

Strategic Leadership: The Essential Skills

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The storied British banker and financier Nathan Rothschild noted that great fortunes are made when cannonballs fall in the harbor, not when violins play in the ballroom. Rothschild understood that the more unpredictable the environment, the greater the opportunity—if you have the leadership skills to capitalize on it. Through research at the Wharton School and at our consulting firm involving more than 20,000 executives to date, we have identified six skills that, when mastered and used in concert,

allow leaders to think strategically and navigate the unknown effectively: the abilities to anticipate, challenge, interpret, decide, align, and learn. Each has received attention in the leadership literature, but usually in isolation and seldom in the special context of high stakes and deep uncertainty that can make or break both companies and careers. This article describes the six skills in detail. An adaptive strategic leader—someone who is both resolute and flexible, persistent in the face of setbacks but also able to react strategi-

cally to environmental shifts—has learned to apply all six at once.

Do you have the right networks to help you see opportunities before competitors do? Are you comfortable challenging your own and others' assumptions? Can you get a diverse group to buy in to a common vision? Do you learn from mistakes? By answering questions like these, you'll get a clear view of your abilities in each area. The self-test at this article's end (and the more detailed test available online) will help you gauge your strengths and weaknesses, address deficits, and optimize your full portfolio of leadership skills.

Let's look at each skill in turn.

Anticipate

Most organizations and leaders are poor at detecting ambiguous threats and opportunities on the periphery of their business. Coors executives, famously, were late seeing the trend toward low-carb beers.

Lego management missed the electronic revolution in toys and gaming. Strategic leaders, in contrast, are constantly vigilant, honing their ability to anticipate by scanning the environment for signals of change.

We worked with a CEO named Mike who had built his reputation as a turn-around wizard in heavy manufacturing businesses. He was terrific at reacting to crises and fixing them. After he'd worked his magic in one particular crisis, Mike's company enjoyed a bump in growth, fueled in part by an up cycle. But after the cycle had peaked, demand abruptly softened, catching Mike off guard. More of the same in a down market wasn't going to work. Mike needed to consider various scenarios and gather better information from diverse sources in order to anticipate where his industry was headed.

We showed Mike and his team members how to pick up weak signals from both inside and outside the organization. They worked to develop broader networks and to take the perspective of customers, competitors, and partners. More alert to opportunities outside the core business, Mike and the team diversified their product portfolio and acquired a company in an adjacent market where demand was higher and less susceptible to boom-and-bust cycles.

To improve your ability to *anticipate*:

Talk to your customers, suppliers, and other partners to understand their challenges.

Conduct market research and business simulations to understand competitors' perspectives, gauge their likely reactions to new initiatives or products, and predict potential disruptive offerings.

Use scenario planning to imagine various futures and prepare for the unexpected.

Look at a fast-growing rival and examine actions it has taken that puzzle you.

List customers you have lost recently and try to figure out why.

Attend conferences and events in other industries or functions.

Challenge

Strategic thinkers question the status quo. They challenge their own and others' assumptions and encourage divergent points of view. Only after careful reflection and examination of a problem through many lenses do they take decisive action. This requires patience, courage, and an open mind.

Consider Bob, a division president in an energy company we worked with, who was set in his ways and avoided risky or messy situations. When faced with a tough problem—for example, how to consolidate business units to streamline costs—he would gather all available information and retreat alone into his office. His solutions, although well thought out, were predictable and rarely innovative. In the consolidation case he focused entirely on two similar and underperforming businesses rather than considering a bolder reorganization that would streamline activities across the entire division. When he needed outside advice, he turned to a few seasoned consultants in one trusted firm who suggested tried-and-true solutions instead of questioning basic industry assumptions.

Through coaching, we helped Bob learn how to invite different (even opposing) views to challenge his own thinking and that of his advisers. This was uncomfortable for him at first, but then he began to see that he could generate fresh solutions to stale problems and improve his strategic decision making. For the organizational streamlining he even assigned a colleague to play devil's advocate—an approach that yielded a hybrid solution: Certain emerging market teams were allowed to keep their local HR and finance support for a transitional period while tapping the fully centralized model for IT and legal support.

To improve your ability to *challenge*:

Focus on the root causes of a problem rather than the symptoms. Apply the "five whys" of Sakichi Toyoda, Toyota's founder. ("Product returns increased 5% this month." "Why?" "Because the product intermittently malfunctions." "Why?" And so on.)

List long-standing assumptions about an aspect of your business ("High switching costs prevent our customers from defecting") and ask a diverse group if they hold true.

Encourage debate by holding "safe zone" meetings where open dialogue and conflict are expected and welcomed.

Create a rotating position for the express purpose of questioning the status quo.

Include naysayers in a decision process to surface challenges early.

Capture input from people not directly affected by a decision who may have a good perspective on the repercussions.

Interpret

Leaders who challenge in the right way invariably elicit complex and conflicting information. That's why the best ones are also able to interpret. Instead of reflexively seeing or hearing what you expect, you should synthesize all the input you have. You'll need to recognize patterns, push through ambiguity, and seek new insights. Finland's former president J. K. Paasikivi was fond of saying that wisdom begins by recognizing the facts and then "re-cognizing," or rethinking, them to expose their hidden implications.

Some years ago Liz, a U.S. food company CMO, was developing a marketing plan for the company's low-carb cake line. At the time, the Atkins diet was popular, and every food company had a low-carb strategy. But Liz noticed that none of the consumers she listened to were avoiding the company's snacks because they were on a low-carb diet. Rather, a fast-growing segment—people with diabetes—shunned them because they contained sugar. Liz thought her company might achieve higher sales if it began to serve diabetics rather than fickle dieters. Her ability to connect the dots ultimately led to a profitable change in product mix from low-carb to sugar-free cakes.

To improve your ability to *interpret*:

When analyzing ambiguous data, list at least three possible explanations for what you're

observing and invite perspectives from diverse stakeholders.

Force yourself to zoom in on the details and out to see the big picture.

Actively look for missing information and evidence that disconfirms your hypothesis.

Supplement observation with quantitative analysis.

Step away—go for a walk, look at art, put on nontraditional music, play Ping-Pong—to promote an open mind.

Decide

In uncertain times, decision makers may have to make tough calls with incomplete information, and often they must do so quickly. But strategic thinkers insist on multiple options at the outset and don't get prematurely locked into simplistic go/no-go choices. They don't shoot from the hip but follow a disciplined process that balances rigor with speed, considers the trade-offs involved, and takes both short- and long-term goals into account. In the end, strategic leaders must have the courage of their convictions—informed by a robust decision process.

Janet, an execution-oriented division president in a technology business, liked to make decisions quickly and keep the process simple. This worked well when the competitive landscape was familiar and the choices straightforward. Unfortunately for her, the industry was shifting rapidly as nontraditional competitors from Korea began seizing market share with lower-priced products.

Janet's instinct was to make a strategic acquisition in a low-cost geography—a yes-or-no proposition—to preserve the company's competitive pricing position and market share. As the plan's champion, she pushed for a rapid green light, but because capital was short, the CEO and the CFO resisted. Surprised by this, she gathered the principals involved in the decision and challenged them to come up with other options. The team elected to take a methodical approach and explored the possibility of a joint venture or a strategic alliance. On the basis of that analysis, Janet ultimately

pursued an acquisition—but of a different company in a more strategic market.

To improve your ability to *decide*:

Reframe binary decisions by explicitly asking your team, "What other options do we have?"

Divide big decisions into pieces to understand component parts and better see unintended consequences.

Tailor your decision criteria to long-term versus short-term projects.

Let others know where you are in your decision process. Are you still seeking divergent ideas and debate, or are you moving toward closure and choice?

Determine who needs to be directly involved and who can influence the success of your decision.

Consider pilots or experiments instead of big bets, and make staged commitments.

Align

Strategic leaders must be adept at finding common ground and achieving buy-in among stakeholders who have disparate views and agendas. This requires active outreach. Success depends on proactive communication, trust building, and frequent engagement.

One executive we worked with, a chemical company president in charge of the Chinese market, was tireless in trying to expand his business. But he had difficulty getting support from colleagues elsewhere in the world. Frustrated that they didn't share his enthusiasm for opportunities in China, he plowed forward alone, further alienating them. A survey revealed that his colleagues didn't fully understand his strategy and thus hesitated to back him.

With our help, the president turned the situation around. He began to have regular face-to-face meetings with his fellow leaders in which he detailed his growth plans and solicited feedback, participation, and differing points of view. Gradually they began to see the benefits for their own functions and lines of business. With greater collaboration, sales increased, and the president came to see his colleagues as strategic partners rather than obstacles.

To improve your ability to *align*:

Communicate early and often to combat the two most common complaints in organizations: "No one ever asked me" and "No one ever told me."

Identify key internal and external stakeholders, mapping their positions on your initiative and pinpointing any misalignment of interests. Look for hidden agendas and coalitions.

Use structured and facilitated conversations to expose areas of misunderstanding or resistance.

Reach out to resisters directly to understand their concerns and then address them.

Be vigilant in monitoring stakeholders' positions during the rollout of your initiative or strategy.

Recognize and otherwise reward colleagues who support team alignment.

Learn

Strategic leaders are the focal point for organizational learning. They promote a culture of inquiry, and they search for the lessons in both successful and unsuccessful outcomes. They study failures—their own and their teams'—in an open, constructive way to find the hidden lessons.

A team of 40 senior leaders from a pharmaceutical company, including the CEO, took our Strategic Aptitude Self-Assessment and discovered that learning was their weakest collective area of leadership. At all levels of the company, it emerged, the tendency was to punish rather than learn from mistakes, which meant that leaders often went to great lengths to cover up their own.

The CEO realized that the culture had to change if the company was to become more innovative. Under his leadership, the team launched three initiatives: (1) a program to publicize stories about projects that initially failed but ultimately led to creative solutions; (2) a program to engage cross-divisional teams in novel experiments to solve customer problems—and then report the results regardless of outcome; (3) an innovation tournament to generate new ideas from across the organization. Meanwhile, the CEO himself

ARE YOU A STRATEGIC LEADER?

became more open in acknowledging his missteps. For example, he described to a group of high potentials how his delay in selling a stalled legacy business unit had prevented the enterprise from acquiring a diagnostics company that would have expanded its market share. The lesson, he explained, was that he should more readily cut losses on underperforming investments. In time the company culture shifted toward more shared learning and bolder innovation.

To improve your ability to *learn*: Institute after-action reviews, document lessons learned from major decisions or milestones (including the termination of a failing project), and broadly communicate the resulting insights.

Reward managers who try something laudable but fail in terms of outcomes.


Conduct annual learning audits to see where decisions and team interactions may have fallen short.

Identify initiatives that are not producing as expected and examine the root causes.

Create a culture in which inquiry is valued and mistakes are viewed as learning opportunities.

BECOMING A strategic leader means identifying weaknesses in the six skills discussed above and correcting them. Our research shows that strength in one skill cannot easily compensate for a deficit in another, so it is important to methodically optimize all six abilities. The following test—a short version of our Strategic Aptitude Assessment, which is available online at hbrsurvey.decisionstrat.com—can help reveal which areas require attention. For clearer and more useful results, take the longer survey and ask colleagues—or at least your manager—to review and comment on your answers. ♥

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As you complete this assessment, think about the work you have done over the past year related to developing new strategies, solving business challenges, and making complex decisions. Average your scores for each of the six leadership skills and then address your weakest area first, following the recommendations described in this article and online.

How often do you... RARELY ALMOST ALWAYS

ANTICIPATE

SURVEY AVERAGE: 4.99*

Gather information from a wide network of experts and sources both inside and outside your industry or function.

1	2	3	4	5	6	7
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Predict competitors' potential moves and likely reactions to new initiatives or products.

1	2	3	4	5	6	7
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CHALLENGE

SURVEY AVERAGE: 5.52

Reframe a problem from several angles to understand root causes.

1	2	3	4	5	6	7
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Seek out diverse views to see multiple sides of an issue.

1	2	3	4	5	6	7
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INTERPRET

SURVEY AVERAGE: 5.78

Demonstrate curiosity and an open mind.

1	2	3	4	5	6	7
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Test multiple working hypotheses with others before coming to conclusions.

1	2	3	4	5	6	7
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DECIDE

SURVEY AVERAGE: 4.81

Balance long-term investment for growth with short-term pressure for results.

1	2	3	4	5	6	7
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Determine trade-offs, risks, and unintended consequences for customers and other stakeholders when making decisions.

1	2	3	4	5	6	7
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ALIGN

SURVEY AVERAGE: 5.01

Assess stakeholders' tolerance and motivation for change.

1	2	3	4	5	6	7
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Pinpoint and address conflicting interests among stakeholders.

1	2	3	4	5	6	7
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LEARN

SURVEY AVERAGE: 4.95

Communicate stories about success and failure to promote institutional learning.

1	2	3	4	5	6	7
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Course correct on the basis of disconfirming evidence, even after a decision has been made.

1	2	3	4	5	6	7
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*AVERAGES ARE BASED ON RESPONSES TO THIS SURVEY FROM MORE THAN 20,000 EXECUTIVES.