The Leader

Managing change in a complex environment

To maximise opportunities in today's complex and competitive business environment, leaders must be able to effectively "engage the hearts and minds" of a multitude of stakeholders.

There is no question that organisations are becoming more complex, either growing larger or restructuring themselves in many different ways to deal with the escalating change and turbulence in their day-to-day operations.

The challenge for leaders is understanding and managing the relationships between the multiple stakeholders that they now have to deal with.

Leadership today is more complicated, and a great deal depends upon the influencing skills of the leader.

Empowering decisions at a local level

Rosemary Howard, Executive Director of AGSM Executive Programs, says that with so many things happening at once, leaders must recognise that employees need to be empowered and equipped to make decisions at a far more local level than ever before.

"While a company may have efficient systems and processes, it's their people that will make the difference," Rosemary says. "If those people are connecting well with customers and other stakeholders, everything will flow properly."

"To get this right, you have to start from the top. Successful leaders are making sure that their people have access to the knowledge and information they need to do their jobs; that they understand the strategic alignment between their jobs and other people's jobs; and that the organisation's culture encourages people to work together."

Dr Rose Trevelyan

Dr Rose Revelyan's research focuses on the leadership, creativity and innovation.

In Australia, Rose has worked with various organisations including Telstra, NRMA, P&O Ports, Rio Tinto, NSW Ministry of Energy & Utilities and the Australian Bureau of Statistics, running programmes on leadership, innovation and creativity, and change management. She has consulted to Qantas, News Ltd and NSW Police on the implementation of strategic changes.

Rose is Program Director on Leading Change with Impact and presenter on General Manager program and Making Strategy Happen program.

It's complicated!

Or, is managing complexity simpler than you think?

Spare a thought for senior executives, politicians and other leaders as they try to fathom solutions to increasingly difficult challenges. Climate change, diversity, the generational divide and an interdependent business world are facts of life for chief executives. Poverty, terrorism and an ageing population are among the many dilemmas facing governments.

In such a climate, it is often simply reported that organisations are more complex today. What exactly is complexity, however, and is it manageable? Why is management of such problems more of a challenge these days? And how should leaders respond?

Consider the business sector. There is clearly more regulation and competition in today's corporate world, but there are also advantages such as the presence of the internet, enterprise systems and access to

more information. In some respects, therefore, the role of chief executives and managers may have actually become easier. Steve Vamos, president of the Society for Knowledge Economics (SKE) and the former chief executive of Microsoft Australia, suggests some aspects of business are more complex in an environment that is more connected and subject to rapid change. As a result, he says hierarchical approaches to management and command-and-control leadership styles are less relevant. "They are not

optimised for this new world. So, if there is complexity, it's because we might be using old mindsets and old mechanisms to deal with a different environment."

The focus of modern leadership should be around breaking down complexity – or "making the complex simpler", Vamos says. This requires a management style that has clarity of purpose and emphasises principles and values around how the business operates and the way its employees are treated. People are the key. Vamos believes an organisation can break down complexity if employees within the business understand their place within it. "It enables them to take the initiative and innovate because they are provided with more context for why they are there and what is important to the organisation," he says. "Staff at all levels must understand why they are there."

Generalists to the Fore

The broad range of challenges now facing business demands leaders with

well-rounded competencies, says Fred Hilmer, president and vice-chancellor of the University of New South Wales (UNSW). He predicts a return to generalist leaders who have great problem-solving skills rather than the recent preoccupation with specialists. "We'll get a re-emergence of the generalist or the person who can take a multidisciplinary view who understands government and communities and regulation and science and psychology and managing people and markets and customers."

Hilmer envisages a number of leadership themes dominating as organisations confront complexity: conversation, story telling, the 80-20 ruleand time frames. First, companies will have to embrace quality conversations or communication with better-educated employees who want to be involved in the solution-making process. "So if you want to get the best from people then you have got to be even better at communication," Hilmer says.

Second, an inventory of relevant business stories or analogies can provide considerable insight for leaders. Third, while the 80-20 principle – 80% of outcomes come from 20% of inputs – has been a mantra for decades, Hilmer believes it takes on additional importance in an era of greater complexity as companies grapple with issues such as corporate social responsibility, diversity and people management. Such a principle helps leaders understand what is truly important and what is peripheral. "When we say the world is more complex what we mean is that there are more things to consider," Hilmer says. "But a lot of the things that we have to consider really don't make a huge amount of difference so maybe we don't have to consider them."

Setting realistic time frames is likely to be another important factor. Hilmer cites the conflict in Afghanistan and suggests it has become a seemingly unfathomable problem because US presidents, for political reasons, are

"You have to try new things and let others try new things otherwise the complexity of the environment becomes one person's problem and it will never be solved."

Steve Vamos, President of the Society for Knowledge Economics (SKE) and the former Chief Executive of Microsoft Australia

forced to set a short deadline for finding a palatable solution. He says they may simply have to acknowledge that it is a problem that could take decades to resolve. "There are quite a number of problems that if you have more time they are not (so complex) anymore." He denies this is a dodging of the problem, stating there is a trade-off "between buying time versus wrestling with a problem where your solution might actually make it worse".

Taking the 'Wicked' Way Out?

Some academics categorise issues such as poverty, climate change and saturated markets as "wicked problems", a reference to predicaments that cannot be definitively resolved. In fact, attempts to fix them often generate more trouble. The concept of wicked problems is not new. In 1973, Horst Rittel and Melvin Webber, professors of design and urban planning at the University of California at Berkeley, popularised the term with the release of their seminal article in the Policy Sciences journal in which they questioned the tradition of applying a purely scientific and rational approach to ambiguous social policy conundrums. Almost four decades later, the theory continues to gain interest as policymakers seek different ways to address complexity and manage fraught issues.

Danielle Logue, a researcher at Said Business School at the University of Oxford, has considered wicked problems extensively through her masters and PhD research into leadership, governance and global policy discourse in issues such as scientific mobility and brain drain.

She says leaders across many sectors want new solutions to complex issues. "The traditional ways of policymaking are failing for a range of reasons, so people are starting to look at this wicked problems concept as a way of addressing them," she says.

Logue believes the emphasis must shift from a quest to find impenetrable solutions to improving problem-solving abilities. She mounts a case for "bravery" among policymakers, saying they need to recognise that "there are multiple solutions available and have the courage to stand up and implement conflicting solutions". There is a trend towards "taming" or "slicing" wicked problems to break them down into smaller, more manageable sub-issues, Logue says. "You can't solve them but you can learn to cope with them … [This may help] as long as someone else can still keep an eye on the larger issues."

While the study of wicked problems is invaluable, some commentators urge caution in jumping too quickly to categorise problems as wicked. UNSW's Hilmer says some business leaders or politicians, for example, may be guilty of suggesting that a problem is not amenable to analysis when, in fact, shortcomings on their part as an analyst may be to blame. "If you haven't thought your way through a problem properly, it's a great cop-out to say it's a wicked problem," he says. "It's a very convenient label."

Hilmer also contends that some leaders grappling with a wicked or "really hard" problem may have to change their mindset and expectations. US discount retailer Wal-Mart, a long-time darling of sharemarkets,

has been the subject of considerable discussion recently as it contemplates how to deal with slowing sales growth. Saturated markets, lower disposable incomes among customers, intense competition and negative headlines are conspiring against the retail giant. However, Hilmer suggests that rather than being a wicked problem there may simply come a time when growth ends for a business. "Maybe it's an issue we have to live with," he says. "There are problems you can solve and there are problems where you don't like the solution."

Perhaps no issue is more complex than climate change, particularly following a stalemate at the recent United Nations summit in Copenhagen that failed to strike a binding international agreement on carbon emission reductions. Professor Andy Pitman, co-director of the Climate Change Research Centre at UNSW, says the conundrum is that a political solution must be found for an issue that is a biophysical problem. "There's no hope for it within my comprehension," he says.

Much of the difficulty lies in the fact that people cannot relate directly to the problem. "They can't taste it, feel it, see it … So we are asking people to act on something that none of their personal senses or experiences have ever got any rational examples of. And that makes it really hard." While the solutions to climate change are straightforward, implementing them is "nightmarish", Pitman says. "There are things that are unsolvable, but climate change is not one of them. However, the will to solve it is clearly problematic."

Pitman believes a multidisciplinary approach will be required to make any meaningful progress on climate change. "It's the ultimate multidisciplinary problem … the solutions to global warming are not scientific – they're political, social, geopolitical, engineering, risk management, legal …". Rather than gaining a political agreement, he says a more likely way forward is to get major carbon emitters to strike a deal.

In that sense, "slicing" may work. "An agreement across the major emitters may be more feasible," Pitman says.

Changing Leadership Culture

At the SKE, Vamos is blunt about the best means to improve business performance and safeguard companies against complex problems. A new culture of leadership is required. "I believe this is the biggest issue on the planet," he says. For Vamos, the global financial crisis underlines the need for change and demonstrates how problems can spread. Indeed, he argues the crisis was not "financial" in the true sense of the term, more it was "a failure of culture, of management practices and a failure of leadership".

Strong leaders who surround themselves with other good managers and ultimately make themselves less needed in a day-to-day context because they are relentless in aligning and enabling others are required, Vamos argues. In an era when more complex problems are emerging, the norms of organisational leadership have to be questioned. "Knowing the answer isn't possible anymore whereas 30 years ago the leader could conceivably know most of the answer," he says. "You have to try new things and let others try new things otherwise the complexity of the environment becomes one person's problem and it will never be solved."

For chief executives trying to tackle big problems, Vamos poses three questions: Is the leadership dedicated to making effective management of people the priority of the organisation? Does the business measure the performance of its people managers in leading their people, based on feedback from their people? And is senior management willing to remove underperforming people managers who do not respond to feedback and assistance with their performance? "I don't care how good a salesman, marketer, developer or manufacturer you might be as a professional, if you're a consistently poor people manager you are gone," Vamos says. "It's non-negotiable."

Concepts such as Management 2.0 that call for new approaches and management practices are appropriate in the highly connected world in which we live. These practices draw on a range of tools through the internet such as blogs and wikis, and will replace traditional non-collaborative and hierarchical leadership models, Vamos believes. Hierarchies can still work so long as they are not about entrenching power but the key to true power, he says, is around how leaders use it. "Success is helping others."

In the quest for superior leadership, some critics suggest that university MBA programs and other leadership courses must broaden their scope to embrace social entrepreneurship, design theory and innovation strategy. The aim is to encourage different ways of thinking and promote new solutions to the challenges that many organisations are facing. Hilmer agrees that while MBA courses have been invaluable over many decades, they must undergo an evolution and give business leaders even greater opportunities to engage in conversations and reflective time. This will give them an enhanced capacity to meaningfully tackle complex problems. And Hilmer cautions against courses in ethics and values that are "glibly taught". "Clearly what's been done conventionally has not been working but, on the other hand, it doesn't mean that you give up." A pointer, perhaps, to the most important quality when confronting complex problems: persistence.

This an article from Knowledge@ Australian School of Business

Coaching a key to creative leadership

Creativity in managing ever-increasing complexity is being recognised as a high priority in business, government and academic circles.

IBM's recent Capitalizing on Complexity survey encompassed face-to-face conversations with 1500 Chief Executive Officers worldwide. These leaders from both business and the public sector shared a number of widely held views, including:

- The biggest challenge faced by CEOs today is coping with the rapidly increasing complexity of the environments in which they operate

- The increase in complexity will continue to accelerate

- Most organisations are not adequately equipped to deal with this complexity

- 'Creativity' is the single most important leadership competency for organisations in dealing with complexity

Creative leadership requires the ability to let go of long-held beliefs when they are obviously no longer relevant. Leaders must be willing to adopt new and original strategies to connect with audiences across generations with radically different views of today's world.

Old ideas rarely solve new problems

The belief that what has worked in the past can be relied upon to solve the problems of the future is long out of date. This was demonstrated extremely well by Phil Rosenzweig in his book The Halo Effect, which debunked previous themes based on organisational performance research, particularly In Search of Excellence and From Good to Great.

Organisations today need to take greater control of what works in their own unique environment. Of course leaders must learn from history, from others, from theory – but they must also learn to be adaptive and creative "on the fly". They must be ready to try new things; to embed what works and discard what doesn't.

The need for 'breakthrough thinking'

According to the IBM survey report, creativity is more than just the ability to bring into existence something new or different. Creativity was also defined as the basis for "disruptive innovation and continuous re-invention", which requires bold, breakthrough thinking.

Fresh ideas and the willingness to try innovative strategies have become critical to achieving competitive advantage.

Leaders must be comfortable with and committed to ongoing experimentation.

Unleash individual and collaborative creativity

Through exploring different approaches to creativity and innovation, AGSM's 'Creativity and Strategy for Innovation' program reveals ways in which to identify existing creative strengths and

"Leaders must learn from history, from others, from theory – but they must also learn to be adaptive and creative on the fly"

Saul Brown, Adjunct Faculty, AGSM Executive Programs

tap into latent potential.

The program equips executives, managers and team leaders with the skills and confidence to lead creative processes and proactively respond to, and indeed generate, new business opportunities.

Remember, in the words of Edward de Bono: "If you wait for opportunities to occur, you will be one of the crowd." ■

Saul Brown

Saul is a consultant, coach, writer and educator who works with leaders and teams to help them unlock their creative potential.

Saul has previously held Sales, Marketing and Management positions with multinationals including JB Were, Telecom New Zealand and Vodafone.

He is Program Director on the Creativity and Strategy for Innovation program.

EARLY BIRD DISCOUNT on 2011 Programs SAVE 10%

Upcoming programs

Integrated General Management

Foundations of Management and Leadership	21-25 March

Leadership, Strategy and Change

Creativity and Strategy for Innovation	2-4 March
Advanced Negotiation and Influencing	4-5 April
Leading Change with Impact	4-6 April

Managing Self and Others

Managing People for Performance	9-11 March
Leading from Within – Module 1	28-29 March

Finance and Operational Excellence

Essentials of Finance for Non-Finance Managers	9-11 March

Master Classes

Mergers and Acquisitions	4-5 April
Effective Presentation of Business Data	28 April

Find out more or book online: www.agsm.edu.au/open

Thinking through the consequences

A specialist in managing complex organisations, **Rose Trevelyan Adjunct Faculty AGSM Executive Program**, says the first practical step towards coping with complexity is to map the organisational environment.

"If you think of an organisation as one big entity with multiple moving parts inside it, gaining a sense of what those moving parts are and understanding how they impact on each other can give leaders great insight into how to manage complexity.

When we're thinking about making a change, for example, we need to be aware that there is often an unintended consequence within the organisation, as well as the intended outcome. We may be prepared to take a risk, but we need to know what the impact is likely to be."

Fostering a positive response to change

Leading Change with Impact is an AGSM Executive Program helping leaders to shape and implement organisational change.

Learning to develop persuasive communication strategies enables leaders to more effectively overcome resistance to change by engaging the hearts and minds of key stakeholders.

Employees, in particular, are far more likely to take the initiative and innovate when they understand 'why they are there' and what is important to the organisation – and cooperative people are valuable allies in managing a complex environment.

Marcia Kempe

Number Crunch

Google and Apple have been ranked as the world's most innovative organisations for **4 consecutive years***

84% of executives say innovation is extremely or very important to their companies' growth strategy**

Only **27%** of executives say their companies are very or extremely effective at making business leaders formally accountable for innovation**

Apple has been ranked as the world's most innovative organisation for **6 consecutive years***

* BCG Report Innovation 2010 - A Return to Prominence and the Emergence of a New World Order

** McKinsey Global Survey results - Innovation and commercialization, 2010

?

Leadership in Australia Quiz

Go online to take the quiz

www.agsm.edu.au/quiz