

KORN FERRY
Institute

Leadership in a volatile, uncertain world

The Korn Ferry Institute explores what it takes to thrive as a leader under varying degrees of change and uncertainty



Introduction

For businesses, the pace of change is unprecedented. Recently launched startups disrupt entire industries, achieving stratospheric valuations in record time, or they fail just as fast. New technologies transform markets in the blink of an eye and pave over the entire business landscape. Consumer preferences and trends change overnight. Changing weather patterns and geopolitics throw monkey wrenches into the best-conceived plans. Global markets attract ever more numbers of competitors. Disrupting megatrends such as ageing societies, individualization, calls for sustainability, and the rise of the outernet yield uncertainty and ambiguity. Companies at the top of multi-billion-dollar industries fall into death spirals.

For any business operating in a Volatile, Uncertain, Complex and Ambiguous (VUCA) world, there is one constant: people. Businesses today may need fewer people

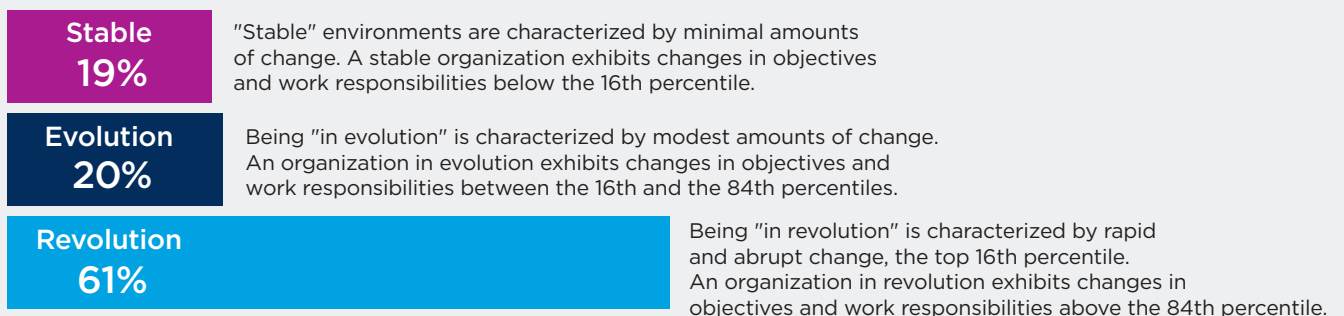
than businesses of the past, but that makes each employee more, not less important.

The key to success starts and ends with employees and for a company to achieve its goals, its workforce must be engaged. By engagement we mean the level of commitment that employees have towards the organization as well as the level of discretionary effort and willingness to go the extra mile.

The first of its kind to quantify the amount of change seen in organizations, this Korn Ferry Institute research used a substantial sample of more than 27,000 leaders occupying senior jobs in large organizations, providing an up-to-date view on the amount of change that is underway in modern organizations and the key traits required to thrive in these environments.

Figure 1

Senior executives see increasing amounts of change after a volatile 2016, which saw a “yes” vote for Brexit, the election of President Trump, the failure of the Trans-Pacific Partnership, a failed coup in Turkey, and more. According to a recent Korn Ferry survey of 12,857 upper-level managerial professionals (VP and above), 61.3 percent view themselves as going through revolutions, whereas just 19 percent view themselves as being in stable environments.



Executives are well aware of these shifting sands, with 61.3 percent reporting that they are in “revolutions” with high degree of change, while just 19 percent viewing themselves in “stable” environments (Bywater & Lewis, 2017; see Table 1).

Table 1
Frequencies with which upper-level managerial professionals (VP and above), reported themselves in each category of change.

	Stable		Evolution		Revolution		Total	
	N	%	N	%	N	%	N	%
total	2442	19.0	2528	19.7	7887	61.3	12857	100

After all, competitors may copy products, services, and strategies but they can’t reproduce the competitive advantage that results from talented, engaged employees working in concert toward a common goal. To engender this level of engagement, a company must have strong, savvy leadership skilled in the art of mobilizing others to want to struggle for the shared aspirations. This makes it possible for upper management to deliver the rewards, work environment, and tools to enable their employees to thrive.

Finding the right leaders isn’t easy. Four out of ten CEOs fail within their first 18 months on the job, and it can be an expensive mistake for their companies (Ciampa, 2005). The cost of replacing a CEO after just 18 to 24 months on the job ranges from \$6 million to \$18 million (Korn Ferry Hay Group, 2014). Korn Ferry found that during times of turmoil and change, the CEOs who stay the longest create work cultures that foster performance excellence and personal engagement. These leaders engage and inspire their employees and succeed by prioritizing, tightly managing execution, and managing risk appropriately.

There is no one-size-fits-all approach. Each business must settle on its own recipe. It must understand this unique job context and identify the appropriate success profiles. There is no point in jamming square pegs in

round holes, or anointing change-oriented leaders in static or conservative business roles. Meanwhile, company leaders must constantly balance employees’ intrinsic (internally derived) and extrinsic (externally derived) motivations (Royal, 2017).

When market conditions change, as they inevitably do, companies must react quickly. Workers’ roles can change and responsibilities become more difficult to specify, which means employees must act independently and without traditional oversight. They must do more with less and contribute to a healthier work environment, which makes it possible for their employers to attract and retain the best talent, because people look for work environments in which they can grow and contribute.

It starts at the top. To successfully navigate a VUCA world, a company needs leaders with an entrepreneurial mindset, who thrive in environments facing change. Leaders such as these have higher agility. They are more nimble and adaptable and more likely to improvise and bring more nuanced sets of solutions to problems. They place emphasis on inclusion and teamwork and are the sort of people who continually acquire new skills and learn from experience. They possess high potential for taking on greater responsibilities and more complex roles over time.

Korn Ferry research shows that leaders with an entrepreneurial mindset become disengaged in low- and medium-change environments, but thrive in high-change ones. Those who score high within this rubric prefer having independence and freedom from organizational constraints and setting and pursuing their own vision, and they value employability more than job security. On the other end of the scale, low scorers prefer pursuing group-defined goals and having structured organizations, and identify strongly with a particular organization and its collective vision (see Table 2).

Table 2

Leaders with an entrepreneurial mindset become disengaged in low- and medium-change environments, but thrive in high-change ones.

Leaders with an entrepreneurial mind set prefer:	Leaders without an entrepreneurial mind set prefer:
<ul style="list-style-type: none"> ▪ Having independence and freedom from organizational constraints ▪ Setting and pursuing their own vision ▪ Employability over job security 	<ul style="list-style-type: none"> ▪ Structured organizations ▪ Pursuing group-defined goals ▪ Identifying strongly with a particular organization and its collective vision

Meeting these demands usually requires major organizational changes. It might mean reimagining entire businesses from the ground up. A company needs to know how engaged its workers are. It must figure out how much VUCA might affect its business. It must identify and create an environment that allows suitable leaders to thrive. And it must figure out if the right people are in the right roles with the right responsibilities—because if a company’s leaders are not inspired, they can’t inspire others.

Therefore, an organization must understand and assess its people (leaders, job applicants, high potential employees) to ensure they possess the learning agility and other critical traits needed to succeed in their particular roles. For this, Korn Ferry uses its Four Dimensions of Leadership and Talent (KF4D) Executive Assessment, which provides insight by capturing, synthesizing, and visualizing data from more than 8.5 million candidate profiles and analyzing information from 2.5 million top global professionals.

Four dimensions critical for success

KF4D targets the qualities most critical for measuring fit and predicting success. By looking at engagement, manager ratings, organizational commitment, and compensation, and drilling down into experiences, traits, competencies, and drivers such as values and interests, it is possible to provide a holistic view of a leader and how his or her qualities fit a specific company role

The nature and degree of the person and job fit changes when leader scores are compared to different best-in-class profiles for different jobs. Korn Ferry Institute research shows different scores for highly engaged, high performing executives when compared with lower performing executives. For C-level roles, executives who rank lower in engagement and success score between the fifth and 15th percentile on three key areas: energy, social leadership, and agility. Executives who are highly engaged and successful score in the 79th to 94th percentile.

Case Study 1

Amid rampant change, highly engaged leaders shape and shake up their entire organizations. Take this executive of a worldwide manufacturing company, who was named CEO of a company spun out of the larger legacy corporation. This individual was excited to take the job, believing it provided a chance to begin anew. Within the larger corporation, there was far less enthusiasm, as it was clear that the inherited businesses were viewed as the divisions nobody wanted.

Because expectations were so low, the CEO's first major challenge was to stand up for the company, as few believed the newly formed company had much of a chance. After commissioning a detailed survey, the CEO began to focus on the people who could transform the company culture. This decision sprang from two key traits the new CEO possessed: persistence and optimism, which allowed the CEO to eschew short-term fixes to concentrate on the long term. It can take more than a decade to change corporate culture but by year four, people are already interacting and engaging in wholly different, more positive, and productive ways.

Case Study 2

Highly engaged leaders sometimes toss the old axiom, "it's business, it's not personal," on its head, because business sometimes must be personal. For instance, there was the CEO of a telecommunications company who fought hard for the company during two steep recessions. In the first, the stock price plummeted 99.9 percent, and the company was forced to lay off more than a thousand employees.

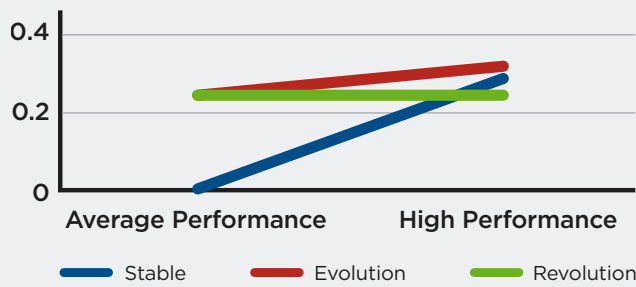
During the call to employees, the CEO wondered whether the job was the right fit. Then a funny thing happened. The employees rallied around the CEO.

People who had been laid off said not to worry about them. It was clear they didn't lose their jobs just to meet numbers or please stockholders; it was to protect the company. This led to a critical cultural change in the company, bridging trust between its leadership and the rest of the employees. During the next recession, when the company's stock fell 84 percent, some analysts claimed company management was being fiscally irresponsible, and investors wanted it to institute another round of layoffs. The CEO refused, and during that second recession the company's top-line revenue and bottom-line cash flow actually grew both years.

Not all environments are the same, of course. As the recent Korn Ferry survey shows, the nature of some of these relationship lines can vary for different levels of change (Stable vs. Evolution vs. Revolution). This confirms that the amount of change that an individual is experiencing can have an impact on the traits needed to cope.

For example, there is detail orientation, which is associated with increased engagement in a stable environment, but much less so in the other two environments. To stay engaged in a radically changing environment does not depend simply on being structured and strategic.

Figure 2
Detail orientation across change orientation and performance levels.



In another finding, Korn Ferry sees that other traits remain important. An entrepreneurial mindset seems a powerful differentiator of engagement during Revolutions, admittedly in this mostly private sector context. However, this trait fails to engage leaders in a business in Stable or Evolution contexts.

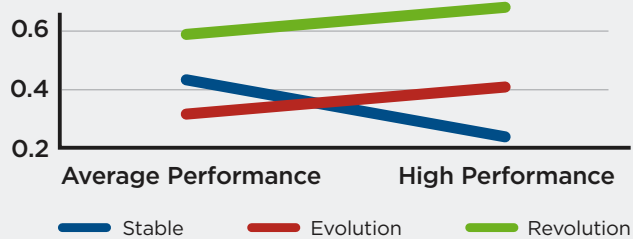
Figure 3
Entrepreneurial mindset across change orientation and performance levels.



Similarly, risk propensity appears to be far more helpful in rapidly changing environments than when an organization is Stable.

Figure 4

Risk propensity across change orientation and performance levels.



Human capital and discretionary energy

A company may thrive by selling products or services but its true value derives from its human capital, which far out-values its physical capital. When measured in eight economies, Korn Ferry found that the combined potential value of human capital is \$1,215 trillion, which is more than double the value of physical (Crandell et al., 2016). Every dollar invested in human capital organizations add some \$11.39 to organizations’ GDP.

Leaders, therefore, must tap their employees’ discretionary energy, which refers to workers’ willingness and ability to go above and beyond what is expected. It is, in essence, the hustle we never see from a machine. Yet this employee discretionary energy can have considerable impact, resulting in an 8.1 percent difference in three-year average return on assets and a 16.3 percent difference in three-year average EBITDA (Huang, Chowdhury, & Ho 2017). Because people have the capacity for learning agility, which is the ability and willingness to learn from experience, and subsequently apply that learning to perform successfully under new or first-time conditions, this gives human capital a multiplying effect. While machines depreciate over time, human capital actually appreciates.

From the leadership side, however, a number of obstacles stand in the way. Corporate leaders can suffer from what is known as a “tangibility bias.” They place emphasis and prioritize thinking, planning, and execution on what they can see, touch, and measure. Employee engagement and discretionary energy are hard to see and equally hard to measure.

What’s more, gaps in engagement among senior leaders are often missed. Because senior leaders’ opinions tend to be more favorable overall than those of employees at other levels, it can be assumed, sometimes wrongly, that they are all on board (Royal, 2017). If this is not the case, the effect on them and their teams can be profound.

To create an environment that promotes worker engagement requires engaged leaders, because disengaged leaders are unlikely to engage in the transformational leadership behaviors required to keep their teams aligned in times of change. Likewise, leaders play an important “sense-making” role in times of change, helping employees understand new developments in the organization and the implications for their teams and job responsibilities.

If leaders and managers signal to employees through their words or actions that they lack faith in organizational change efforts, employees’ trust will decline rapidly. Get the recipe right and a VUCA world becomes much less so.

Self-reflection questions

As you read these these results, consider how they may apply to you and your organization.

Do you know how much change your organization is going through?

- To what extent has the amount of change been stable or increased since your leaders landed in their current roles?
- How effective is your assessment process at identifying whether leaders will cope in their roles under increased amount of change?
- What support is given to allow new hires to cope with their new roles?

Do you know how engaged your senior leaders are?

- How effective are your leaders at infecting others with their own motivation?
- What training have they had coaching and developing others in this skill?
- How effective is your organization at monitoring the levels of discretionary effort in all employees?
- How effective is your organization at thoughtful organizational development to allow all employees to thrive?

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About Korn Ferry

Korn Ferry is a global organizational consulting firm. We help companies design their organization—the structure, the roles and responsibilities, as well as how they compensate, develop and motivate their people. As importantly, we help organizations select and hire the talent they need to execute their strategy. Our approximately 7,000 colleagues serve clients in more than 50 countries.

About The Korn Ferry Institute

The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books, and a quarterly magazine, *Briefings*, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success. Visit kornferryinstitute.com for more information.