MANCHESTER
SQUARE
PARTNERS

# PREPARING
## LEADERS FOR THE
## CHALLENGES AHEAD

*a guide for companies
and individuals*

Technology, demographics, and the rebalancing of world economic power are among the major developments influencing our future and how we think about leadership. As a sounding board and advisor to CEOs and senior executives, Manchester Square Partners regularly looks at the skills required to respond successfully to the changing business environment.

To test and enhance our own thinking, we have interviewed 14 chief executives, seven women and seven men, from FTSE companies, financial and professional services, government and not-for-profit organisations. We asked them five questions:

*What are the biggest trends shaping our
    future over the next decade?*
*What will be different about leading an
    organisation compared with the past?*
*What has made them successful leaders to
    date?*
*What skills are missing that will be needed to
    respond to the changes they envisage?*
*Which of these would they prioritise for
    leadership development?*

Some attributes have always been important for leadership, while others need to be developed to respond to emerging challenges. From these CEO conversations and our own work, we have identified seven key requirements for leaders preparing for the future:

*Being open to difference*
*Demonstrating value and purpose*
*Exercising soft power*
*Digital fluency*
*Interacting more closely with employees
    and customers*
*Handling intense scrutiny*
*Making time for reflection*

In this latest in our Leadership Series, we elaborate on the challenges ahead and how to prepare for them, illustrating them throughout with quotes from our interviews. We are pleased that Alison Maitland, former Financial Times journalist and co-author of *Future Work* and *Why Women Mean Business*, has again contributed her knowledge and expertise to working with us on the interviews and writing this report.

## 1. Technology

'Disruption doesn't always come from your industry any more, it doesn't come from people you know necessarily any more.'

THE TRANSFORMATIVE impact of technology figures high among the trends shaping society and business, in both positive and negative ways. Many of our interviewees pointed to the dramatic increase in the pace of change, and the ease with which internet entrepreneurs can disrupt established sectors and companies. 'If there is a better way of doing it, somebody is going to find it. So woe betide you if you are sitting on a business model that only works because everybody is doing inefficiently what they could do more efficiently.'

There are exciting possibilities for business from analysing the 'big data' generated by millions of digital and mobile communications, searches and transactions. But these potential breakthroughs also raise serious questions of security, privacy and ethics. Cyber attacks and crime represent an increasing, and potentially cataclysmic, threat.

Technological advances, and the growing reach of the web as the next 3 billion of the world's population come online, have wide-ranging implications for businesses and individuals, including:

New ways of communicating, notably with younger people at work: 'It is about the challenge of that, the immediacy of that, the intimacy of the relationships that the variety of communication channels now give us with colleagues and employees.'

Structural changes leading to the dispersal of power in organisations: 'Technology allows information to pass across completely different boundaries, call it horizontally as opposed to vertically ... Small groups of people can have a tremendous reach.'

Healthcare advances through genomics and computing power: '[Access to your DNA sequence] is going to be widely available ... and the cost is so insignificant now compared to ten years ago, it is going to have massive implications for society with regard to predicting illnesses.'

Transparency: Technology has already vastly increased consumer power, from price comparison websites to public praise and blame handed out via Twitter or Facebook. Businesses have to manage these online challenges to their reputation while dealing with heightened scrutiny from governments and regulatory authorities since the global financial crisis. 'Privacy is no more.'

## 2. Changing demographics and expectations

While the world's population is growing, talent is becoming scarcer in countries and sectors where the population of working age is declining. Serious labour shortages in advanced economies will create unprecedented challenges for business leaders and policymakers over the next 15 years, according to a report by The Conference Board.

The ageing workforce came up in many conversations, including the effect on different generations in terms of tax and spending. 'I am not sure society fully understands the impact of that trend. Certainly that will have an impact on business and the way businesses need to think.'

The young generation meanwhile presents a mix of challenges and opportunities. Some CEOs saw the biggest difficulty as getting young people into jobs in the first place. Others expressed concern over how to attract and retain the brightest young people who have a huge range of work choices around the world.

Expectations of business and of working life are changing. The new generation manifests different motivations from its predecessors. 'The best talent doesn't necessarily gravitate to some of the businesses that they used to … People are a lot more mobile, they are not driven by money in the same way that they were before.'

Workers want employers to provide non-financial rewards such as a sense of purpose and value, collaboration and fun. Demand is growing from many sections of the workforce for ways to achieve balanced lives in the face of work intensification. 'There are people coming into the workforce today, having a changed ... attitude to work responsibility, life balance, authority, style and things that they want from employment.'

Several CEOs spoke about a fundamental shift in public opinion towards business since the financial crisis. 'We have crossed a Rubicon and the default is that business isn't a good force.'

'There is a great indifference … coming in the next generation. I think it is accelerated by social media.'

Traditional forms of authority are in long-term decline. One interviewee highlighted a rise in indifference towards political parties, established media and big business. In the era of globalisation, and possibly as a backlash against it, some saw a tendency for people to focus on themselves and their communities, or 'tribes', a trend that could favour smaller businesses with a local presence as compared with larger, more distant ones.

## 3. Global economic power shifts and geopolitical threats

The re-emergence of China as a global power has been a defining feature of the early 21st century. Western economies, grappling with continuing budget deficits, must face up to the world's many rising economies and the rebalancing of influence. While many of these markets are experiencing a slowdown in growth-rates, long-term shifts in the global economy raise important questions about leadership styles for the future.

'It used to be an Anglo-Saxon-dominated model. It isn't any more and it won't be even more so going forward.'

Some of our interviewees talked about how leadership models might change. 'An Anglo-American model has a winner and a loser and actually, if you go further East, the concept of face and relationship asks far more for partnership.' Given labour shortages in advanced economies, and global mergers and acquisitions, more leaders will come from emerging markets that have an expanding pool of highly skilled talent.

Gaining genuine insights into different markets becomes even more important. 'You might have a particular product and service which might appear to be universal, but how do you make that really work in a global context?'

There are the very present threats posed by regional conflicts and rising inequality, and the global risks these create for societies and businesses. 'It used to be the US versus the USSR actually standing and looking at each other in the face and now the threat is coming from agile individuals or small groups that are much harder to track, and so there is going to be a level of

uncertainty that is fundamentally different for a business to operate in.'

One interviewee spoke of 'massive and troubling inequality' within Western societies. Where this was once largely a preoccupation of NGOs and anti-poverty campaigners, it is now a major concern to business leaders. 'Severe income disparity' was number four in the World Economic Forum's list of ten global risks of highest concern in 2014.

## What will be different about leading organisations in the next decade?

The trends described above will have a profound effect on business models, organisational structures, work relationships, and the way in which companies are held to account. Our conversations with CEOs, and our own work, have highlighted the following significant differences about leading organisations now and into the future compared with the past:

### Networks, not hierarchies

Collaborative networks, partnerships and alliances are in the ascendancy, while traditional hierarchies are in decline. Organisations are crossing boundaries to compete and collaborate in each other's territories. 'One of the things that we do probably more now than we have ever done as a business is we work completely across government, we collaborate with lots of NGOs, we don't think we have to have a monopoly on good ideas.'

Power and decision-making are also shifting inside organisations. 'There will be fewer jobs at lower and middle management, meaning a dramatic change in the shape of the people-pyramid. Different management skills will be needed, more influencing and less hierarchy, as well as skills in working across borders.'

Leaders have to persuade people, both external partners and

'You have got to recognise your business exists within a network of relationships with a far wider range of stakeholders than before.'

employees, to be part of the vision or project they are creating. Without the safety nets of the past, such as pensions, loyalty must be achieved by other means. Leaders must understand what people want from work, and what motivates them. 'You have got to be prepared for more ... flexibility in the way people work and less rigid structures that allow flexibility. Perhaps you have to align the goals for individuals or for teams very closely to what they are able to deliver.'

## Pace, ambiguity and scrutiny

Given the rapid pace of change, leaders will have to gather information and evaluate it to make good quality decisions even faster than in the past. They will have to see a way through highly complex and ambiguous situations, dealing with large amounts of information. Decisiveness has to be combined with keeping alternative options open.

Achieving swift yet reflective decision-making is a challenge that requires courage. 'There is something around the risk of time, so in the end if you wait too long, it will burn you, but if you make a decision with a lack of sufficient knowledge, that will also burn you.'

At the same time, leaders face increasing scrutiny as government and society hold organisations to account more acutely than in the past. There is a growing public expectation that all businesses take notice not just of their sector, but also of the wider society and context in which they are operating.

The shift in world economic power, together with the blurring of organisational boundaries, requires willingness on the part of leaders to learn from, and encourage, different viewpoints and styles. 'If you look at what leadership looks like in other parts of the world, very successful parts of the world, it doesn't necessarily look like this. It is still typically male, but it is not necessarily about that kind of "alpha" behaviour. Once we have recruited people from Asia and Africa on our board and on our top team, we have got to enable them to be successful in their own leadership styles, not suddenly become clones of me.'

Cultural openness and adaptability are becoming indispensable ingredients of leadership. 'The experience of different cultures, different ways of working, diversity of experience, of the leader, is going to make them effective, and not having that breadth is probably going to mean you could get side-lined.'

'A deep understanding of others' perspectives is important.'

These attributes will provide antennae to pick up impending change in a business environment in which disruption can come from anywhere, at any time. They will also contribute to creative thinking, since there is evidence that diverse groups or teams are more innovative than homogenous ones.

'The polymaths will be kings and they will be the business leaders of the future. These guys understand data and science and they also understand, and care about, humanity, poetry and the arts. I think there is a melding of those things where you get interesting junctions of progress and innovation.'

The sheer breadth of skills required of leaders is a notable change from the past. 'We are asking them to be very broad in their skill set now, from being business-driven to being people-driven, to being very broad on diversity, to being broad on corporate social responsibility. When I think back to when I started up the management ladder, the skill set that we are asking people to have now I certainly didn't have at that early age.'

There is a paradox here, in that people are often expected to be specialists as they move up the ranks, then to be broad-based generalists when they reach the top.

A common theme was the need to have digital know-how, or at least to have people in your team with high levels of IT skills. 'I think you have got to get ahead of it, I think you have got to embrace it, you have got to have different kinds of people around you who absolutely get web, who get digital, who get social media.'

Leaders will need to adapt their communications. 'The way the next generations look for information, the speed at which they move, I think they will be much more flexible. So if you think about how you lead a group of people like that, I think that is going to be quite interesting and challenging.'

There will also be even greater emphasis on emotional and social intelligence. 'You could lead a FTSE business and be very introverted and be very successful. I don't think you can do that now. You can't just do it all within your own head.'

We asked our interviewees to name three attributes that had made them personally successful leaders to date. We have pooled their answers under the following headings, which provide an overview of the established and enduring traits of good leadership:

*Being authentic* – comfortable in their own skin, approachable, grounded

*Demonstrating integrity* – clear values, trustworthy, doing the right thing

*Being rational* – synthesising complex information, finding solutions not problems, decisive and consistent

*Being emotionally intelligent* – listening, understanding the human impact of decisions, connecting and communicating with empathy

*Being adaptable* – always learning and improving, taking career risks when necessary, open to new possibilities

*Seeing the big picture* – having a clear vision, setting audacious goals, thinking about the next big thing, challenging and inquiring

*Creating and building strong teams* – recruiting people with complementary (or greater) skills, coaching them, motivating them to collaborate, giving them space

*Being resilient* – energy and tenacity, and toughness in the face of setbacks

*Making an impact* – conveying messages simply, being passionately committed to the greater cause rather than to oneself.

We then asked what is missing from current leadership behaviour and skills that would be essential if leaders are to rise to the challenges ahead. To prompt their own thoughts, we gave them a list of traits we consider important. Based on their responses and our own experience, we have drawn up seven key attributes for successful future leaders:

*Being open to difference*
*Demonstrating value and purpose*
*Exercising soft power*
*Digital fluency*
*Interacting more closely with employees and customers*
*Handling intense scrutiny*
*Making time for reflection*

With the exception of digital fluency, these are not wholly 'new' leadership skills. Sometimes, however, only lip service is paid to the importance of soft power and openness to different perspectives, and leaders struggle to demonstrate such behaviour consistently. Natural human biases militate against this, as does the continued primacy of short-term thinking in business. We therefore examine why each skill is missing or in short supply and why it is so important, with examples from our interviewees on how to address the deficit.

'You have to put yourself in the position very deliberately where you go out of your way to expose yourself to other inputs.'

Acquiring this skill demands very deliberate and consistent action, which is hard work. 'The danger of the day job is that it gets in the way of all of this, so it is making sure you carve out the time to put yourself in the space where you will naturally be challenged by outside influences, by external influences which go beyond your industry and sector and the things that are most immediately on your mind.'

Some corporate programmes to encourage diversity and inclusion end up helping individuals to adapt to the dominant culture, rather than to bring their unique perspective unfettered to the table. 'Maintaining that difference and different perspective is actually what is going to bring value. That is really hard to manage and hard for people to read but I think that is where you get close to the customer and you probably have a genuinely more inclusive working environment. So it is that kind of fluency that I think is missing.'

Cross-cultural understanding is increasingly necessary. 'We avoid absolutely as far as we can the expat appointments – 95% of people who we appoint in a country are from that country or at least from that region ... I think constant interchange and working with those individuals does begin to influence your style, but you have to make the time for that interaction and for those conversations and to sit with them in meetings and understand what is happening.'

Leaders must avoid closing off options at the first airing, whether because of risk-aversion or narrow horizons. 'The way I think about the future is the art of the possible, rather than just saying no. We spend a lot of time internally, and then with the board, talking about the virtue of difference, in everything that we do.'

Building diversity into the team is essential. 'If people are serious about being more diverse then they need to seriously have that built round their leadership team. It is very easy to talk about how you understand the challenges of diversity, but if you have never personally been through them, how do you actually know what an effective solution is to put it right?'

## Demonstrating value and purpose

Companies are now judged in a broader context than in the past. Issues like growing inequality, and the shift in public attitudes towards business, mean that leaders need to develop a clearer sense than ever before of the purpose of their organisation in society and how best to demonstrate ethical leadership.

This was another area where several CEOs felt there was room for improvement. 'Your business reputation goes in a nanosecond and do leaders think about that enough? Do we think about the reputational impact of our decisions, or the products we are launching, or the communications we are doing. My personal experience is that we don't do that enough.'

'Corporations in the past have started at strategy and then worked through people and then got to values and actually that is the wrong way round.'

Getting boards to address purpose and values consistently alongside profit is undoubtedly difficult. 'It can often be done as a one-off exercise, it can be done from a strategy team or a sustainability team rather than the whole organisation, and certainly not [from] high in the mind of the chief executive or the leader or the chairman. So I think that is an area that we need to see a lot more.'

## Exercising soft power

Soft power is about persuading people to do what you want by attracting and persuading them, rather than coercing them. The concept was developed by Joseph Nye, University Distinguished Service Professor at Harvard, in relation to world politics and is gaining ground in leadership development. We think it is far more important for successful business leadership than it might have been in the past, especially given the trends outlined earlier.

Soft power came up consistently in our interviews with CEOs, and was linked with emotional intelligence and the need for gender-balanced leadership. 'I think the emotional intelligence piece rises higher and higher above the technical in terms of how people are going to lead. I do think that, within that, what are commonly intuitive to females or to women leaders in terms of their approach might be even more value. Certainly having that injected into the leadership mix is going to be more valuable to organisations.'

In order to attract followers, leaders need to connect with them as human beings. However, the experience of rising up the ranks, combined with short-term market pressures, often creates distance between leaders and their people. This must be overcome. 'I think one of the things that is most often missing in leaders, and certainly from people who move from management to leadership, is compassion ... It is not results at any cost.'

Several female chief executives gave us details about how they exercise soft power. One spoke about sustaining not just broad networks but deep relationships. 'It is knowing that if you had to pick up the phone to get somebody's support for something, you had a list of ten people you could go to, and every one of them would give whatever they could to support. Or if you had this great business idea that you wanted to test or you wanted a partner for, that you had some people in your network that you could reach out to, who would help you work that through.'

Another described the need to give organisations a heart. 'What I don't see in a lot of companies when I look from the outside in ... I don't get the sense that there is a heart. So, that may sound incredibly trite, but we talk a lot about our heart and soul ... The thing that I am proudest of is that we are an organisation with incredibly strong and unified values, and that means that you can sustain some really tough times, because you can ask things of people, and they will do it, and they don't ask for money, or recognition, they do it for the greater good.'

There is, understandably, a premium on fluency in digital and social technologies. Headhunters, for example, want non-executive directors for boards who have digital experience. This is a new, and still often missing, leadership skill. Very few aspiring non-executives can claim to have truly demonstrated digital experience, and the current generation of executives is only the first to have such experience.

'I think leadership having digital confidence, a confident understanding of technology and the interconnectedness of people and technology, is going to be important.'

Many of the chief executives we interviewed raised this as an issue of importance and concern, especially for seasoned leaders. 'I think a lot of people are digital dinosaurs ... they are not comfortable with it, I think they are fearful of it, they don't like embracing change, and that is a real issue, because people are talking about your organisation, they are often talking about individuals within it. You have to sort of embrace it, and get comfortable with it.'

The sheer pace of technological change has created this skill gap. 'Google has been around for 15 years, so if we are talking about the top of organisations for the leadership around the CEO particularly, we tend to be dealing with a generation that haven't actually dealt with those challenges. They might get it in their home life occasionally but they have not seen it in business. You know they have not dealt with social media, they have not dealt with those issues, so I think issues of experience around that are massive.'

The ability to communicate well using new technology is far from common. 'Some of the tech companies do it, but the vast majority of organisations just haven't grasped it at all, the way young people, "the employees of tomorrow", are communicating and therefore how to communicate to them.'

## Interacting more closely with employees and customers

This requirement arises from the rapidity of technological change and the shift in attitudes towards business and work described earlier. 'You need to get closer and closer to the people that buy things from you and why they do that, and the people that work for you and why they do that ... it is becoming more profoundly important given the pace of this change.'

Collaborative skills are more important than ever, with the rise of networks and partnerships across formerly strict boundaries. 'Your ability to operate in networks, build relationships, build partnerships, eke out competitive advantage based on not just what you do yourself but how you are connected to others, I think is fundamental.'

Technology makes it easier to involve customers directly in the innovation process. 'We are in a service business but I think it is also true of product businesses, but this whole idea of doing lots of market testing ... is diminishing to where you are actually interacting with some of your customers and they are giving you live feedback as to whether it is any good or not. The speed at which you improve and change is almost instant

and you need to move at that pace to stay ahead of the game.'

It also offers the opportunity for closer connection with employees, particularly the younger generation. One interviewee described addressing the challenge: 'I now blog to people, and I never blogged in my life before, and I have followers. So the way you start touching and interfacing with people is different.'

## Handling intense scrutiny

This is an increasingly important part of the repertoire of resilience and touches a raw nerve with many chief executives. 'Once you become a leader of a public recognised organisation you normally attract criticism, but the speed, the ferocity and the sheer volume of criticism that you can receive can be overwhelming in the space of 24 hours.'

'As regards social media and online scrutiny and the all-prevailing pervasive nature of 24-hour media, that is going to be amplified in the future.'

Leaders are obliged to respond in a clear way even though the decisions they are making are often surrounded by ambiguity and complexity. 'In a world of public scrutiny the media sees things in black-and-white terms, so you have to find a way of squaring a circle where you are making quite often ambiguous shades-of-grey decisions, based on a calculated risk, in a role which judges everything in black-and-white terms.'

Coping with such intense scrutiny is easier when you are confident about your values and the direction in which you are going. 'You have to be resilient and to the point that you have to believe in yourself and you have to believe in your own personal philosophy.'

Popularity does not enter into it. 'The other thing you probably need in terms of your leadership skills are a bunch of really brave people who don't read the media, who will not actively be interested in what people say, but are going to build the business for the long term and they are just going to take the flak that comes with it.'

## Making time for reflection

This final leadership behaviour is about building resilience by giving oneself space to draw breath in the face of potentially overwhelming day-to-day demands. It is also about staying abreast of developments and thinking ahead.

'A huge challenge for any leader is how do you keep yourself up to date with the things that are changing and what that might mean for your industry and your business ... I don't think the annual away-day is going to cut it any more because, if you wait and listen for the next year, everybody else is going to be a million miles ahead of you.'

'I think we are losing what I believe is our sense of humanity by allowing technology and the pace of life to outstrip us.'

Time for reflection is also becoming more important because the pace of business life threatens the ability to make considered judgements. 'We were starting to make mistakes as a business, we were starting to trip ourselves up because we were going so fast. We were trying to build pace into our organisation and make mistakes quickly. That became a bit of a mantra for us, fail quickly and fail fast, when actually we were not reflecting enough about the quality of our ideas before we set off trying to test them.'

# Priorities for leadership development

One of the biggest challenges for any leader is to balance listening and reflection with getting business done quickly and efficiently. Under pressure, there's a tendency to fall back on the easiest option, using tried and tested solutions rather than giving someone else a chance to step up, or experimenting with a new but potentially better approach.

Our last question to chief executives was what they would prioritise for leadership development. One comment was to give people opportunities to learn the challenges of leadership through direct experience, but without getting burned. 'It is about putting such people in places so they get that first-hand experience of these challenges in a way that is relatively low-risk from a personal point of view, so that they can experience and get their arms around what it really means.'

Another priority was developing the ability to reflect, learn and listen. Female interviewees particularly emphasised the need for leaders to stay grounded, remember they are human, and keep trying to improve. 'When you are developing leaders, as they get more senior, it is making sure that that they realise they are still normal people and that part of what they have got to be is really inspirational business leaders but normal with everybody and approachable and engaging on the issues as well as the exciting things.'

Another priority was developing collaborative and inclusive

leadership. Collaboration depends on having the right people and shared values in the team, but also on knowing each other as human beings. Several leaders noted how difficult it was to be truly open and inclusive, even when they had all the right intentions.

We end with three examples of novel approaches to building collaboration and inclusiveness in leadership ranks.

One CEO discourages slide presentations in team meetings in favour of no-agenda discussions around the table. 'Let's just talk about the business and the challenges that we have, but not do it from a PowerPoint slide show, not do it from a pre-determined narrative, see where it takes us, and actually having done it on a few occasions, we are finding it a very powerful way of opening ourselves up and opening our minds up to a wider range of possibilities.'

Few organisations regularly enable their leaders to take time out from the day job to learn, discover and challenge themselves as a team with new ideas. One company head described an interesting way of doing this:

'We deliberately set out as a leadership team to take ourselves away to a completely different space on a reasonably regular basis, preferably annually. We spent some time in Silicon Valley and Stanford University and I actually spent a week there just learning about new stuff. In this particular case it was focused on digital technology but also a lot more came

out of the sessions because we were able to spend some time with some Stanford academics talking about how businesses fail and what the lessons are that you learn.'

Finally, one CEO described a practical example of how to build a culturally inclusive organisation:

'We were talking about teamwork in the organisation and collaboration, so our Asia Pacific teams did a video that I was totally unaware of, all dancing to Gangnam Style, wearing their national colours but with our logo, and it was a very well-produced video which was really about having fun and the sense of enjoyment they were having working together. I think it was a lot less stilted or self-conscious than anything that would have been produced out of Europe or the UK. But everyone thought it was fantastic, it was our most viewed item of the year, and people absolutely loved it … it is now being held up as, if we are going to engage people, let them enjoy working here, these are the kind of things that we all have to be doing.'

In summary

There are many attributes that have always been important for leadership. There are also skills and behaviour that must be acquired, or further developed, specifically to deal with the challenges ahead. We conclude by summarising both types of leadership traits:

Enduring leadership skills

*Being authentic*
*Demonstrating integrity*
*Being rational*
*Being emotionally intelligent*
*Being adaptable*
*Seeing the big picture*
*Creating and building strong teams*
*Being resilient*
*Making an impact*

Leadership skills for the challenges ahead
*Being open to difference*
*Demonstrating value and purpose*
*Exercising soft power*
*Digital fluency*
*Interacting more closely with employees and customers*
*Handling intense scrutiny*
*Making time for reflection*