Global leaders and followers: five forces of effective leadership and innovation

How do organizations innovate? Are the main drivers the external environment impacting the organization, or a set of practices and processes within the organization?

The unprecedented change in the global environment affects both organizational survival and management's capacity to innovate. Climate change, the war on terrorism, digitization of production, global information flows, and the rise of new competitors such as India and China add to the mix of uncertainties.

Organizations can apply uncertainties, some predictable or relatively probable, into their decision models, but most do not. Corporate managers take seriously the five competitive forces leading to organizational rivalry. These five forces of effective leadership are:

1. core organizational skills and competencies;
2. institutional capacity to listen;
3. capacity to learn;
4. capacity to mobilize the organization; and
5. the capacity for organizational innovation, which is impacted by the previous four drivers.

Innovative organizations often display a unique characteristic: they have a history of innovation, where the adaptive processes are built into the role sets, authority systems, and decision processes. Constant innovation stems from an organizational culture where experimentation, playfulness, and a sense of achievement are constantly rewarded. Money rewards are rarely the issue, nor are myths like unionization, government regulation, or forms of ownership. Innovation comes from a configuration of reinforcing drivers like strategies, structures, decision processes, and incentives.

By contrast, low innovation cultures are driven mainly from a single cause: management. The CEO and senior executives set the tone, the climate of decision-making, and the reward structure, but also by their own example. They provide soft signals that often unwittingly get recognized by staff and workers, which establish the emotional DNA for the entire firm. Arrogance, executive ego, hubris, an imperious style, and a host of personal foibles reinforce the culture of the organization that can impede learning.

Skills and competences

Innovative organizations have managers and leaders who collectively and individually combine a skills set widely accepted by organizational members, including a cross-section of key stakeholders. Corporate strategists understand that an organization's competitive position centres on a configuration of unique competences and relationships. The task of top management is to adjust and reconfigure these resources and relationships as external conditions change or erode competitive positioning.
CEOs and senior managers, in their attention spans, in their attitudes, and in their respect for their employees reflect an understanding both of the past and of the future. Innovative decisions require managerial judgment, and empty rhetoric and slogans are seen for what they are. Intelligence and wisdom can give way to a form of anti-intellectualism, frivolous action and a lack of deep thought, and a high-handed disregard for others.

Successful innovators place great stock on a portfolio of attributes, from intelligence and experience, to a quickness of mind, verbal communications, and a recognition of iconographic symbols and compelling narratives.

Senior managers set the basic decision premises (assumptions) for organizational decision-making. Strategic decisions flow from institutional and organizational processes, embedded in formal rules, the organization chart, formal and informal lines of authority, budget allocations, informal perks and rewards, office location, and access to strategic information. Successful organizations are the ultimate team sport, where leadership and change are institutionalized at all levels, focusing on a careful blend of new ideas, routines, and incentives for three key stakeholders:

1. customers;
2. the workers; and
3. shareholders.

A bias toward one, without the other two, is a potential signal of failure.

Capacity to listen

Truly rational decision-making is heavily constrained. Built into many organizations are personal values, organizational processes, and task uncertainties that actually narrow decision options. Examples include too many layers of management, a strict hierarchical or rigid rulebook, the personality attributes of senior management, the lack of both role divergence and personal diversity, and a decision system that has extremely weak feedback mechanisms. The organizational response is a decision culture that reinforces conformity and traditional routines.

In theory, organizations take steps to avoid such incremental behaviour: independent boards, management of diversity through selection and hiring practices, effective links between executive pay and performance, and financial transparency – the prototype for the innovative organization. Often, management become prisoners to past decisions, where first decisions impact subsequent decisions, and decision processes generate commitment to existing beliefs, and precedents establish normative routines.

Various personality characteristics – cleverness, personal will, self-confidence, mental fluency, hypersensitivity – may enhance or impede management's capacity to listen. Everyday experience illustrates how executives and senior managers have a preference for similar thought processes, for liking to breed liking, or similarity breeding attraction. Leaders with low self-esteem are attracted by people who provide high need for appreciation, applause, and similarity in attitudes.

Capacity to learn

It is almost a truism to say that organizations are adaptive mechanisms, learning from past behaviours and external threats. History suggests otherwise. GE is the only business firm that survives from the Fortune 500 list of firms in 1912.

The capacity to learn relates to decision processes and communication flows and
bottlenecks in organizational design. Classic, top-down organizations rarely have the leadership to install mental maps and communications chokepoints that allow reflection, imagination, and inquiry. Design issues go much deeper, into issues of power relations, authority systems, and use of resources and control over organizational slack. Decision-makers often disallow playful behaviour – the deliberate relaxing of organizational rules – “thinking outside the box” in common parlance.

Organizational design impacts learning through flexible, open authority structures, upward communication, and long time orientation. Curiously, abundant information, the spread of knowledge, or the distribution of information – necessary for specialized sub-units in dispersed locations – or multiple networking technologies can lead to limited feedback mechanisms, executive secrecy, and even systematic censorship. These dysfunctions can lead to restrictions of info flows, obstacles to interpretation (“connecting the dots”), stifled debates, and reliance on spurious signals.

**Capacity to motivate**

New employees know that high performance breeds not only more success, but that success radiates confidence in future progress. Despite antagonistic statements on “the vision thing”, organizations need an organizational vision that encapsulates the reality that organizations have multiple goals, carried out over multiple time frames, by a coalition of multiple actors or stakeholders.

GE’s mission to be No. 1 or No. 2 in an industry, or Toyota Lexus’ mission – “the relentless pursuit of perfection” – neatly capture the direction of these organizations, and also communicates the direction to multiple stakeholders. Organizational leadership focuses attention on these purposes, by establishing a corporate culture that reinforces roles and responsibilities across the organization that measures and rewards action against concrete benchmarks.

Motivation factors are a function of mission statements and a sense of purpose. A winning football team, an election victory, a stunning technological breakthrough are examples of this phenomenon. Corporate mission is the embodiment of organizational purpose and behavioural standards, recognizing emotional commitment as an intellectual contract between employees and managers. Clearly, motivation factors come from a sense of organizational mission, but also from dramatic changes in markets, product choice, and incentives that alter personal satisfaction.

**Innovation drivers**

Increasingly, all aspects of organizations, i.e. the entire value chain from suppliers to customers and beyond, are subject to new and potentially radical technology processes, where products can become obsolete overnight, or they can be transformed by incremental, constant improvements.

The managerial challenge is to understand the linkages between competition and innovation, between technological innovation and organizational rigidities, between management inertia and the need for organizational change. Organizational rigidities get built into enterprises at different levels. Corporate change, in new strategies and in innovation, is a form of rebellion against the status quo, against familiar routines and cognitive maps. Past performance and old assumptions often guide organizational decision-making, and these rigidities can lead to decision paralysis and organizational pathologies.

Organizational innovation, especially for business firms, faces a constant process of shifting cost curves, where fixed costs of a given output combines with marginal
costs that can be next to nothing.

Technology, or knowledge, has the unique feature that once it has been created, the use of it does not preclude the use of it by another. Widespread use of a technology, as history shows, impacts an infinite range of models, applications, and company-specific advantages. Organizations thus vary tremendously, from being industry (or global) leaders, to being laggards and followers, or positions in between.

**The calm before the storm**

Organizations, facing massive uncertainties – external and internal – vie for certainty, like a sailboat in a storm, employ known techniques, routines, and time-honoured habits, based on a leader's experience and rulebook, but guided by the quality and training of the crew.

Decision making comes from unconscious processes based on past experience and present perils, where calm deliberation gives way to team work, trust, and gut instinct. Innovation comes from irregular and idiosyncratic structures and behaviours. In uncertain times, managers need imagination and creativity, not old routines and dated measures of innovation performance.

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