In most industries there are companies that consistently outperform competitors that have similar business strategies and operating models and must deal with the same economic conditions. Examples include Southwest Airlines versus America West, Dell versus Gateway, and Walmart versus Kmart. The key factor in explaining the difference in long-term performance for these firms is the quality of leadership.

Leaders of successful companies are able to influence three key determinants of company performance—efficiency, adaptation, and human resources. A business organization is more likely to prosper and survive when it has efficient and reliable operations, when it is adaptable and innovative in providing the products and services that customers want at prices they are willing to pay, and when it has people with a high level of skill, commitment, and mutual trust. There are two basic approaches for influencing these performance determinants.

One is the use of specific leadership behaviors. Efficiency can be improved through task-oriented behaviors such as short-term planning, clarifying work roles and task objectives, and monitoring operations and employee performance. Adaptation to the external environment can be improved through change-oriented behaviors such as identifying external threats and opportunities, explaining the need for change, articulating a vision for the future, and encouraging innovative thinking. And human relations and resources can be improved through relations-oriented behaviors such as empowering employees and providing support, recognition, and coaching.

The second approach that leaders can take to influence the performance determinants is the use of management programs, systems, structural forms, and external initiatives. Efficiency can be improved through process-improvement and cost-reduction programs and standardization and functional specialization in the design of work processes and subunits. Adaptation can be improved through programs to learn about customer preferences and competitor actions, programs to encourage and facilitate innovation, structural forms to facilitate innovation, and external initiatives to enhance growth and diversification. Human resources and relations can be improved through quality-of-work-life programs; employee benefit, development, and empowerment programs; and talent management programs. The authority to initiate or modify management programs and systems is usually reserved for top management, but a new program or system is unlikely to be successful without the support and cooperation of managers at all levels of the organization.

**WORKING TOGETHER**

These two different approaches for influencing performance determinants are complementary rather than mutually exclusive, and they can be used together in a mutually supportive way. Some leadership behaviors can be used to facilitate the implementation of new programs or systems and help make them successful. Some management programs and systems can enhance the effects of the leadership behaviors or reduce the need for them.

Efforts by leaders to influence improvements in efficiency, adaptation, and human resources are complicated by the complex relationships and potential trade-offs among these performance determinants and by changing conditions that can alter their relative importance. There is no simple formula to guarantee success in dealing with these leadership challenges, but flexibility is an essential ingredient. Here are several useful guidelines for flexible leadership:

- **Maintain situational awareness.** Situational awareness involves knowl-
edge about external and internal processes that affect a leader’s organization or team. It is difficult to diagnose the causes of a problem and identify good solutions without a clear understanding of the prior events and decisions that determined how the organization got to where it is, the attitudes of people who will be affected by major change, and the political processes that determine how strategic decisions are approved. To obtain up-to-date information about relevant events and trends, it is usually necessary for leaders to develop an extensive network of contacts inside and outside the organization. These contacts can provide information that is not available from formal communications or from the regular information systems. Even when the company has a good information system, leaders can improve their understanding of organizational processes and problems by visiting facilities, observing operations first-hand, and meeting with employees, customers, and suppliers.

**Embrace systems thinking.**

Systems thinking is needed to understand the complex interdependencies among performance determinants and the short- and long-term effects of attempts to influence them. In large organizations, actions invariably have multiple outcomes, including unintended side effects. Complex problems often have multiple causes, which may include actions taken earlier to solve other problems. Changes often have delayed effects. A change in one part of a system will eventually affect other parts of it, and any short-term benefits may be lost as effects of the change eventually ripple through the system. Unless a new program or initiative is compatible with the competitive strategy, the organizational culture, and other programs and systems, the potential benefits will not be attained. It is essential to identify trade-offs and consider potential consequences in preparing for a change or new initiative, and leaders should look for ways to achieve synergy among different programs, systems, and structures.

**Build commitment to a core ideology.**

To achieve sustained high performance in a large organization, the actions of the various leaders must be compatible with one another and with the competitive strategy. It is difficult to achieve the necessary level of cooperation and coordination unless each leader’s decisions and actions are guided by a core organizational ideology. This ideology usually includes shared values and beliefs about the mission and purpose of the organization, the quality of products and services, and the rights and obligations of individuals.

A primary responsibility of leadership at the top is to help members come together in support of a shared purpose or mission for the organization. A primary responsibility of the leadership at the middle and lower levels is to build support for the core ideology by ensuring that it is clear and by explicitly using it to guide decisions and actions. When decisions are made, the ideals and values should be emphasized more than the policies and procedures that supposedly reflect them. In other words, the “spirit of the law” should be emphasized more than the “letter of the law” when the two are inconsistent.

The core ideology also provides a mental compass to help leaders identify appropriate forms of adaptation. Successful adaptation requires a good understanding of customer needs, but it is not appropriate to do anything that customers want just to increase sales. For example, clients of auditing, consulting, and financial firms may prefer to get rosy reports that overlook or minimize serious problems. However, a biased report designed to ensure future business from a client is inconsistent with the ideal of providing accurate and objective appraisals and recommendations.

**Lead by example.** Setting an example through one’s own behavior is an important form of influencing that can be used to emphasize any of the performance determinants. When top executives act in highly visible ways that emphasize the importance of efficiency, innovation, or human relations, the effects can cascade down through the organization. For example, selling the corporate jet and the limousines used by executives is a way to communicate the importance of reducing costs. Setting a bad example can be as powerful as setting a good example, and it is essential to keep decisions and actions consistent with espoused values and the core ideology. Unethical behavior and decisions based primarily on the leader’s self-interest can undermine the trust and commitment of employees.

**A HELPFUL MODEL**

The importance of efficiency, adaptation, and human resources may seem obvious, but many business failures and derailed management careers are largely a result of a lack of understanding and appreciation of the complex relationships among the performance determinants and their joint effects on the long-term performance of an organization. Even though there is no simple formula for success, it is helpful to have this model as a reminder that the combined effects of all three determinants should be considered when planning improvements in organizational effectiveness.

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