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Leadership skills for the 21st century

What skills do you need to lead in the face of today's global challenges? Are you fit to survive in this changing new world? Climate change and other pressing environmental and sustainability issues urgently require transformational change. In this article, Matthew Gitsham and Kai Peters challenge readers with the findings of Ashridge-led research presented to the United Nations in December 2008 which reveal that although 76% of senior executives say that leaders in their organisations need the knowledge and skills to respond, fewer than 8% believe they are currently developing them very effectively.

We are living in challenging times. The 2008-09 financial crisis has created circumstances which are testing our leadership skills as we attempt to navigate through uncertain market conditions. This financial crisis has been over 20 years in the making and illustrates a valuable and extremely important lesson – the longer risk is ignored, the bigger will be the consequences. Although current recession concerns are the most serious for nearly a century, they are dwarfed by those predicted in the Stern Review on the *Economics of Climate Change*, published in the United Kingdom in 2006.¹ This highlights that the expected increase in extreme weather, with the associated and expensive problems of agricultural failure, water scarcity, disease and mass migration, means that global warming is likely to precipitate crises on a scale we have never witnessed. Stern extrapolates the cost to suggest that climate change could swallow up to 20% of the world's GDP.

The shift to a low carbon economy is one of a wide range of issues and trends that business leaders increasingly agree will

impact on their companies, according to Ashridge research conducted in the autumn of 2008. Wider concerns relating to sustainable development – finite and increasingly scarce resources (energy, water, food, metals and minerals for example) – also figure prominently. Business leaders have thus clearly understood that severe challenges lie ahead. But do they know what to do about them?

With emerging economies the source of future growth for many organisations, and with President Obama and political leaders around the world putting the transition to a low carbon economy at the heart of their response to the current recession, it is increasingly clear that it is not simply a case of business as usual with a few tweaks here and there. There is now an urgent business imperative for transformational change.

Transformational change requires more than changing to a few low wattage lightbulbs. Making the necessary adaptations to a sustainable economy means putting these issues at the heart of strategic decision-making and integrating them into all the key business systems and processes. It means influencing policy-makers to create new market structures and rules of competition. And it also means reaching the hearts and minds of individuals working right across organisations, changing the nature of the conversations within organisations and equipping people with the knowledge and skills they need to enable them to respond.

What does this mean for you and your role? And what does it mean for leadership development?

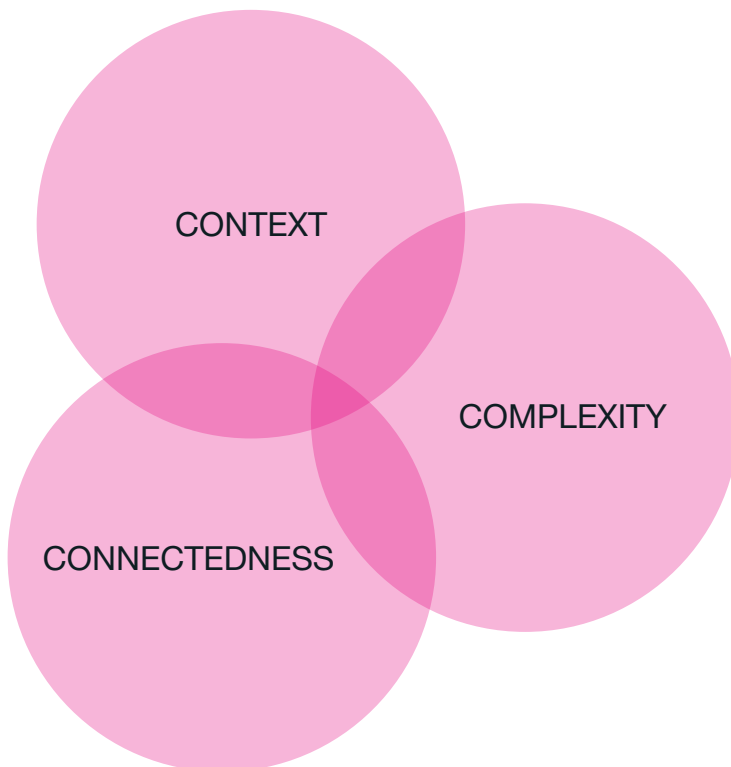
To explore these questions, Ashridge worked with Unilever, IBM, Shell, Johnson & Johnson and Microsoft – the founding corporate partners of the European Academy of Business in Society – as well as a number of other leading business schools around the world. The findings, based on extensive interviews and a global survey of CEOs and senior executives, present a stark message:

76% of CEOs and senior executives polled say it is important that leaders in their organisations have the knowledge and skills to respond to sustainability, but fewer than 8% believe these knowledge and skills are currently being developed very effectively.

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

Context

The CEOs and senior executives believe that three clusters of knowledge and skills are required in their organisations. 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 environmental and social trends. And they need to know how their sector and other stakeholders (regulators, customers, suppliers, investors, NGOs) are responding. Global warming, for example, has become a strategic issue for organisations: not just because of direct implications for the organisation and its assets and business model from changes to the climate, but more significantly because of the way customers, investors and most importantly regulators and competitors are responding.

As Michael Porter, in the *Harvard Business Review*, noted recently: *"Climate change is now a fact of political life and is playing a growing role in business competition. Greenhouse gas emissions will be increasingly scrutinized, regulated and priced. While individual managers can disagree about how immediate and significant the impacts of climate change will be, companies need to take action now."*²

Senior executives also need the skills to respond to this information, as 70% say that global leaders need to be able to integrate social and environmental trends into strategic decision-making. This can mean knowing how to use tools for scenario building and risk management to aid decisions about emissions costs within capital expenditure projects or horizon scanning for consumer trends.

Energy utility **National Grid** has introduced a carbon budgeting process that mirrors its financial budgeting process, with all parts of the business negotiating to agree how much carbon they will emit. Senior leaders in the organisation now need the skills to be able to take into account the shadow price of carbon when making capital expenditure decisions to understand the future financial performance, should carbon pricing legislation be introduced.

FMCG giant **Unilever**, through its in-house Marketing Academy, has introduced the Brand Imprint process to help build the skills of its brand directors to factor opinion leader and consumer attitudes about social and environmental issues into the development of its top brands in order to build customer loyalty, differentiate and capture value. Brand teams seek new opportunities by conducting a 360° scan of the social, economic and environmental impact that their brand has on the world, taking into account consumer attitudes as well as the views of external stakeholders, NGOs and opinion formers, and market forces driving the brand's success. The learning experience revolves around developing skills to identify business-relevant social and environmental issues and factor this information into product and brand development to improve the bottom line. The first four brands to go through the Brand Imprint process were four of Unilever's most successful ones: Lipton Tea, Dove, Lifebuoy and Flora/Becel. Many other brands within Unilever are now undertaking the process as well.

"Leaders need to be able to introduce environmental and social criteria into strategic decision making from the start – not doing this is worse than stupid, it's reckless."

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

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 these issues and trends present tend to be marked by a lack of certainty and a lack of agreement. 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.

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 in 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 who 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.

Engaging with local communities can be increasingly important for a variety of companies, especially those in the oil, gas and mining sectors, where the expectations of governments, institutions providing project finance, and NGOs, not to mention local communities themselves, are rising. This means moving from a mindset in which local communities are viewed as a nuisance that must be managed, to a strategic partner where constructive relationships are central to value protection and value creation. This means more than financial donations for community projects – it means a real focus on relationships.

The ability to engage and contribute to public policy is another example, particularly important in the context of negotiations over a successor to the Kyoto Protocol and the second phase of the European Emissions Trading scheme. By 2012, the European Union will make decisions on the future distribution of permits that could be worth up to €3 billion for the airline industry³: there is clearly a lot at stake. Companies need to work closely with regulators to ensure that the new rules do not have unintended consequences, but work in the best possible way. For many business leaders, this engagement will require enhanced skills.

A need for diverse learning approaches

If these are the kinds of knowledge and skills needed, how can they best be developed? Again, the research sends a clear message. Traditional approaches are not enough: a broad range of learning approaches are required to develop the global leaders of tomorrow. Because the issues are complex, senior executives believe the most effective learning and skills development comes through practical experience, whether the learning is on-the-job, project-based or experiential. These learning experiences can be enhanced by structured reflection through coaching or Appreciative Inquiry. Learning directly from the experience of others is also valued as important – through mentoring, or communities of practice and other formal and informal learning networks.

Individuals need to seek out their own opportunities to learn and refine the skills they need. HR and Learning and Development Directors also have a responsibility to ensure that the organisational learning agenda supports the development of appropriate skills. This process can be supported through leadership development programmes. Unilever, for example, runs a programme on its emerging markets strategy for high

potentials. Through project-based learning, teams of executives build their engagement skills at the same time as researching current social and environmental trends and the business implications, by spending time in emerging markets collaborating with NGOs, microfinance organisations and other grassroots groups. The teams develop business proposals to present to the Unilever board and the most successful are selected for implementation.

InterfaceFLOR, the modular flooring and carpet tiles manufacturer headquartered in the USA, has introduced a three-tier education programme. Highly interactive, the programme progressively raises awareness of key environmental and social issues and develops the skills that individuals need for the organisation to be able to fulfil its vision of being environmentally restorative by 2020. Individuals must have participated in certain levels of the programme, and where appropriate passed a graded assessment, to be eligible to be considered for promotion to more senior roles in the organisation.

Together with InterfaceRAISE, the consulting arm of InterfaceFLOR, Ashridge has developed a partnership which brings together Ashridge's expertise in executive education and organisation development consultancy with the vast practical experience of InterfaceFLOR in sustainable development. Through workshops, senior executives and strategic decision-makers are supported to think strategically about the commercial opportunities and challenges presented by sustainable development and to develop a strategic plan to engage their organisation to address them. These plans are then rolled out with further support from the Ashridge InterfaceRAISE partnership.

For the past four years, Ashridge has collaborated with a leading global healthcare, lifestyle and technology

company to design and deliver a leadership and strategy programme that engages its high potential managers in exploring new markets and products, and equips them to address the challenges of the future through a combination of residential modules and project-based learning. Projects take place in emerging markets that both address the long term sustainability vision of the company and put participants outside their comfort zone. Participants are challenged to understand and engage with local people in these locations, to understand and engage with the issues they face and the lives they lead, and to innovate to create new business ideas and viable business models to support them. For example, for one project, participants worked with a local community in India, developing relationships with NGOs and running focus groups with village women to source and assess ideas for alternative products and explore ways to provide them to poorer people. After the project, participants deliver their proposal for a business model, then work with the company's senior management to decide on the next steps forward. This experience is leveraged and developed at a personal level during the final, classroom-based module.

On another programme, the Ashridge MBA, a compulsory two week module explores how sustainability issues cut across all the functional silos, and builds critical skills. In 2005, Ashridge launched the world's first continuing professional development programme for sustainability and corporate responsibility directors – the *Integrating Corporate Responsibility* programme. All this work has been supported by our specialist centre for research and thought leadership – the Ashridge Centre for Business and Society – which we established over a decade ago in 1996.

So what are the implications for you?

You are a senior leader in your organisation, or on a career track towards becoming one. Ask yourself these questions: “How important are the skills identified in this research to my role now and as I progress in the future? Do I understand a low carbon economy? Are our products and services sustainable? If not, can I change them? What are my current communications strengths and weaknesses? Can I engage effectively with scientists, regulators, competitors and community groups?”

And if you are an HR or learning professional: “Which of these knowledge and skill sets are important for my organisation, now and in the future? Does the low carbon economy even surface in our learning strategy? What’s stopping us?”

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Further information and the full research report is available from www.ashridge.org.uk/globalleaders

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