It's Time for a Second Playbook: HR's Leadership Role in Transformation

By David Reimer, Harry Feuerstein, Sonja Meighan, and Scott Kelly

Across industries, successful businesses with a history of execution excellence are struggling to innovate with commercial viability and market-relevance. This is not due to a lack of intelligence, ideas, technology, or capital. It is often the result of a direct conflict with the historical leadership of a company's legacy business—the organization's well-established way of delivering products, services, and profits—that hobbles a company's adaptability even as the board, leadership, and analysts enthuse about a new strategy, a market-disrupting approach, an AI revolution, or an Internet-of-things future.

As a CEO told us earlier this year, "We're a planning organization. For nearly 100 years, we've known how to plot a path, lace up our boots, and take that hill. But our future isn't in hill climbing. We've got to start surfing, and a wave changes constantly under your feet. Our old boots are a liability in this environment."[1]

Within his metaphor lies the dilemma faced by so many: For almost every large company, a significant percentage of revenues and profits are driven by legacy products and services, and propelled by the legacy way of leading. Continuing to execute on legacy matters tremendously to the near-term health of a business, but it's just not enough to win in the future. The pace of disruption in a world of "wicked problems"[2] requires leaders to balance what has worked in the past with what will be required to win in the future. That future includes completely new dimensions in technology, talent, AI, and machine learning. These shifts are dramatically changing the landscape for employees, organizations, and markets, placing new demands on most companies' definitions of effective leadership.

The challenge facing leaders is two-fold. First, identify and ring-fence the existing or legacy playbook on leadership and determine what could hold leaders back in today's world. Second, deliberately define what leadership, management, operational, and decision-making characteristics will be required to win in the emerging parts of the business.

For leaders of organizations making the transition from legacy successes to "what's next," or for those that need to expand their legacy business, what's often missing is a *Second Playbook* on leadership. In Merryck's work with companies over the past 20 years, this has emerged globally from 2014–2017 as one of leadership's greatest challenges. It is new. It is a blind spot. While optimists might characterize it as an opportunity, it is one that comes with existential urgency, giving rise to a leadership moment for human resources.

The opportunity for HR is to bring forward the line of sight they have on leadership gaps that very few operators truly get to see. Human resources often sees the barriers to innovation and adaptation created by old ways of leading, managing, and decision-making, at least outside of the legacy business, while business unit leaders more often have to be coaxed out of their focus on execution.

This vantage point gives HR a "first-mover" advantage—if they will take it. In the fairly near term, applying advanced technologies like AI will allow organizations to see internal barriers within their businesses that they never have before. But this insight does not—and must not—wait for AI to commence. Today, in organizations that are innovating well and transforming with velocity, HR is shifting its perspective, thinking broadly about the business and combining its insights with the strategic thinking of business unit leaders to create a blueprint for leading, managing, and executing against a strategy.

It is what most businesses need, yet without HR leading the charge, most will not get to. To be clear, this gives rise to a new role for HR. It starts with driving a *Second Playbook*.

What the Data Says

Chief executives and boards who have staked out a position on a new strategy often underestimate that *leadership is the how of strategy*. With intellectual alignment around a future way of winning and with cash flows from the legacy business, the assumption is often to step back and let the operators run the business—leading and managing as they've proven they know how to do. Yet, consistently, the data shows that there is a disconnect between where a company wants to go and how it will get there.

A recent ExCo Group study[3] of global talent leaders and CHROs yielded the following results:
- More than 85 percent of companies are wrestling with a shift in their business model. These shifts include:
  - » Navigating the cloud
  - » Integrating a digital strategy
  - » Incorporating some elements of AI
  - » Building an enterprise mindset across the matrix
  - » Increasing the velocity of execution and strategy adjustments

- Eighty-two percent of global talent leaders believe that current leadership development is not fully linked to strategy.
- Over 50 percent of CHROs believe that the link between strategy and leadership is not clear at levels below the C-suite.

In our interviews, CHROs and global talent leaders made one issue abundantly clear: The case for change in leading is rarely fully understood at the most senior levels. Past successes cloud the outlook on the future. So, while most companies are pivoting their business models, the bigger and equally important pivot is getting an organization to adopt a new way of leading to deliver on their future strategy.

Elements	Sample Elements ("What do we mean when we say…")	
Leadership	• Strategy contribution • Role in innovation • Role in talent • Enterprise thinking • Developing teams	• Leading teams • Being an effective team member • Setting priorities • Decision-making
Management	• Accountability vs. micromanagement • Resource allocation • Meeting effectiveness • Time management	• People development • Leading teams • Being an effective team member
Operational	• Capital allocation • Success metrics for innovation • Compensation and performance management	• Innovation at the core or on the periphery • Talent sourcing • Responses to failures

Wait, We Have a Playbook?

A few iconic companies have built their success on an intentional way of leading and managing. Some—GE, Siemens, and Honeywell, for example—have overtly crystallized leadership philosophies, ways of managing, and an operational playbook for being successful *within their ecosystems*. The latter caveat is important: a company's playbook for successful leadership is often highly adapted to its unique culture and business model, and is rarely highly transportable.

Other companies—we would argue the majority—have through the years simply adapted to a way of doing things. Though informal, this becomes the way leaders are judged, promoted, or removed, projects are funded or staffed, and innovation does or does not happen. To be clear, this isn't culture, though it both influences and is influenced by culture. Very few companies have a formal, consolidated, written document that covers leadership, management, and operations. Yet, taken together, they form the elements of a playbook.

For most organizations, the above elements are simply habitual ways of working, at least when it comes to delivering upon and innovating within their legacy businesses. A fundamental question every business must now ask are, "How much of our revenue and profits require sustaining our legacy way of leading, and how much of the future strategy is going to require a significant shift in the 'how' of leading?"[4]

An undefined legacy forms an obstacle to transformation in part because it lacks definition. One of the first contributions HR leaders can make to their organization's ability to deliver on strategy is to define and ring-fence that playbook, and then work with business leaders to keep it healthy and

> The CHROs, CEOs, and board members we have interviewed on this topic most commonly cite three areas requiring attention for their second playbook: strategy, people, and innovation.

optimized. It is what is already being done and what is working well—make it intentional.

At the same time, it is most likely not what will be required to win in the future.

A New Set of Leadership Issues

In April of 2017, a Fortune 50 CEO shared with us this leadership challenge: "As you go through a transformation we all get endpoint focused. Where we really need to spend time is on the middle ground, identifying how we get to a directional endpoint. It is critical we identify the clear milestone steps along the way that tell us we are moving along the journey."[5] Routinely today, new strategies are set to get to an endpoint that is not clearly defined—nor can it be. In fact, often a strategy is directional to an endpoint that is littered with ambiguity.

The journey that companies are embarking on is different than ever before in part because it is not just about the solution or product, it is also about leading and managing a workforce with different skills, backgrounds, and expectations. Even executing on strategy is more complicated. Just what does success look like with the Internet of things (IoT)? How can you measure the long-term impact of AI in any number of industries? After years of competing with a market adversary, how do you partner with that brand today if collaboration is required to succeed?

For business unit leaders, these are *every day* questions for the first time in their careers. For organizations, each must identify and define the most critical elements of its own second playbook, but let's explore three commonly recurring areas companies find they must pivot. The CHROs, CEOs, and board members we have interviewed on this topic cite three areas requiring attention: strategy, people, and innovation.

The Strategy Impact

One CEO and his HR leader manage a multi-billion-dollar P&L that includes a software business, a hardware business, and a consumer entertainment business. The first operates with a strategic horizon of months, the second of two to three years, and the third requires 10-year development cycles.[6] All three businesses face dramatic impacts from mobility and AI. In such a context, what is the leader's role in strategy? The answer is different in each business unit, different for the general manager of each unit, and yet has had to be clearly communicated across all three, so that talent moving from one part of the business to another understands the different accountabilities.

Some companies have been quite clear in their call for change despite having impressive legacy businesses. McDonald's has commenced a successful turnaround, receiving positive feedback and increased earnings on innovations that are redefining their customer experience. Intel, long dominant as a chip manufacturer, has recently showcased impressive technological innovations in areas where they have never competed before. Express Scripts has expanded from its traditional business by leveraging its data to play a more critical—and digital—role for patients in prescription management.

As these and many other companies are laying down clear bets on how they need to modify their legacy business as well as venture into new areas, the fundamental challenge for each organization has been to define and develop the leadership mindset required to understand the strategy, adapt it in real-time, and toggle quickly between time horizons. This has required development of second or even third playbooks in different parts of the organization.

The People Impact

At a fundamental level, the talent profiles that drove the legacy business may not be the same skills needed to deliver on the future strategy. Further, the talent base is more liquid than it has ever been. Add growing employee interactions with AI, data mining, IoT, and the roles of the leader, and the contributions of the organization become much less clear today than they were in the legacy business. Even the very concept of employee can change as the best talent may be the one you access on a variable basis.

This has implications from the simple to the sublime. In most instances, it involves the redefinition of the role of the leader in recruitment, development, and retention of a team of people who look, sound, and think increasingly less like him. (And we said "him" on purpose!) This may take place in the legacy business as well, but often in that context it is gradual and evolutionary, while in the emerging, future-oriented business, the need is immediate and crucial to near-term success.

At a systems level, the people impact also includes what seems like the never-ending quest to get performance management right. In a *Second Playbook*, that may mean new parts of the business judge performance and compensation differently than in the legacy business. Feedback loops move in real-time, and the link between expected behaviors and the

strategy of the business need to be as clear at entry-level as they are at the C-suite. And those expectations are necessarily fluid as well: as groundbreaking technologies get introduced, the mandate for leadership is to remain intentional about how their people will interact with these technologies and leverage them to enhance value.

The Innovation Impact:
It is hard to find a company not currently discussing its need to innovate. Less clear is what that actually means in context and how it will be achieved. This is where HR can instill *Second Playbook* discipline.

The cadences that worked well for legacy businesses' development of R&D are not the cadences of disruptive innovation. Innovation doesn't only happen in an R&D facility. It is about more than just the technology and telling the market the cool thing the organization has created. *Second Playbook* innovation happens at the interface of the business, the market, and host of supplier or competitor relationships. This shift creates sharp differences in the cadence of innovation, how success is measured and even how capital is allocated. Leaders who have grown up within the legacy way of innovating have to be able to flourish in this new context. Moreover, organizations that have long-cherished systems for funding, staffing and measuring progress within the legacy model of research and development need to create clarity for themselves, managers and employees on how and why this way of innovating is different from the past, where the past methods still fit and how the "new" will be measured.

When looking at all of these impacts, senior HR leaders can help clarify this conversation—or force it if operators are blowing past it in their haste to get to execution—by asking several critical questions. We suggest these four as a starting point:

1. In the places we are pushing our business to be different, have we stepped back to ask what operating conditions and specific leadership behaviors will make us successful?
2. What is holding our people back from being an integral part of executing against the strategy?
3. How can we allocate capital in a continuous cycle, rather than in annual or multi-year R&D budgets, where hitting milestones triggers the next level of investment, encouraging, and incenting employees to innovate and execute?
4. If we fail at moving our transformation at the speed we intend, what *internal* factors will have stopped us?

Themes in Emerging Second Playbooks

Developing a second playbook is an intentional act. The force of the legacy playbook is often so powerful that without a clear, deliberate declaration that this is what is required to win in the future, the probability of successful change is hampered. While each company's second playbook will be different, a number of common themes have arisen across more than 50 use cases in the past three years:[7]

- Leaders must make ambiguity concrete.
- Leaders must demonstrate to the organization that the journey is directional and the journey itself will provide opportunities to define the future.

Change becomes inevitable when disruption is everywhere.

- Leadership principles must be articulated in clear business terms and linked directly to the strategy execution.
- Emphasis must be placed on time management on the right things and leave legacy distractions behind. And, starting from the top, leaders must show courage to break through the barriers that inhibit collaboration.
- Leaders must make being part of and leading high-performing teams and teams of teams a priority.
- Leaders need to recognize the value of the changing workforce and be intentional in how they incorporate this as an asset to advance the business.

All of this must happen while preserving that which protects your core business. Easy, right?

The Role of HR

This is a win or lose moment for HR. Technologies are coming—but are still one to three years away—that will start to map organizational choke points and leverage points for executives. Once that skill becomes as simple as a download from the cloud and an IT implementation, HR will have missed an opportunity to make a major business leadership contribution at a pivotal point for most organizations. HR can own this territory. Developing a second playbook operationalizes the very leadership attributes that drive enterprise transformation.

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As previously mentioned, every company will need to customize their own approach to a *Second Playbook*. There is no single approach that fits every company. However, there are some key steps that every HR Leader can take, which include:

- For every strategic imperative, detail out the leadership implications and how they need to show up in the business.
- With a clean slate, collaborate with other leaders to develop the right KPIs that not only drive short-term business results, but also mid- and long-term innovation.
- Change the language of HR to clear business terms where no one needs a page of definitions to decode what is being said.
- Attack the systems that are holding you back, e.g., work with the CFO on budgeting, and work with all leaders on performance management that aligns to strategy.
- Embrace leadership development holistically, developing experiential learning opportunities that drive enterprise mindset and which can cross business units and functions.
- Develop solutions for business unit leaders to help them leverage the changing dynamics of the workforce.
- Be an early adopter of the right technologies that allow you to see the business from new perspectives.
- Be relentless in communicating the change required and the successes achieved.

HR leaders need to move out of their comfort zone and own transformation, right alongside the CEO.

Even the best-intentioned CEO can get distracted by investors, the board, customers, and day-to-day business issues. While many are passionate about talent and leadership, they may not see what is holding the company back. The CEO's eyes and ears are HR and the time to step forward to help drive change is now. Time and again CHROs have expressed a concern that if HR does not seize this role, someone else will step in or the transformation will fail.

From Blind Spot to Opportunity

Change becomes inevitable when disruption is everywhere. This is true inside of a sports venue, on the field of battle and in business. Every major sport has seen elements of its game change over the years. Playbooks that worked in the 80s have been thrown out in favor of new playbooks that adapt to the way the game has evolved. Countries have been forced by world events to change the way they train their militaries and fight wars.

A company's legacy can be a source of pride. But its future will be defined by the intentionality and speed with which it ring-fences those parts of its legacy that will not drive what comes next. The Internet of people necessitates changes in the way we think about leading and winning in the most ambitious and most ambiguous areas of our companies' strategies. The organizations that succeed will not allow their legacy to be their blind spot, but instead their springboard for a second playbook that enables winning today and tomorrow. ⊞

David Reimer is CEO of The ExCo Group. He can be reached at david.reimer@excoleadership.com.

Harry Feuerstein in president and head of services at The ExCo Group. He can be reached at harry.feuerstein@excoleadership.com.

Sonja Meighan is vice president of services at The ExCo Group. She can be reached at sonja.meighan@excoleadership.com.

Scott Kelly is CTO and CHRO at Hitachi Data Systems. He can be reached at scott.kelly@hds.com.

References

[1] Interview conducted by David Reimer, April 2017.

[2] Characteristics of wicked problems: 1) They are difficult to define with great specificity. 2) They do not offer "right" answers, only better answers and worse answers: the past is not a template for the future. 3) Every time you interact with a wicked problem, you change it into a new problem. 4) They are highly-relationship dependent: they involve wide varieties of stakeholders who start out with fundamentally different interests.

[3] The ExCo Group interviews with and global talent leaders. September 2016– February 2017.

[4] When we say "our legacy way of leading," it should be noted that effective legacy businesses are often quite good at adapting and exercising peripheral vision and flexibility so that they are not disrupted by a singular focus. "Legacy" does not mean "bad" or outdated. Rather, that it is not the future driver of success for the company five or 10 years from now.

[5] Interview conducted by Harry Feuerstein and Sonja Meighan, April 2017.

[6] Interview conducted by David Reimer, May 2017.

[7] The ExCo Group use cases, 2014–2017.