

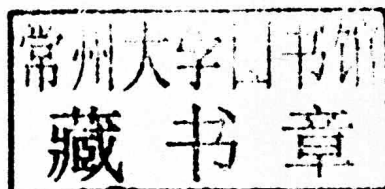
Leadership

Building Tourism Group

MODULE TITLE—LEADERSHIP

Pre-Reading Guiding Questions

1. What challenges confront leaders in the 21st century?
2. Which is the best way to deal with the different generations and cultures in today's business environment?
3. How has leadership changed over time?
4. What key practices are still important for leaders?
5. What new practices have emerged in response to the shifting business landscape?
6. Key characteristics that differentiate leaders who thrive in today's fast-changing business environment.



Beijing Tourism Group

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Developing the global leader of tomorrow

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PRME Principles for Responsible Management Education



EABIS
European Academy
of Business in Society

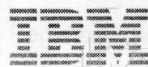


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Overview of research

The Global Leaders of Tomorrow project is part an ongoing programme of research led by Ashridge Business School as part of the European Academy of Business in Society (EABIS) Corporate Knowledge and Learning Programme and has received financial support from the EABIS Founding Corporate Partners IBM, Johnson and Johnson, Microsoft, Shell and Unilever.

The Global Leaders of Tomorrow project has been conducted as part of an ongoing contribution to the United Nations Global Compact Principles for Responsible Management Education (PRME).

The research has been led by Ashridge Business School in conjunction with Case Western Reserve University, the Center for Creative Leadership, China Europe International Business School, IEDC-Bled, IESE, INSEAD, Tecnológico de Monterrey, the University of Cape Town and the University of Waikato.

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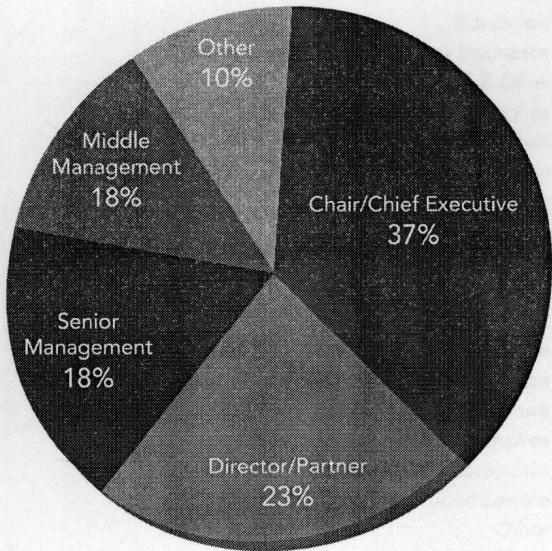
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Additional input from Nigel Roome and Simon Pickard from EABIS, Manuel Escudero and Jonas Haertle from the UN Global Compact Office, and numerous faculty members from across Ashridge is greatly appreciated.

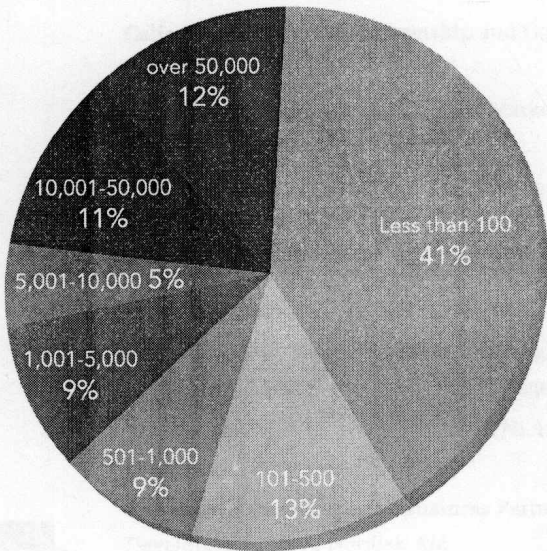
Our research is based on a global survey of CEOs and senior executives at companies participating in the UN Global Compact conducted in September and October 2008, at the height of the 2008 global financial crisis. This is complemented by in-depth interviews with 33 individuals, including HR and sustainability executives and other thought leaders. A full list of interviewees is detailed overleaf.

The 194 survey respondents represent a cross section of organisations of different sizes, industry sectors and regions globally. 37% of respondents were CEOs and 23% were Directors or Partners. 46% were based in the CEO's office, 11% in Human Resources and 43% in other functions.

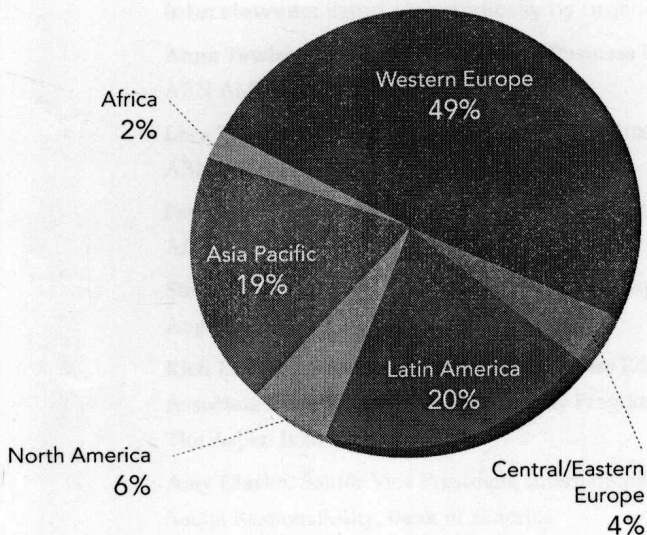
Role: What is your managerial level?



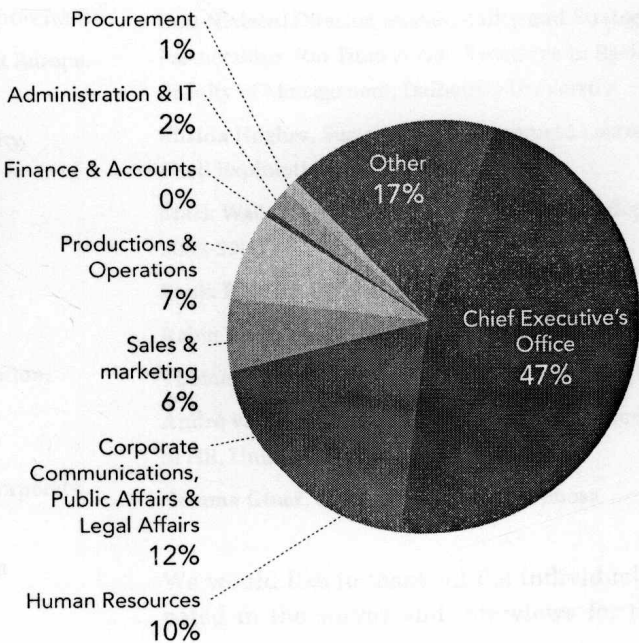
Number of employees: How many people does your organisation employ?



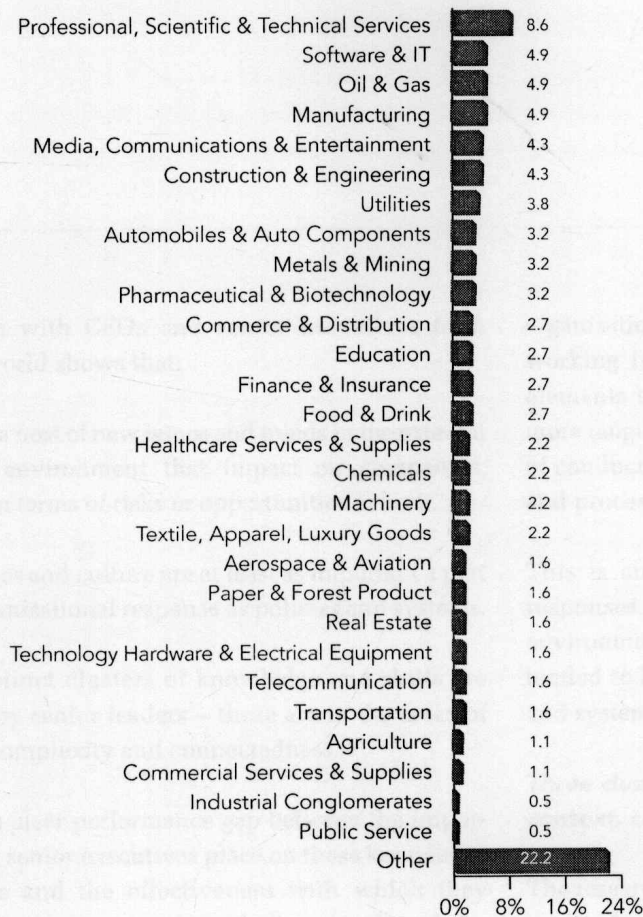
Geographic region: What country do you work in?



Functional area: What is your functional area?



Industry sector: What is the main activity of your organisation?



Interviewees: listed alphabetically by organisation name

Anna Towler, Sustainability Manager, Business Unit Europe, ABN AMRO

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Sonja Klopčic, Competence Development Manager, Trimio d.d.

Robin Blass, Global Leadership Development Director, Unilever

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André van Heemstra, Global Board Member and Global Head of HR, Unilever 2000-2006

Gemma Giner, CSR Manager, Union Fenosa

We would like to thank all the individuals who participated in the survey and interviews for their time and contribution.

Executive Summary

Our research with CEOs and senior executives from around the world shows that:

1. There are a host of new issues and trends in the external business environment that impact on companies, whether in terms of risks or opportunities or both.
2. Capabilities and culture are at least as important a part of the organisational response as policies and systems.
3. Three distinct clusters of knowledge and skills are required by senior leaders – these are in the areas of context, complexity and connectedness.
4. There is a clear performance gap between the importance that senior executives place on these knowledge and skills and the effectiveness with which they believe they are currently being developed by companies, business schools and professional bodies.
5. A broad range of different approaches to learning are required to develop these knowledge and skills.
6. A handful of household name companies are already adopting innovative approaches to developing these knowledge and skills.

Changes in the external environment...

It has become clear for all business leaders over the past decade that there are a host of new social, political, cultural and environmental issues and trends in the external business environment that will have a substantial impact on companies, whether in terms of risks or opportunities or both. These range from the shift to a low carbon economy and resource scarcity to globalisation and issues of poverty and human rights. Our survey confirms that business leaders continue to believe this, despite the looming recession and global financial crisis occurring at the time this survey was conducted.

...require an organisational response

What this survey reveals is that business leaders believe

organisational culture and the capabilities of the people working in the organisation are at least as important elements to get right in the organisational response as more tangible things like agreeing new policies and codes of conduct and implementing new management systems and processes.

This is an important finding because the majority of responses to these kinds of changes in the external environment by organisations over the past decade have tended to be around new policies, and formal processes and systems.

Three clusters of knowledge and skills are required: context, complexity, connectedness

The research interviews and literature review identified a range of potentially important knowledge and skill sets, and the survey has revealed a remarkable level of agreement among executives that all of these knowledge and skills sets are important for the global leader of tomorrow.

Here we have grouped these knowledge and skill sets into three distinct clusters: 'context', 'complexity' and 'connectedness'.

Context

The global leader of tomorrow needs to understand the changing business **context** – 82% of those polled say senior executives need to understand the business risks and opportunities of social, political, cultural and environmental trends. And they need to know how their sector and other actors (regulators, customers, suppliers, investors, NGOs) are responding. Senior executives also need the skills to respond to this information – 70% say the global leader of tomorrow needs to be able to factor social and environmental trends into strategic decision-making. In different contexts and industry sectors this can mean knowing how to factor these issues into processes like capital expenditure decision-making and brand development, for example.

It can mean knowing how to use tools for horizon scanning, scenario building and risk management.

Complexity

The second cluster of knowledge and skills is around the ability to lead in the face of **complexity** and ambiguity. The challenges and opportunities that these issues and trends present tend, by definition, to be complex – there is often little certainty and little agreement both about their precise nature and the response that is required. Leadership in these circumstances requires a range of discrete skills: 88% of those polled say senior executives need the ability to be flexible and responsive to change, 91% the ability to find creative, innovative and original ways of solving problems, 90% the ability to learn from mistakes and 77% the ability to balance shorter and longer term considerations. The global leader of tomorrow also needs to be able to understand the interdependency of actions and the range of global implications that local level decisions can have and to understand the ethical basis on which business decisions are being made.

Connectedness

The final cluster of knowledge and skills is around **connectedness** – the ability to understand the actors in the wider political landscape and to engage and build effective relationships with new kinds of external partners; for different businesses this can mean regulators, competitors, NGOs or local communities. The mindset with which our current leaders are groomed does not encourage productive engagement with partners outside the organisation – leaders receive plenty of training in negotiation skills, for example, but on the whole lack the skills for engaging for effective dialogue and partnership. To survive and thrive, 73% of senior executives say the global leader of tomorrow needs to be able to identify key stakeholders that have an influence on the organisation, and 74% say they need to understand how the organisation impacts on these stakeholders, both positively and negatively. 75% say senior executives need to have the ability to engage in effective dialogue and 80% say they need to have the ability to build partnerships with internal and external stakeholders.

The performance gap

Senior executives believe there is a real performance gap.

- 76% think it is important that their own organisation develops these knowledge and skills, but only 7% believe their organisation is currently doing this very effectively.
- 62% think it is important that business schools

develop these knowledge and skills through the mainstream education and training they deliver, but only 8% believe business schools are currently doing this very effectively.

- 62% think it is important that professional membership bodies develop these knowledge and skills through the mainstream education and training they deliver, but only 5% believe they are currently doing this very effectively.

There is a clear demand for more and better management education and leadership development to help build these organisational capabilities.

How should these capabilities best be developed?

Executives believe that for their own organisations, a range of Human Resources activities are important for developing these organisational capabilities: building these knowledge and skills through leadership development programmes, career development planning, succession planning, performance management and incentive systems and competency frameworks, and seeking these knowledge and skills when recruiting new talent into the organisation.

Which learning methods are rated as most effective? There is a clear message that a broad range of different approaches to learning are required to develop the global leader of tomorrow. Because the issues are complex, the most effective learning and skills development comes through practical experience, whether through on-the-job learning, project based learning or some other form of experiential learning. These learning experiences can be enhanced by structured reflection, for example through coaching.

Although learning approaches like conventional e-learning and lecture-style learning are less rated by executives, these are likely to still have a role where more straightforward knowledge transfer and basic awareness raising is required as part of a broader, blended learning experience. But learning programmes that rely heavily on a lecture-based format are not fit for purpose.

Innovative case examples

The survey findings are complemented by a number of case examples of the innovative approaches that a number of organisations interviewed as part of this research are taking. These fascinating case examples highlight both that many of these organisations have already identified the business need for developing these kinds of knowledge and skills, and that they are using extremely innovative learning methods develop them.

Chapter 1

Trends in the external environment

It is now widely agreed that there are a variety of new social, political, cultural and environmental issues and trends that impact on business, both in terms of risks and opportunities. Our survey findings are consistent with findings from many other similar surveys conducted recently, such as those by McKinsey and the Economist Intelligence Unit.¹

We asked executives to rate the extent that 15 trends are likely to impact their organisation over the next 3-5 years, either by presenting risks or opportunities or both.

The natural environment

Many issues relating to the natural environment were rated 4 or 5 on a scale from no impact (1) to substantial impact (5), reflecting an increasing awareness globally of the significance of the business implications and the urgency with which these need to be addressed – these included the increasing scarcity of natural resources like energy, water, minerals and food, and the implications of mitigating and adapting to climate change. More concerning is that the same sense of urgency is not being felt about biodiversity and species loss – there is clearly a job to do to better communicate the very real business impacts of this.²

Globalisation

The survey findings also reflect the growing importance for many companies of BRICS (Brazil, Russia, India, China and South Africa) and other emerging economies in the global marketplace. The realities of doing business in emerging markets can present very different challenges and tremendous opportunities compared to those found in developed markets – particularly where there is poor public infrastructure, poorly functioning legal systems, widespread poverty and inequality, corruption, violent conflict and labour standards and human rights violations.



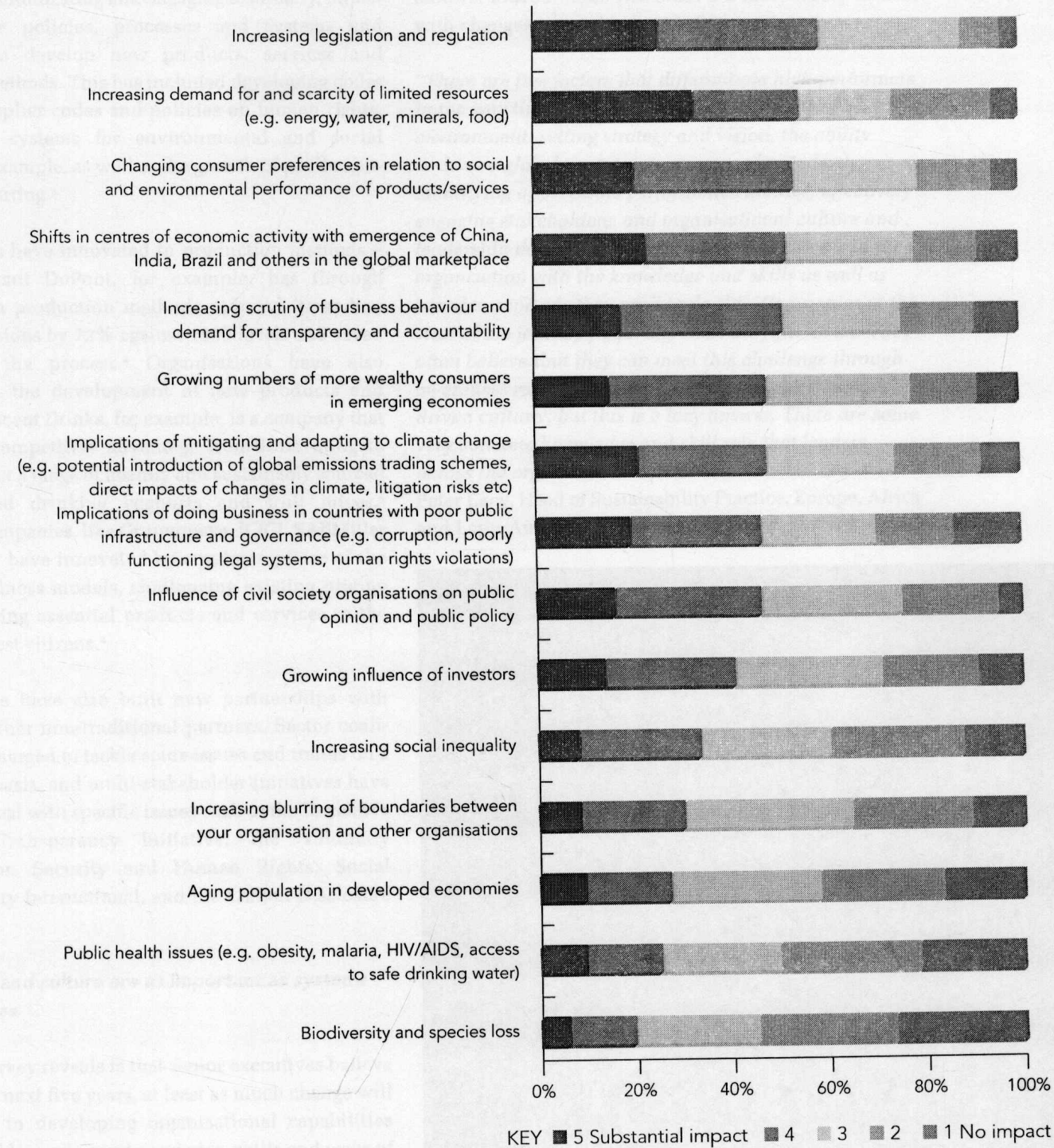
New pressures

Underpinning some of the concerns about these issues are other trends like the rise of non-governmental organisations (NGOs) and civil society organisations, which can be particularly influential on public policy and public opinion – playing a part both in driving an increase in

legislation and regulation and influencing changing consumer preferences in relation to the social and environmental performance of products and services. Civil society organisations, investors and governments in many regions globally are all driving an increase in scrutiny of business behaviour and demanding greater transparency and accountability.

Exhibit 1: The business impact of trends in the external environment

Please indicate the extent to which the following trends are likely to impact your organisation over the next three to five years (either by presenting risks or opportunities or both)



Chapter 2

The organisational response

To date, many organisations have responded to these trends by communicating and engaging externally, implementing new policies, processes and systems and innovating to develop new products, services and production methods. This has included developing codes of ethics, supplier codes and policies on human rights, management systems for environmental and social impacts, for example, as well as the growth of public non-financial reporting.³

Organisations have innovated in production methods – chemicals giant DuPont, for example, has through innovation in production methods reduced its carbon dioxide emissions by 72% against 1990 levels and saved US\$3bn in the process.⁴ Organisations have also innovated in the development of new products and services. Innocent Drinks, for example, is a company that is deriving competitive advantage from innovating to bring to market a range of healthy and sustainably sourced and packaged drinking yoghurts and fruit juices.⁵ Numerous companies, like Groupon, ICICI, SABMiller and Unilever have innovated by employing Base of the Pyramid business models, challenging existing pricing models to bring essential products and services to the world's poorest citizens.⁶

Organisations have also built new partnerships with NGOs and other non-traditional partners. Sector coalitions have emerged to tackle some issues and trends on a sector-wide basis, and multi-stakeholder initiatives have emerged to deal with specific issues such as the Extractive Industries Transparency Initiative, the Voluntary Principles on Security and Human Rights, Social Accountability International, and the Carbon Disclosure Project.⁷

Capabilities and culture are as important as systems and processes

What this survey reveals is that senior executives believe that over the next five years, at least as much change will be required in developing organisational capabilities (through building relevant knowledge, skills and ways of thinking among senior executives, managers and

employees), and stimulating change in organisational culture. Indeed, these two areas are inextricably linked, with changes in one likely to influence the other.

“There are five factors that differentiate high performers in the way they respond to these changes in the external environment: setting strategy and vision, the ability to drive a global programme in a coordinated way, identifying appropriate performance metrics, effectively engaging stakeholders, and organisational culture and leadership development – equipping individuals in the organisation with the knowledge and skills as well as broader mindsets they need to do this. Companies at the start of the journey frequently miss the fifth factor. They often believe that they can meet this challenge through awareness raising or retreating to relying on a ‘values driven culture’, but this is a lazy answer. There are some very concrete knowledge and skill sets that leaders across the organisation require.”

Peter Lacy, Head of Sustainability Practice, Europe, Africa and Latin America, Accenture

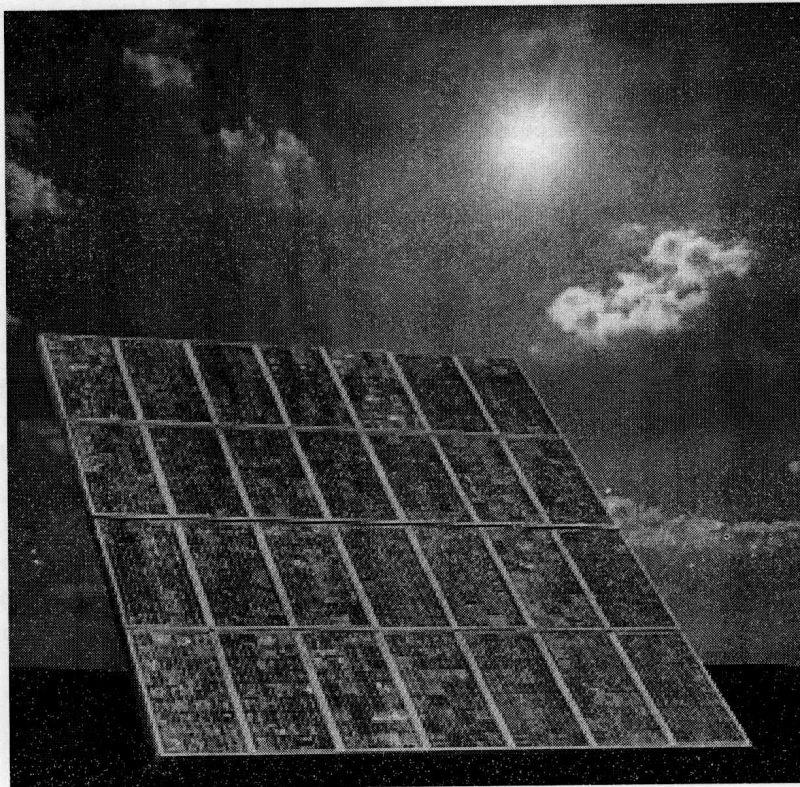
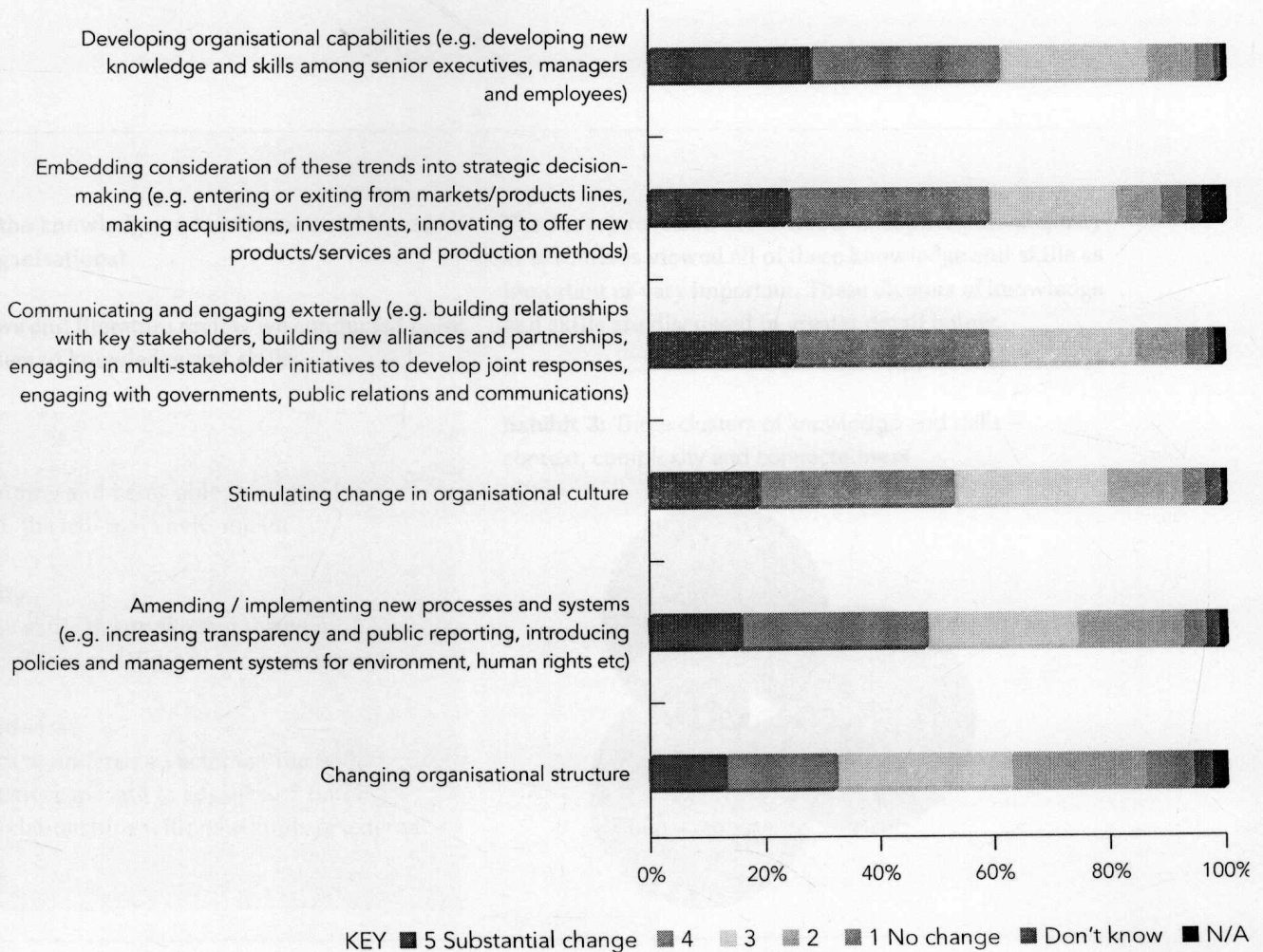


Exhibit 2: The organisational response

Please indicate where the most change will be required over the next five years to enable your organisation to manage the risks and opportunities associated with social and environmental trends

**Peters' and Waterman's McKinsey 'Seven S' model**

The focus on capabilities and culture has echoes of the enduring Peters' and Waterman's McKinsey 'Seven S' model of organisational alignment.⁹ To date in their response to these trends and issues, leading organisations have focused on the "hard" elements that are easier to define and identify and which they can directly influence: the strategy statements; organisation charts and reporting lines; and formal processes and systems. What have received less attention are the "soft" elements, which are more difficult to describe, and are less tangible and more influenced by culture.¹⁰ As Peters and Waterman long ago argued, these soft elements are as important as the hard elements if the organisation is going to be successful.

Organisations as embedded complex responsive processes – a relational perspective

This focus reflects current notions that, when thinking about change in organisations, it can be more helpful to think of organisations as embedded complex responsive processes, comprising individuals connected through informal relationships and networks that straddle organisational boundaries, rather than relying on a metaphor that sees organisations as discrete machines that can be readily manipulated by people in formal authority.

Such a perspective inevitably shifts attention away from a narrow focus on formal systems to begin to consider questions of organisational culture, the role of individual leadership, the nature of conversations between the people that make up the organisation, and the broad mindsets and concrete knowledge and skills that people bring to their conversations and relationships.¹¹

Chapter 3

Implications for knowledge and skills

So what are the knowledge and skills required by senior leaders in organisations?

The interviews and literature review we conducted point to three clusters of knowledge and skills:

Context

Understanding and being able to respond to changes in the external environment

Complexity

Having the skills to survive and thrive in situations of low certainty and low agreement

Connectedness

The ability to understand actors in the wider political landscape and to engage and build effective relationships with new kinds of external partners

The survey revealed that without exception, the majority of executives viewed all of these knowledge and skills as important or very important. These clusters of knowledge and skills are discussed in greater detail below.

Exhibit 3: Three clusters of knowledge and skills – context, complexity and connectedness

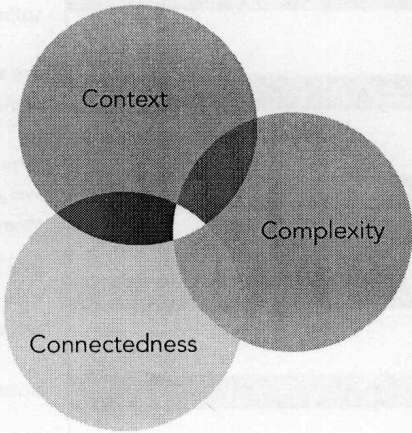
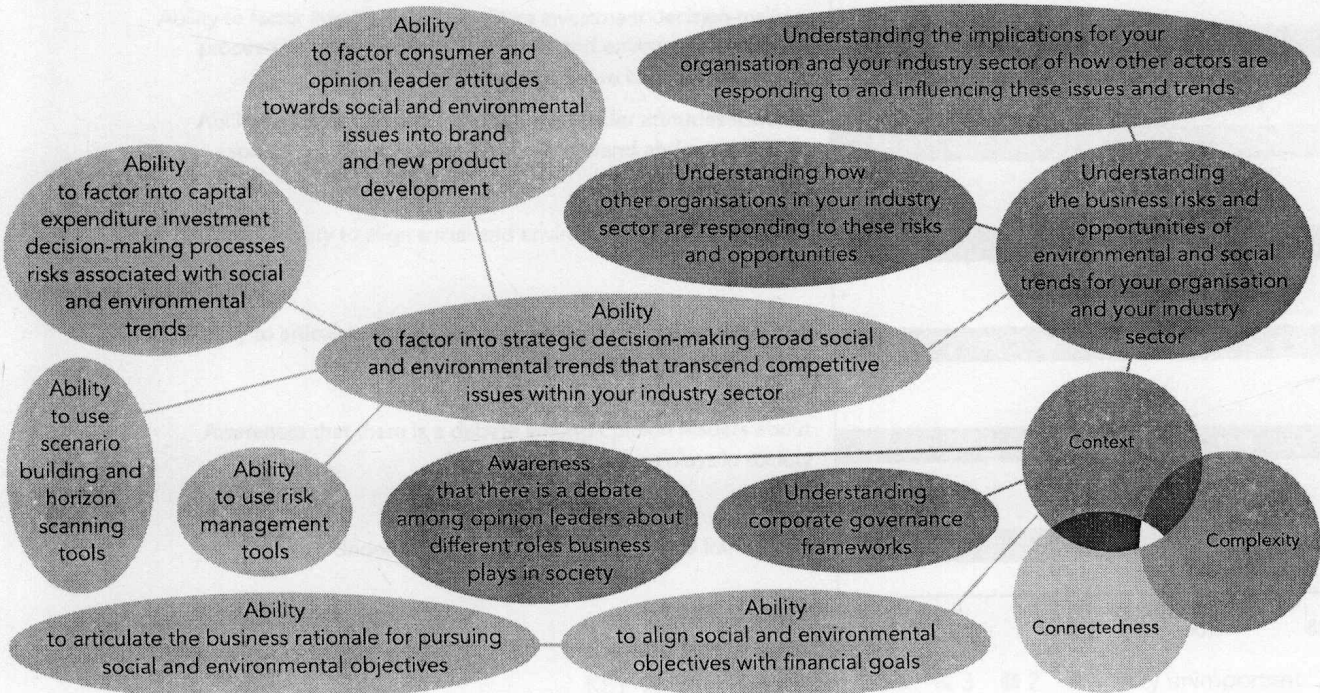


Exhibit 4: Context – knowledge and skills



Context

The global leader of tomorrow needs to understand the changing business **context** – 82% of those polled say senior executives need to understand the business risks and opportunities of social, political, cultural and environmental trends. And they need to know how their sector and other actors (regulators, customers, suppliers, investors, NGOs) are responding.

Every business leader now needs to know about climate change, but as the responses in Exhibit 1 show, there are many other issues that can be particularly relevant to specific sectors. Senior executives at food retailers and manufacturers need to understand the latest trends in

relation to nutrition and obesity; for example, leaders in oil, gas and mining companies need to know about human rights; leaders in textiles companies need to understand the dynamic interactions between purchasing practices and labour standards violations.

But it is not enough just to raise the level of awareness of business leaders about these issues. There are a whole host of concrete skills that are also required if their organisations are to be capable of responding effectively, starting with the ability to factor this knowledge into strategic decision-making.¹² 70% of those polled in our survey say the global leader of tomorrow needs to be able to factor social and environmental trends into strategic decision-making.

Exhibit 5: Please indicate whether any of the following knowledge and skill sets are important for senior leaders in your organisation, in your opinion

