

Vertical Leadership for Executive Teams:

Culture Still Wins Over Strategy



By: John B. McGuire and Charles J. Palus

WHITEPAPER





Contents

- 1** Introduction
 - 3** Vertical Leadership as a Development System
 - 4** How Leadership Culture Can Affect Organizational Success
 - 6** Direction, Alignment & Commitment as a Strategic System
 - 9** The Exponential Potential of Vertical Development
 - 10** Conclusion
 - 11** References
 - 13** About the Authors
-

Introduction

Today's business organizations operate in a fast-moving global environment where market dynamics and competitive landscapes constantly change. Challenges have become more ambiguous, with uncertain outcomes. Shifting threats and opportunities connect and converge in unique ways, compounded by rapid advances in technology. Organizations are thus constantly transforming — to either lead, disrupt, or react to competitive threats and customer demands.

These dynamics require a fundamental shift in business leaders' understanding of leadership itself and the leadership culture required for organizations to both survive and thrive.

CCL has created a *vertical development framework* that starts with developing executive teams and which helps entire organizations initiate and sustain transformation. This leadership culture fosters the interdependent, complex thinking that best ensures strategic initiatives succeed.

Why is this important? A strategic initiative can succeed only when the leadership culture supports it. As Peter Drucker famously said, "Culture eats strategy for breakfast." Culture *always* wins over strategy.

This vertical development framework acknowledges that **in order to create and implement a transformational strategy, culture must transform — if not first, then at least in parallel**. Strategy is the *what* — what do we want our organization to achieve? — and culture is the *how*. The cultural beliefs and practices of leadership must shift in order to implement the desired transformation.

Culture "eats" strategy because it operates on unconscious autopilot mode. **So for a strategy to transform your organization, you must be intentional about your leadership culture**, including the beliefs and practices that drive decisions.

This paper presents a model for leadership culture transformation based on our work with dozens of clients around the globe. The model, illustrated below, has 3 components:

1. The vertical development of leadership **mindsets**;
2. The development of an **interdependent leadership culture**; and
3. The resulting organizational **direction, alignment, and commitment**.

VERTICAL & LEADERSHIP CULTURE...



In particular, the vertical development of leadership mindsets requires 3 essential categories of development work shared between members of senior leadership:

- a) the expansion of awareness and increased perspective** of both self and whole enterprise systems,
- b) the sharing of power** to collaborate, learn, and lead the whole enterprise, and
- c) the persistent pursuit of critical, both/ and thinking in a “view from the balcony”** to manage the dilemmas that emerge at both the enterprise and interpersonal levels.

When all this is accomplished, executive teams can lead by modeling these qualities.

But the how of vertical development is not a quick fix. It is not just a choice to suddenly behave differently — new capabilities must be developed to advance to the next level. It is an individual and organizational operating system that must be upgraded to the next version. In essence, this is about executives

coming together to explore mistakes and hidden assumptions, sacred cows, and beliefs that used to work in the old model but now are blocks to success — and the hard work of developing a real, shared, and feasible strategy that can be implemented.

This is accomplished in a tight learning process that starts with the senior team and increasingly moves into the broader organization. It calls for adopting a few good tools that work for the team and then radiating to both the organization’s strategic work and developing vertical leadership at the same time. This isn’t the “soft stuff” of development — many of our successful clients say it’s the hardest thing they have ever done!



This isn’t the “soft stuff” of development – many of our successful clients say it’s the hardest thing they have ever done!

Vertical Leadership as a Development System:

Developing More Complex Mindsets to Support More Complex Strategies

Dreaming up a sophisticated strategy becomes a waste of time when the organization's leadership culture lacks the mindset to implement it. This is not an idle observation — we've seen it occur too many times. **The level of complex thinking must match the level of complexity required for the strategic change — and we call that vertical development.**



By **vertical development**, we mean the science of how the perspectives of individuals and groups can evolve to become progressively more elevated, complex, and integrated. Vertical leadership logics aren't about intelligence or technical competence. Vertical leadership development is about lifelong progression on a scale of mindset maturity, with increasing wisdom and insight.



In contrast, **horizontal development** refers to an increase in technical skillsets and competencies; skills that are essential and necessary, but no longer sufficient in our new era.

To develop these more complex ways of thinking, we recommend that leaders do 2 things: Examine their cultural beliefs and practices, and develop more sophisticated leader logics.

Examining cultural beliefs and practices. Most leaders underestimate the risk of getting culture wrong. Instead, they habitually focus on the measurable, controllable, technical side — they manage the business. While tools, systems, and processes are necessary instruments, they are nothing without culture. In fact, it is the shared beliefs and practices of individuals that determine the upper limits of performance.

We worked with one executive team of a large industrial corporation that was absolutely sure they were innovating at the highest level using a collaborative change model. One day they stopped to assess their lack of progress. To their dismay, they realized that they firmly believed — but had not recognized — that they valued internal competition between regions more than beating their external competitors in the marketplace. This shocking realization became the catalyst for shifting the organizational beliefs that were preventing the transformation their future demanded.

“Our maxim is: If you want best practices, you need best beliefs. Beliefs drive practices. Beliefs are embedded in cultures. And culture always wins.”

So, how can one change the fundamental beliefs of an organization? To begin, develop a different level of strategic capabilities using leadership logics at the top.

Changing worldviews with leadership logics.

Vertical development is about fundamental shifts in how leaders see the world and take action. Technically this is understood as a series of *leadership logics in action*. Each successive logic is capable of dealing with more uncertainty and complexity than the previous one.

These leadership logics aren't about intelligence or technical competence. They are about developing increasingly complex thinking that includes understanding the interplay and impact of an organization's shared beliefs and practices. When leaders use a limited range of leadership logics, they run into a leadership capability ceiling that subsequently limits organizational growth.

Let's take a hypothetical scenario: A VP of technology leads an innovation team of technically savvy engineers. His organization faces a clear downward trend in revenue. Executives decide that they want to push development and release of a new artificial intelligence (AI) technology, potentially disrupting the industry and gaining market share. The VP receives the mandate to get the product out the door within a 3-month timeframe. In response, the VP could:

- **Focus on the technical aspects, attending to the technology and timelines required to meet the goal.** By focusing on the code and project plan alone, he would be using a *conformer leader logic*.
- **Focus on the technical aspects and the requirements for creating a positive team environment.** He might ask questions like "Who will have the patent rights? What hidden beliefs exist around how coveted technology tasks will be assigned — and are men and women to be considered equally for

core development tasks?" By focusing on the additional logic level that holds achievement in team dynamics and broader organizational systems, he would be seeking an *achiever leader logic*.

- **Focus on the overall impact of building this product.** The VP might ask questions like "What risks do we create by building in biased algorithms? What hidden beliefs are there about the bias in our data? What are the organizational challenges for time-to-market selling and gaps in our enterprise supply chain; and how do we address the hidden belief that our sales team believes we are incapable of selling AI?" In this scenario, the VP would be seeking a *collaborator logic*.

Many of the executives we have worked with for the last 20 years have found their managers and teams bounded by technical mindsets who would make the first choice above and seek an expert-based approach. When these leaders display such either/or thinking, they rob themselves and their organizations of the both/and potential for dealing with complexity. This limits creativity, innovation, and successful strategy implementation. Leaders with a vertical development mindset catalyze growth.

How Leadership Culture Can Affect Organizational Success

We've discussed and provided examples of vertical mindset development as a system that helps leaders think and act in more complex ways. That complex thinking identifies the underlying cultural beliefs driving their organizations' actions. As

this sea change in leaders' capabilities for complex thinking emerges, a new leadership culture also emerges. The organization shifts from a dependent, to an independent, to an interdependent leadership culture:

- **Dependent**-conformer: *people in authority are responsible for leadership*
- **Independent**-achiever: *leadership emerges out of individual expertise and heroic action*
- **Interdependent**-collaborator: *leadership is an agile, collective activity*

Leadership does not lie in the capabilities of a few individuals, but in a *culture* of leadership where all individuals can participate. At CCL, we refer to this as an interdependent leadership culture. This culture requires the development of both vertical mindsets between leaders *and* a key shift in the definition of leadership itself: *Leadership is a shared social process*.

Leadership as a shared social process must develop in times of deep transformation and is hallmarked by the interactions between people working together to shape and achieve organizational outcomes. These interactions take place regardless of organizational structure (in flat or concentrated hierarchies) and are shaped by shared beliefs and practices.

Each type of leadership culture has fundamental assumptions about how the world works and our places in it. The culture is made up of a web of beliefs and practices that determine outcomes, and cultures begin to change when the beliefs that drive them begin to change. When leaders slow down enough to understand an organization's limiting beliefs, they can focus on creating a new set of beliefs to drive new behavior.

A Case Study: The Impact Vertical Development Can Have

Let's take the story of the senior team at the large industrial corporation. They valued internal competition over competing in the external market.

Their team-logic was locked into an independent-achiever mindset, which had served them well for decades — until it suddenly didn't anymore. The market shifted after the global financial crisis, but their beliefs and practices had not. Competing with each other *had* worked; one regional VP was usually the best in performance metrics.

More than anyone, he was shocked that simply deciding to be more collaborative did not mean that he could act more collaboratively — yet. It took hard work to shift his mindset to a new level of perspective and capability.

As we worked with the senior team toward the 3 essential outcomes of vertical development, with a focus on the practice of *both/and* critical thinking — the “*view from the balcony*” became a perspective that everyone began to seek. “Me” became “we.”

By discovering the beliefs driving business decisions, having tough conversations about “*what's really going on here?*,” and crafting new beliefs-in-action, new practices emerged. They created action development teams with their direct reports and implemented strategy inside a learning architecture that they managed as a senior team.

The impact of investing in vertical development was remarkable. Within 6 quarters, this team discovered and formed 4 new leadership beliefs-in-action, driving a rise in third-party rankings to be named a top 2 industry performer in 5 categories, including:



Profitable Growth



Customer and Employee Satisfaction



Coveted #1 Rank in the Industry for Safety

Let's return to our previous example of the VP of technology to understand how the vertical development of one leader can contribute to a shift in the leadership culture. As he begins his new assignment, let's say that our hypothetical leader uncovers and challenges 3 unspoken and previously hidden organizational beliefs:

- *Our data is unbiased and cannot result in faulty algorithms;*
- *Our male coders are faster, so they should code the fundamental technology while our female developers should do quality control; and*
- *The sales team believes our company is incapable of producing a viable AI product.*

By unearthing these widely shared, but not explicitly communicated, beliefs, the VP could then discuss them with other leaders to determine whether the strategy is viable and take steps to make the new AI product ultimately more successful. This one leader's actions could therefore contribute to a more interdependent culture, and provide a better path for the product launch.



Direction, Alignment & Commitment as a Strategic System

When an organization creates an interdependent leadership culture marked by more agile shared beliefs and practices, the organization also creates direction, alignment, and commitment among individuals, teams, and the organization as whole. Direction, alignment, and commitment (DAC) is the desired outcome of an interdependent leadership culture.

Does DAC matter? Consider this CEO's frustration when he expressed what DAC is not:

“It seems that every senior leader has their own paradigm about the way things are, and what works and does not, and we are all drowning in that lowland clutter of attitudes and beliefs when it comes to transformation for the future, instead of roping up to climb the mountain of change together.”

Leadership culture is the operating system for creating DAC. An interdependent leadership culture creates the authenticity and sustainability for DAC that helps an organization achieve its strategic goals. And, an interdependent leadership culture stems from the development of vertical mindsets among individual leaders.

The diagram below shows the interplay between vertical development, leadership culture, and DAC:

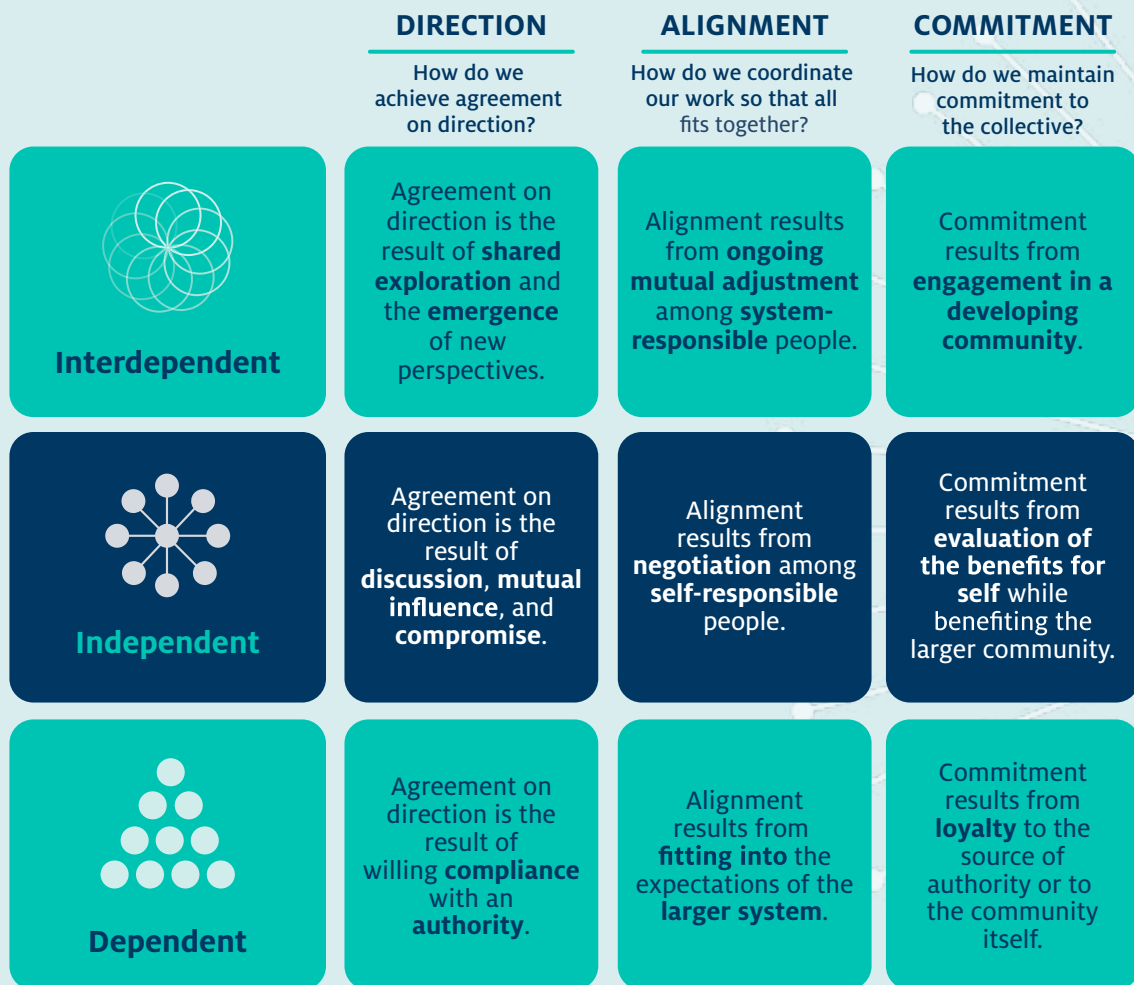


Figure 2: Direction, Alignment, Commitment, and Leadership Culture

Cases in Point: A Spectrum of Approaches

Just as the VP of Technology and the executive team at a heavy industrial organization represent a spectrum of individual to collective vertical development, there is also a spectrum of the vertical development of leadership cultures and how those are accomplished.

The heavy industry case was spurred by a global company that had been “comfortable” in their industry for a few decades, but was suddenly awakened by global market events and their business model assumptions shaken. They needed strategic change, and now — real **transformation** all the way up. So our work with them was more in strategy development, prototyping, and implementation of new products and services across the enterprise, while discovery learning about themselves, their team, and the culture’s beliefs and practices had to be done along the way. This organization was **feeling the heat** and needed to respond fast.

Other organizations can afford to **see the light** first, like a large financial services firm we worked with. An institution known for stability, they were not so pressed by market events and came to leadership culture change as a proactive choice for an advanced future — seeking **evolution**.

Both transformation and evolution clients do the same work, using the 3 categories of essential development, the discovery work to uncover beliefs and practices that don’t work anymore, and building their replacements. Developmentally, the same things are required, but can vary in the emphasis and amounts of work across the different categories. The company working toward immediate transformation is focused primarily on strategy and action development for implementation first. Discovery learning and exploration of the root causes have to come along simultaneously, as part of the process. The organization that can choose proactive evolution can afford to spend more time in discovery learning first, and advance to strategy implementation on their own schedule.

The Exponential Potential of Vertical Development:

From Addition to Multiplication

The vertical development of leadership culture results in collective capabilities with beliefs and practices held *between* all those in leadership (starting with, but not limited to, those at the top), and creates the foundations required to begin true cultural transformations.

Our action research with multiple clients over 15 years has identified 5 clear outcomes that vertical development creates, including:



Silo-busting: Trust grows across silos and organizational boundaries. Engaged collaborations between leaders create more productive partnerships.



Agile decisions: Decisions incorporate a system-wide perspective and communication and trust are enhanced. Team and organizational challenges are seen by all and managed in an environment of *I've got your back*.



Enterprise ownership: Everyone in leadership takes 100% responsibility for the organization, not just for their own division or team. The senior team sets aside their individual interests for the greater good and a common enterprise-wide commitment to performance. The focus shifts from individual control to what's right for the business as a whole.



Dilemma-readiness: *Both/And* thinking increases the ability to live with and navigate both interpersonal and organizational tensions and paradoxes. Rather than *either/or* mindsets insisting on single, correct views, senior leaders address tensions as ongoing dilemmas to operate within and manage, not as problems to solve. Multiple perspectives align the organization to new approaches through debate and dialogue.



Strategic complexity/disruptive capability: Senior team members share rich and substantial knowledge about the enterprise. As knowledge moves outside of silos, decision making, solution-finding, and executing take place across boundaries. *Power is shared*. As leaders allow for information and knowledge to move quickly, they learn to intentionally and effectively work together. The team strengthens *collaborative capability* and creates a culture where everyone is fully engaged.

Conclusion

Attention to leadership culture is the key to strategic success.

Leadership culture will make or break any strategy, change effort, or business transformation. Most leaders underestimate the risk of getting culture wrong. Instead, they focus habitually on the measurable, controllable, technical expert side — they manage the business.

To succeed in the long run, most organizations need to build toward cultures of greater *interdependence*. Interdependent cultures characterized by collaborative and shared leadership are needed to respond to complex, shifting environments.

Interdependent cultures require leaders to have vertical mindsets hallmarked by *both/and* thinking that embraces complexity. While technical tools, systems, and processes are necessary, they must be accompanied by a deep understanding of an organization's beliefs and their impact on culture.

Initiating and sustaining cultural transformation is the hardest work that can be undertaken by any organization. We hope that this framework of leadership provokes some guidance for your thinking about your organization's beliefs and how they help or hinder the work at hand.

Ready to take the next step?

Build a culture that makes strategy happen with our [Organizational Leadership Culture Change service](#). Start cultural transformation with customized Executive Team Development and then socialize it throughout the organization.

References

- Argyris, C. (1990). *Overcoming organizational defenses: Facilitating organizational learning*. Upper Saddle River, New Jersey: Prentice Hall.
- Beer, M. (1985). How to develop an organization capable of sustained high performance: embrace the drive for results-capability development paradox. *Organization Dynamics*. 29(4), 233-247.
- Bohannon, P. (1995). *How Culture Works*. New York: Free Press.
- Cameron, K. S., & Quinn, R. E. (1999). *Diagnosing and changing organizational culture*. Reading, MA: Addison Wesley Longman.
- Cook-Greuter, S. (2013). Nine levels of increasing embrace in ego development: A full-spectrum theory of vertical growth and meaning making. Prepublication version. Adapted and expanded from S. Cook-Greuter (1985). A detailed description of the successive stages of ego-development.
- Denis, J. L., Langley, A., & Sergi, V. (2012). Leadership in the plural. *Academy of Management Annals*. Dx.doi.org/10.1080/19416520.2012.667612
- Denison, D. R. (1997). *Corporate culture and organizational effectiveness, 2nd Edition*. Ann Arbor, MI: Denison Consulting.
- Dinwoodie, D. L., Quinn, L., & McGuire, J. B. (2014). [Bridging the Strategy/Performance Gap: How Leadership Strategy Drives Business Results](#). White Paper. Greensboro, NC: Center for Creative Leadership.
- Drath, W. H. (2001). *The deep blue sea: Rethinking the source of leadership*. San Francisco: Jossey-Bass.
- Drath, W. H., Palus, C. J., & McGuire, J. B. (2010). Developing an interdependent leadership culture. In C. D. McCauley & E. Van Velsor (Eds.), *The Center for Creative Leadership Handbook of Leadership Development, 3rd Ed*. San Francisco: Jossey-Bass.
- Drath, W. H., McCauley, C. D., Palus, C. J., Van Velsor, E., O'Connor, P. M., McGuire, J. B. (2008). Direction, alignment, commitment : Toward a more integrative ontology of leadership. *Leadership Quarterly*, 19, 635-653.
- Johnson, B. (1992). *Polarity management: Identifying and managing unsolvable problems*. Amherst, MA: HRD Press.
- Kegan, R. (1994). *In over our heads: The demands of modern life*. Cambridge, MA: Harvard University Press.
- Kolb, D. A. (2014). *Experiential learning: Experience as the source of learning and development*. FT press.
- McCauley, C. D., Palus, C. J., Drath W. H., Hughes, R. L., McGuire, J. B, O'Connor, P., & Van Velsor, E. (2008). *Interdependent leadership in organizations: Evidence from six case studies*. CCL Research report no. 190. Greensboro, NC: Center for Creative Leadership.
- McGuire, J. B., & Rhodes, G. B. (2009). *Transforming your leadership culture*. San Francisco, CA : Jossey-Bass.
- McGuire, J.B., & Palus, C.J. (2018). Vertical development of leadership culture. *Integral Review*. 14(1), August. 144-166.
- McGuire, J. B., & Palus, C. J. (2015). Toward interdependent leadership culture: Transformation in KONE Americas. In D. Warrick & J. Mueller (Eds.). *Lessons in changing culture*. Oxford, UK: Rossi Smith Academic Publishing. 45-63.
- McGuire, J. B., Palus, C. J., & Torbert, W. R., (2007). Toward interdependent organizing and researching. In Shani, A.B., et al (Eds.). *Handbook of Collaborative Management Research*. Sage Publications. 123-142.
- Palmisano, Samuel J, Chairman, President, CEO, IBM Corporation, (2010). *Capitalizing on Complexity*. Insights from the global study of 1500 CEO's.

- Palus, C. J., Cullen, K. L., & Chrobot-Mason, D. (2014). Boundary spanning leadership in an interdependent world. In C. Cooper & L. Fox (Eds.), *Boundary-spanning in organizations: Network, influence and conflict*. London: Routledge. 206–229.
- Palus, C. J., & Horth, D. M. (2002). *The leader's edge: Six creative competencies for navigating complex challenges*. San Francisco, CA: Jossey-Bass.
- Palus, C.J. McGuire, J.B., & Ernst, C. (2012). Developing interdependent leadership. In *The Handbook for Teaching Leadership: Knowing, Doing, and Being*. Snook, S., Nohria, N. & Khurana, R. (Eds.). Sage Publications with the Harvard Business School. Chapter 28, 467-492.
- Pasmore, B. (2015). *Leading continuous change: Navigating churn in the real world*. San Francisco, CA: Berrett-Koehler Publishers.
- Petrie, Nick. (2014a & 2014b). Future trends in leadership development. *White Paper*. Greensboro, NC: Center for Creative Leadership.
- Rooke, D. & Torbert, W. (2005). Seven transformations of leadership. *Harvard Business Review*. April, 66-77.
- Torbert, W. R. & Associates (2004). *Action inquiry: The secret of timely and transforming leadership*. San Francisco, CA: Berrett-Koehler.
- Wilber, K. (2000). *Integral psychology*. Boston, MA: Shambala.

About the Authors



John B. McGuire is an Honorary Senior Fellow at the Center for Creative Leadership (CCL®), specializing in leadership culture and change leadership. He is an international authority on leadership culture and organizational transformation, and co-founder of CCL's Organizational Leadership practice, having served as Transformation Practice Leader. He has researched and published widely including the book *Transforming Your Leadership Culture*. John has assisted organizations across multiple sectors, and previously held senior business management positions across industries. He holds master's degrees from Harvard and Brandeis Universities.



Charles J. (Chuck) Palus, PhD, is a Senior Fellow at the Center for Creative Leadership, responsible for research, innovation, and product development. He is a co-founder of CCL Labs, a community-based innovation laboratory with products including Visual Explorer, Leadership Essentials, Transformations, and the Early Leadership Toolkit. He has researched, partnered, and published widely on the topics of interdependent leadership, leadership culture, and vertical development. Chuck is a contributor to the *CCL Handbook of Leadership Development* and the *CCL Handbook of Coaching*. He holds a PhD in social psychology from Boston College.

CCL Locations

Americas

Colorado Springs, Colorado

Greensboro, North Carolina (Americas headquarters)

La Jolla, California

Europe, Middle East, Africa

Addis Ababa, Ethiopia

Berlin, Germany

Brussels, Belgium (EMEA headquarters)

Johannesburg, South Africa

London, England

Moscow, Russia

Asia Pacific

Gurgaon, India

Shanghai, China

Singapore, Republic of Singapore (APAC headquarters)



[The Center for Creative Leadership](#)

(CCL®) is a top-ranked, global provider of leadership development. By leveraging the power of leadership to drive results that matter most to clients, CCL transforms individual leaders, teams, organizations, and society. Our array of cutting-edge solutions is steeped in extensive research and experience gained from working with hundreds of thousands of leaders at all levels. Ranked among the world's top providers of executive education, CCL has locations in countries worldwide.

ccl.org/locations

+1 800 780 1031