

THE LEADERSHIP DILEMMA

A conversation with the CEO of a major insurance company highlighted a core leadership dilemma – and one that is particularly relevant now - very elegantly. During a lunch with him, he wrote his vision on a napkin.

The CEO explained his drawing: *'My shareholders want a permanent return on their investment. They want it as quickly as possible and preferably all the time. That is the left curve. On the other hand I know that the organisation has to renew itself. That is achieved by entrepreneurs and visionaries not by number-crunchers. I cannot precisely say how much innovation costs, how long it will take to have an effect or even whether it will be a success. That is the right curve of my diagram. My job as a leader sits where these two pressures meet and requires that I never give in completely to either of them.'*

'If I concentrate fully on short-term shareholder value, I lose my innovation strength: if I just invest and invest, I let down my investors and, in so doing, lose my credibility. This dilemma is my job. The essence of leadership is balancing those two pressures, never giving in to either.'

This tension involves a number of opposing forces:

- short term tactics vs longer term strategy;
- the needs of staff morale and culture vs the wants of external owners and investors;
- what has definitely worked vs what might possibly work in the future;
- risk vs stability;
- investment vs profit;

- growth vs margin;
- innovation vs exploitation.

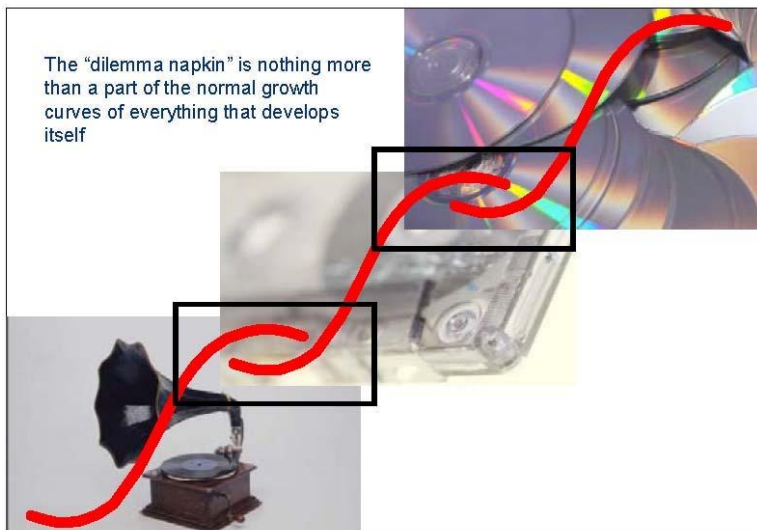
Even if your company is not quoted there will be other short-term external pressures: from sources of finance and key customers for instance.

Leaders act within the 'area of turbulence' where these pressures meet throughout the business cycle, but the issues become particularly critical as a business model turns down. This may be because a business model is operating less well, figures are softening, a technology is past its sell-by date or something catastrophic has happened, such as the recent financial crash. Here the urge to stay with models that have worked (despite contrary evidence) allied to a growth in bureaucratic rules to protect diminishing returns collides with a realisation that somehow things HAVE TO change fundamentally. Taking a risk seems most necessary at a time when risk seems least defensible.

The CEO we were talking to had faced exactly this dilemma in a company that had gone to sleep. He managed to turn it round. He had, without realising it, used a form of S-curve analysis to highlight exactly the moment when the leadership dilemma becomes most sharp.

The S-curve, the basic underlying analytic tool we use is the general shape followed by everything that grows and then declines, whether that is a human life, a career, a product, a service, a market, a trend, the power of a country or an organisation, a love affair or an anthill.

Transposing his diagram onto the S-curve we get this.



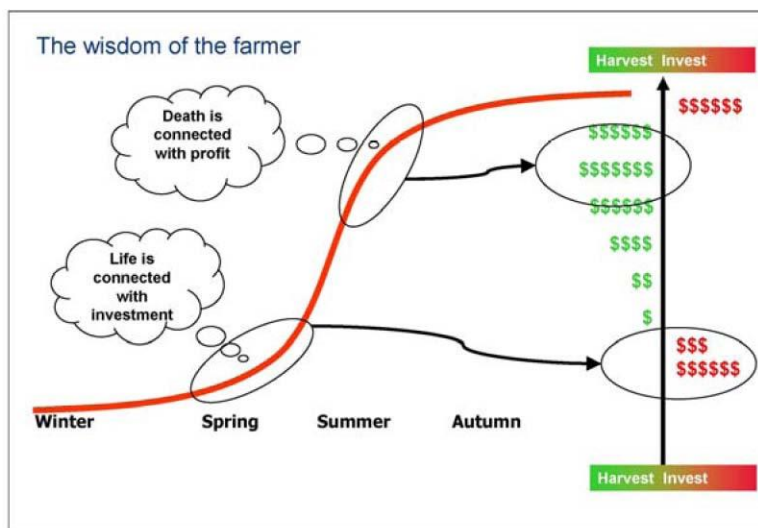
Let's look at the S-curve more concretely; again, without necessarily knowing the term, farmers deal with S-curves each year.



The farmers' S-curve in 'leading' activity on his farm is the cycle of seasons.

Farmers understand this dynamic: profit comes in the Autumn and Autumn only comes once each year. Winter inevitably follows during which the farmer begins again. Leaders, managers and shareholders seem unaware of this basic principle. They think

they can continue extending the curve, repeating the Autumn harvest with no need to shiver (and do some hard work) over Winter.



The paradox is that dying and success are linked.

This clear statement of the tension at the heart of leadership maps precisely onto what leaders know, how they act and what their role is. Nick Roy of Ashridge Management Colleges points out: *'Leaders are becoming more focused on financial, operational or technical competences. This is a good thing in itself but I discriminate between these sorts of leadership competences and "Style".'*

“Style” describes enduring components of behaviour which underlie leadership competences. They are more to do with interpersonal relations than with numbers and things.

Nick Roy identifies a critical element of style. *‘Leaders deal with uncertainty and ambiguity. They shouldn’t be seduced by the idea they have to know all the answers: they should ask their team for advice and control their own anxiety.’* Nick suggests that some traditional models of leadership (heroic, transformational and charismatic for instance) simply don’t cope with this issue, which is particularly important in turbulent times. Leaders have to supply firm direction – that’s a given – but those models tempt them to supply answers to every question – even if they’re not sure they’re right.

As the CEO I discussed this with had realised, the fundamental leadership dilemma is at its most testing at times like these. And a fuller S-curve analysis can help leaders map a route forward in which they give in to neither pressure but balance the opposing forces and negotiate the turbulence of business reinvention.

See

<http://www.human-insight.com/humanInsight/en/Tools-Techniques-and-Learning/The-S-curve/S-curve-challenge.html> for a more detailed description of how the S-curve maps the leadership dilemma and recommends action.