The 6 Disciplines of Leadership

‘Be sure you put your feet in the right place, then stand firm’

– Abraham Lincoln
(President of the United States of America, 1861-1865)

‘A tree that is unbending is easily broken’

– Lao Tzu
(Chinese philosopher and writer, c. 600 BC)

The 6 Disciplines of Leadership

How to Run Your Company like a Tight Ship

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Preface

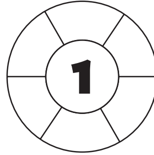
This book contains the lessons I have learnt during over 25 years in the corporate world, of which I spent fifteen in general management. During this period, I underwent steep learning curves, and from early on, it became a habit of mine to take notes whenever I faced challenges for which I did not immediately have a solution. When I found my way out of trouble, I wrote this down as well, hoping it would come in handy again some time. As a result, I ended up with several pages of interesting ideas. I never thought much of it, until in 2021 I entered my second winter in lockdown. It occurred to me that I could literally write a book about my lessons from these years. What started out as a pastime, gradually evolved into this handbook with practical advice, which I wish I had been given when I first started to run a company.

All the learnings in this book come from first-hand experience in leading organisations, and obviously from making mistakes while doing so. CEOs face a lot of pressure from a lot of different stakeholders. It is, therefore, important to be grounded and define one's anchors: the key elements over which no compromise is possible, as opposed to topics where it is important to keep changing and adapting. In fact, the questions that kept me awake at night throughout my career were invariably questions of attitude: should I stand firm when confronted with opposing views or interests between stakeholders, or should I be flexible, and

incorporate new views or interests as I went along? The answer to such questions never came easy, but in hindsight, there was always a perfectly sound answer to these questions.

Sound answers – or insights – are what I have attempted to describe in this book. They are sometimes derived from some of the most widespread, practical, and powerful management frameworks. These are management tools that I have personally found most useful and which I have adopted to shape and develop my own leadership style. I have, however, also developed my own frameworks and concepts: the six leadership disciplines, the innovation management matrix, the divergence trap, the people performance tree, the culture-shaping forces, the CEO decision-making flowchart, the Firm & Flexible Steering Wheel, and the classical CEO dilemmas are all concepts I developed as I faced my own leadership challenges.

I know my younger self would have found these concepts insightful, and I hope that others will find this as well. The result is a tutorial to help leaders to quickly frame complex problems. It is meant for anyone who starts in general management, or who aspires to become a CEO someday. This book will increase your business acumen and provide practical advice on how to handle common CEO challenges. I have illustrated all concepts with examples from business life, mostly taken from public information. I have deliberately limited the use of examples from my own professional life, because I aim to provide a perspective that is broader than my own. I realise, however, that the book is inevitably coloured by my own style and experience. I will leave it to the readers to pick and choose what will work for them, just like I did with the management literature that I consumed over the years.



Introduction

1.1 – The role of the CEO

In order to better understand the trade-offs a CEO faces in their day-to-day business, it is important to establish the role of the CEO in the first place. In a start-up, the CEO tends to be the founder, but in more mature companies, the CEO is appointed by a Supervisory Board, which is a representative body of the shareholders (and to some degree of stakeholders, depending on local laws and regulations) tasked with executing the company strategy.

In some cases, the strategy does not yet exist, is not fully developed, or is outdated. In such cases it is also the CEO's role to develop and agree with the Supervisory Board on a strategy for the company. How to do this will be addressed in Chapter 2. CEOs who do not have the fortune to be part of the strategy development process should do a proper due diligence in relation to the

strategy upon being hired, because they will ultimately be expected to deliver on it.

Typically, the success of a CEO only becomes apparent after a few years and is mostly measured through financial performance and growth metrics. Sometimes – and increasingly so – other stakeholder-related metrics are also included, such as client satisfaction, employee engagement, regulatory compliance, and sustainability achievements. So, what does a CEO have to do to be successful? Mostly a CEO's job consists of making decisions that allow their company to grow and develop. Such decisions may be strategic and have far-reaching consequences – for example, when they are about the markets in which to invest for the coming years – but they also may be more down-to-earth and concern who to hire, what policies to implement and how to celebrate successes. In the end, the quality (and to a certain degree the quantity) of your decisions largely defines your success. Not all decisions need to be equally good, but on average the quality of decisions is what sets apart a great CEO. Especially when it comes to the most pressing issues faced by the company.

So how do you make good decisions? First, good decisions rely on good information; when they are sufficiently well informed, potential decisions' impact becomes increasingly predictable, and the best decision naturally emerges. For example, when recruiting a new team member, it is essential to have a diligent recruitment process to understand someone's track record, their strengths and weaknesses, and their compatibility with the job to determine a candidate's suitability. If a candidate is poorly screened, the probability of hiring the wrong person increases dramatically.

Nonetheless, even in the best-informed companies, it is impossible to eradicate uncertainty. What remains then is the judgment of the decision-maker about what action to take next. Hire the lowest risk candidate? Hire the candidate with the most innovative ideas? Or extend the search a bit longer to find someone else? The CEO's judgment defines to a great extent how a company fares and defines their success as a leader. And that is precisely what this book is about. By providing you with frameworks and examples, you will be given tools to help address common CEO issues. They will sharpen your judgment and support you in making the best possible decisions for the company you lead.

1.2 – Firm and flexible

For any decision, two fundamental attitudes are available to you as a CEO. On the one hand, you can be firm and provide a strong message about what to do next. This type of leadership is typically associated with the traditional role of a CEO who shows the way, provides clarity and ensures a level of stability and predictability to its stakeholders. Think, for example, about how the late founder and CEO of Apple, Steve Jobs, relentlessly pursued his vision of creating simple and intuitive devices, culminating in the creation of the iPhone. Or how Elon Musk managed to ignite the transition to electric driving with his revolutionary Tesla cars.

Many of your decisions should be non-negotiable; a CEO needs to have the firm determination to succeed. When a company makes a promise to its customers to launch a new product, it is a matter of credibility and reputation to live up to such a promise.

On the other hand, as a CEO you can be flexible and allow for external views and influences to shape the outcome of a decision-making process. In a rapidly changing world, it is essential to allow the organisation and its people to adapt to changing circumstances, and as a leader you need to possess the mental strength to change views and the courage to change course when needed. Many decisions require flexibility, which does not necessarily mean going with the flow; it should be more about revising the original plan. For instance, when your market share is declining unexpectedly, you will probably have no choice but to be flexible and revise the existing strategy.

Weighing up when to take a hard line and when to allow for deviations defines a CEO's leadership style and eventually their success. At every turn of a corner, you must ask yourself: shall I be firm and stick to the plan today, or shall I deviate from it and be flexible? The answer will vary depending on the situation. Is the decision related to the destination or the journey? Is the company on track to meet its goals? Does the decision relate to values and principles? Or to a process rather than an output? Does it involve your staff or not? Is the available information sufficient or not?

There are numerous examples of leaders who were too firm or too flexible when it mattered most. Had they had a different judgment, they might have saved their companies from bankruptcy. Sears – a 129-year-old US department store chain – for example, went bankrupt in 2018 as a result of fierce competition from Walmart and Amazon. The then Chairman and CEO – Edward Lampert – put in place a decentralised structure of multiple divisions operating relatively independently from each other, tightly managing the costs of its physical stores and seizing the oppor-

tunities provided by the internet at an early stage. However, he was also disconnected from operations, failed to create synergies amongst divisions, and underinvested in customer experience.[1,2] Sears simply had the wrong strategy; with the right level of flexibility, it might have avoided its downfall.

Moreover, it is true that where you may have to be firm one moment, you may have to be flexible the next. For example, when faced with a crisis. Or when a crisis is resolved, and things get slowly back to normal. In the aftermath of the first COVID-19 lockdowns, American Airlines kept switching back and forth with its refund policies for basic economy tickets. They went from zero to 100% flexibility, depending on the outlook of the containment of the virus. In any such flip-flopping – from firm to flexible or vice-versa – a CEO will need to clearly explain why the change in attitude has occurred. Stakeholders – be it investors, staff, or clients – will require it to remain confident in the leader's ability to steer the company through its challenges and opportunities. Otherwise, the CEO may well be seen as insecure and inconsistent. Not a great basis for success.

1.3 – Leadership disciplines

In the next chapters, we will explore various situations you will face as a CEO, which will require firm or flexible leadership. The book aims to provide practical guidance to help you improve your judgment and provide a framework for successful decision-making. For this purpose, we will explore six general management disciplines (see Figure 1.1) that are relevant and distinctively different when it comes to making trade-offs:

1. **Strategy**: Every company needs a strategy that defines its 'raison d'être', sets the direction for the future and helps prioritise.
2. **P&L responsibility**: Whereas delivering on the strategy is a long-term imperative, managing the financial health of the company is a short-term imperative.
3. **Innovation & technology**: Anyone who operates in a competitive environment needs to innovate to survive. Besides, no company is immune to the rapid changes that occur in the technology sector, affecting every area of business.
4. **People & performance**: No business can exist without people. Choosing who to work with and how to make your staff successful is a key success factor requiring many C-level decisions.
5. **Culture & teamwork**: Fostering a culture of teamwork is one of the most intangible elements of leadership but has a significant impact on company performance. A CEO has a big influence on the development of the company culture over time.
6. **Self-deployment**: Finally, a CEO must manage their own time and energy to be the best possible leader. This requires making conscious choices about how to realise this.

Note that the first three disciplines are traditionally considered to be 'cold' disciplines, i.e. they can be mastered by means of analysis and logic, based on facts and figures. The last three disciplines are 'warm' in the sense that they relate to human motivation, behaviour and social interactions.

Most CEOs will excel in one or two of the six disciplines above and will be comfortable with the trade-offs in their area of expertise. For example, at tech firms the CEO is generally an innovation expert. But truly successful CEOs are masters in being firm

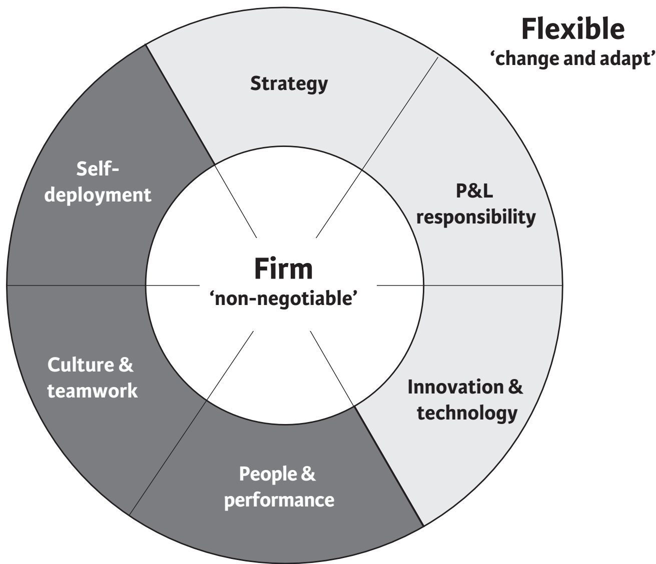
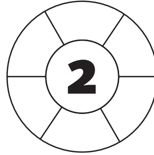


Figure 1.1: Leadership disciplines

and flexible at the right time in all six disciplines. The balancing act required to satisfy all stakeholders is non-trivial and requires continuous adjustment, like steering a sailboat. There is a dot on the horizon that needs to be firmly kept in sight, but the waves, the wind and other unforeseen obstacles force the captain to improvise and adjust along the way. Similarly, it is the daily job of a CEO to alternate firm and flexible leadership until the port is reached.



Strategy

'If you don't know where you want to go,
it doesn't matter which path you take'
– Lewis Carroll
(1832–1898, author of *Alice in Wonderland*, 1865)

2.1 – Setting sail

Every organisation was created with a purpose and every organisation has stakeholders (usually clients, employees, shareholders, and society) who have expectations from it.

Since no organisation has unlimited resources – be it money, time, or people – choices need to be made regarding how to use the available resources. Therefore, it is good practice for companies to write down a set of intentions that help the organisation and its stakeholders to agree on the decisions that will be taken by the CEO. Such intentions are typically called the business

strategy and include a purpose (the 'Why'), a business model (the 'How') and a business plan (the 'What') (See Figure 2.1, inspired by Simon Sinek´s *Start with Why*[3]).

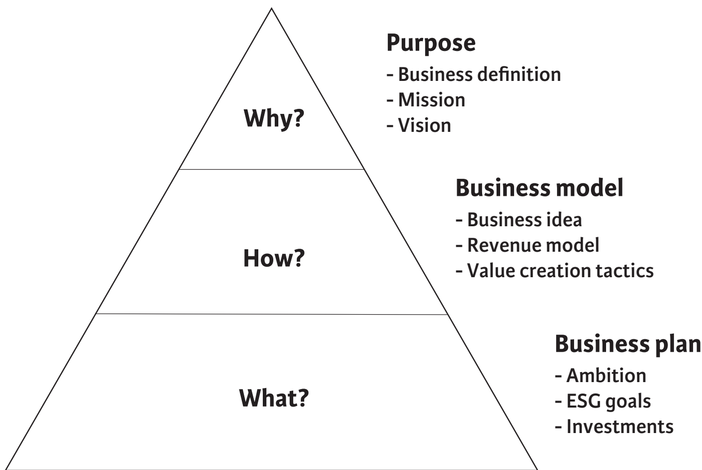


Figure 2.1: Strategy blocks

The strategy is set up in agreement with the Supervisory Board, and it provides clarity to stakeholders about the company's agenda and future plans. The strategy formulation process should ensure that the probability of success is maximised. Taking the time to analyse the market and to evaluate how to tackle risks and opportunities should lead to a solid plan.

So, what makes for a good strategy? Following the Why, the How and the What, we can define the strategy and its key elements that will help you make successful decisions.

The Why (purpose)

The first element of the Why (and therefore the strategy) is defining what the purpose of the organisation is. The purpose is essential for success. By formulating an inspirational answer to the Why question, stakeholders can be engaged and mobilised in a way that would otherwise be impossible. The number of resources available to the company are therefore substantially bigger when the purpose is inspirational.

This may seem trivial, but it is not. A baker could define their purpose as ‘to bake bread’. But they could also define it as ‘to provide food to the neighbourhood’, ‘to sell healthy buns’ or ‘to maximise the baker’s revenue’. Depending on the stated purpose, the baker would make very different choices over time.

The purpose has three dimensions that can help define it:

1. **Business definition**: This is the simplest way to state the purpose. It defines the company by describing the products and services it offers to the market (e.g. to bake bread).
2. **Mission**: A more advanced version of a purpose consists of explaining what the goal of the company is, without being specific about the business definition (e.g. to provide food to the neighbourhood).
3. **Vision**: The most sophisticated version of a purpose is to describe a future end state that the company aims to realise (e.g. to be recognised as the best baker in the country).

For example, a company like Patagonia that promises to produce sports gear without damaging the planet can count on a lot more

attention from media, clients, recruits, and investors than its competitors. Their mission:

We're In Business To Save Our Home Planet

This statement has led them to aim for carbon-neutrality across their entire supply chain.

To make the Why truly compelling, many companies decide to make an aspirational statement in the form of a vision. For example, Nike's vision:

We see a world where everybody is an athlete – united in the joy of movement. Driven by our passion for sport and our instinct for innovation, we aim to bring inspiration to every athlete in the world and to make sport a daily habit.

If well formulated, a vision is potentially more inspirational than a mission, as it allows people to better understand what the purpose may eventually lead to. In the Nike example the vision is aspirational and does not necessarily have to be achieved (there will always be non-athletes). A vision however – when taken literally – may create wrong expectations, as reality tends to play out differently than any person or company can predict.

The How (business model)

The sheer fact that there is a mission and a vision does not guarantee success. A strategy requires a business idea and a well thought through rationale for the fundamental question of any commercial company: *how will we win?*

Answering this question requires an idea of the products or services that will be brought to market, and basic research is required into market size, megatrends, and projected growth rates, followed by more in-depth understanding of specific geographies or segments of interest. In this phase of the strategy process, it is key to have access to reliable data and develop an accurate view of the actual size of the opportunity, including sound understanding of market players, risks, and opportunities. There are four strategic frameworks that you can use in some shape or form to develop the *How*:

- **Michael Porter's 5 forces analysis:**[4] The five forces depicted in Figure 2.2 diminish a company's ability to sell its products, or to make a reasonable margin on them. Below is a brief summary of the 5 forces framework:
  1. First of all, there is the market (the buyers). If there are many small customers, your negotiation power will be stronger and it will be easier to negotiate favourable conditions than if there are only a few, very large (potential) customers.
  2. Similarly, on the supplier side, if you have to deal with a fragmented supplier landscape you will be in a better position than if you depend on a few large key suppliers.
  3. The third force is the threat of new entrants. If it is easy to enter the market because the required investments are low, required competencies are widely available, and / or regulatory approvals are easy to obtain, you will probably face tougher competition.
  4. The next force is the threat of substitute products. If the customer need that your company's product or service is supposed to address can also be resolved by other means, then demand for your product or service will decrease

(e.g. the market for gaming consoles can be substituted by cloud-based gaming).

5. Finally, rivalry between existing competitors can reach a point where it is difficult to make a truly unique product or to realise a reasonable margin. Usually this indicates that there are just too many of you and / or that you have the unhealthy habit of competing solely on price.

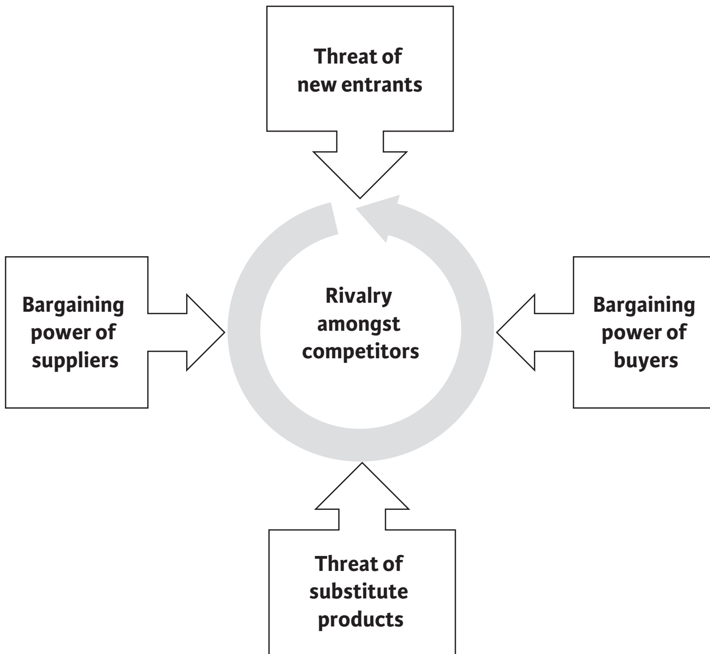


Figure 2.2: Porter's 5 forces analysis

The weaker these forces are, the more attractive your market is. Understanding the forces at play provides deep insight into the probability of success when trying to enter a market or to grow market share profitably.

- Definition of the **revenue model**: The revenue model refers to the way a company makes money. There are many alternative revenue models (see Figure 2.3)

Revenue model	Description
One-off transaction	The classical model is to produce a product in a factory and to sell it, or to deliver a service at a fee the moment it is purchased. Examples: groceries, haircut
Distributor	Generating gross margin by reselling original equipment or services from third parties through own distribution channel / webpage. Examples: car dealership, insurance broker
Referral	Generating commission income by providing leads to third-party suppliers through own distribution channel / webpage. Example: Google
Lending	Charging interest on a sum of money the customer borrows, or a pre-financed product or service. Example: banks
Subscription	Selling a service at a recurring fee with a discount compared to a series of one-off transactions. The benefit is obviously that it lowers the purchase decision and increases loyalty. Example: news media
Insurance	Charging a small fee for a service that will only be needed in case of a certain predefined unlikely event. Example: car insurance
Leasing / Rental	Instead of selling a physical product, the company can offer a right to use it and hence provide financing and ensure refurbishment or resale activity at the end of the agreed use term. Example: property rental
No cure no pay	If a product or service will solve a problem with unknown probability of success, the company can offer to charge the client only in case of success. Example: liability lawyers
Franchising	Engaging with a third party who will distribute or deliver the product or service on behalf of the company. Example: McDonald’s fast food restaurants

Licensing	Offering the intellectual property of a product or service to a third party who will manufacture, distribute, and deliver said product or service. Example: generic pharmaceuticals
Proprietary after sales support	Selling the product cheaply or even at a loss and making a margin on the proprietary consumables. Example: Gillette razors and blades, Hewlett Packard printers and ink cartridges
Advertising	Generating income from third parties by providing advertising space on the product or service delivered to clients. Examples: TV commercials, internet banners
Freemium	Offering a base product for free and premium features at a cost. Example: Spotify
Data monetisation	Collecting user data from a client base and monetise it by reusing such data to develop new services or selling them to third parties. Example: Waze, Facebook
Lottery	Charging a small fee for participating in a draw leading to a large pay-out. Example: The National Lottery

Figure 2.3: Examples of revenue models

- Definition of **value creation tactics**: At this stage, the company needs to define a set of choices that aim to achieve success in the marketplace. The envisaged product or service will need to have a certain competitive edge or uniqueness that will make it stand out amidst the competition. There are several well-known value creation tactics[5] (see Figure 2.4)

Value creation tactics	Description
Lead by innovation	The company invests in research and development to offer the best product or service available in the market. Example: Pfizer, 3M
Achieve cost leadership through scale	The company scales up its operations, thus amortising fixed costs and reducing the cost per unit, which allows the company to offer products & services at a lower price than the competition. Example: Toyota
Increase barriers to exit through deep client integration	The company invests in gaining a deep understanding of its customers' needs and fully integrates its processes into the day-to-day routines of the customer, which makes it very hard to switch to an alternative supplier. Example: Apple iCloud
Achieve network effects (e.g. platforms)	The company invests heavily in a marketplace where supply and demand come together, leading to a situation where the winner manages to attract most of the traffic due to so-called networks effects (a well visited marketplace will have the highest level of choice and competition). Examples: Airbnb, Uber, eBay
Vertical integration	The company invests in or acquires its suppliers or its clients to gain full control over the supply chain and optimise the profit pool. Example: Shell
Buy and build	The company buys competitors and integrates them into its back-office, thus leading to economies of scale and less competition overall. Example: GrandVision (a chain of opticians)

Figure 2.4: Examples of value creation tactics

- **SWOT analysis**: This framework reflects on the company and its products or services. It requires defining strengths and weaknesses compared to the competition and threats and opportunities perceived in the marketplace. This analysis allows an understanding of what additional measures or investments are needed to maximise chances of success (see Figure 2.5)