

WHITE PAPER

# Bridging the Strategy/Performance Gap

## How Leadership Strategy Drives Business Results



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# If our strategy is so good, why is our performance so bad?

Variations of this question appeared time and time again in the many years we've studied organizations going through business-model transformation as they expanded internationally. We began to look closely at the differences between under-performing and superior-performing organizations as they attempted to turn strategic intent into desired business results.

One of the fundamental characteristics of executives in superior-performing organizations was the recognition that the ability to successfully

formulate and execute a coherent business strategy is intrinsically linked to formulating and executing a robust leadership strategy. This recognition raised decisions about leadership development to the strategic level.

Like interwoven strands of DNA, business strategy and leadership strategy are intimately linked. The business strategy sets the direction of the organizational journey and the leadership strategy acts as the human enabler to reach the organization's full performance potential.





While most senior executives recognize the importance of developing leadership talent, their leadership development efforts often are not connected to their strategy processes. This disconnect prevents organizations from identifying and enacting wise strategies. Business strategies often do not address an organization's ability to implement those strategies. A leadership strategy is needed to unleash the potential of individuals and groups throughout the organization if they are to achieve success.

The leadership strategy process is what makes the business strategy come alive in the organization. A leadership strategy bridges the gap between strategy and performance. It clarifies how many leaders an organization needs, the type of leaders needed, where they are needed, as well as the type of skills and behaviors required if it is to succeed in its performance goals (Pasmore, 2009).

In this paper we provide an overview of the four elements needed for an effective leadership strategy. With this information, you can begin to bridge the strategy/performance gap that so many organizations face and set a course for superior performance. But before diving into the elements, let's examine the strategic role of executives in high-performing organizations.

# Leading Strategically for High Performance

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Why do leaders of some organizations successfully execute strategies that lead to excellent business results while others fail to translate strategic intent into desired outcomes? The difference is in their collective ability to lead strategically.

## **Executives in high-performing organizations:**

- Invest significant time on questions of strategy coupled with powerful questions of leadership.
- Distinguish the periodic strategic planning process from leading strategically for ongoing organizational impact.
- Know that good strategic leadership at the organizational level is somewhat different from effective leadership by individuals scattered about the organization.
- Realize that when strategy lacks meaning for people, it is unlikely that they will assimilate the essence of strategic directives and perform to their highest potential.
- Pay attention to leadership strategy along with the business strategy in order to reach their performance potential.

**Individuals and teams enact strategic leadership when they address the challenges most relevant to their business and create the direction, alignment, and commitment needed to achieve the enduring performance potential of the organization.**

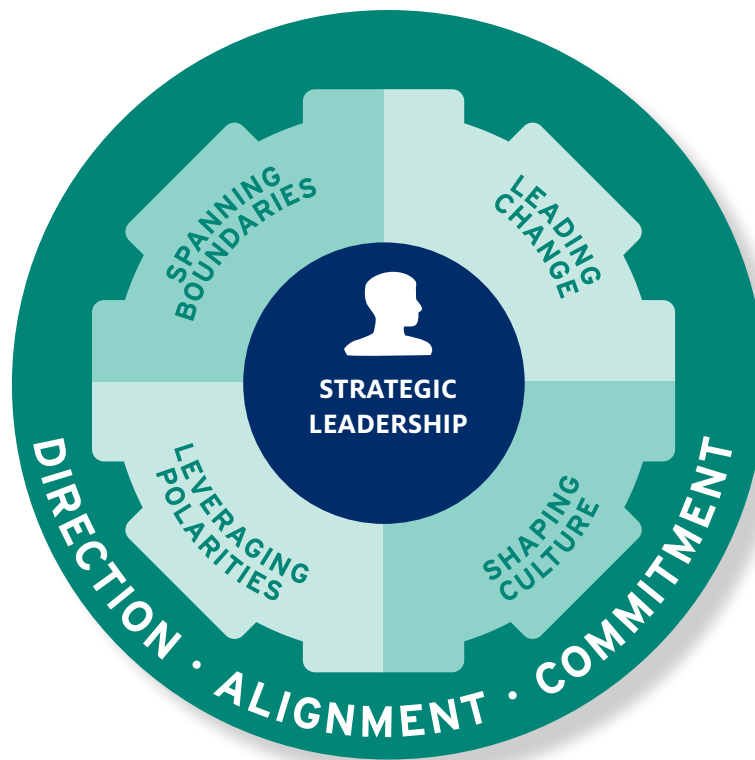
Leading strategically also requires the executive team to identify and focus on its most pressing leadership challenges. We find that the challenges leaders face when growing their businesses and addressing strategic-related issues tend to fall into four broad categories (Dinwoodie, 2013):

**Leading change**—leaders foresee changes to the business environment that will bring increased complexity and new tensions to the organization as it engages in transformative business-model change.

**Shaping culture**—leaders develop organizational cultures that elicit strong identification and a sense of belonging on the part of individuals.

**Leveraging polarities**—leaders understand and leverage organizational priorities that may appear to be diametrically opposed, avoiding an “either/or” approach, they find “both/and” solutions.

**Spanning organizational boundaries**—leaders implement tactics to span organizational boundaries in order to facilitate interdependent decision-making and collaboration.



Successful leaders think strategically about these types of challenges, take action to address them within the organizational context, and influence other stakeholders to drive the institution toward the desired performance outcomes.

# Four Elements of Leadership Strategy

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Four elements of a leadership strategy are needed to transform strategic intent into practice throughout the organization—and on a consistent, ongoing basis. Executives in high-performing organizations will set a leadership strategy that:

- 1. Identifies the critical drivers of organizational success**
- 2. Shapes a culture that provides the conditions for individuals to perform**
- 3. Creates a strong and sustainable talent pipeline**
- 4. Evolves the organizational design to best support execution on the business strategy**

Doug Price, President and CEO of Rocky Mountain Public Broadcast Network, explains:

We have to focus first on understanding what drives our business and shaping the culture which enables us to execute the chosen strategy. From there, almost all progress is made from selecting the best potential from the

talent pool available, preparing that talent to respond to the demands placed upon them; then crafting the organizational structures and necessary measurement to make sure that the desired outcomes are being achieved.

# Element 1

## Strategic Drivers for Leadership

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**What is absolutely essential for leaders of the organization to accomplish together in order to execute successfully its business strategy?**

The starting point of a leadership strategy is to review the business strategies and identify the leadership competencies and capabilities that are needed to implement them. These are the leadership drivers that require strategic investment in order to lay the foundation of enduring organizational success.

Drivers are the levers that—if pulled—will catapult the business strategy forward. They are areas to prioritize and invest in to ensure the organization's capability to execute the strategy. They are the essential factors that—with dedicated time, energy, and funds—will determine success.

Identifying drivers also clarifies what is not essential. It eliminates doubts about what matters most and prevents strategic distraction.

Consider the case of a leading business services organization that we worked with as their leaders sought to aggressively grow the business. Their business strategy called for expansion into international markets, extending the portfolio of service offerings, acquiring new businesses, and centralizing some functions to gain efficiency. In order to gain traction on these strategic initiatives we identified leadership capabilities that would be essential to develop throughout the organization in order to execute on these business strategies.



Business Strategies	Strategic Drivers for Leadership
Expand into international markets	<b>Cultural agility</b> —promote the predisposition to appreciate diversity and develop cultural intelligence to operate successfully in unfamiliar territories.
Extend the portfolio of service offerings	<b>Foster imagination</b> —support innovation to adapt traditional services and creativity to venture into new service offerings.
Acquire new businesses	<b>Span boundaries</b> —cross vertical, horizontal, geographic, demographic, and stakeholder boundaries to integrate business activities, realize synergies, and develop organizational best practices.
Centralize functions to gain efficiency	<b>Create collaboration</b> —turn potentially conflicting operational situations into common ground decision-making that contributes to the profitability of the organization as a whole.

Since these leadership drivers were considered key to achieving business success, the organization invested in an extensive developmental plan to strengthen leadership competencies associated with the drivers. The process of discovering drivers and aligning leadership strategy with the business strategy is an iterative, ongoing process that requires accurate analysis and, above all, honest dialogue among organizational leaders.

Remember, the leadership drivers for your organization must align with your business strategy; do not base your drivers on another organization’s story or current buzzwords in the business media or a competency list you created years ago. As the business strategy evolves to meet the challenges of the competitive environment the leadership drivers to support strategy execution must evolve in unison.

Walter Bayly, CEO of Banco de Credito and COO of Credicorp Group, makes the connection this way:

**Let’s be clear—we invest in developing our leaders in order to meet our business goals. Our leaders drive our business performance, and so we must understand what drives our leadership capability.**

## Element 2

# Leadership Culture

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### **What type of culture is necessary for leaders to create in order to foster organizational success?**

Leadership culture is the self-reinforcing web of individual and collective beliefs, practices, behaviors, and patterns in an organization. It is the way in which leaders interact, make decisions, and influence others in their efforts to create direction, alignment, and commitment. The leadership culture has a direct impact on your organization's ability to achieve the business strategies you have set.

Leadership cultures can be understood in terms of three essential types (McGuire and Rhodes, 2009):

**Dependent** leadership cultures operate with the belief that **people in authority** are responsible for leadership.

**Independent** leadership cultures operate with the belief that leadership emerges out of **individual expertise and heroic action**.

**Interdependent** leadership cultures operate with the belief that leadership is a **collective activity** to the benefit of the organization as a whole.

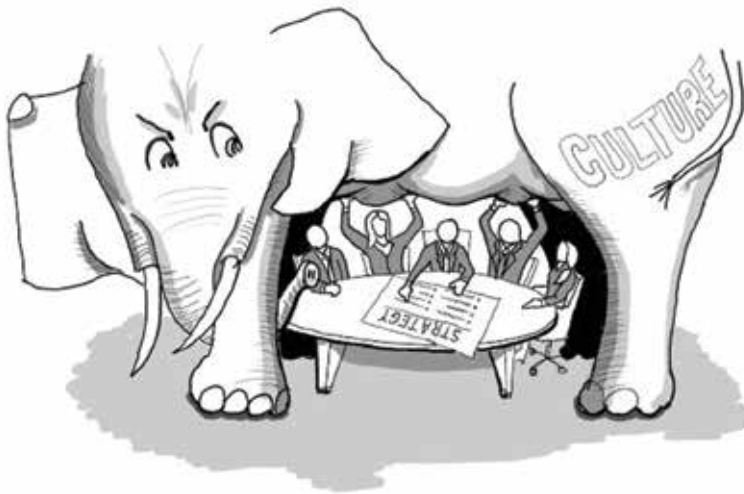
Leaders' own conscious and unconscious beliefs drive decisions and behaviors, and repeated behaviors become leadership practices. Eventually these practices become the patterns of leadership culture. While one leadership culture may dominate, other cultures may be operating in different divisions, functions, or groups within the organization.

The challenge for organizations and their executives is two-fold:

You may not have the culture you need to enact your business strategy and perform.

# STRATEGY? CULTURE PERFORMANCE?

And in the performance game, culture trumps strategy every time.



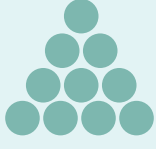


Our research and work with organizations across the globe demonstrates that when leaders shape a culture that contributes to creating direction, alignment, and commitment (DAC) across the organization, the probability of attaining superior performance is quite high

(Dinwoodie, 2011). The key question is how do leaders go about creating a shared direction, coordinate work processes, and maintain commitment to the collective? This process of creating DAC may vary greatly depending on the predominant leadership culture.

Looking at the chart below, you can see that the approach to setting direction, for example, could be rooted in compliance (dependent culture), influence (independent culture), or shared exploration (interdependent culture). Similarly, the cultural approach to creating alignment and building commitment will vary depending on what leaders consider will be most effective in their particular organization to achieve their desired performance outcomes.

### Cultural Considerations of Creating DAC

	Direction	Alignment	Commitment
 <p><b>Interdependent</b></p>	<p>How will we decide on a shared direction?</p> <p>Agreement on direction is the result of <b>shared exploration</b> and the <b>emergence</b> of new perspectives</p>	<p>How will we coordinate our work so that it fits together?</p> <p>Alignment results from <b>ongoing mutual adjustment</b> among <b>system-responsible</b> people.</p>	<p>How will we maintain commitment to the collective?</p> <p>Commitment results from <b>engagement in a developing community.</b></p>
 <p><b>Independent</b></p>	<p>Agreement on direction is the result of <b>discussion, mutual influence, and compromise.</b></p>	<p>Alignment results from <b>negotiation</b> among <b>self-responsible</b> people.</p>	<p>Commitment results from <b>evaluation of the benefits for self</b> while benefiting the larger community.</p>
 <p><b>Dependent</b></p>	<p>Agreement on direction is the result of willing <b>compliance</b> with an <b>authority.</b></p>	<p>Alignment results from <b>fitting into</b> the expectations of the <b>larger system.</b></p>	<p>Commitment results from <b>loyalty</b> to the source of authority or to the community itself.</p>

When you understand how people decide on a shared direction, coordinate work, and maintain commitment, you'll have a better sense of your organization's leadership culture. From there, you need to determine if you have the culture that best supports strategy execution.

The leadership strategy process helps leaders with this analysis of culture. It allows them to see and articulate the formal and informal elements of culture in your organization and evaluate the extent to which culture will support—or prevent—the success of business strategies.

Credicorp's Walter Bayly explains:

Developing our leaders means shaping our culture so that people can perform. It is about finding a fit. We have learned in business that if it doesn't feel right, it isn't right. And our leaders must create the right performance-culture mix for our people to thrive. What are those elements of culture? That is for our leaders to discover.

# Element 3

## Talent Systems

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### **Are the organization's current talent systems and leadership architecture aligned with desired organization competencies and leadership culture?**

Executives say that managing talent is one of the most complex and most frequent challenges organizations face (Smith & Campbell, 2010). Gaps in the leadership pipeline are the No. 1 challenge related to managing talent, according to another study (Lamoureux, Campbell, & Smith, 2009).

A leadership strategy must address the need to attract, retain, and develop the talented

people—throughout the organization—who are critical to meeting the organization's goals. It looks beyond the current business needs and sets into motion talent sustainability.

Specifically, talent sustainability involves a holistic look at talent systems, processes, and metrics, including:

**Executive commitment and engagement**  
Critical talent identification, development and succession  
Learning and development  
Competency model development and deployment  
**Knowledge networks**  
Performance management  
Reward and recognition  
Sourcing and recruiting

HR leaders, who are closest to these talent systems, serve as talent accelerators throughout the organization. They provide the critical link between the many talent components and the overarching leadership strategy.

Meanwhile, leaders at every level have a role to play in creating a sustainable talent pipeline. Courtney Harrison, a vice president of human resources for Juniper Networks, explains:

All leaders at every level must play a role in identifying and developing our current and future talent. Their responsibilities vary depending on the level of the leader in terms of their relationship with the employee as well as their level of influence within the Juniper-wide system. Regardless of leadership level, it is critical that all of our leaders make strengthening our talent pool a day-to-day priority as our talent is Juniper, today and in the future.

At the same time, the commitment and engagement of senior executives may be the most critical for bridging the gap between strategy and performance.

Senior leaders across the organization need to understand and embrace the importance of talent management as a strategic and critical component of organizational success. They are vital to the leadership strategy process and should be directly involved in the talent sustainability work. They become “orchestrators” of talent.

# Element 4

## Organizational Design

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### **Do the organization's structures, systems, and processes strengthen the ability for culture and leadership to evolve in support of business strategies?**

Organizational design may strengthen or inhibit the ability of leadership to enact change, transform the organization, and achieve enduring performance potential. Structures, systems, and processes should be designed to serve strategy—not the other way around.

**Structures.** Does the organization's strategic orientation fit with its structure? For example, if the business strategies are oriented around brand dominance, a functional structure with key areas (marketing, finance, production, etc.) reporting directly to the CEO may be a good strategic fit. On the other hand, if business strategies are growth-oriented via geography where different lines of business require greater autonomy, a business-unit structure may make more sense. Of course, this oversimplifies the process—but the idea is that there is no ready-made, perfect organizational design and leaders need to make intentional choices about what works and why.

**Systems and Processes.** Organizational systems affect the way people behave in the organization. Systems and related processes should promote behaviors that support the business strategy—rather than block it. Five systems—reward, communication, learning, social network, and control systems—exist in most organizations and should be evaluated as part of the leadership strategy.

Structures, systems, and processes should also be shaped by the discussions about leadership culture and the specific behaviors the organization seeks to develop through its talent practices.



Consider an organization that is changing its strategic focus and seeking growth through product innovation. Fostering imagination, listening to the customer, and working across stakeholder boundaries are critical leadership drivers. A culture of interdependence—where innovation stems from collaboration—is seen as essential, and top executives must build their individual and team capacity to work and lead in new ways. However for an interdependent culture to take hold, the structure and systems that previously supported independence and autonomy need to be dismantled and replaced with something new. Matrix structures, project-based teams and a focus on shared outcomes may pave the way—and talent must be given both the learning opportunities and reinforcement to make them successful within the new organizational context.

As Doug Price stated after leading an intensive organizational transformation process at Rocky Mountain PBN:

If organizational structure is aligned with strategy and strategy is accommodated by culture you can expect any institution—whether business or nonprofit—to evolve into a high-performing organization. In the case of Rocky Mountain PBN, we manage in a matrix that incorporates both business lines and geography. We expect our geographic leadership to plug in to the line management to continuously improve their measurables. Our line management reciprocates with expertise that is critical to the success of our different regions. The dynamic interaction of our leaders across the matrix fosters the culture and social dynamics that are the foundation for success.

When leaders examine the organization's current design in the context of the strategic drivers, culture, and talent development needs, they can begin to change structures, systems, and processes in alignment with the business strategy. In doing so, leaders begin to form a tighter link between strategy and execution, boost performance, and increase the odds of success.

# Unleash Performance Potential

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Business strategy is the foundation of a leadership strategy. It provides the direction and the motivation for talent development. In turn, it is talent that will allow the business strategy to be realized, refined, and reinvented over the lifetime of the organization.

By making explicit the leadership drivers, the culture, talent systems, and organizational design, the organization begins to unlock the inherent performance potential of the organization.

Of course, setting business strategy is not a one-off process—and neither is creating a leadership strategy to go with it. Kaye O’Neal, regional director of human resources at The Wendy’s Company, puts it well:

**Leadership strategy is a multilevel process that spirals down and around the entire organization. The tactics of one level become the strategic challenges of the next. As the strategic challenges cascade from level to level and spread across the organization, teams become aligned to accomplish the business’s strategy and goals.**

# Resources and Further Reading

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