Leadership in the 21st Century

Rainer Strack | Carsten von der Linden | Roselinde Torres

I Introduction

As more and more workers age out of the job market, skilled talent is becoming increasingly scarce. For managers who need to attract skilled workers to their own company or retain and further motivate those they already have, modern, human leadership plays a decisive role, despite the relentless advance of digitization and automation.

The challenges executives face today are considerably more diverse and demanding than those faced by previous generations of leaders. The Boston Consulting Group surveyed high-ranking executives of global corporations, university teachers, and management theorists about the greatest challenges faced by managers today. The respondents named the following key challenges:

- Intensifying global competition
- The rising importance of diverse stakeholders
- The increasing pace of innovation and the ever-expanding deluge of information
- Growing uncertainty about the future
- The rising importance of corporate social responsibility
- The increasing significance of virtual teams
- The growing digitization of work processes

Besides these influences, demographic change is emerging as a new and significant challenge for managers in the 21st century. In developed industrial countries, companies employ multiple generations to work together, each with very different demands and correspondingly disparate leadership needs. Managers have to master “multi-generation management” in every context and in every type of situation.

Employees, whatever their age or nationality, expect much more from their work than merely a paycheck. In 2014, BCG conducted a global online survey of 200,000 job seekers in 189 countries. Asked about the key sources of job satisfaction, participants ranked 26 factors in declining order of importance. The four most important factors for employees were appreciation for the work they do, a good relationship with colleagues, a good work-life balance, and a good relationship with their direct manager – a clear call to show the relevance of strong leadership. (See the sidebar for more details).

Decoding 200,000 global talent profiles

Across generations, we can observe the rising level of expectations employees have with respect to their work. Yet companies are scrambling to develop strategies, programs, and measures to recruit, develop, and retain their top talent and keep them motivated at the same time – not an easy task. Company leaders have a crucial role in fulfilling these needs.

In the report “Decoding Global Talent,” BCG explored this issue in depth. We partnered with The Network – an association of more than 50 job boards worldwide, with over 200 million visitors per month on all its websites – to conduct an online survey. With more than 200,000 replies, the survey included 33 questions on talent mobility and job preferences, of which 13 looked at demographic factors such as age, work experience, gender, education, industry, salary, and occupation. The result was a unique database that offers strategic insights for developing people strategies.

One of the survey’s more striking findings has to do with what people say makes them happy in their job. Increasingly, workers are starting to put more emphasis on cultural aspects and less on financial compensation. Out of 26 job elements, the single most important one for all people globally is appreciation for their work. (See the exhibit below for the top ten elements.) Good relationships in the office – whether with colleagues or superiors – are critically important and come in second and fourth, respectively. A good work-life balance is the third most important job factor. The implications for companies, economies, and individuals are significant and varied – addressing them will be key for future success.

What capabilities does the manager of the future need to meet the challenge of globalization, competition, and multi-generational workplaces? Some principles and characteristics of good leadership – integrity, good judgment, courage, and decision-making ability – are timeless, but modern managers must master and demonstrate a number of additional capabilities whose initial letters can be arranged as the points of a compass. These capabilities include:

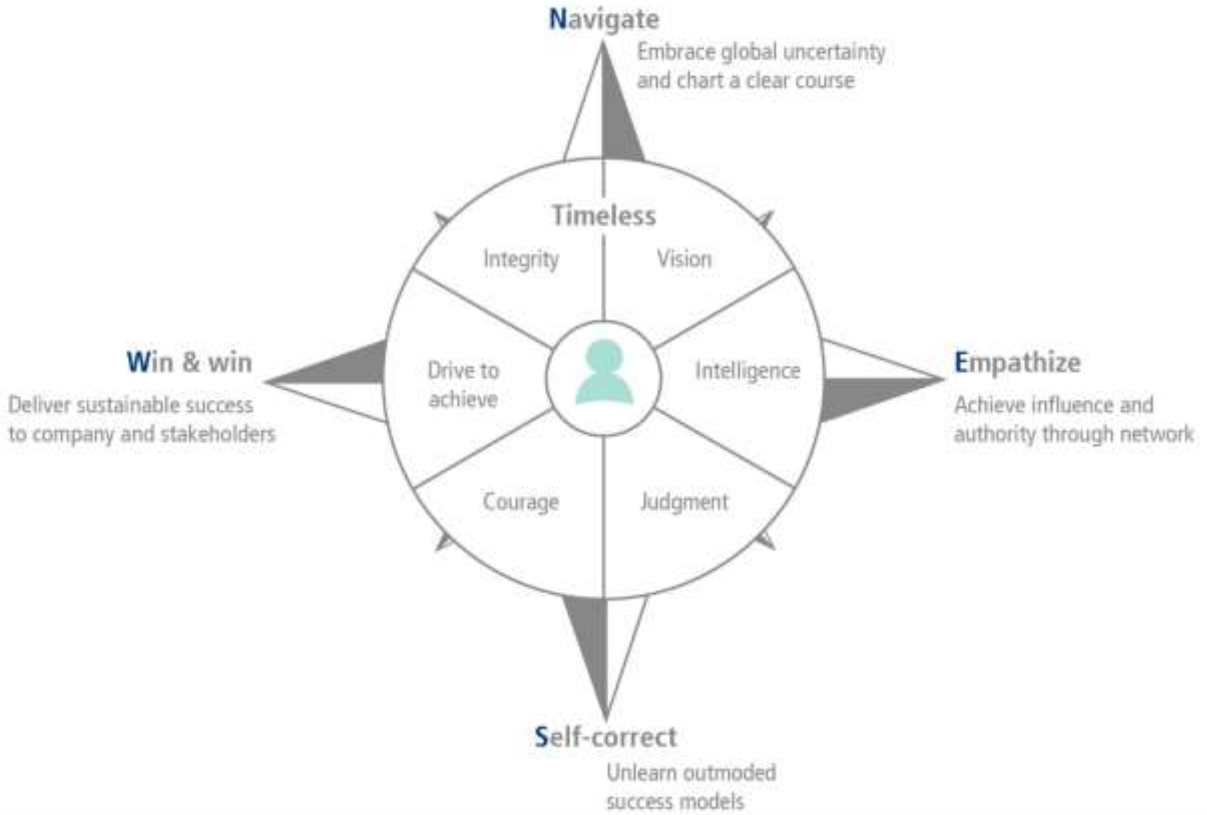
Navigation: Managers in the 21st century must be able to navigate the company, even as changing influences and unforeseen events multiply and intersect at dizzying speed. To internalize the company's adaptive strategy and reapply it every day, managers need first to keep the turbines in the engine room running smoothly. They also need to detect the trends that may disrupt their current competitive advantage or present new opportunities to shape new strategies.

Empathy and appreciation: Today's managers must be able to "walk a mile in the shoes" of each of their employees and understand the needs that arise from each individual's circumstances. What employees have in common, whatever their age and wherever they work, is their need for their efforts to be recognized and appreciated. Managers will succeed if they can create an authentic culture of appreciation within their company. Employees also want to feel that their efforts contribute to a broader and meaningful purpose.

Self-correction: Modern managers have to be willing to question themselves critically to maintain their ability to adapt their organizations, strategies, and themselves in an environment of ever-accelerating change. They need to abandon the behaviors or business models that may have led to success in the past, but are no longer relevant. In practice, we observe that the ability to self-correct manifests itself in managers as a kind of humility. The most effective modern managers put the focus on the team's performance, not on themselves – even if they are mainly responsible for the team's success. Managers encourage experimentation and risk taking, treating failure as a basis for learning. In addition, even the most senior leaders remain open to direct, candid feedback from employees at all levels.

Win-win situations: In the 1990s, good leaders were often defined along a single dimension: their ability to optimize shareholder value. Today, in contrast, managers must be sensitive and responsive to the divergent needs of a large number of stakeholders. They can no longer choose to satisfy either customers or shareholders or employees – they must always strive to craft solutions that ensure that all sides win.

At the center of the compass are the timeless principles and characteristics of good leadership. (See Figure "21st century leadership")



Source: Boston Consulting Group.

Of course, a modern manager also needs extensive knowledge and competencies. Because today's managers at every level have to make decisions on digital topics, a working knowledge of digital topics is already an absolute must. However, a deeper understanding of digital business models, combined with detailed technical knowledge, will be a strong competitive advantage for managers in the future. E-leaders who combine business understanding and a modern leadership style with digital knowledge will be the leaders that every organization prizes.

Government institutions can support the development journey by modernizing professional education. Universities will face an increasing number of tech-savvy students when the generation of digital natives enters the job market. Educational programs should consider the modern digital environment for this new generation and also teach digital competencies in the professional education of non-digital natives to help future leaders develop the necessary skills early on.

Successful organizations focus on objectively measuring the effectiveness of their leadership development and talent management, assessing their performance with the same kind of rigorous, evidence-based metrics with which they measure the financial and operational aspects of their business. CEOs, of course, are a major focus of such evaluations, especially CEOs who are new to the job – and quite possibly new to the upper echelons of corporate management – and have only a year or two to demonstrate to shareholders, the board, employees, and other stakeholders that they are ready and able to move aggressively to create value.

In the pages that follow, we will discuss four of today's most prominent leadership topics in detail. Each topic reflects how corporations are adapting to an environment of increasing competition, rapidly proliferating digitization and automation, mounting uncertainty, and growing demands from a widening circle of stakeholders.

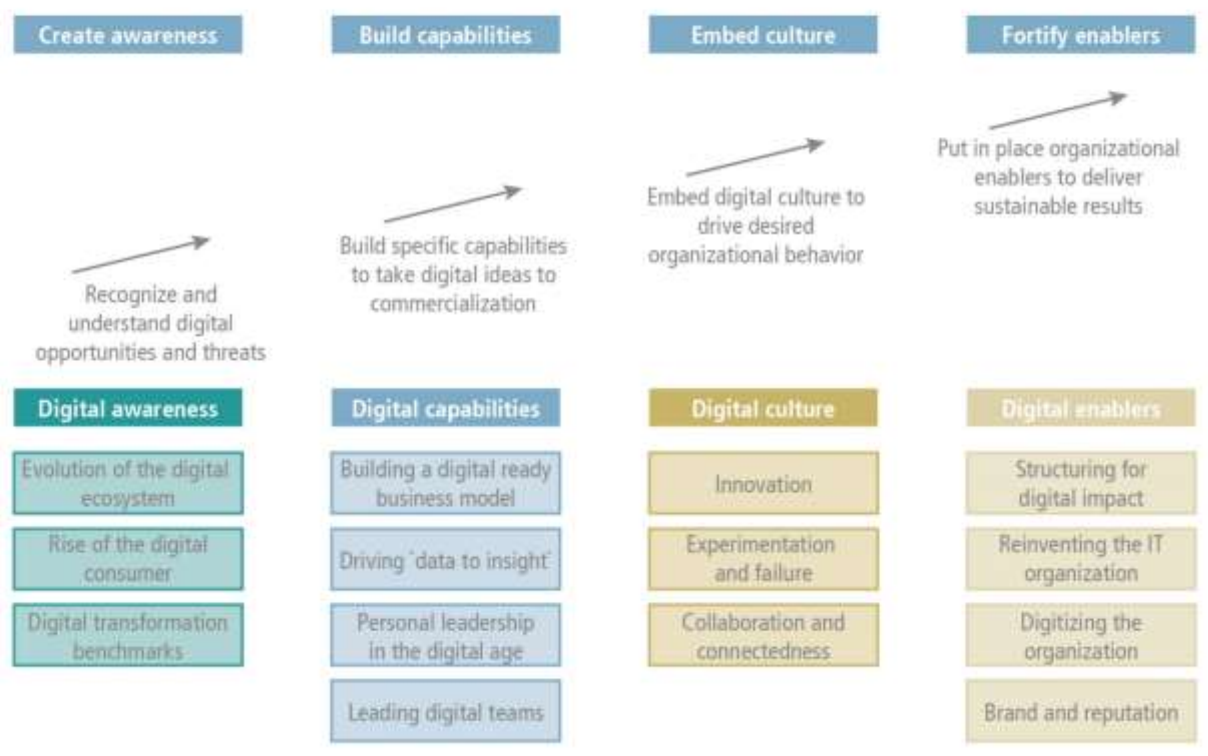
Those topics are:

- Leadership in the digital age
- How CEOs not only survive but thrive in the crucial second year of their tenure
- The recent tendency of boards to recruit new CEOs drawn from lower management ranks
- The need for rigorous, evidence-based metrics to assess corporate leadership development and talent management

II Leadership in the digital age – Developing tomorrow's e-leaders today

Cultivating leadership in the digital era entails a transformational journey for both the organization and its people. This transformation proceeds through four distinct stages: the first being fostering digital awareness, which leads to building digital capabilities, which advances to infusing the organization with a digital culture, and culminates in the establishment of enablers that sustain the results of the transformation and ensure that the digital culture takes permanent root throughout the organization. (See Figure "Four pillars of the development journey")

Four pillars of the development journey



Source: Boston Consulting Group.

Fostering digital awareness requires companies to recognize and understand both the threats and opportunities unleashed by the spread of digital technology. They must thoroughly comprehend the evolution of digital ecosystems and grasp what digital trends, tools, and platforms mean for their own business activities. They must learn how digital technology is changing the way consumers behave and the way they interact with corporations, which in turn requires companies to understand social networks and how they influence consumer attitudes and actions. Furthermore, companies must study how digital transformations have created value at recognized digital standouts and apply the lessons learned from those winners to their own organizations.

When companies have gained digital awareness, they can then begin to build the digital capabilities that enable them to commercialize digital ideas and create value. They must be ready and able to develop innovative business models by adopting digital technology to every stage of the value chain, from product design to manufacturing, from distribution to marketing. And they must build the capability to derive meaningful, actionable insights from the massive quantities of data generated by digital technology.

Such an undertaking calls for leaders able to develop and display specific personal qualities that correlate closely with success in the digital era. Such leaders are not afraid to fail – in fact, they regard failed experiments as an opportunity to learn and apply what they have learned to the next experiment, in a continuous iterative loop. They have the discipline to maintain focus amid proliferating physical and digital distractions while managing their own digital presence and mastering the fear of "visibility" that can inhibit creative thought and action. Leaders with those qualities have what it takes to build and engage agile, adaptable teams that can collaborate in a digital environment and minimize the many digital distractions that sap focus and productivity.

Such leaders and teams are the signature of a digital culture, which is characterized by a creative spirit that relies less on "thinking outside the box" than on "thinking within new boxes." That thinking calls for a mindset that takes experimentation for granted and is constantly testing new concepts, refining them, and applying what was learned from experimentation to new contexts. That mindset flourishes in open, collaborative settings that reject command-and-control leadership in favor of a "democracy of ideas" where power is distributed rather than concentrated.

An organization with a digital culture is an organization structured for digital impact. Such a structure establishes roles, decision rights, and key performance indicators (KPIs) that are not just appropriate to a digital organization but actually enable it to come into being and sustain itself. Its governance is aligned with the new digital paradigm and helps transmit the culture throughout the organization. In such an organization, IT is not simply a utility but actually a driver and enabler of business strategy that integrates new technological tools with legacy systems. Digitization pervades the organization, which stands ready at all times to learn and acquire new digital tools to automate key processes. Such organizations are at home in a world that has never before been so transparent and open, and they are adept at managing their brands and reputations – both internal and external – in an exposed setting.

III How CEOs not only survive but thrive in the crucial second year of their tenure

Leadership churn in large companies has intensified over the past decade, with a strikingly high number of CEOs leaving office in the second year of their tenure for what is usually described as "performance reasons." The second year of a CEO's tenure marks the point in time that stakeholders lower their threshold of tolerance and when CEOs themselves often begin to feel discouraged by the slow pace of change in their organizations. That is when they are at greatest risk of being ousted. Paradoxically, it is also the time they have the greatest opportunity to position themselves and their company to thrive. (See the sidebar)

Consistent messaging, ongoing trust, positive image

For example, the thriving CEO of an electronics company took over during a very troubled time. After an intensive scrutiny of all the issues, he developed a clear strategy, which he crystallized into a six-word mantra: “Save it, fix it, grow it.” He delivered that message consistently to all stakeholders and always dealt with them in a straightforward manner. He stayed true to the message and explained all actions in terms of the mantra. When reporting results, he never made excuses and never exulted but would keep linking the results back to that punchy, six-word mission. Likewise with the decisions he made: closing a plant or spinning off a subsidiary was, he would say, for the sake of saving the company or fixing it. Despite the subdued results in the early phases, he stood firm and everybody involved kept faith in him as he rode out the storm. The board, the shareholders, and the analysts remained forbearing, and even employees at risk of being laid off generally accepted that he knew what he was doing.

The success or failure of new CEOs depends very much on the confidence they generate through the early moves they make. The right moves for any CEO will obviously vary according to the company’s financial condition, position in the market, and adaptability to changing needs. But our research on CEO success shows that several types of moves correlate positively with thriving CEO performance. (See Figure “The choice of early moves can be critical for CEO success”)

The choice of early moves can be critical for CEO success

	Funding the journey	Winning in the medium term	Building the right team, organization, and culture
Description	The company has to demonstrate progress in the short term and deliver results for shareholders while also freeing up funds for the future	The CEO and the leadership team must take steps right away to move the company to a fundamentally better place (within three to five years)	To support the new plan throughout the transformation and over the long term, the CEO must put the right people, processes, and beliefs in place
Questions to be answered	• What are the quick wins? • How can we free up the funding needed for future growth? • How can we keep the board, the public, and investors patient during the journey?	• How can we achieve material growth? • Which markets should we enter or exit? • What business model should we use? • Which capabilities should we develop, and by when? • What performance targets should we set?	• Is the leadership team skilled and committed, and is it inspired by the same vision? • Which new people and processes should we employ to promote change? • How can we create a culture that sustains success?
Types of moves	**Operational improvements** Fixed-cost reductions Financing	New markets **New products** Existing offerings **Customer relationships** Technology Branding	Vision and plan Leadership Structure and layers **Employee engagement** **Company culture** External relationships

Note: The kinds of moves shown in bold type were made far more often by thriving CEOs than by ousted CEOs.

Source: Boston Consulting Group.

Overall, thriving CEOs were quicker than ousted CEOs to make bold moves in their first year. They appeared more inclined than ousted CEOs to launch innovative, ambitious initiatives that were nonetheless realistic in their timelines. In addition, thriving CEOs tended to strike a better balance between short-term and long-term returns. They also tended to commit more decisively to financial value drivers to generate early, confidence-building wins.

More specifically, our research identifies a few types of early strategic moves that thriving CEOs make far more often than ousted CEOs. They include:

- Making operational improvements for a quick payback to fund future investments. Examples of such improvements include selling off noncore subsidiaries, reconfiguring the supply chain, and tightening up inventory management, which all, if well executed, can free up cash to fund financial investments.

- Developing new products to capture a distinctive market, paving the way for medium-term success. Thriving CEOs make innovative (but realistic) moves, focusing their energies on products that can quickly attain full value and secure maximum competitive advantage. A quick-service restaurant franchise, for example, might add healthier specialty items to its menu to lure younger, more health-conscious diners. A retail chain might create high-end sections in its stores to appeal to a more affluent demographic layer.

- Honing customer relationships to refine service for existing customers and attract profitable new ones. As we noted earlier, successful modern leaders are skilled at crafting win-win solutions – that is, they respond to customer needs in a way that creates value for both the company and its customers. Such leaders tend to establish a “customer-first” approach across the organizations they lead and design reward programs to strengthen the loyalty of specific customer segments.

- Adjusting HR practices to reinforce the new definition of success and increase accountability, thereby boosting employee performance. Examples include redefining performance-management and compensation schemes, and creating self-funding programs to develop and accelerate new capabilities.

- Modifying aspects of corporate culture to support and sustain high performance. Such moves include redefining leadership standards, filling key jobs with more adaptive leaders, changing the operating model to make it easier to take big bets, and redesigning processes for engaging different groups of employees.

For a different angle on the approach that successful CEOs take, consider the observation of a veteran operating partner of a private-equity firm. One key factor in early outperformance by CEOs, says this experienced observer, is the tone they set in their first year or two. The most successful CEOs “sprint to value” by reframing the business opportunity, adroitly balancing their ambition with the organization’s capacity for execution. They carefully place big leaders in big roles and hold them accountable for executing a handful of large initiatives with aggressive timelines. To minimize surprise hurdles during the sprint, the CEOs ensure that the teams responsible for each “must-win” initiative have the funds, the talent, and the decision-making rights they need to succeed. The CEOs modulate execution risks, using fast feedback loops with customers, shareholders, suppliers, and the public. With the help of big data and social media, they ascertain which risks are paying off and which are failing, and make course corrections to realize or reset the initiative’s expected value. The CEOs who sprint to value have consistently produced impressive results in the short term that position the organization for sustained success in the future.

IV The recent tendency of boards to recruit new CEOs drawn from lower management ranks

In recent years a number of prominent corporations have hired CEOs with little to no experience of working in the top two levels of management (known as L2). Examples of such CEOs include Yahoo!'s Marissa Meyer, a 37-year-old vice president at Google when Yahoo! tapped her for the top job, Burger King's Daniel Schwarz, who was 33 and had only three years' experience in the fast-food business when he was appointed CEO, and General Motors' Mary Barra, who formerly held a variety of L3 executive posts at the auto maker.

Unlike seasoned executives promoted from the second level of management (or L2), many of these new arrivals to the C-suite saw their promotions accelerated by boards wagering that the new CEO's ability to understand and act upon signals in today's unpredictable environment will more than offset their relative inexperience. Such "leapfrog" CEOs tend to have an easy familiarity with disruptive technologies and digital media; a proven record of innovation; experience in leading high-ranking colleagues; an understanding of diverse markets and cultures, and of demographic shifts; and an adaptive approach to leadership based on such traits as curiosity, social sensitivity, and the courage to act. (For more details on the ideal traits of a modern CEO, see Figure "Profile of the modern CEO – A checklist of specifications")

Profile of the modern CEO – A checklist of specifications

The new-style outward-looking CEO typically displays many of the following characteristics, and ideally would have all of them.

	He or she ...
Intelligence, integrity, and stamina	... has these and other traditional indispensable qualities in abundance
An easy familiarity with disruptive products or services	... has a passion for and understanding of emerging technologies or has a science background
Digital savvy	... is familiar and comfortable with social media and the uses of big data
A track record of innovation	... has skillfully devised and implemented new business models within or outside the company, and has introduced new products
Experience in leading a team of peer or even senior staff	... has previously had a rapid promotion to a leadership position, and has conciliated those who might have felt more entitled to the role
Confidence as a global citizen	... can operate comfortably in developed, developing, and emerging markets, and can maintain credible leadership across diverse cultures
An understanding of demographic shifts	... is alert to any potentially significant changes in the customer base - age, ethnicity, social class, or professional status - and can shape strategies accordingly, especially for new customer experience channels
Adaptive leadership traits	... has personally embraced and championed disruptions; has demonstrated exceptional curiosity; has self-awareness, social sensitivity, open-mindedness, and the courage to act

Source: Boston Consulting Group.

The phenomenon of fast-track CEO succession appears to be most prominent in the retail sector and in the technology, media, and telecommunications sector. Google's Larry Page, for example, was 38 at the time of his appointment as CEO, Microsoft's Satya Nadella was 47, and PetSmart's David Lenhardt was 43. Companies in these sectors are particularly affected by disruptive business models and unfamiliar competitors, so their boards are motivated to appoint CEOs equipped to rewire the company around consumer experience.

It is much too early to judge the success or failure of these leapfrog leaders, who are all relatively new to their jobs. Old reasons rather than new moves by their CEOs can explain both the apparent upswing in the fortunes of Yahoo! and the recent setbacks at General Motors. Still, a few interim impressions are in order.

A leapfrog leader, attuned to the spirit of the times, has a stronger chance to uncover and release a company's latent potential, defying tradition if necessary. He or she will understand cultural norms sufficiently to break some of them without disrupting business continuity. Such leaders will likely face stiff opposition in the form of vested interests, traditional practices, and investor skepticism. But with toughness, persistence, and the backing of the board, the new CEO can make headway in revitalizing the company.

There are at least two risks, however. First, the new CEO may be unprepared for the job. Second, the executives who were passed over may be disappointed and become disaffected. They could quit at an awkward moment or try to undermine the new CEO. As far as we can tell, those risks have not materialized. The performance of the leapfrog CEOs is at least comparable to that of their more senior counterparts. Their companies have not reported any marked decline in the morale of many L2 senior leaders or an increase in boardroom regret. Most of the CEOs have overcome initial skepticism about their abilities and have established their credibility.

Yet boards cannot afford to be complacent. They must remain heavily engaged during the grooming and transition of new leaders. The more planning that goes into developing CEO candidates, the more options a board has for choosing a CEO suited to its strategic agenda. Prescient boards identify front-runners early on, groom them, arrange coaches and mentors for them, rigorously track their readiness, and set them up for success. A fast-track CEO succession should be the product of a deliberate strategy, not of desperation.

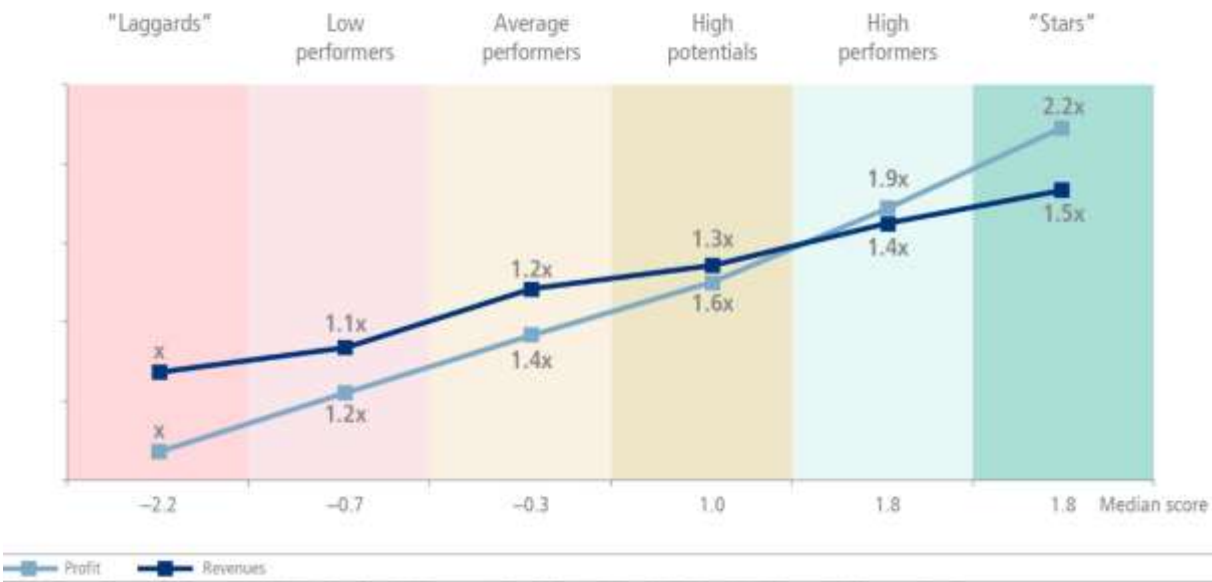
V The need for rigorous, evidence-based metrics to assess corporate leadership development and talent management

Companies struggle to gauge how well they manage their most talented performers and develop the next generation of leaders. Unlike other disciplines, such as corporate finance for example, leadership and talent management is a relatively undeveloped field in terms of applying data- and evidence-based approaches to value creation. Most companies do not address the most fundamental questions around leadership and talent development, despite expenditures of as much as an annual $40 billion by some estimates.

Still, some companies get it right. Not surprisingly, these companies tend to be market leaders in their industries. In fact, "talent magnets" – those companies that rate themselves strongest on 20 leadership and talent management capabilities – increased their revenues 2.2 times faster and their profits 1.5 times faster than "talent laggards," or those companies that rated themselves the weakest, according to survey data summarizing the assessments of more than 1,260 HR and non-HR professionals at global companies. (See Figure "Leadership & talent capabilities strong indicator of financial performance")

Leadership & talent capabilities strong indicator of financial performance

Average two-year growth (indexed)



Source: Boston Consulting Group, World Federation of People Management Assoiactions. Leadership & Talent Index Survery (1,263 respondents).

The report demonstrates that companies that systematically improve their key talent management capabilities will experience a distinct, measurable, and meaningful business performance return. For companies struggling to improve their leadership and talent management capabilities, or for those that want to reach the next level of excellence, the Global Leadership and Talent Index lays out an improvement plan, based on their starting position and existing capabilities, and anticipates gains in business performance as improvements are made.

What capabilities should companies prioritize for development? As many as ten capabilities correlate strongly with business performance, but we found that three in particular – translating leadership and talent plans into clear and measurable initiatives, devoting significant time to leadership and talent management, and making leaders accountable for talent development – generate the greatest payoff. Each of those three capabilities requires the active participation of leaders. In fact, leaders at high-performing companies can spend more than 25 days a year on leadership and talent management activities.

VI Conclusion

In these pages, we have described some of the innovative leadership qualities that companies must systematically cultivate and strengthen if they are to adapt to and thrive in an era of rapidly proliferating digitization and automation. In the face of digital technologies, demographic changes, and significant transformations in every industry, the need for a modern, innovative, and authentic leadership style and strong interpersonal skills is greater than ever. The need is increasing because an organization's people look to their leaders to sustain their engagement, focus, and morale in times of seemingly constant and often uncomfortable change. Companies with strong, modern leadership personalities will be the most successful when it comes to winning and retaining skilled workers, who in turn are the best guarantors of success in an increasingly competitive global marketplace.

VII Literature

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About the Authors

Professor Dr. **Rainer Strack**	Senior Partner and Managing Director in the Düsseldorf office of The Boston Consulting Group. He is the global leader of the HR topic at BCG and has authored numerous articles, including one on HR controlling and one on demographic risk management and strategic workforce planning, both published in the Harvard Business Review. He was a member of the Global Agenda Council for talent mobility of the World Economic Forum and presented twice on this topic in Davos. In 2014, he gave a widely-viewed TED.com talk (more than 1.2 million views) on the topic "The Workforce Crisis of 2030." He has a master's degree in physics, a master's degree in business, and a PhD in physics from RWTH Aachen University. In 2008, he was named an honorary professor for strategic HR and people management at Witten/Herdecke University, Germany.
Roselinde Torres	Senior Partner and Managing Director in the New York Office of The Boston Consulting Group. She served as the first global head of BCG's leadership practice. She has also served as a member of BCG's Americas Leadership Team. She has been a long-term advisor to over 200 CEOs, and also senior executive Boards, on issues of executive leadership, CEO role requirements, talent management, organization design, culture change, and large scale change implementation. In 2014, she received the Woman Leaders in Consulting Award from Consulting Magazine for exceptional leadership within the firm and industry and for her expertise on the topic of 21st century Leadership. She holds a BA degree from Middlebury College and an MS degree in Human Resource Development from American University.
Carsten von der Linden	Principal in the Munich office of The Boston Consulting Group. He is a member of BCG's People & Organization practice area and holds global expertise for defining and implementing people strategies, diagnosing and changing behavior & culture, fostering people-based innovation & creativity as well as leading successful change management efforts. He has worked across all industries for worldwide leading companies but has a special focus on the Media and Industrial Goods industry. He is the yearly co-author and project leader for BCG's Creating People Advantage report series. He holds a master's degree in psychology from the University of Cologne.