaders.

The *Human Capital Trends* report shows that the percentage of companies with strong experiential programs rose from 47 per cent in 2015 to 64 per cent in 2017. Formal training is among the least valued investments to develop leaders. Instead, companies should focus on establishing a leadership culture, risk-taking, knowledge sharing, and matrix management to build the leaders of the future.

Three types of digital leadership to pursue

The most critical need for most organisations is for leaders to develop digital capabilities, particularly as only five per cent of companies feel they have strong digital leaders in place.

The report also highlights that as a sign of positive change, 72 per cent of respondents are developing or starting to develop new leadership programs focused on digital management.

Getting there is hard. Research on digital leadership, based on studies done with MIT, shows a shift in leadership capabilities in three areas: how leaders must think, how leaders must act, and how leaders must react. This means that three different types of digital leaders will emerge in the coming years:

1. **Digital investors:** Senior executives who embrace the venture capital (VC) mind-set, uncover opportunities, invest in talent and ideas, forge partnerships, and build an ecosystem for innovation to thrive.
2. **Digital pioneers:** Business and function leaders who can reimagine the future, shape new and different business models, and lead a winning digital strategy.
3. **Digital transformers:** Leaders who can manage people through radical change and transform the business.

For digital investors, a principal task is education. This includes educating the board and other senior leaders who may not fully understand the nature of the shift. Another challenge is getting the investment decisions right, such as choosing between internal investment in systems or purchasing from external vendors at less cost but also with less design control. Digital investors must also determine how to balance the current business model with the digital transformation and then integrate it into the newer, digital models.

Digital pioneers are, in many ways, the heart of innovation. They set the vision for the whole organisation, 'future-proof' the business, define the roadmap for the next two to three years, and drive both the pace of change and the organisation's new digital capabilities. They ensure a consistent vision and plan for digital throughout the organisation.

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Digital transformers are at the fulcrum point of leading radical change. Businesses face a particular challenge in finding leaders who can carry on ‘business as usual’ while moving the digital agenda forward.

Digital leadership in manufacturing

As the pace of technology disruption continues to accelerate, the high-tech manufacturing industry is experiencing broad-based talent shortages and skills gaps. One global high-tech manufacturer seeking to explore new operating models to spur rapid growth faced serious leadership challenges as it attempted to shift its business strategy. As its business changed, so did its talent needs, particularly when it came to developing the leaders of the future it needed to implement the new strategy.

The company focused first on growing its own pipeline of leaders. But the organisation quickly realised it needed greater precision in identifying leadership potential across its workforce. Specifically, the company zeroed in on two goals: to improve its ability to spot leadership talent across all of its talent pools, especially at the middle manager level; and to identify potential leaders faster and at lower cost.

To achieve these goals, the company developed a framework for leadership potential that outlined the specific attributes most predictive of leadership success. The organisation rolled out the tool to one of its business functions on a worldwide basis. In two weeks, 20 raters assessed more than 100 mid-level leaders across the globe, enabling a rapid, data-based approach. An aggregate report of all leaders was compiled and reviewed with HR leadership. Raters believed the new tool was both easy to use and offered actionable results; these results provided informative and actionable insights to the executive committee, which helped in making future talent decisions.

The organisation is now expanding the tool across the entire global organisation, allowing it to quickly compare ratings of potential leaders by placing all leaders on a level playing field regardless of function or region. This approach establishes a standard, consistent language for identifying potential across the global organisation. It also helps the organisation to uncover ‘hidden gems’ in unexpected places, thanks to rich, consistent data from global and regional talent reviews. Indeed, five per cent of the highest-potential leaders identified in the initial project were ‘meets expectations’ performers — indicating either poor role fit or untapped potential.

The challenge: Replacing the old rules with new

Great leaders have always been expected to succeed in the context of ambiguity. Now, they face even greater pressures as the speed of technology accelerates. The role that leaders play will continue to change, becoming even more digital-focused and team-centric. A comparison of the changing expectations of leaders can be seen in Table 1.

A focus on organisational practice, including culture and organisational design, will become an ever-more important part of leadership development. Despite this more challenging environment, leaders will be asked to execute at a higher level — and ensure that their organisations do not lag behind in the digital transformation.

Table 1: Old rules versus new rules for leaders

Old rules	New rules
Leaders are identified and assessed based on experience, tenure, and business performance	Leaders are assessed early in their careers for agility, creativity, and ability to lead and connect teams
Leaders must ‘pay their dues’ to work their way up the leadership pipeline	Leaders are identified early and given early, outsized responsibility to test and develop their leadership skills
Leaders are expected to know what to do and bring judgment and experience to new business challenges	Leaders are expected to innovate, collaborate, and use client teams, crowdsourcing, and hackathons to find new solutions
Leadership development focuses on assessments, training, coaching, and 360-degree development programs	Leadership development focuses on culture, context, knowledge-sharing, risk-taking, and exposure to others
Leaders are assessed and developed based on behaviour and style	Leaders are assessed and developed based on thinking patterns and problem-solving ability
Leaders are developed through training and professional development programs	Leaders are developed through simulation, problem solving, and real-world projects
Diversity of leadership is considered a goal and important benchmark to measure	Leaders are assessed and trained to understand unconscious bias, inclusion, and diversity in their role
Leadership is considered a difficult role and one that is sacrosanct in the organisation	Leadership is considered a role that all play; everyone has opportunities to become a leader
Leaders lead organisations and functions	Leaders lead teams, projects, and networks of teams

Source: Deloitte University Press, dupress.deloitte.com

To proactively manage the leadership strategy, companies should embrace the following.

- Rethink the organisation's leadership model: The new model should include the concepts of innovation, growth, inclusion, teamwork, and collaboration.
- Identify the likely digital leaders in the organisation: Determine who can be the investors, pioneers, and transformers. Then train them to understand these opportunities.
- Ensure accountability: Identify the person or group responsible to the C-suite and board for building leaders as part of the business strategy.
- Promote younger people into leadership much faster: Give them the opportunity to learn on the job and the flexibility to lead teams and projects with support from senior leaders. Use them as reverse mentors to help senior executives learn about technology, work practices, and the culture of younger employees.
- Foster risk-taking and experimentation through leadership strategy: Leadership programs must be interdisciplinary and focus on new product and service innovations, encouraging risk-taking and experimentation as people develop new skills.

- Move beyond traditional leadership training: Instead, focus on leadership strategy, with an emphasis on culture, empowerment, risk-taking, knowledge sharing, exposure, matrix management, and building talent as guides. Bring in external leaders and rethink your leadership vendors; many are steeped in old models and traditional leadership thinking.

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Congratulations to John T. Dinner, FCIS, 2017 winner of the CFPA's annual Best Original Governance Article Award, for his work "A Focus on Governance Outcomes".

The CFPA Board of Directors reviewed original submissions to the Corporate Governance Quarterly (CGQ) published in the 2017 calendar year. The quality of articles submitted was exceptional, making the decision a difficult one. The CFPA Board of Directors would like to recognize Paul Dubal LLB, FCIS, P.Adm. and Linda Wood Edwards, FCIS for their outstanding contributions.

Details for the contest can be found at www.icsacanada.org under the events tab – you will also find the link in every Monday's e-delivery of the Corporate Governance Weekly. We look forward to showcasing your expert contributions!