Rialto Whitepaper

Leadership growth challenges

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1. Introduction

The number of UK CEOs expecting the global economy to improve over the coming year has more than doubled, according to PwC's 21st annual CEO Survey.

More than one third of UK business chiefs (36 per cent) believe global economic growth will improve, compared to 17 per cent last year, the most confident they've been since 2015. Almost nine in 10 (88 per cent) UK CEOs are optimistic about their organisation's growth prospects for the next 12 months.

Despite this level of confidence, business leaders cannot afford to be complacent though when it comes to putting their own strategies for growth in place. The pace of technological change is transforming and disrupting industries and leaders must identify where and how they can grow if they are to future-proof their organisations.

"While there may be continued uncertainty ahead, leaders must focus on where the growth opportunities are for their organisations," says Richard Chiumento, Director at The Rialto Consultancy. "While business conditions are challenging there is also scope for moving into new emerging sectors, creating new business models and winning new customers. Leaders just have to identify where these opportunities lie."

In this white paper, Rialto examines four areas which we have identified as critical to organisational growth: enabling innovation; becoming customer-obsessed; forming strategic partnerships and alliances; and reskilling and upskilling the workforce with 21st Century skills.

2. Enabling high-impact innovation

The phrase “innovate or die” has variously been used as a CEO mantra, as part of the title of many business books, the name of a global student challenge and frequently finds its way into PowerPoint presentations on the conference circuit. But it also happens to be a business truism.

In the introduction to its 2017 Benchmark Innovation report, PwC states: “In an era of digital business and rapid technology change, virtually no company can ignore the imperative to innovate. Failing to do so is an invitation to lose business.”

Yet according to the professional services firm survey findings, only one quarter of companies regard themselves as innovation leaders although, more positively, 20 per cent of those who do, expect to realise over 15 per cent company growth in the next five years.

These statistics also concur with Rialto’s findings from its regular leadership lunch seminars held throughout the year with the senior executives and business leaders attending consistently citing innovation as key to growth.

“Innovation is a core driver of growth and leaders must enable it within their organisations. This means making it a top priority,” says Chiumento. “The challenge is always balancing its demands and risk with everyday operations but making it a strategic objective moves innovation into the everyday. For this to happen though, the right organisational culture is needed and this is something leaders often struggle to put in place, especially those who are risk-averse.”

According to a study carried out by RADA in Business, four-fifths (81 per cent) of workplaces don't have a culture of experimentation. And while one quarter (24 per cent) reckon their workplaces are desperately in need of new ideas and fresh thinking to overcome current problems, only one fifth (21 per cent) of employees believed anyone was interested in listening to their ideas.

Worse still, 16 per cent of workers said that any new idea would actually be treated with suspicion and criticism, while 15 per cent believed their business leaders actively discouraged innovation. It is entirely at odds with the vision espoused by many leaders of their workplaces enjoying a collaborative and open communication culture where innovation is championed. The troubling fact is that while innovation frequently is included in the corporate values, it isn't happening in reality.

Leaders must also be mindful that innovation itself has also evolved. It is no longer about developing new products but also about creating new business models, redefining systems and processes and creating entirely new industry sectors.

In a separate insight article, PwC, sets out that the most innovative companies are creating new business models and combining related products and services to form new solutions as well as developing new products and services. "In fact, they don't think in terms of products and services so much as outcomes, because they recognise that products and services are simply a means to an end."

It is reasonable to conclude that digital technologies have led to a boom time for innovation. Apple, Airbnb, Amazon, Google, Netflix and Uber are just a few of the brands which have shown that by prioritising new ideas, new ways of working as well as new ways of delivering services, leads to major business success. And as we move into the era of the Fourth Industrial Revolution, technologies such as artificial intelligence and blockchain offer huge potential for further innovation on a grand scale.

Innovation should be something that happens across the organisation but has to be led and championed from the top. In the companies mentioned above, it is part of their internal and external brand.

Innovation can come from many different sources and leaders need to embrace all of them: customers, employers and other stakeholders as well as strategic partners. It is about far more than just harnessing ideas though. And surveys frequently point to a gap between ideas and the execution of them. According to PwC's report findings, more than half of innovating companies struggle with bridging the gap between innovation strategy and business strategy, with respondents flagging it as their greatest strategic challenge when it comes to innovation.

This could be for a host of reasons that are structural, cultural or process-based but they must be identified and addressed. In some cases, it is down to mismanagement. For example, people and other resources are frequently invested in pilot programmes that are successful but are ultimately impossible to scale. There may still be a game-changing idea at the core of the programme but there simply aren't the people or other resources to make it a reality.

The (Game-Changing) GC Index, one of the tools used by Rialto consultants to measure an individual's preferred contribution in a particular role, is proving extremely effective at helping to foster innovation. "It allows the true game-changers in an organisation to surface and what's more helps leaders assemble the right team around them to turn a great idea into a great new product or service," says Chiumento.

Rather than rely on traditional assessment methods that focus on skills and expertise, leaders need to explore the use of tools like this that will help find the innovators within the organisation.

Indeed, innovation is a whole new ball game. It is no longer something that happens in a research and development department or some other silo. and could likely come from outside of the company as well as internally. The pace of technological change also means that the timeframe required for ideas to go from concept to reality is much shorter. But companies must innovate relentlessly if they are to win new customers and gain competitive edge in new markets. It is a case of innovate or be left behind.

3. Building a customer-obsessed culture

When Amazon founder and CEO, Jeff Bezos, published his 2017 letter to company shareholders, he highlighted again the importance of always being a "Day 1" company as opposed to a "Day 2" one, referencing his original vision for the online retailer in 1997. "Day 2 is stasis," he wrote. "Followed by irrelevance. Followed by excruciating, painful decline. Followed by death."

One of the essentials for remaining a Day 1 company is customer obsession. Bezos wrote: "There are many ways to centre a business. You can be competitor-focused, you can be product-focused, you can be technology-focused, you can be business model-focused and there are more. But in my view, obsessive customer focus is by far the most protective of Day 1 vitality." The "vitality" that Bezos refers to is what has helped Amazon to continue to expand and grow exponentially.

Customer obsession is potentially one of the biggest drivers of growth for an organisation. It is about far more than tuning into their needs but forging a deep meaningful relationship with them and making them advocates for the brand. It is about anticipating as well as understanding their goals. Bezos reckons that customers are always "wonderfully, beautifully" dissatisfied and even when they don't know it, want something better. "Your desire to delight customers will drive you to invent on their behalf. No customer ever asked Amazon to create the Prime membership programme, but it sure turns out they wanted it," he outlines in his letter.

Customer obsession starts with customer experience (CX) and service but many organisations are failing to deliver on this score. According to Forrester's 2017 CX Index, in the past year CX quality plateaued or declined for most industries and companies. The research firm revealed that many initiatives tackled "low-hanging fruit" to put early points on the board but most CX initiatives had "too little clout" to force meaningful operational change. Forrester concluded that customer expectations will outpace companies' ability to evolve or invent experiences and CX would see a further decline in 2018 in almost one third (30%) of companies which would translate into a net loss of a point of growth.

Meanwhile, in its report 2018 Predictions, A Year of Reckoning, it states: "Smart executives will intervene to make CX an internal disruptive force, one that is underpinned by the fundamentals of CX management with customer trust at the core; too many executives will continue to ignore evidence of market disruption and procrastinate until the evidence is overwhelming, putting their firms at risk as we enter 2019."

Customer obsession needs to be built into an organisation's culture and values and should be understood by everyone within the organisation, not just customer-facing personnel. And companies need to ensure that internal and outward behaviours reflect this obsession.

In a SogetiLabs YouTube video, entitled *Happy Customers and the Necessary Shift to Customer Obsession*, Forrester founder George Colony reports that organisations with happy customers drive the revenue rate twice as fast as those with low customer service and happiness. Such happiness must be long term and culture is the big differentiator when it comes to customer obsession.

"Companies who do this very well have a very different culture than companies at the low end of customer experience," says Colony, stressing the importance of how a company behaves. "So when you drag a passenger off a plane like United Airlines did, you are showing clearly that customers aren't valued and what you are valuing is your company processes."

Customer obsession needs to be led from the top and exhibited in the behaviours and language of the leadership team. In his 7 Steps to Building a Customer-obsessed Culture Walter Rogers, CEO and board member of CCI Global Holdings, opines that customer obsession principles need to become part of executive conversations and business planning, "during pipeline reviews, insider shareholder meetings and throughout the business development process". "To create a customer-obsessed culture, it must be modelled at the highest organisational levels. If we're asking our employees to carry out a customer-focused strategy, we should be doing the same with our business plan," he says.

On a practical level, organisations need to precisely map the customer journey and experience and not just eliminate the pain points but focus on where it can be enhanced. There are more channels and methods than ever to get to know the customer and build a two-way relationship to find out what they think of the brand and its products and services. Social media and technologies like machine learning and data analytics enable organisations to find out a customer's preferences and learn about their behaviour. It also enables them to reach out to the customer at a precise point of need in the customer journey.

Technology plays a huge part in customer obsession and those organisations that empower their people with the right tools as well as mindset will be the winners. Those organisations that fail to do this may find that it is technology itself that steals a march over them.

Forrester's 2018 Predictions report picks up on signals that the customer is withdrawing from the clutter of the always-on, 24/7 world and is "in search of simplicity". It states these individuals will use intelligent agents or bots to "filter away the noise of the day" and this shift could damage an organisation's bottom line and ability to grow. "All told, 1% of the US population, with spend equivalent of $24bn, will join the AI revolution to cocoon themselves from the noise. 2018 is a starting point," says Forrester, adding: "Intelligent agents will continue to strengthen their influence on consumers and pressure brands to engage through the subtle power of conversation."

4. Form partnerships and alliances

The adage: “it isn’t what you know but who you know” is ever more resonant for the business world with the rise of strategic alliances and partnership working. According to PwC’s 2017 Global CEO survey almost half (48%) of global CEOs plan to pursue a new strategic alliance or joint venture to drive corporate growth or profitability in the coming year. And in the US this figure is even higher at 53% with CEOs saying that the top drivers of alliances are access to new and emerging technologies and the need to strengthen innovation capabilities.

Strategic alliances offer an alternative route to growth from growing organically or acquiring or merging with a new company. They can be as effective and more efficient at enabling the organisation to move into a new market, geographical sector or to diversify in some other way though. As well as enable the organisation to expand on a scale or to a level that wouldn’t have been possible on its own, alliances or partnerships can help the company to do so in far shorter timeframes. And in an era where organisations are having to adapt, flex and reinvent themselves to keep pace with competitors and changing markets, this can make alliances an attractive option.

In its paper, Strategic Alliances, a real alternative to M&A?, professional services firm KPMG demonstrates how alliances are reshaping entire industries, becoming part of corporate strategy as a means of keeping abreast of disruptive technologies. “We expect the impact of alliances to be so profound that, within a decade, key players across multiple industries may be unrecognisable,” it warns.

In 2017, the company surveyed 50 alliance experts from around the world who all had significant experience of planning and managing strategic alliances. Two-thirds of them were from Fortune 500 companies. Three fifths (58%) stated their own industries will be either entirely reshaped or significantly influenced by new business combinations and hence they confirm such alliances are a fundamental part of their organisation's future strategy.

Moreover, KPMG points out that these views were mirrored in its 2016 CEO Outlook with the same proportion of leaders citing "collaborative growth" as the key vehicle to drive shareholder value, with "partnerships and collaborative agreements" taking precedence over merger and acquisition (M&A) activity.

Forming and managing such alliances, however, can be fraught with risk if not approached in the right way. PwC reckons that as partnerships and alliances become increasingly important to CEOs, the challenge of managing them is also rising. "Alliances are becoming more complex and success rates, by some measures, can be low. The need for trust, collaboration and equitable risk-sharing make these arrangements far more delicate to navigate than traditional M&A transactions."

Leaders need to focus equally on the potential downsides of an alliance as well as the seductive benefits its bring such as immediate access to a new market, an increase in sales and expanding the company footprint internationally. They must assess the risk of not having total control or a lack of governance which could damage the brand if things go wrong. Alongside this, they also have to consider the pressure that sharing resources with another company will bring to their core business.

Indeed, not all partnerships and alliances deliver value or realise their potential. KPMG warns that lack of agreement over what constitutes a “strategic alliance” means some alliances are considered as minor partnerships or worse still buyer-supplier relationships. It also notes that CEOs can have a lack of appreciation of the “huge significance” of strategic alliances. “These are major, once-in-a-lifetime transformations that can impact the entire company’s future, but they are rarely treated with the same importance as large M&As.”

The rise in partnership working also requires a more collaborative style of leadership. Increasingly, those who have experience of managing complex multi-stakeholder relationships will find their skills in demand. They must also lead the necessary behavioural change within their organisations that is required and may have to manage culture clashes.

Strategic alliances are hardly new though and KPMG cites technology and pharmaceuticals as pioneering industries which have used alliances as key growth strategies for two decades. And it points to one former head of alliances who credits his partnership strategy with helping the organisation become a specialised $1.5bn turnover company.

Formation of alliances is becoming far more prevalent in other industries though, such as automotive where digital disruption and transformation is already having a major impact. Having observed what it terms as “just a small number” between 1998-2007, KPMG reports witnessing 13 in the first nine months of 2017 taking the total over the last 10 years to 52.

This growth is likely to be replicated across other industries and if partnership working isn’t part of the corporate strategy as a growth option, it should be put on the agenda for consideration.

5. Cultivate next generation skills

According to the World Economic Forum (WEF) report on workforce reskilling, one in four adults report a mismatch between the skills they have and the skills they need for their current role. Artificial intelligence, robotics, machine learning and autonomous and automated technologies are not only creating new business opportunities but changing how companies operate.

Many employees feel a lack of preparedness to handle them though hence the feelings of mismatch. If left to fester, this will lead to a dangerous skills gap that will prevent organisations from growing and prospering in the Fourth Industrial revolution on which the world is embarking.

Anticipating how this will affect organisations and skilling up workforces with 21st Century Skills will, therefore, enable them to maintain competitive edge and provide future opportunities for growth.

While the impending skills gap may not be affecting all organisations today, it is moving up the corporate agenda and doesn't only impact technology companies. A survey carried out on CEOs by the Conference Board, a global, independent business membership and research association, revealed a shared set of organisational priorities across industries and geographies which included the need to develop and nurture talent with "expanded 21st Century skills".

Bart van Ark, co-author of the CEO Challenges 2017 report, and executive vice president and chief economist and strategy officer at the Conference Board, claims the real productivity gains from the rapid technological advances taking place have yet to emerge. The survey reveals that only one third of CEOs report a strong impact on revenue or productivity but adds that they are responding to this "disjuncture". "Internally they're emphasising the mindsets and core skills needed not only to implement new technologies but master them in a manner that enhances efficiency and growth," he says.

Major players are getting behind the push for reskilling and upskilling, underlining its importance. Leaders from the WEF's IT Governors community, including those from tech giants Cisco, CA Technologies, InfoSys, Salesforce, SAP and Tata as well as Accenture and PwC, are among those behind the Forum's IT Industry Skills initiative which aims to re-envision an educational system based on lifelong learning that can fully prepare workers for the jobs of the future. WEF founder and executive chairman Klaus Schwab describes it as a clear example of industry leaders taking "concerted and collective action" to address a major social challenge at scale.

The initiative is committed to reaching one million people with resources and training opportunities on the SkillSET portal by January 2021. Pierre Nanterne, chairman and executive officer at Accenture and one of those driving the initiative, stresses that while AI offers enormous opportunities for growth success will increasingly depend on humans collaborating with intelligent technologies. "By accessing a broad range of new skill techniques, people will be better placed to work with machines and help businesses pivot to new growth models."

Bill McDermott, chief executive officer of SAP, adds that there are "exciting possibilities" when people and machines work together. "Bigger than artificial intelligence, we are entering a new frontier of augmented humanity".

This is indeed a clarion call and one of which all leaders should take notice of if they want to maintain their organisations' competitive edge. They must invest in ensuring their firms have the right skillset for the 21st Century. If not, they will undoubtedly cap their potential for growth and lose out to rivals.

Future growth doesn't just depend on those skills related to new technologies though. Leaders must also acknowledge the importance of the four 'Cs' of collaboration, communication, creativity and critical thinking which have been set out in educational frameworks.

They were defined by the Partnership for 21st Century Learning (P21) several years ago which serves as a catalyst for 21st Century learning by building collaborative partnerships among education, business, community, and government leaders.

The four Cs are deemed vital for individuals to succeed in work, life and citizenship and their importance should resonate with all leaders seeking to build the agile, problem-solving and innovative workforces that are required for growth now and in the future.

It isn't only about ensuring the workforce is fit for the future though and leaders should carefully examine their own skillsets against the backdrop of this drive for reskilling. They too must be agile and problem-solving and able to swiftly react to change. As well as investing in their people they may need to invest in their own development to ensure they can future-proof the organisation and guarantee growth.

6. Conclusion

With uncertainty being the new normal for leaders for more than a decade, growth plans have taken a back seat in some organisations. This was understandable in the years that followed the financial crisis and global recession when it was all paring businesses back to the core to survive. Recent years has seen the business world pivot on its axis though as we head into the Fourth Industrial Revolution and digital transformation and disruption is changing what we do and how we do it. Leaders must prioritise and plan for growth against this new backdrop.

"We know there are threats as well as opportunities in the short- and medium-term future but leaders must act now as the world is changing and not wait until it has shifted into its new position," says Chiumento. "Now is the time to encourage innovation, to anticipate and tune into the needs of future customers, explore strategic partnerships and invest in the skills and talent that will differentiate the organisation and help it gain competitive edge."

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