



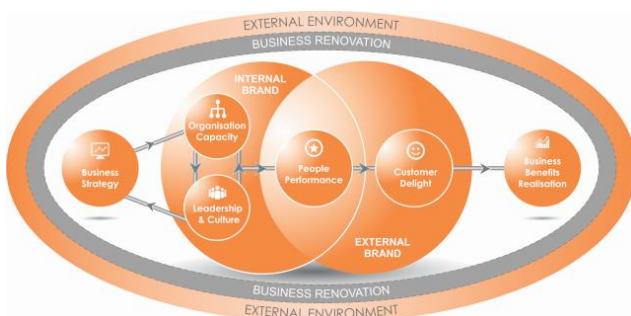
# Building Leadership Capacity in the Face of Volatility

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## Background

In reflecting on what the themes and topics of the 2016-2017 series of articles should be, we were of the opinion that the current (and expected future) economic, political and social challenges are important issues to engage with, as they create a context that will test the resilience and endurance of most organisations.

As in the past, we will again utilise the Business Value Model™ to discuss these themes and topics from different business perspectives.



**Figure 1: Business Value Model™**

The BVM utilises the following logic:

- The realisation of specific business benefits (such as operating profit, top-line revenue and market share),
- are dependent on the creation of customer delight (loyal and satisfied customers),

## The Idea in Brief

The dynamics of leadership have shifted and, especially in times of volatility, leading an effective organisation can no longer be dependent on or limited to the acts of a few “heroic” leaders to “save” the organisation. It is imperative to establish a leadership community, represented by leaders at all levels of the organisation, who consciously share a common purpose and who have a high degree of congruence on the **how** and **why** of achieving this purpose.

Seen from the perspective of the inavit iQ Business Value Model™, there are multiple areas of focus, all demanding and deserving attention of leadership at the same time.

In this article we discuss the impact of volatility, the implications thereof on leadership and how to build leadership capacity to deal more effectively with these implications.

- which is a direct result of the delivery of value added products / services
- by high performing people
- who work in an fit-for-purpose work environment (organisation capacity with respect to business process, organisation structure, human capital, information flow and technology),
- who are led and managed by capable, competent and credible leadership

- towards a common goal and strategy
- that address the dynamics of the competitive landscape in an innovate manner that builds the business brand and reputation.

In the first article in this year's series of articles, the authors explored what it means to future-proof your organisation. They shared some perspectives on what senior and executive leadership regard as the characteristics of a "future proof" organisation.

Seen from the perspective of the inavit iQ Business Value Model™ (now in its fourth version), it is undoubtedly the responsibility of leadership to ensure that:

- Strategy is aligned to the contextual demands
- The organisational capacity exists to execute that strategy
- There is constant re-novation to adjust strategy to the competitive landscape and realities, and
- The measures and metrics are put into place, enabling the organisation to know whether or not strategy is being executed as planned, and delivering promised business benefits to all stakeholders.

This already gives an indication of the "and" of leadership, where there are multiple areas of focus, all demanding and deserving attention – at the same time.

## Volatility in Context

In the context of business, a number of authors (amongst them Charles Handy) used the sigmoid curve (see Figure 2) to illustrate the need for continuous change and renewal.

**Figure 2: Adapted from Sigmoid Curve, ©Charles Handy 1995**

All organisations and teams progress to a point at which decline or decay will eventually occur (point B). At this stage (point B) it is too late to intervene, and collapse is inevitable. Ideally, the decay should have been anticipated and

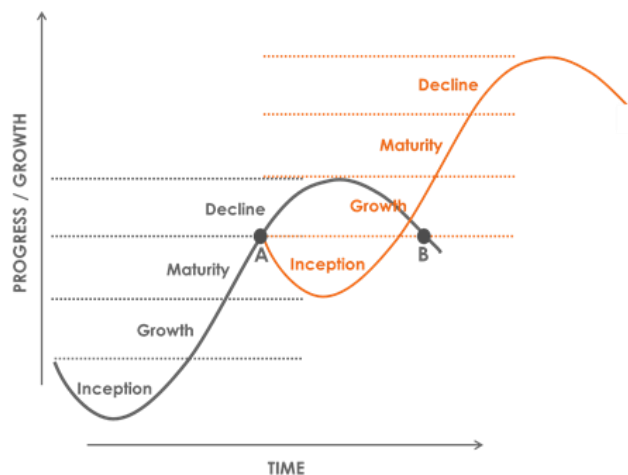
innovation initiated at point A, when things were still going well.

However, the often-missed point about the S-Curve is that, due to the acceleration of technological breakthroughs, the blurring of boundaries and global connectedness, the distance (time) between points A and B is becoming shorter and shorter. In addition, the need for speed and the inherent unpredictability of change mean that we are in a state of constant volatility.

## What do we mean by "volatility"?

The Oxford dictionary describes volatility in the following words: "Changeable or fickle, meaning erratic, restless, unstable, variable, unpredictable and temperamental".

In our view, volatility is experienced in the business environment when there is instability or frequent variation between extreme highs and lows in the macro external environment, and specifically in relation to the following categories: political, social, economic or technological.



## Why does this change the expectations / requirements of organisations?

This frequent variation reported and experienced between extreme highs and lows requires that organisations need to constantly review:

- Perspectives regarding the role or purpose of the business
- Perspectives on business ethics
- The competitive landscape
- Changes in market / consumer demands, and
- The required workforce composition, with regard to age, capability, skills, competence and experience.

According to her, the exercise of judgement is fraught with uncertainty, because judgement is what individuals rely on in unfamiliar, volatile and ambiguous situations. It is therefore the responsibility of leaders to build and maintain a framework that can support and cultivate confidence in the judgement of those who work for/with them and, crucially, confidence in their own judgement.

## Implications for Leadership

Given our shared perspectives on volatility, the following are, in our view, key implications for leadership:

1. The less predictable / knowable the context is, the more the judgement of leaders and leadership is relied on.
2. Leadership is no longer **THE** Leader, but the leadership community.
3. This leadership community is becoming more and more diverse as regards:
  - Organisation tenure
  - Experience
  - Values / Worldviews.
4. The demand for outside-in and inside-out leadership becomes increasingly important.

In the sections to follow, we shall unpack the meaning and implications of these concepts.

### Increased reliance on the judgement of leaders and leadership

As complexity increases because of the less predictable and knowable contexts precipitated by volatility, the capability of leadership to exercise judgement in dealing with these increased complexities, presents a critical implication the organisation.

According to Gillian Stamp (2007), every individual working in the organisation must exercise judgement and, as such, find their own path within the structure of their work. Judgement is the decision-making capability that comes into play when we do not, and cannot, know what to do.

### It is no longer THE leader, but rather the leadership community

In our view, the dynamics of leadership have shifted and especially in times of volatility, leading an effective organisation can no longer be dependent on or limited to the acts of a few "heroic" leaders to "save" the organisation.

The requirement now is for all leaders at every level in the organisation to consciously share a common purpose, and to have a high degree of congruence, not only on the **how** of achieving the purpose, but also – and more importantly – on the **why**. This is what Van der Merwe and Verwey (2016) refer to as the "organisational leadership community".

The authors (Van der Merwe & Verwey, 2016) are adamant that purpose must be conscious. It is imperative for a leadership community to constantly talk about and review purpose to prevent stagnation and to bring on board new members to the leadership community.

Developing the leadership community will ensure that leaders at all levels are collectively better mobilised and equipped to deal with volatility.

### Increased demands for outside-in and inside-out leadership

The philosophy we hold towards leadership is one of "Outside-In and Inside-Out", as shown in the diagram below.



**Figure 3: Leadership Outside-in and Inside-out**

As suggested in Figure 3 above, leadership effectiveness is the result of the interplay between:

- Outside-In, meaning the understanding of the context within which the organisation, business unit or department operates; and
- Inside-Out, meaning the development and application of leadership competence at an intra-personal, inter-personal and organisational level.

Development of leadership excellence needs to incorporate aspects from an “Outside-in” perspective in order to ensure relevancy. An “Inside-out” perspective ensures development of leaders who:

- Have clarity on who they are, and how they think and feel about other people and the external context within which they work
- Are able to understand the context of others
- Consistently behave in a manner that creates positive impact, and
- Represent the organisation and stay true to its purpose and intent.

We are of the opinion that, during times of volatility, organisations become more reliant on leadership excellence as described from an “Inside-out” perspective.

This philosophical framework of outside-in and inside-out has significant implications for leadership capacity building, which will be unpacked in the next section.

## Implications for Leadership Capacity Building

The definition of leadership capacity includes both the competence level and leadership number. In other words, organisations need to determine whether they have enough of the right quality leaders at the appropriate levels of complexity (Verwey, Van der Merwe & Du Plessis, 2012).

Leadership capacity building refers to the leadership development philosophy, principles and practices implemented by the organisation. *“The only sustainable competitive advantage is an organisation’s ability to learn faster than the competition.”* – Peter Senge, a world authority on learning organisations.

The most successful organisations of the future are those that promote leadership and learning at all levels and those that regard the skills, knowledge and experience of all employees as valuable assets. This notion is echoed by Ulrich and Smallwood (2011), who indicated that a company’s competitive edge no longer lies in its product, but in its people.

Picking the right people, melding them into a team that is able to work well together, surrounding them with the right support systems, managing diversity – are all critical to a company’s ability to practice good customer relations. It also enables an organisation to adapt quickly to market changes, to innovate and therefore to stay agile.

These issues used to be considered ‘soft’, as opposed to hard-edged, product-related, bottom-line issues; but strategic value is no longer built around products alone, but around people. People issues have become a source of competitive advantage. Competitors can copy the product, the strategy and the technology. Far more difficult to copy, are the people in the organisation.

Organisations where employees are not directly integrated into the strategies and plans of the

organisation, cannot react timeously to an ever-changing environment. To obtain a competitive advantage – that is, to outperform organisations that supply similar products or services – organisations also need to create a culture that reinforces both effectiveness and efficiency.

Effectiveness relates to the ability to satisfy customer needs, while efficiency implies doing this in the most cost- and time-efficient way. And within all of this, organisations must still stay flexible.

Organisations therefore require the ability to be agile whilst maintaining a backbone of predictability.

### How to simultaneously build agility and predictability

During an interview in December 2015, the co-leads of McKinsey & Company's Organisation Design service, shared their views on the keys to greater agility. Aaron De Smet mentioned two things that are required: (1) dynamic capability, i.e. the ability to move fast; speed, nimbleness, responsiveness, therefore; and (2) stability – a stable foundation or platform of the things that do not change. According to him, stability becomes an anchor point that doesn't change, while many other things are changing constantly. Wouter Aghina was of the opinion that enormous changes are coming from both inside and outside the organisation. According to him, agility is when you thrive on change and get stronger, which then becomes a source of real competitive advantage.

They proposed that a company had to acknowledge both stability and dynamic capability when setting itself up across three dimensions, namely structure (which includes governance, authorities and roles); process (which refers to communication, decision-making and end-to-end value-adding activities requiring collaboration), and people (referring to culture, competencies and capabilities).

In our view, a critical fourth dimension to be added is building the leadership community. We

separate leadership from the people dimension, due to the logic we follow as defined by the inaviv iQ Business Value Model™. **What** Leadership does and **how** it works determines the culture and internal brand of the organisation.

Organisations therefore have to define the stability (or, in our words, the predictability) and dynamic capability (agility) required of leadership in order to effectively deal with volatility.

In our view, an aspect of predictability is the defined leadership behaviours and values required to be displayed by leaders at every level in the organisation. These are set as the standard, irrespective of the circumstances.

Dynamic capability, in our view, comes as a consequence of the talent search and development practices deployed by the organisation. Leaders recruited, who possess learning agility, self-awareness, level appropriate comfort with ambiguity and strategic thinking, are expected to effectively create shared possible futures and realise a shared and specific chosen future with, through and for people (Van der Merwe & Verwey, 2016).

### How do we build communities of leaders if “growing timber” is not always possible?

Following our views shared earlier in this article, the importance of **THE** leader is fading, and more emphasis is placed on developing a leadership community represented by leaders at every level in the organisation who consciously share a common purpose and who have a high degree of congruence, not only on the **how** of achieving the purpose, but also – and more importantly – the **why**.

We particularly believe that the process of developing the leadership community needs to be informed by the organisation's defined leadership stance and strategy.

A critical first phase is to engage in one or more conversations about the organisation's business



environment, history and vision, so that building leadership excellence can be clearly defined and specifically positioned as part of overall strategic business intent (Van der Merwe & Verwey, 2016).

Phase 2 addresses the defining of the leadership stance, namely the specifics of what the organisation means by the word “leadership”. Van der Merwe and Verwey (2016) suggest that the following questions be answered:

1. Is leadership referring to executive and senior managers, or does leadership exist at all levels of the organisation?
2. What is the definition of leadership – is it about leadership style, leadership roles or something else?
3. What should be done about diversity, succession management, recruitment, selection and development?

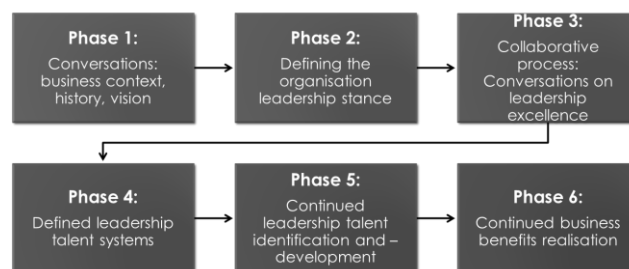
Once these are clarified and defined, the organisation needs to embark on a process to document their leadership excellence strategy (phase 3). We are supportive of the collaborative approach proposed by Van der Merwe and Verwey (2016). No longer should it be an approach where executive leadership, with the help of a consultant, dreams up a leadership strategy which is then announced to the rest of the organisation. The approach should be collaborative, where leaders at different levels have the opportunity to contribute to the development of the leadership strategy. It takes time, but the benefit of having these conversations is in itself part of building shared understanding and alignment regarding leadership excellence required within the organisation.

The defined leadership stance and strategy is followed by phases 4 and 5, aimed at defining and implementing the required leadership talent systems, such as clearly defined leadership behaviours, leadership talent identification and leadership development processes.

A critical last phase proposed by the authors (Van der Merwe & Verwey, 2016) is to link all the

leadership strategy work done with the business context and strategy. An organisation is a complex social system with many interdependencies, and therefore it is not expected to demonstrate a linear relationship between leadership excellence and the achievement of organisational strategy per se. There is, however, a critical question the organisational executive leadership has to ask: *“Is this leadership strategy and capacity-building process working for us?”*

The diagram below depicts the phases described in the preceding paragraphs:



**Figure 4: Leadership Community Development Process**

For the purpose of this article, we share our views about some current processes implemented in various client systems aimed at enabling the development of a leadership community especially during times of volatility.

In our view, all formal (i.e. programmes that leaders are sent on) and informal (i.e. experiential learning, coaching and other interventions) need to be carefully planned and integrated, as defined by the leadership talent systems (phase 4).

It seems as if the notion of combining leadership conversations with in-depth discovery of the key topics as they relate to Self-Leadership, Leadership of Others and Leading the Organisation increasingly resonates with our clients. Often, during initial engagements with clients, the lack of time and funds direct the decision to implement “short” leadership conversations as a process for leadership development and organisational culture change. These often grow over time into an expressed need for more in-depth discovery of key leadership topics, supported by an

experiential development and team coaching process.

Leadership conversations should not be scheduled too far apart and need to include some "fieldwork" / practical application back in the workplace for reporting back and exploring the effectiveness thereof during the next

conversation. Issues and topics identified during leadership conversations become invaluable input into the more in-depth leadership sessions to follow.

The diagram below provides a graphic overview of such a process:

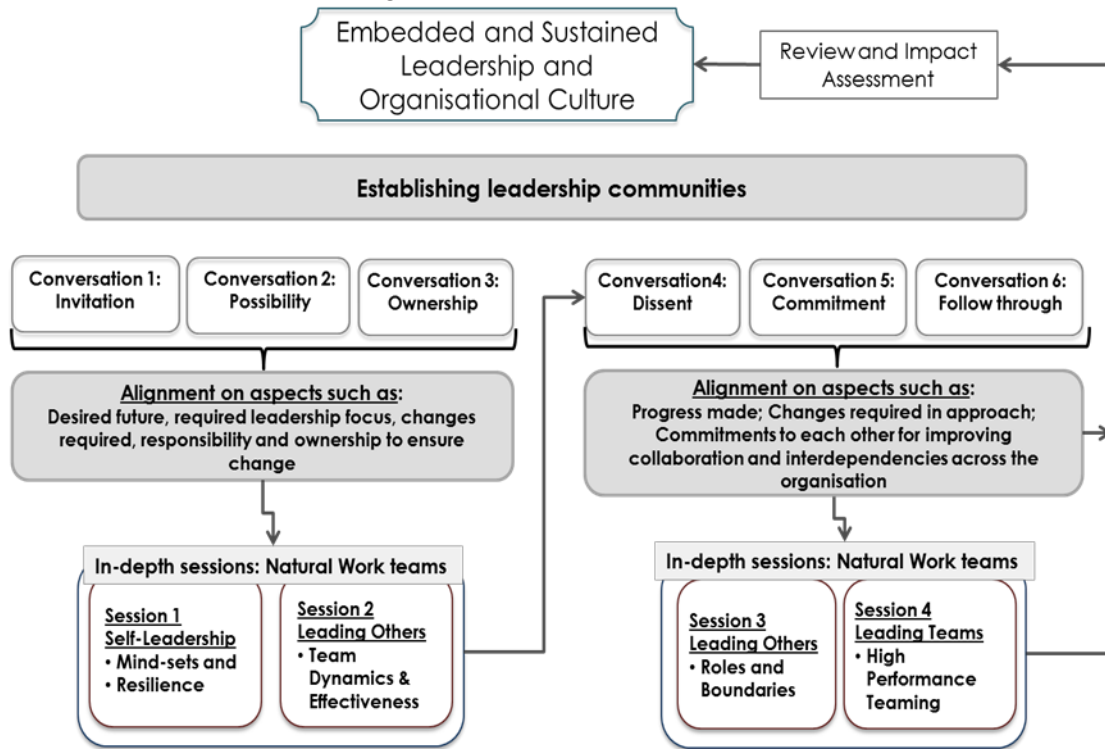


Figure 5: Process for establishing leadership communities

This process will only be effective if built on and supported by the organisation's defined leadership values and behaviours.

## Conclusion and Final Remarks

Seen from the perspective of the inavit iQ Business Value Model™, there are multiple areas of focus, all demanding and deserving attention of leadership at the same time.

In this article we discussed the impact of volatility and the related implications for leadership and leadership capacity building. Key conclusions are that:

1. The acceleration of technological breakthroughs, the blurring of boundaries and global connectedness result in an

increased need for speed and an inherent unpredictability of change; consequently, organisations find themselves in a state of constant volatility.

2. The more volatile the context is, the more organisations rely on the judgement of leaders and leadership.
3. The dynamics of leadership have shifted and, especially in times of volatility, leading an effective organisation can no longer be dependent on or limited to the acts of a few "heroic" leaders to "save" the organisation.
4. It is imperative to establish a leadership community, represented by leaders at all levels of the organisation, who consciously share a common purpose and who have a high degree of congruence on the **how** and **why** of achieving this purpose.

5. Leadership behaviours and values displayed by the leadership community irrespective of the circumstances, provides for an aspect of predictability required during times of volatility.
6. The notion of combining leadership conversations with in-depth discovery of the key topics as they relate to Self-Leadership, Leadership of Others and Leading the Organisation, increasingly resonates with our clients.
7. The process of establishing leadership communities will only be effective if built on, and supported by, the organisation's defined leadership values and behaviours.

As always, we also invite all our readers to engage in conversation with us about this article. Questions, comments, challenges – all will be welcomed as input into also shaping and enriching our own thinking.

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