Executive Guidance

Driving Performance in Volatile Markets
The only certainty leaders enjoy today is the reality that they must cope with and manage their organizations through an unprecedented amount of uncertainty. Whether it’s a flash crash in the markets in Asia; Britain leaving the European Union; the US election; terrorist threats; or dramatic shifts in once-stable regulatory policies, being a successful leader today means surviving in a wholly new and ever-evolving climate.

The changes in today’s business environment are not at the margins but rather fundamental (and often unpredicted) shifts in the structure and viability of markets. The organizations and leaders who will be most successful in the future will be those who are better able to identify and seize the opportunities that arise in uncertain times. In other words, those best able to adapt, and adapt quickly, will have competitive advantage.

While change has always been part of the realities of companies, the amount of organizational change today is unprecedented; business as usual has given way to “business as unusual.”
In 2009, 81% of organizations experienced some sort of major organizational change (defined as M&A, significant restructuring, or senior leader transition). That percentage fell to 56% in 2012 and in 2015 rose to 91%. In other words, organizations are experiencing more change, volatility, and uncertainty than they did at the peak of the global financial crisis. And it is expected to get worse; looking forward, 73% of executives expect the frequency of change to increase. And it is not just an increased frequency of change that is causing uncertainty; it is also the increasing magnitude of changes and their lack of predictability that make leading today more challenging. Organizations are experiencing more change, volatility, and uncertainty than they did at the peak of the global financial crisis, and 73% of executives expect the frequency of change to continue increasing.
The implication of the increase in uncertainty is that leaders must be able to adapt by changing their business strategies and operations more often. Leaders must tighten the time horizons that they operate under, shorten their forecasting horizons, and adapt and respond more quickly. Leaders must also test the assumptions that they have made about the business on a more dynamic basis, as what worked yesterday is increasingly less likely to work tomorrow. Unfortunately, most leaders are struggling to do just that. Based on our analysis of thousands of leaders at over 300 distinct organizations, only one-third are adapting quickly enough to hit their business and strategic goals. Why?

Uncertain economic conditions, unpredicted business challenges, and a perceived need for speed put leaders in situations that are ambiguous, where in-depth analysis is unrealistic, potential solutions are not obvious, and decisions’ implications are unclear. In order to solve these challenges, leaders now have to work in a more collaborative environment—61% of leaders indicate that they have to work with other leaders to get any of their own work done. But the uncertainty that organizations are facing is damaging these relationships—nearly half of the leaders surveyed say responding to today’s challenges causes disagreement with their peers.

It is not surprising then that a lack of consensus and indecision at the top is resulting in missed goals and missed opportunities for the business. The inability to lead the organization successfully through uncertainty is costing organizations millions of dollars in missed commercial opportunities and lost employee productivity. In today’s uncertain world, the traditional approaches that leaders have taken simply are not working as well as they once did.

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Traditional Top-Down Leadership Is Too Slow for Uncertain Times

Over 80% of leaders lead through uncertainty by managing as they've been taught—from the top down. They make a strategic decision, create an implementation plan, and then roll out an organization-wide communication effort with the goal of gaining buy-in and action from the workforce—the traditional “sell and tell” approach. Historically, this hierarchical approach to management made sense; by leading from the top, leaders believe they can be:

- **Right**—By focusing on a major challenge and building a response from the top, they can see what’s best for the organization.
- **Consistent**—With focused top-down communication, clear goals can be set for the organization, and information about what is happening and the decisions that have been made can be cascaded.
- **Efficient**—A well-defined, sequential process allows for predetermined roles in decision making, and change processes can be initiated with predefined, and minimal, resources.
- **Fast**—With clear top-down direction, the time between when decisions are made and when employees have implemented new approaches should be short.

But do these assumptions about the benefits of top-down leadership hold true in the current reality of frequent, unpredictable, and significant challenges to the business?

No. Simply put, top-down leadership fails. Top-down management does not make the leader more right, consistent, efficient, or fast. In fact, the opposite is true: when leaders lead from the top and try to push down new strategies and solutions, frontline managers understand less. When leadership is top down, fewer than 25% of the managers in that organization report that they actually understand the purpose of the changes being made.

This is not just a result of poorly designed changes that are then cascaded down and throughout the organization. The bigger impact of the top-down approach is even wider reaching—it is the broader performance drag on the company associated with this approach. Sixty-four percent of employees say a top-down approach lowers their level of trust and confidence in their leaders, and nearly as many say it causes them to hesitate, electing to wait for further direction before changing their way of working. Most employees in a top-down leadership environment also say they fear their efforts are being directed toward unproductive activities, and they naturally resist the new direction.

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Top-Down Change Strategies Create Workforces That…

Why does the top-down approach to leading through uncertainty fail? Many point to the amount of uncertainty, the frequency of change, and the magnitude of change outstripping leaders’ abilities. Although this is true, the reasons for the failure of top-down leadership are more fundamental and longer lasting. Top-down leadership fails primarily because organizations and the work environment have evolved. Consider the following:

• Leaders no longer sit on top of a pyramid; they oversee a much broader, less hierarchical matrix. Work no longer flows from the top of the organization to the bottom—it flows from side to side across the organization. The idea that there is a top of the pyramid to lead from is inconsistent with the way work actually gets done.

• Work is more collaborative and less directed by senior leaders. More often than not, employees are working without traditional, direct management; they are working with peers and through networks. Combine this with the new critical mass of millennials in the workforce, and the reality is that employees today want to be part of the solution; they want to be involved in decision making and execution as the organization faces new challenges.

• Information and knowledge is dispersed throughout the organization rather than concentrated in the hands of leaders. Leaders no longer dispense information to their teams; they direct and enable their teams to access the information they need to work. Failure to effectively involve employees not only increases disengagement but also increases the odds of failure.

• Customers are less patient and expect responses immediately. Competitors are using new technologies and tools to move faster than they have before. Traditional models that require information to flow up the hierarchy for decisions and then back down for action are too slow. Leaders who fail to adjust how they lead are becoming slower as their competitors are becoming faster.

Uncertainty as a business challenge is not new (it has just been a question of how much). But these broader shifts in how work gets done, employees’ expectations, and customers’ demands make traditional, hierarchical, and standardized approaches to leading an adaptive organization less effective.

To be more effective, leaders need to rethink how they lead through uncertainty and take on new and different roles to help their businesses adapt.
Leaders must shift from top-down leadership approaches where they alone set the vision and drive implementation to a framework that is more open and inclusive. By making this shift, leaders are able to double the likelihood that their organizations can, and will, adapt. Leaders need to adopt three new principles to improve their effectiveness at leading through uncertainty:

1. Use an inclusive decision-making process. The best leaders improve the quality of decisions by involving different segments of the organization in decision making.

2. Have a conversation strategy, not just a communication strategy. The best leaders engage the workforce in a dialogue rather than increase the amount of communication delivered to their teams.

3. Push decision-making rights and accountability closer to where work gets done. To enable faster and more effective responses, the best leaders empower their employees to take greater ownership of decision making and implementation and then hold them accountable.

Leading through uncertainty is complex and challenging. Many leaders believe that they should know all the answers, but it is impossible for any leader to have all the information needed to quickly understand a challenge, identify the opportunity, and make a timely and effective decision. The most effective leaders are able to shift their planning and decision-making processes to be more collaborative and inclusive. Two principles emerged in our research to create a more inclusive decision-making process:

**Work as a Team; Leaders Must Lead Collectively**

In times of uncertainty, the effect of leaders using their peer network is dramatically amplified. When uncertainty hits the organization, leaders are often confronted with different-in-kind challenges that are new to them but not new to all leaders at the organization. In fact, when one leader is confronted with a new challenge, odds are that another leader in the organization has encountered, and solved, that challenge.

Leading through uncertainty requires even more collaboration among leaders. CEB’s overall benchmark of leader effectiveness suggests that what distinguishes the top-performing leaders today is not their individual abilities or actions but rather their unique ability to effectively work with their peers—capturing ideas, information, and resources from their network and using it to help reset strategic goals and objectives. The most effective leaders spend about 14 hours a week (five more hours than their less-effective peers) talking with and learning from their network.

**Make Sure the Right People Are Making the Decisions**

The simple question that every leader should ask when making any decision during periods of uncertainty is: do we have the right people in the room to make this
decision? If you look around the (real or virtual) room, and everyone is at the same level, works in the same business line, or represents the same set of corporate functions, then you likely have the wrong people in the room.

In the collaborative, matrixed, and uncertain world that leaders operate in, knowledge and insight on how to meet changing goals and objectives are less likely to be found based on a person’s title and are more likely to be distributed across level, geography, and role in the organization, especially closer to where work is actually done.

In addition to simply identifying those frontline managers and employees critical to a new initiative’s success, the best leaders are ensuring they have the right people in the room by asking themselves questions like:

- Who would be surprised by this?
- Who is likely to opt out or reject the solution?
- Who is knowledgeable about this and may not speak out?
- Are specific demographics or geographies affected?
- Who might care about this despite not being directly affected?
- Who is outspoken about this?

By asking these questions, leaders realize whom to include and not include in decisions.

Leaders need to take care to involve the right individuals in designing and implementing change. CEB research shows that the best collaborators are those who will own the change, are more comfortable with ambiguity, and work better with others. Employees proficient in these competencies are the most effective change champions. Involving employees with the right competencies greatly improves the likelihood that the organization can adapt and succeed.

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1 Red Hat has been using this approach since the founding of the company to develop a more inclusive decision-making process. For more details, see https://www.redhat.com/en/explore/the-open-organization-book.
Rather, it is about defining reality and then inspiring engagement, participation, and excitement given that reality. Leaders need to remember that for many employees, helping improve business performance is a good and rewarding experience; 74% of employees indicate they are willing to change their behavior even under difficult business conditions.

Focus on the “Why,” Not the “Sell”

One commonly held belief is that employees will change behavior only if they believe the change is in their interest. As a result, many leaders engage in a communication strategy that focuses largely on selling their employees on why a change will be great for them. They send e-mail after e-mail touting the benefits of the new strategy, structure, or approach. This communication approach often backfires. Sell-focused communication increases employee anger at leaders by as much as 19%.

Importantly, the best leaders acknowledge that not every employee benefits from every strategic or operational shift required. They acknowledge that there are winners and losers. Emphasizing the “why” of change helps employees understand the shift in strategy more fully and view the impact as a whole rather than as a series of localized or personal one-off events. They explain the business rationale for a decision; they provide insight on the competitive dynamics of the market that they operate in; and they share the metrics they are using to determine if the organization is succeeding.

Our analysis shows the best leaders ask their team a set of questions to determine if new objectives and goals have been effectively communicated. Specific questions leaders ask their team include the following:

• Do you understand why this change is being made at this time?
• How would you communicate our goals to your direct reports?
• Do you know how we are measuring the success of our approach?

These questions are simple and straightforward, but getting the answers to them helps leaders understand whether employees know what is happening (or not).

Leaders who use a conversation-based communication strategy get better results. Conversation-based strategies more than double the percentage of employees who understand the direction the leader is taking. And this is particularly true at the lower levels of the organization.

Set Stability Expectations; Don’t Promise Stability

The conventional wisdom in many organizations is that strategic changes are infrequent and singular. As a result, employees have come to expect that only long-lasting, large-scale changes are “real.” The reality is that in today’s environment of uncertainty, strategic goals and objectives will often change in both large and small ways.

In fact, resetting expectations for more frequent change is essential. CEB research shows that if leaders promise stability and then fail to deliver, employee engagement falls by as much as 46 percentage points. The best leaders reset expectations to embrace instability and to anticipate calls to be more responsive and open to change. This strategy also has the advantage of being consistent with the reality organizations face.

To be clear, this approach isn’t about focusing on doom and gloom when talking about business challenges. Instead, it is about designing reality and then inspiring engagement, participation, and excitement given that reality. Leaders need to remember that for many employees, helping improve business performance is a good and rewarding experience; 74% of employees indicate they are willing to change their behavior even under difficult business conditions.

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Too often, leaders feel responsible for not only understanding and responding to new challenges but also leading the planning, communication, and implementation of changes in operations and processes. As a result, they take on too great a burden, and they delegate less effectively or not at all, trying to manage the change effort centrally (even personally).

When leading through uncertainty, the best leaders focus on setting and clarifying changing organizational goals and objectives. They actively push decision making, implementation, and accountability down in the organization. They enable managers and employees to decide how to adapt work processes. Progressive leaders pursue the following three important principles:

**3. Push Decision-Making Rights and Accountability Closer to Where Work Gets Done**

**Identify and Manage Critical Roles Where Decisions Are Put into Action**

The underlying premise of top-down leadership is logic and order—successful strategic adaptability depends on having the right leaders in place to make a decision, reset strategy, adjust goals, communicate change, and drive the organization to make significant adjustments. This strategy was effective when organizations were hierarchical and driven from the top.

But organizations are much flatter, networked, and virtual today. Work processes are less standardized and predictable. Change happens at the level of the operators, where work gets done. CEB research shows that employees are more likely to know how to manage their work and can make more effective decisions without direct tasking by senior managers.

<table>
<thead>
<tr>
<th>Strategy-Critical Roles</th>
<th>Strategy-Impacted Roles</th>
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<tbody>
<tr>
<td><strong>Strategic Talent</strong></td>
<td><strong>Requisite Talent</strong></td>
</tr>
<tr>
<td>What capabilities are critical for driving long-term competitive advantage and revenue growth?</td>
<td>What capabilities are needed for the business but could be delivered more cost-effectively?</td>
</tr>
<tr>
<td>Characteristics:</td>
<td>Characteristics:</td>
</tr>
<tr>
<td>• Specialized skills or knowledge (IP)</td>
<td>• No specialized skills or knowledge</td>
</tr>
<tr>
<td>• Visible externally and internally</td>
<td>• Limited impact on business performance</td>
</tr>
<tr>
<td>• Direct impact on revenue or business performance</td>
<td>• No external customer touchpoints</td>
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**Core Talent**

What capabilities are unique to the organization and core to delivering products and services?

Characteristics:

- Essential for strategy or process execution
- Not directly transferable to other organizations
- Limited direct impact on revenue

<table>
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<tr>
<th>Noncore Talent</th>
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<tbody>
<tr>
<td>What capabilities are no longer aligned with the organization’s strategic direction?</td>
</tr>
<tr>
<td>Characteristics:</td>
</tr>
<tr>
<td>• Made redundant by shift in strategy</td>
</tr>
<tr>
<td>• Limited internal/external touchpoints</td>
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Once these roles are identified, the best leaders then turn to making sure they have the best employees in these roles. They invest additional time in managing the talent in these roles, including being directly involved in recruiting for these roles, assessing employee skills and competencies, ensuring development opportunities exist, and designing retention strategies to ensure they stay committed to the organization.

The most adaptive leaders work with their HR function, customers, and other key stakeholders to determine which roles are the most critical to business success. One useful framework we have seen for identifying critical roles distinguishes between strategy-critical and strategy-impacted roles. Depending on how an organization’s roles are classified, this simple distinction helps determine whom leaders can (and should) rely on—the strategy-critical roles—for help in planning, setting new directions, and implementing change.
Let Go of the Details; Enable Your Team

Leaders shouldn’t be expected to design or operationalize implementation plans at the most granular level; as uncertainty increases, operating at that level of detail is unrealistic. It slows the process more than they currently do. Unfortunately, leaders hesitate to bring employees into the process because they are worried about setting ambiguous or conflicting expectations or are uncomfortable with the risk introduced.

But leaders shouldn’t fear this risk. CEB research indicates that involving employees more closely in setting new directions and implementing new change to frontline employees. Progressive leaders rely on their teams’ expertise, experience, and knowledge. More than 80% of leaders surveyed say they want to involve employees in the implementation process more than they currently do. Unfortunately, leaders hesitate to bring employees into the process because they are worried about setting ambiguous or conflicting expectations or are uncomfortable with the risk introduced.

To truly enable managers and employees in critical roles to lead in implementing change and adapting work processes, leaders need to be willing and able to delegate the work of driving, and even refining, top-down ownership of implementation plans limits change success impact on probability of change success

Top-Down Ownership of Implementation Plans Limits Change Success Impact on Probability of Change Success

<table>
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<tr>
<th>Change in Probability of Success</th>
<th>Percentage Points</th>
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<tbody>
<tr>
<td>Leaders Primarily Own</td>
<td>+4</td>
</tr>
<tr>
<td>Managers Primarily Own</td>
<td>-1</td>
</tr>
<tr>
<td>Employees Primarily Own</td>
<td>+1</td>
</tr>
</tbody>
</table>

Manage Performance and Use Feedback to Stay on Course

Amid inclusive decision making, conversation-based communication, and delegated implementation, the best leaders never lose their focus on managing performance. As the speed of business accelerates and decisions are pushed down, leaders and employees can quickly become misaligned. When this happens, all the benefits from improving decision making, communication, and delegation are quickly lost.

Leaders can use performance management as a means to stay aligned as the front line adapts. However, the historical approach to performance management and accountability is no longer likely to be effective. As the business responds to new challenges, employee objectives are likely to change frequently. As a result, providing feedback annually, on likely outdated performance objectives, will do little to improve employee performance or ensure the organization is able to become more adaptive.

Instead, progressive leaders realign their performance management practices to match the new reality. They shift their performance management approach during uncertainty in three ways:

- Provide forward-looking, not just backward-looking, feedback. Rather than over-focusing on how employees did against their objectives in the previous period, the best leaders use that information to coach their employees on how to improve. They still hold employees accountable for.
hitting performance targets but balance that with coaching and improvement. By becoming more forward looking with their feedback, the best leaders are helping employees prepare for the next decision they will face.

• Increase the frequency of feedback. With uncertainty, employees’ work can quickly become disconnected from the leader’s frequently changing goals. To maintain alignment, the best leaders have moved to monthly or quarterly feedback sessions. By increasing frequency, the best leaders create more opportunities for course correction and resetting objectives.

• Collect feedback from a broader set of stakeholders. As employees work with more people across the matrix, the best leaders collect feedback from their employees’ peers, direct reports, and even customers. In this way, leaders are able to provide a more accurate perspective on employee performance and better in-the-moment coaching on how to improve. Moreover, by expanding the feedback network, leaders are able to ensure operational alignment and gather critical information on the progress they are making throughout the organization.

By pushing decision-making rights and accountability closer to where work gets done, the best leaders are not only able to make better decisions but also more likely to ensure that decisions are effectively implemented.

An inability to lead through uncertainty can cripple an organization. In response, progressive leaders are rethinking their role and adopting a new playbook based on three broad principles:

1. Use an Inclusive Decision-Making Process
2. Have a Conversation Strategy, Not Just a Communication Strategy

Leaders who practice these three principles are more successful in helping their organizations anticipate and react to unpredictable business challenges. Their inclusive approach to decision making and implementation results in employees who are consistently more committed and work harder. As a result, these leaders are able to improve business results and achieve competitive advantage even during times of extreme uncertainty.

Leaders today face uncertainty in nearly all markets, industries, and environments as the global economy goes through a faster and more diverse set of changes than ever before. Organizations and leaders who are able to quickly adapt, changing their underlying leadership, management, and operating approaches to be more inclusive and less formulaic, will have a competitive advantage. They will lead the organizations more likely to survive and thrive in uncertain times.

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