

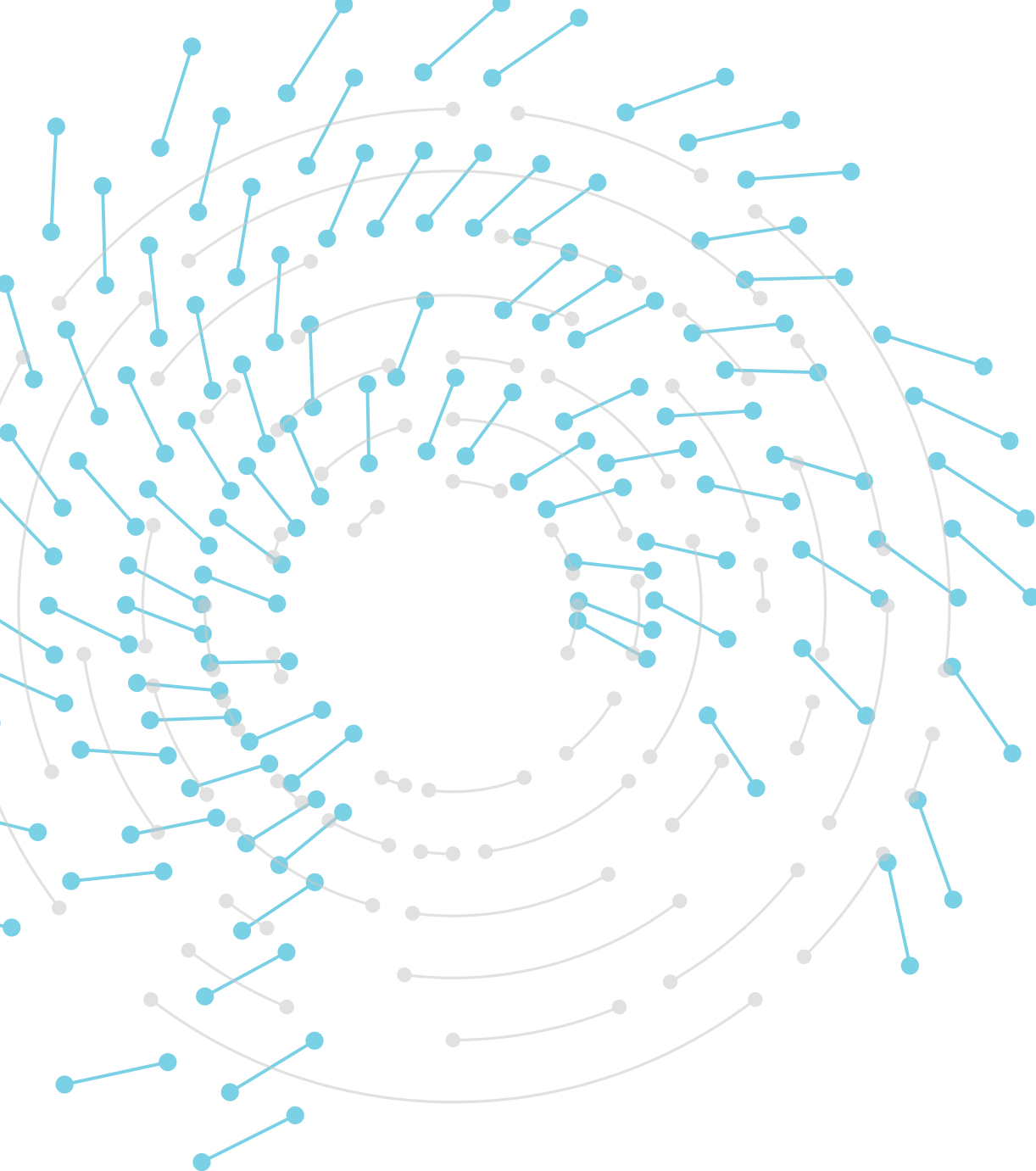
WHITE PAPER

# How Informal Networks Can Strengthen Your Organization's Strategy



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## Executive Summary

The effectiveness of any organization is driven (and constrained) by the top management team's ability to communicate and collaborate effectively. This includes their ability to communicate with middle managers—especially the functional managers who report directly to them. Optimal communication *between* top functional teams is also critical to organizational success.

Weaknesses in formal and informal workplace social networks can manifest themselves in many forms, but some of the most critical shortcomings can emerge in strategy development and implementation.

Our analysis of the social networks that connect top management at many organizations has yielded some useful insights. Among our findings:

- **Conversations among leaders in upper and middle management often determine an organization's strategy and eventual success.** These networked patterns of information exchange and influence rarely align perfectly with the “formal” organizational structure, and thus can be difficult to predict. By uncovering these critical connections, organizations can diagnose their readiness to develop and implement strategy effectively.
- **Middle managers, particularly high potentials, often think they are participating in strategic discussions with senior leaders, but senior leaders may not perceive those conversations the same way.** As a result, important input and perspectives may not make their way into strategy-development efforts. When contributions from mid-level leaders go unheard or underweighted, organizational strategies may end up being suboptimal and top talent may become frustrated or disengaged. This can cause turnover among the very people the organization most needs for its future leadership.
- **Actual connections may not be the needed connections for strategic success.** Leaders often say their top teams need to work closely together. In reality, however, some cross-group connections are weak or missing, while others are present that are less important. This can result in priorities being misaligned between groups, inhibiting effective collaboration and coordination to achieve the organization's strategic goals.

Analyzing the social networks of top executives enables organizations to uncover gaps between how communication and influence should ideally flow—and how they do in reality. That analysis opens the door to strengthening and optimizing an organization's social networks and, ultimately, to improved retention of high-potential talent and more strategic leadership.



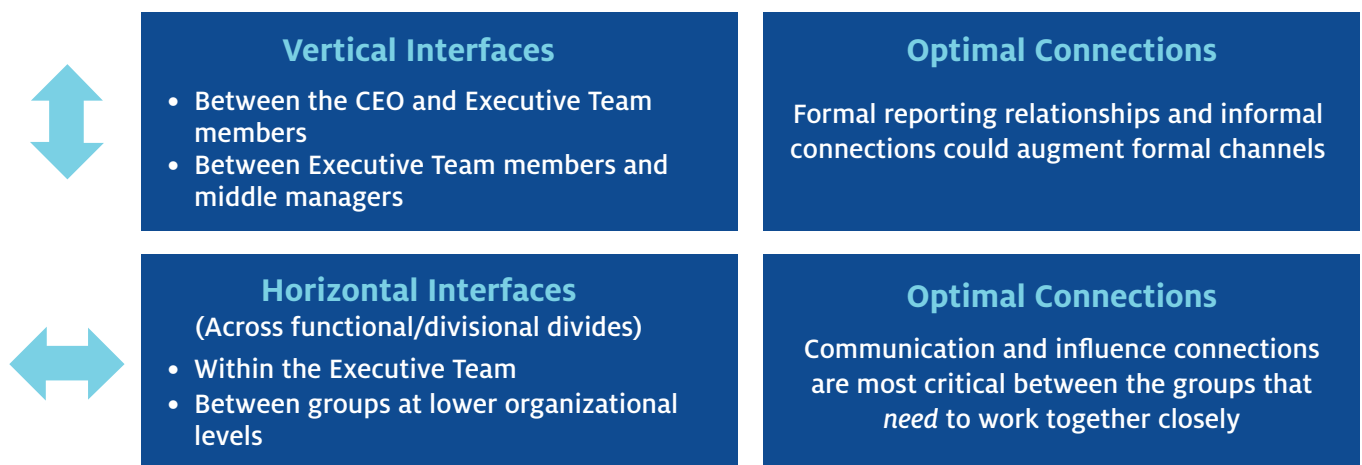
# Social Networks and Strategic Leadership

## The Strategic Leadership System

One of the most important and challenging tasks that any organization's senior leadership faces is to develop, and then implement, effective strategies that will guide the organization into an uncertain future. In most organizations, strategy is primarily the responsibility of senior leaders at the C-suite level or the "top management team." However, senior-level leaders often turn to executives at the next level and/or members of middle-level management during strategy development and implementation to seek input and ensure buy-in from employees throughout the organization.

In fact, **organizational strategy is often shaped by many members of what we refer to as a "strategic leadership system"**—the network of people and groups in the upper- and middle-level layers of an organization that must work together to develop and implement strategic plans.

The effectiveness of an organization's strategy is shaped by the ways in which members of the organization's strategic leadership system communicate and interact with each other. For example, communication and influence often need to flow both upward and downward across the upper- and middle-management divide in order to ensure shared *direction, alignment, and commitment* (DAC) across the organization.



Therefore, understanding the *networked social relationships* (e.g., trust, influence, friendship, etc.) that members of strategic leadership systems have developed is a critical component of developing the strategic readiness of the organization.



### 3 Common Problems in Strategic Leadership Networks

Unfortunately, suboptimal patterns of communication and influence networks often develop among members of strategic leadership systems. Three common problems are:

- **Undue Influence:** Sometimes people who lack the right skills or expertise for the task at hand exert too much influence during decision making and the people with the right expertise don't influence decision making enough. Organizations should be careful to involve the right people with the right skills, expertise, and perspectives in the strategic decision making process.
- **Isolated Executive Teams:** Sometimes the amount of upward influence flowing from lower-level to upper-level managers is insufficient. High potential, mid-level leaders may try to influence "up" for the good of the organization, yet fail to be seen or heard by senior executives. Senior teams can improve the success of their strategies by better managing the interface between mid-level and senior leaders.
- **Siloes, Not Integration:** Sometimes subgroup priorities eclipse shared goals and impede coordination across groups. Trust or influence relationships that are needed between different managerial groups may fail to arise. And sometimes insular, disconnected teams work at cross-purposes, rather than working for the good of the entire organization.



*Diagnosing these types of issues in the patterns and quality of informal social networks connecting members of the strategic leadership system can help organizations achieve a competitive advantage by enabling them to produce more effective strategies and consistently deliver on them.*



## Risks of Suboptimal Social Networks

Strategic leadership is driven by flows of information: Senior leaders assess data, perspectives, and ideas to develop new strategy. They communicate this strategy throughout the organization. Then groups within the organization implement that strategy—or at least that’s how it’s supposed to work.


In reality, however, **natural human biases—based on physical location, similarity, shared purpose, or other characteristics—can result in suboptimal social network patterns that pose risks** to strategy development and implementation. Left unchecked, natural human biases can result in insular, disconnected teams and a siloed organization—hardly ideal for organizations confronting a rapidly changing and unpredictable marketplace.

Several risks can arise out of suboptimal social networks. These include:

- poor strategy development,
- alienation of high-potentials, and
- poor strategy implementation.

**Poor strategy development.** The top management team is the primary strategy-making body within an organization. Yet, even the most intelligent and business-savvy senior leaders need information from managers throughout their organization to develop an effective strategy for the organization. This information flow includes everything from discussions with formal reports to informal ideas, anecdotes, and perspectives. Middle managers often interact more with front-line employees and customers, so they can offer valuable insights.

However, when the social networks connecting senior leaders to middle managers are weak, some middle managers may have an outsized impact on strategy development while other important information is not considered. Further, our research indicates that, in many cases, senior leaders may underweight important information from middle managers, creating a distorted view of the organization’s competitive environment. This creates a significant risk that the top management team will choose riskier, less robust, or ineffective strategies.



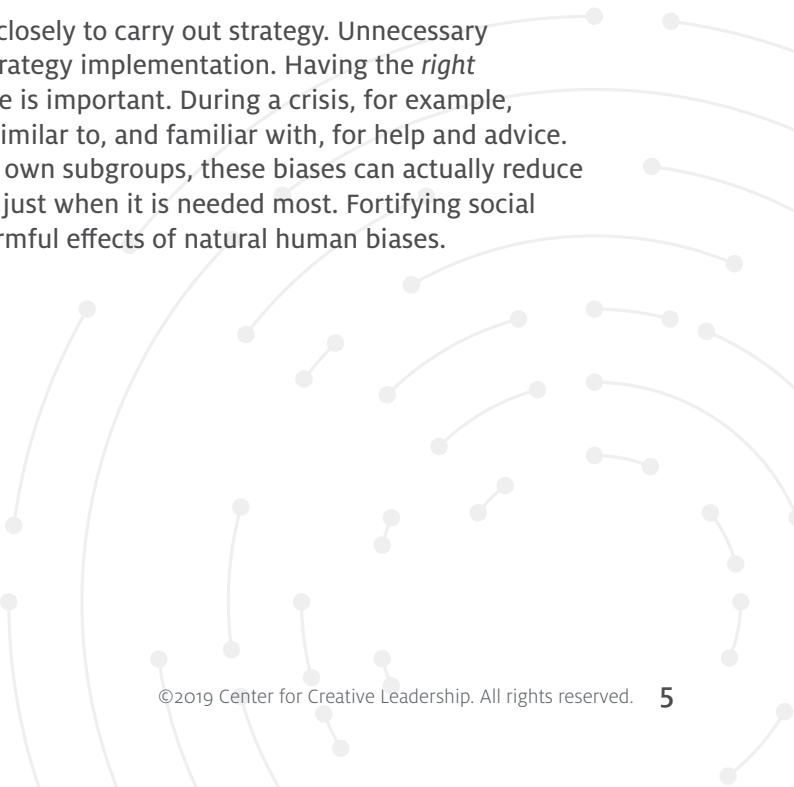
**Alienation of high-potential middle managers.** Among the middle managers providing input into strategy development are “high potentials.” Some of these up-and-comers are likely to be future senior leaders themselves, so the organization would likely benefit from having them more involved in strategy development.

Too often, however, strict adherence to the formal chain of command and one-directional influence (usually top-down) bypasses high potentials, keeping their ideas and input out of the room when strategy is discussed. In turn, this top talent may feel ignored or marginalized and their commitment to the company may decline. Middle-level managers who feel sidelined may look outside the company for future career opportunities, potentially depriving the organization of future leadership talent. Plus, when organizations fail to expose high potentials to the strategy development process, they will be less equipped to lead when they move into senior leadership positions themselves.

**Poor strategy implementation.** To implement a strategy effectively, various subgroups within an organization must communicate, coordinate, and work toward shared goals. Yet, our research suggests that the different groups comprising strategic leadership systems often fail to develop the social relationships across group boundaries needed to achieve shared goals. Without sufficient social network connections between groups, critical information may fail to transfer between different functional areas or other subgroups. These breakdowns in between-group connections can hinder the development of shared direction, alignment, and commitment, reduce coordination and collaboration, and weaken an organization’s capacity to implement strategies developed by the top leaders.

In fact, in environments where communication and collaboration between groups are weak, some organizational units may not commit as fully or skillfully to a new strategy and/or may see their role in supporting a strategic goal differently. Sometimes, subgroup priorities can end up trumping organizational goals and strategies—to the detriment of the organization, as groups pursue conflicting objectives.

Of course, not all subgroups need to collaborate closely to carry out strategy. Unnecessary collaboration can be inefficient and slow down strategy implementation. Having the *right* subgroups communicate regularly and collaborate is important. During a crisis, for example, people tend to turn to those who they are most similar to, and familiar with, for help and advice. If people are familiar only with members of their own subgroups, these biases can actually reduce communication across critical group boundaries, just when it is needed most. Fortifying social networks *before* crises ensue can mitigate the harmful effects of natural human biases.





## Benefits of Network Analysis to Organizations

Social network analysis, which maps connections between individuals, teams, and functions can be a powerful tool to help organizations harness the potential of their strategic leaders. Understanding how social networks operate in the upper layers of the organization can help companies diagnose and improve the quality of critical informal relationships in their strategic leadership systems, and ultimately, can help strengthen organizational strategy formulation and implementation.

Social network analysis can serve as a catalyst for strategic effectiveness by:

- Helping leaders understand how people and groups communicate and interact with each other,
- Pointing to weaknesses that might prevent an organization from responding appropriately to an unexpected event or crisis, and
- Revealing how an organization's collective process of leadership really works—that is, whether formal and informal networks are supporting the shared creation of direction, alignment, and commitment throughout the organization.

**Social network analysis gives organizations a tool to understand exactly how senior leaders and middle managers communicate, interact with, and influence each other.**

In turn, insights about these informal social networks can help organizations harness the power of their high potentials even before they reach the top, and point to areas where organizations could strengthen their strategic leadership systems—leading to better strategies, improved understanding and buy-in to those strategies, and more effective strategy execution. When organizations understand how their social networks help or hinder performance, they gain important insights—beyond the org chart—into how the company truly functions.

## Case Study: How Disconnection Can Hinder Performance

Network breakdowns can even occur within the top management team. Consider the following case: A pair of new co-CEOs had recruited top-performing executives from different industries to be part of their senior leadership team. Despite all this talent, company results were not living up to expectations.

CCL worked with this organization to map the social networks connecting members of the top management team and were able to identify several inconsistencies between the patterns of relationships *needed* to develop and implement strategy effectively versus the patterns of relationships that were *actually* happening. For instance:

- The presidents of the domestic and international divisions needed to work closely together, but they were not communicating with each other regularly;
- Managers leading different functions reported execution problems because of misalignment in goals and expectations between the different groups; and
- The co-CEO, who was tasked with taking the lead on the organization's finance issues, needed to work closely with the chief financial officer, but these two individuals were not collaborating.


**Impact of the social network analysis:** Once the senior team's social networks were clearly mapped and communication gaps identified, our faculty worked with the group on team development over several months. This work led to improvements in the networks of communication and influence within the team, plus significantly boosted organizational performance.



## Recommended Actions for Senior Organizational Leaders

Once a social network analysis has revealed communication gaps and weaknesses in your strategic leadership system, consider actions to optimize your organization's social networks. Strategies to consider could include:

- ❑ **Engage middle managers and provide psychological safety.** Ask middle management for input and make sure there's a safe environment for them to be heard. Toxic cultures teach mid-level leaders that there are consequences for challenging the status quo, for example.
- ❑ **Confront your inclusive reality.** Assess and reflect on the diversity of your strategic leadership system. Homogeneity constrains creativity and critical thinking in strategy development.
- ❑ **Recognize & sponsor contributions from high potentials.** Create a formal process for including high-potential talent in strategy conversations. They probably have important insights the leadership team needs to hear as the organization's priorities are being shaped. If not provided a direct opportunity to offer their candid feedback, they might not feel free to speak up, and their valuable insights might go unheard. So for example, you could rotate inviting non-executive team members to organizational strategy sessions, and ask them for their insights during or after the meeting.

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- ❑ **Provide high potentials with candid feedback on contributions that are less useful.** Don't lose top talent by making them feel their contributions aren't welcome. High potentials are often ambitious but inexperienced, so when they make recommendations that go unheard they may become disenchanted that those ideas are not recognized. Help them understand the larger reasons why their recommendations won't work to ensure they don't feel they were ignored. Retaining your high-potential leaders and keeping them engaged in the organizational strategy ensures your organization maintains a strong and committed pool of future leadership talent.
  - ❑ **Focus on locating and addressing misalignments.** Take a targeted approach as you work to uncover the invisible disconnections that are causing issues. Pinpoint with accuracy where groups have competing or misaligned priorities—is it among team members or leaders? Of which teams? Address the source of the misalignment—often, we observe polarities, such as a competing focus on maintaining quality versus rapid innovation. Find ways to match *actual* connections to needed connections. Focus on developing communication and influence ties where they are most important: between the groups that need to work together closely.



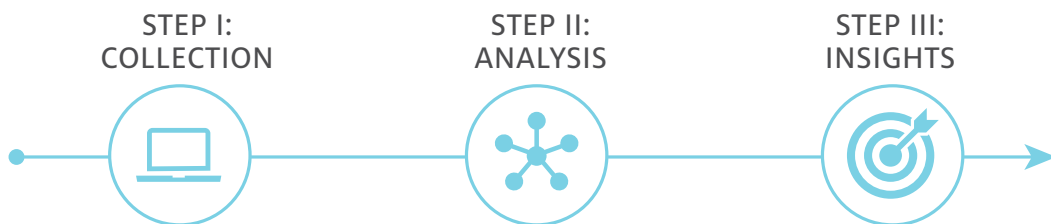
*Long-term, sustained efforts to improve communication and influence networks can strengthen employees' commitment to an organization's goals and strategy, improve clarity about how people and groups contribute to company success, and increase the effectiveness of integrated, cooperative actions.*

*Companies that invest in understanding and developing the networks connecting upper- and middle-level leaders have the potential to create a more robust and effective organization that can succeed in ever more dynamic and competitive marketplaces.*

## CONCLUSION

# Gain Insight into Your Organization's Social Networks

At CCL, we utilize a straightforward process to help organizations map their most important social networks. Then, we use information gleaned from this process to understand the social dynamics between and among the top management team and middle management. We use this data to help the top team develop an action plan to improve influence and social dynamics.



**1. Collect the data.** First, we gather data about existing networks. Ties we assess include: connections between people and between teams, plus strategy conversations, strategic alignment, interdependence, influence, and social support. Typically, this involves collecting survey responses and conducting interviews with the top management team as well as middle managers. Sometimes technology—email communications patterns, for example—can be used to represent communication and coordination networks.

**2. Analyze the organization's network.** With hard data in hand, we can diagnose the networks of communication and influence among members of the strategic leadership system in order to answer questions like:

- **Who has the ear of senior leaders, influencing their strategic thinking?** Which types of individuals are disproportionately influential? Who is being left out of important conversations?
- **Which teams are coordinating and collaborating and which teams are working at cross-purposes?** Are some groups not communicating with others? Are some groups disproportionately influential in an organization's overall social dynamics, whereas others are marginalized?
- **Are senior leaders and middle managers engaged in the same conversation?** Do senior leaders recognize the attempts middle managers make to contribute to and influence organizational strategy? Do people in the company agree on strategic priorities and understand how they are to be implemented?

**3. Deliver insights.** After the networks are diagnosed, we work with senior leaders to identify ways to improve network connections as needed to support the organization's strategic objectives.



## Ready to Take the Next Step?

If you're interested in partnering with CCL to gain insights about your organization's social networks, while also helping to further our cutting-edge research to identify common patterns and best practices that distinguish the most successful companies, let us know.

Your executive leadership team and their direct reports can complete a 30-minute online survey, and then you'll receive a summary of the analysis results and a one-hour free consultation with one of our network analysis researchers to explain what the results mean for you and your organization. Learn more and join the study at [www.ccl.org/networkedleaders](http://www.ccl.org/networkedleaders).



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