



TruePoint Perspective

The 45-degree zone

Delivering today, Securing tomorrow

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The CEO's Dual Imperative

For an exceptional CEO, setting an inspiring and distinctive strategy – one that creates value for multiple stakeholders in the organization – is foundational. However, it is only a point of departure. The really hard work is to shift the performance trajectory of the organization, deliver the strategy, and in the process build a great firm.

In doing so he or she must confront the acute, competing demands of delivering the **short-term** and securing the **long-term**. This is what TruePoint calls '*the dual imperative*' with which all CEO's must wrestle.

How do you consistently deliver today's performance and build a great firm capable of sustaining performance and strategic success into the future?

We believe that successfully resolving the tensions within this *dual imperative* is what separates great CEOs and leadership teams from the rest. How do great CEOs address this challenge?

The 45-degree zone

We have distilled the core principles of how to deliver on this dual imperative from partnering with exceptional CEOs and leadership teams over many years, as well as from extensive research.

In essence, the secret is to deliver performance in its highest and most sustainable form - 'capability-powered' performance. It is achieved by finding an effective balance between the pure focus on performance and a parallel focus on building organizational capability while executing the strategy. The health of the organization, and its capabilities, provide the foundation on which sustainable performance must be built.

In resolving the blizzard of decisions that a leadership team faces, the organization must strive to steer along what we call the '*45-degree zone*' (*Figure 1*). Exceptional leadership teams understand that committing to the '*45-degree zone*' holds the key to resolving the dual imperative.

The 45-Degree Zone for Transformation

Balance Capability-Building and Performance

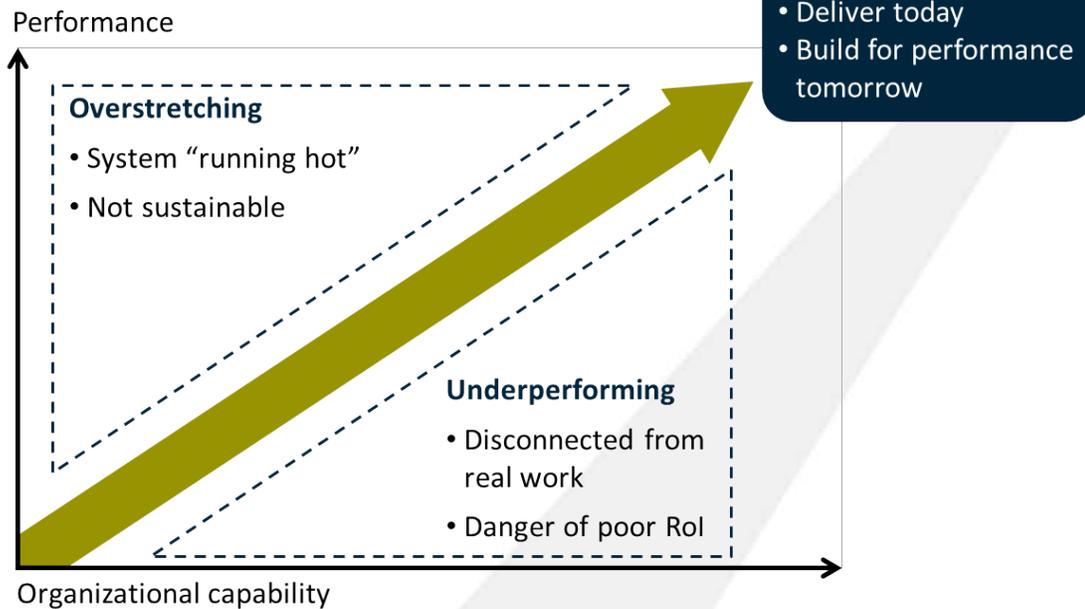


Figure 1: The 45-degree zone

The journey through the *45-degree zone* is a change agenda which fuses delivery of performance with building organizational capability. A pre-cursor to any leadership team successfully driving a change agenda is that they have an *integrated* vision for the business which specifically articulates the ‘from-to’ for their organization. This vision paints an inspiring picture of what the organization will be excellent at, and how it will work, in order to win with the new strategy.

Making the 45-degree journey precise and actionable

A successful transformation requires a clearly articulated strategy tightly linked to specific performance targets and capability building objectives.

What are the few critical **performance metrics**, beyond the purely financial, against which the success of the strategy can be judged? For example, metrics for innovation in digital products, penetration of emerging markets, conversion to a new production technology.

What are the most **critical capabilities** the organization will need in order to deliver the strategy, and perform in the new world? For example, capability to configure customer-specific solutions, capability to commercially exploit big data, capability to develop leadership talent for emerging markets, or capability to quickly assemble global cross-functional teams.

Organizational Capability as the Secret Sauce

What do we mean by 'capability' in this context? First, we are talking about organizational capability, not individual capability. Organizational capability is collective and composed of processes, knowledge, ways of working, and resources, as well as the individual skills of your people. It is systemic and deeply embedded in the organization, its culture and values.

To successfully deliver on the *dual imperative*, an organization will need capabilities of all types: operational capabilities, management capabilities, and leadership capabilities (see Figure 2). Importantly, this must include the change leadership capabilities critical to deliver the change journey and to instill agility into the organization more generally.

The capabilities of the organization underpin a great firm. The bad news is that these capabilities take time and are hard to build. The good news is that they are long-lived and hard to replicate!

Types of Organization Capabilities



Figure 2: Types of Capability

Pitfalls outside the 45-degree zone

The alternative to navigating through the '45-degree zone' is over-focusing on either performance or capability-building at the expense of the other dimension. This carries dangers that are easy enough to see (figure 1). In one direction, *overstretching* arises from pushing the capacity and existing capability of the organization too far. In the other direction, *underperforming* results from uncoupling well-intentioned organization and leadership development efforts from live performance accountability.

Our thinking on this issue has been enriched by the work of Nelson Reppenning (MIT) on 'the capability trap.'

Overstretching: 'Heading North'

There is tremendous pressure on executives today to deliver performance at all costs. Given this, overstretching for performance without due regard to capability building is seductive. However, we have seen time and again that it is ultimately a recipe for failure (Figure 3).

Pitfalls Outside The 45-Degree Zone

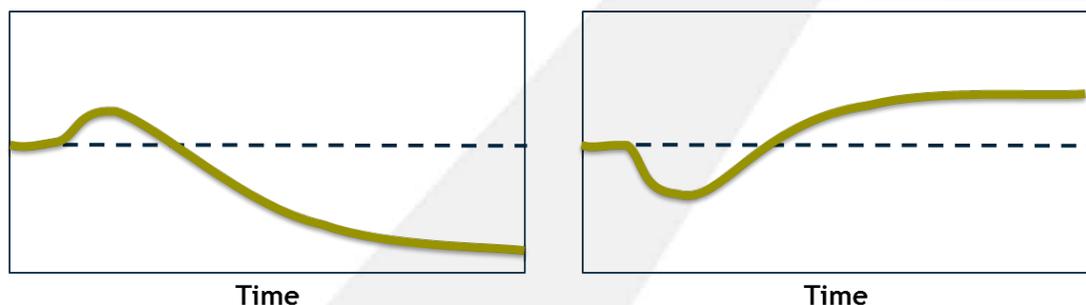
Focus on performance

- Initial payoff
- Eroding capability
- Long-term decline

Focus on capability

- Short-term performance hit
- Lag in payoff
- Loss of momentum
- Insufficient performance feedback to energize capability building

Actual performance



Source: Adapted from Nelson Repenning, MIT, The Capability Trap

Figure 3: Pitfalls of the Off-Diagonal

Driving up the performance axis – 'work harder' - is appealing, because the organization will generally respond by delivering a performance uptick in the short-run. However, carried to extremes or enforced for too long, this approach carries serious downside risks. Prolonged underinvestment in building organizational capability will erode the strategic fitness of the organization and burn out its people. Inevitably, the organization suffers a dramatic dip in morale, a significant long-term decline in performance and an inability to incubate new strategic capabilities for the future.

Case Study: Overstretch

DistCo is a sizeable - and successful - distributor of heavy industrial products with core operations in parts and service. However, it illustrates some of the pitfalls of overemphasis on performance with neglect of capability building.

The business is extremely good at customer service - so good that many clients have told them that they don't care about the product. They buy from DistCo for the great service. Dedication to fixing client problems is extreme, and employee commitment is very high. Many hero stories are told of techs working all night on a weekend to fix equipment issues.

However, although DistCo grew quickly in the last decade, it never built the organizational capability needed for a burgeoning mid-cap firm. Leadership development was cut back during the recession to improve financials. Processes are ad hoc and time-consuming: serving a customer can involve logging on to 3-4 different systems and recording the repair "story" in 2-3 places.

DistCo's approach so far has been to work harder— pursuing an '89 degree' growth trajectory. Pivotal groups of employees are badly overworked and stressed out, and turnover at all levels is 20%+ yearly. Change management capability is weak, and leaders are now fighting fires while delivering performance targets.

DistCo is in process of being acquired in a trade sale, and the buyer now needs to work through how to build the missing platform of capabilities needed to sustain the next phase of growth.

Underperforming: 'Heading East'

Overemphasis on capability building is less common given the extreme performance pressure under which many executives work. When market headwinds mandate an increased drive to short-term performance, the budget for capability building is often the first thing to be cut.

However, it is not uncommon to see organizations where a poorly designed change program is focused on capability and infrastructure issues with inadequate linkage to the direct performance drivers of the business. A common case is where a transformation program has been delegated to functional and staff leaders with insufficient direct leadership by line executives or the CEO. The change effort can become a portfolio of low-impact improvements that advance functional agendas but do nothing to 'move the needle.' For example, operationally-focused organizations can embark on huge operational management systems programs that all too often buckle under the weight of binders and processes without ever impacting the numbers that matter.

One common pattern is for organizations to invest in disconnected training and education programs – what we have called elsewhere "the great training robbery." Off the job training programs lack the real-world performance focus and action learning that reflect how adults learn best. A lot of money is spent with little resulting capability developed!

Where capability building is pursued without balancing performance pressure, it will generally fail to deliver expected results. Why is this? First, 'heading east' can lead to an

unacceptable near-term dip in performance due to the lead times and relatively long-term payoff from building institutional capability (see Figure 3). Second, all successful transformational change requires early performance wins to build engagement and momentum – far more likely in the ‘45-degree zone! Third, the precise capabilities needed to win the new strategic game in the marketplace can only be developed by real-world learning from live business situations with real performance challenges.

The 45-degree Integrated Change Agenda

As discussed above, the art of the 45-degree journey is how to integrate performance and capability dimensions into a seamless, integrated agenda for change. A schematic of the journey is shown in figure 4.

Effective Approaches to the 45-Degree Journey

Overall lessons

Performance

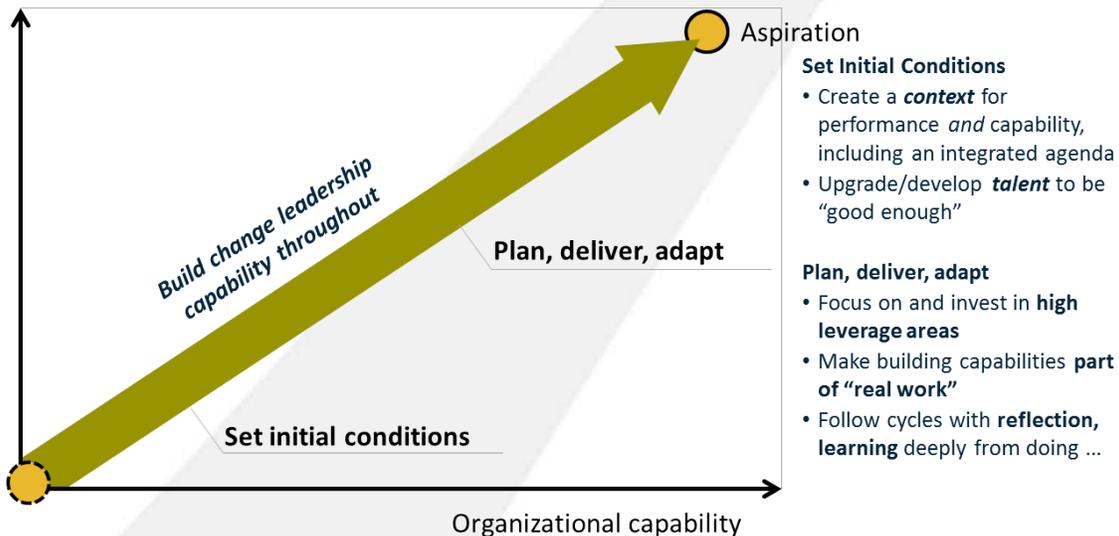


Figure 4: Schematic of the 45-degree Journey

One CEO set a three-year horizon for transformation recognizing that the scale of change needed, and the task of growing capability, was not a quick fix. He stepped up to clear and firm communication with the Street, and other stakeholders. In parallel he took a raft of quick, short-term actions to generate immediate results, along with executing a phased capability-building effort that also delivered results at each stage.

There is no simple methodology for this journey, and we have seen many different drivers of success and failure. However, it is possible to pull out some key principles associated with success.

Set Initial Conditions

How the leadership team sets the context for change is a powerful determinant of success. Some winning patterns are:

- *Vision and Engagement.* Start with an integrated vision and agenda that combines an aspirational future and priorities for both performance and capabilities. This should be owned by the leader, senior team and beyond, and be informed by a robust diagnostic to ensure the current state and gaps to be addressed are well understood. The vision and agenda will evolve over time, and simply needs to be 'good enough' to get started.

Early leadership action to engage and align the organization behind the vision is key, and a very powerful way to do this is to reality-test the vision in an honest internal dialogue. The TruePoint 'Strategic Fitness Process' is one proven approach.

- *Integrated Agenda and Performance Management.* As above, the integrated agenda provides a frame that puts line leaders in the driver's seat for both performance and capability. This is powerfully reinforced when the CEO and leadership team define success on both dimensions and then hold line leaders accountable for both the 'what' and the 'how' in a unified review process.
- *Talent.* We have seen widely different approaches work. In some cases a CEO has led a draconian switch-out of leadership as a necessary precursor to the main journey. In other cases, they have taken the view that initially 'you fight the war with the army you have' – and you develop and upgrade talent along the way. Either way all leaders agree that the right talent is critical for the journey.

Plan, Deliver, Adapt

In architecting change, we see a number of recurring themes that work well.

- *Portfolio of Blended Initiatives:* Commonly, leaders architecting change build a portfolio of initiatives – some targeting performance typically owned by the line (e.g., commercialize a new digital technology), and others targeting capability, typically owned by support functions, (e.g., develop cohort of next generation leaders for emerging markets). This approach - a portfolio of 'P-initiatives and C-initiatives' - can work well. However, the best practice is to craft initiatives which themselves blend performance and capability building - a portfolio of 'PC-hybrids'. This way the urge to trade-off between performance and capability is dramatically reduced.

An example might be a strategic initiative to break into a critical growth segment requiring shorter product lifecycles. In this case, an entrepreneurial leader and multi-functional team might be tasked with two objectives – a performance objective to **win**

Case Study: Set Initial Conditions

One CEO we know was newly appointed to a Fortune 500 consumer goods business in crisis. He led a very successful turnaround by starting with three key actions:

First, a rapid and wide-ranging upgrading of leadership talent was undertaken early so that he had the leadership needed for the journey.

Second, he kicked off a new performance management approach built around a handful of critical strategic metrics, and in-depth, monthly performance review meetings to inspire, coach and support line leaders.

Third, to kick-start transformation of the organization, he focused on reengagement of people as the critical imperative. This was measured frequently with objective engagement metrics that became a fundamental part of the turnaround scorecard.

share in the new growth segment, and a capability objective to pioneer breakthrough ways to shorten **time to market** for new innovations.

- *Points of Intervention:* Where to intervene? It is critical to build early success, enable reusable learning, and catalyze unfreezing of ‘the system.’ Good points of intervention include:
 - **Strategic Imperatives:** Focusing on the most critical imperatives facing the business (e.g., globalization, product innovation, manufacturing flexibility) by directly targeting a handful of pathfinder projects can be very powerful (see more on pathfinder projects below).
 - **Lead Business Units:** Lead units - for example, a country, line of business, or plant - offer powerful learning as a microcosm of ‘the system’ and yet can be small enough to provide early proof-points for the new strategy, as well as rich leadership opportunities.
 - **Pivotal Groups/Cohorts:** It can be highly effective to enroll pivotal groups (such as global key account managers or high potential next generation general managers) early and give them accountability for delivering ‘PC-hybrid’ projects.
- *Pathfinder and Breakthrough Projects:* High profile, typically multi-functional, projects vital to strategy execution form the heart of many successful transformations. These projects should be results-driven with clear objectives for both performance and capability building and targeted at pioneering execution of new business strategies. They should have active sponsorship and support from the senior team and be highly collaborative across internal boundaries. The supporting process should be configured to allow sharing of experience and accelerated learning. These projects are a high-stakes crucible for explicit development of leaders in action-learning mode.
- *Learning Cycles:* Adults learn best at the critical times when it matters, by ‘live doing’ and then reflecting on experience. Pathfinder and Breakthrough projects provide the natural locus for learning, and the project work can be supplemented with explicit processes to accelerate learning and leadership development. For example, building space for explicit project feedback, after-action reviews, personal and group reflection and peer sharing. When coupled with feedback to senior leadership these can add a significant amplifier to the impact of the project portfolio on improvement to the overall organizational system.

Case Study: Key Points of Intervention

A major Academic Medical Center, that had declined significantly in the rankings over more than a decade, appointed a new CEO who brought a very ambitious vision for returning the institution to world-class status. He set the initial conditions for transformation by appointing new leaders to key roles, broadly engaging the organization around the new direction and what it would take, and working with the leadership team to articulate an integrated road map of strategic initiatives and organizational capability building. Individual academic departments, which had previously operated as fiefdoms, were fundamental to delivering the vision.

The CEO appropriately chose the Department Chair cohort as a key point for intervention; he redefined performance expectations, supported them in leading change and building new capabilities within departments., and made changes to key roles as necessary. In parallel, the leadership team established shared goals and aligned strategic imperatives across the institution.

Within a relatively short period, the newly energized and aligned team delivered significant transformation and an unparalleled climb in the rankings.

Case Study: Plan, Deliver, Adapt

A Medical Products company has been driving these principles hard and with great effect through their manufacturing operations spread globally over more than 20 plants. They have made extensive use of breakthrough projects integrated with leadership development. The 45-degree thinking is fundamental to their change model and individual plants and departments assess themselves against a Performance-Capability grid (figure 5) as the basis to direct change.

Plant Development Model

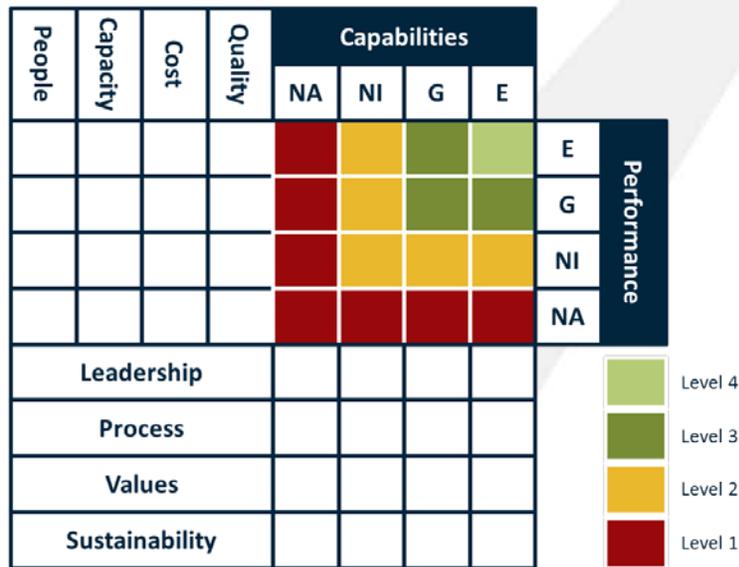


Figure 5: Performance-Capability Grid

Build Change Leadership

It is relatively easy to see the operational and routine management capabilities needed to succeed, but easy to overlook the obvious – transformation depends critically on the ability of the organization to energize and organize its own change process. We call this ‘*Change Leadership Capability*’ (figure 2). It is embedded in individual and collective ability to lead change and can be the limiting factor in a system deeply grooved in the existing way of doing things.

Change Leadership starts at the top with the CEO and General Managers who need to look to their own capabilities, and what personal and professional development may be needed for them to lead the change process. Beyond this, we see many leadership teams courageously taking on the challenge of building their effectiveness as a change leader team. This is typically built on a frank, and not always comfortable, appraisal of their current fitness for the task.

Change leadership skills, processes and models, need to be developed throughout the organization, as a fundamental resource in order to enable the wide-ranging change required.

Case Study: Build Change Leadership

A global pharmaceutical giant established a Change Leadership Framework as a core infrastructure for change. It used a common language and a consistent, structured approach to change by synthesizing the best of the multiple frameworks and models already in use around the company including organizational development, Lean Six Sigma, and Project Management. The framework was simple and readily accessible to leaders and their teams as they underwent business transformation. It proved itself an enduring foundation of the company's accelerated change program.

The senior team's capacity for governing an evolving change process can be amplified and supported by a Change Management Office (CMO) - a center of excellence in transformational leadership. A CMO with the capacity and capability to design and orchestrate a change process can provide huge value-added working with teams to set up PC-hybrid initiatives for success.

Summary Take-Away

The dual imperative of delivering today, and building a great firm for the future, is an inescapable challenge with which every CEO and leadership team must wrestle. The solution is to steer the organization along the '45-degree zone.' The principles and practices for how to do this are becoming increasingly clear. Applying them can offer a powerful source of advantage.

About TruePoint

TruePoint's mission is to partner with leaders to build exceptional organizations – organizations that create significant value for their people, their customers, their shareholders and their communities. We combine strategic and business insight with a deep understanding of leadership, organization and what it takes to affect change.

Our people are all senior practitioners who bring diverse experience as management consultants, senior line management, and academics, and hail from world-class institutions such as McKinsey, GE, Harvard Business School and Chalmers University.

Over the past 15 years, we have served clients across the US, Europe and Asia, often forming deep relationships that last many years. Our offices are based in Boston, London and Stockholm.

www.truepoint.com