

# How Leaders Develop Leaders

*Successful leaders must develop other leaders*

*by sharing their teachable points of view*

*and compelling stories that link their*

*own leadership experience with*

*organizational goals.*

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BY ELI COHEN AND NOEL TICHY

“How am I doing as a leader?” asks Larry Bossidy, CEO of AlliedSignal in a meeting with his operating managers. “The answer is, how are the people you lead doing? Do they learn? Do they visit customers? Do they manage conflict and initiate change? Are they growing and being promoted?”

“When you retire, you won’t remember what you did in the first quarter of 1994, or the third. You’ll remember how many people you developed—how many you helped have a better career because of your interest and dedication to their development. When you’re confused about how you’re doing as a leader, find out how the people you lead are doing. You’ll know the answer.”

Andy Grove, CEO of Intel; Roger Enrico, CEO of PepsiCo; Jack Welch, CEO of General Electric; and Admiral Ray Smith of the U.S. Special Operations Command agree with Bossidy. All are respected leaders of successful organizations that constantly outthink and outmaneuver their competitors. Though those leaders have been instrumental in their companies’ success, they have also built large pools of talent. They have contributed to their organizations’ success by personally developing leaders at all levels.

## **Once upon a time**

Here’s what you would see if you visited Grove, Enrico, Welch, and Smith leading their businesses.

**Intel.** In Santa Clara, California, Andy Grove is teaching Intel managers how to lead in an industry in which the product (semiconductors) doubles in capacity every 18 months. In Grove’s teaching sessions, he discusses the role of leaders in detecting and navigating turbulent industry shifts—shifts that many companies fail to survive. Why does Grove take the time to do this? Because

he believes that having leaders at all levels of Intel who can spot trends and who have the courage to act will enable Intel to prosper while other companies falter. So, Grove is dedicated to imploring and encouraging people across Intel—middle managers, salespeople, engineers, and others—to lead in their individual businesses.

**PepsiCo.** A few years ago in the Grand Cayman Islands, Roger Enrico, then vice chairman of PepsiCo, woke at dawn to gather his thoughts. At 8 a.m., he began a five-day leadership program for nine of PepsiCo’s highest-potential executives. The sessions went on until evening, as Enrico taught his point of view on how to grow a business. Then, he asked participants to come up with ideas for their businesses, facilitating their discussion to help shape their ideas. The results of those and other sessions have been 100 better-prepared leaders and, according to one observer, “some of the biggest business ideas that PepsiCo has had in the past several years.”



**General Electric.** In Crotonville, New York, Jack Welch, CEO of General Electric, is teaching a development program for some of GE's senior leaders. He asks them, "If you were named CEO of GE tomorrow, what would you do?"

In such programs, Welch uses that question to orchestrate a no-holds-barred discussion. He jousts with participants, and hones their analytic abilities and leadership instincts by having them joust with each other. He also offers his own views and experience. Says Welch, "I've gone to Crotonville every two weeks for 15 years to interact with new [employees], middle managers, and senior managers. Haven't missed a session."

**U. S. Navy SEALs.** Recently in Coronado, California, Rear Admiral Ray Smith, a Navy SEAL since the Vietnam War, was visiting a graduating class of the SEAL's six-month selection program, BUDS. Of the 100 candidates that enter this elite program, only 20 percent remain to graduate, due to the great physical and mental demands. Throughout the day, Smith, in his fifties, participated in the same physical training as the SEAL candidates in their twenties. At the end of the day, he talked informally with them, as someone that has been where they are, to impress on them the leadership duties of becoming a SEAL—the conduct, honor, and teamwork required of them.

### Staggering success

We [the authors] uncovered those best practices during several years of research. We wanted to combine our expertise in leadership with the watershed changes taking place in every corner of the business world on every continent. These changes are so great that they've rocked even the most stable companies and affected people everywhere.

For the past decade, investors have asserted that anything short of transformational leadership would be dealt with harshly. In fact, they have suddenly and violently overthrown leaders at previously stable companies because those leaders failed to change ahead of the times. American Express, Westinghouse, Eastman Kodak, IBM, and General Motors all changed their leaders in the hope of

recapturing their halcyon days.

Against that backdrop, we set out three years ago to write *The Leadership Engine: How Winning Companies Develop Leaders at All Levels* (HarperCollins, 1997). We started by looking for winners in the capital markets—companies that had sustained superior increases in shareholder value. In other words, we wanted companies that had rewarded their investors with rising share prices that consistently outperformed market averages. We looked for companies with a positive reputation for grooming leaders—companies whose executives were sought after. Our search led us to such companies as General Electric, Hewlett-Packard, Intel, and ServiceMaster. We also examined some nonbusiness organizations known for being successful in their missions, including the Special Operations Forces, a branch of the U.S. military made up of elite units such as the Navy SEALs, Army Rangers, and Green Berets. We rounded out our search at Focus: Hope—an inner-city, not-for-profit organization in Detroit that runs one of the most advanced job-training institutions in the world.

The long-term success of many of those organizations is staggering. General Electric, for example, has the world's highest market value at more than \$175 billion. ServiceMaster has averaged a 25 percent return to shareholders for the past 25 years. Intel owns 90 percent of the microprocessor market, outwitting several smart competitors to attain its dominance. The Special Operations Forces deploys on thousands of missions in more than 100 countries every year. The operation in Haiti in 1994, exemplifies the forces' increasingly complex role in the world. In that deployment, 1,000 Green Berets operated in villages and towns across Haiti, covering 90 percent of the country. Their mission was to ensure the smooth running of Haitian communities and teach Haitians about democratic government. Though problems still exist in Haiti, the SOF gave the new Haitian government a head start on forming a workable democracy.

Focus: Hope turned an urban area bombed out by Detroit's 1967 riots into a vibrant economic community.

The organization feeds 51,000 people each month, and its Machinist Training Institute has 1,500 graduates, who came from the streets and now have well-paying jobs.

By studying those organizations, we wanted to show how a company wins by developing leaders at all levels. Midway through our research, we had an insight that should have been blindingly obvious: Leaders must develop leaders. In those winning organizations, we found that developing leaders at all levels was a critical priority, pursued with the same zeal as new products, new customers, and competitive edge. In those organizations, leaders felt it was their job to develop others, and they did it personally instead of delegating the task to consultants or professors. As we examined how other companies could replicate their success, we developed our own point of view on why and how to develop leaders.

**Winners are judged by sustained success.** In publicly traded companies, that means sustained success in adding value for shareholders. Though many people would accuse Wall Street of being shortsighted, the stock market is the true measure in the long run of whether you are growing a business or wasting capital.

**Winning companies have leaders at every level.** Companies don't do things, people do. At successful companies, leaders constantly sense change, excite others about change, and implement change faster than their competitors. That is what we call, the Leadership Engine—a system with all parts geared to drive a company forward through leadership.

**The best way to get more leaders is to have leaders develop leaders.** At the companies we studied, leaders passed on their own experience to others, who were expected to use it and develop their own leadership styles.

**To develop others, leaders must have a teachable point of view.** A teachable point of view is a leader's opinion on what it takes to win in his or her business and what it takes to lead other people. In the companies we studied, we observed that acquiring a teachable point of view involved in-depth preparation by the leaders. Once they had a teachable point of view, they thought

of creative ways to find teaching and learning opportunities. They tried to turn every interaction with their people into a learning and teaching event and often set aside time to teach leadership outside of scheduled activities.

**Leaders create stories about the future of their organizations.** A teachable point of view becomes the basis for leaders to present a dynamic, compelling story to others. These stories create a case for change, a vision of where the organization is going, and an understanding of how to get there. Once leaders have a story, they take bold actions that bring about massive and lasting change.

Those points are common sense, and many companies and leaders follow them, or some version of them. But the great companies follow all of them all of the time. In those companies, the leadership role of executives and managers is different than at other companies. And the role of HRD professionals is different. (See the box, *Are You Developing Leaders?* to learn more about the differences and their implications.)

### Leaders at all levels

In slower, more predictable times, command-and-control hierarchies weren't such a bad idea. They provided a simple system for consistent decision making: All questions were passed up the ladder to the same small group of people, and their decisions were handed back down. But in the current wired-together global marketplace, pleasing customers and making a profit are functions of quick thinking and agile action.

In the time it takes for a question to be passed up the ladder and a decision handed back down, a customer may have gone elsewhere, or the opportunity may be lost.

Says Larry Bossidy, CEO of AlliedSignal, "Everyone else in the world is doing the same things we are. For AlliedSignal to succeed, it must get there faster with better-prepared people." People ready to initiate change.

The importance of speed and customer responsiveness is not new. "How Managers Can Succeed Through Speed" was the cover story in a 1989 issue of *Fortune*. But, by past standards, the degree of responsiveness and



speed required now is astounding.

Says Dick Notebaert, chairman of Ameritech, "The only differentiator in the marketplace is speed of action." He says that the only way to get speed is to have leaders—people prepared to make smart decisions and implement them efficiently.

The need for quick thinking and instant responsiveness applies to all organizations. The Special Operations Forces, for example, is replacing the U.S. military's traditional hierarchical leadership style with something more appropriate for the new roles it fills in the world. Soldiers in those units are as likely to be deployed on a crowded urban street as in a foreign invasion force. A young leader confronted by an angry crowd of Bosnian or Haitian citizens doesn't have time to contact his or her superior for instruction.

Such soldiers, most under age 30, have to think not only about specific orders and the physical safety of their units, but they also must consider geopolitical ramifications. An act to maintain a unit's safety or a checkpoint's security may hinder a peace-keeping alliance or result in condemnation from the international community. These soldiers often have to make a decision in a nanosecond—without advisers, pollsters, politicians, or even a radio that works.

During the past five years, the military has more than quadrupled the number of assignments conducted by the Special Operations Forces. In 1995, those forces were deployed on more than 2,700 missions in more than 137 countries. In most cases, the deployments weren't the traditional jobs of warfare but had to do with projecting American or multilateral foreign policy. Consequently, the leaders of those special units have had to redirect leadership development toward new types of missions in which leadership at all levels is critical.

### Leaders developing leaders

If an organization needs leaders at all levels, what is the secret to achieving that?

Winning organizations are distinguished from losing ones by their extraordinary success at teaching people to be effective leaders. Great leaders are great teachers. In organizations with leaders at all levels, experienced and accomplished leaders do the teaching. When you look at history and various fields of endeavor, you see that's true. Institutions and movements succeed over the long term not because of their core competencies or use of modern management tools, but because they continuously regenerate leadership at all levels. Such leaders reinvent cultures, competencies, and tools at critical times. Jesus, Gandhi, and Martin Luther King Jr. understood that. They were strong leaders, but without disciples to spread their missions during their lifetimes and after their deaths, their legacies would have been short-lived.

One of our favorite examples of leaders developing leaders is the Chicago Bulls basketball team. Though many people attribute its success to talented athletes, coach Phil Jackson tells a different story in his book, *Sacred Hoops*. Jackson felt that player Michael Jordan's talent couldn't be improved, so he focused his efforts on making Jordan a true leader of the team. And it worked. Five years after joining the league and the same year Jackson became head coach of the Bulls, Jordan began to see his role not only as a high scorer, but also as a leader whose job was to raise the level of play of other team members. After that, the Bulls began their record run of championship seasons.

We don't mean to suggest that it isn't possible to build a successful organization without generating new leadership—at least, successful for a while. Such autocrats as Harold Geneen at ITT, Ed Hennessey at AlliedSignal, and Edzard Reuter at Daimler Benz built highly acclaimed corporations through their own forceful initiatives. But they didn't see the need to develop other leaders. In fact, they actively discouraged people's leadership efforts. Consequently, their companies didn't have the re-

## ARE YOU DEVELOPING LEADERS?

The challenge to have leaders develop leaders has profound implications for the heads of businesses, line managers, and human resource professionals. A company's future is too important to outsource. Yet, when it comes to developing leaders, many companies rely on consultants or executive education programs.

For leaders to develop leaders, executives and managers must completely re-examine their most potent tool—their calendars. They must take an active role in developing their teachable points of view and in coaching people. That may involve spending 100 days running a program, like PepsiCo's Roger Enrico did. It may involve writing books and teaching regularly, like Intel's Andy Grove. It may involve using business forums as teaching events, like Jack Welch does at GE. Or it may mean seizing teachable moments, like Admiral Smith did with SEAL graduates.

Executives, HRD people, and others have to link their initiatives for developing leaders with the immediate priorities of their businesses. That means committing personally to de-

veloping leaders, making that commitment public, and making sure others are equally committed. It also means making sure that leadership development programs provide a rapid return on investment. Innovative programs, such as the ones described in this article, can have an immediate financial benefit—as in Ameritech's case, \$700 million in cost savings and revenue growth. Innovative programs like the one at Shell Oil develop leaders while adding momentum to and invigorating changes already taking place.

For HRD professionals, there's an urgent message: Your role in developing leaders must change. You can no longer be the contractors that develop leaders for other people or the buyers of consulting services that aim to do the same. Too often, those have become empty promises. HRD people have an incredible opportunity to help instill a tradition of leaders developing leaders. Specifically, HRD professionals must identify key leaders to teach, help them create a point of view, and design approaches for them to teach.

teaching as a big part of his job.

He continued: "At every facility, we have orientation programs taught by people like me—folks that have been around a while. We teach a bit about the company and the culture. I teach a class on how to initiate and manage constructive conflict. The real learning, though, comes on the job. When my people aren't confronting an issue, I confront them. I support them if that's what they need, but I make sure they confront [the issue]."

"When I see a chain of e-mail messages, I know people aren't confronting. When I see an e-mail with a big long tail floating across my screen, I tell people, 'I'll stay the whole time in the meeting you need to have, but we've got to confront this.'"

At General Electric, Jack Welch's Work-Out program has been the world's largest teach-in. More than 200,000 of GE's employees have engaged in two- to three-day sessions led by a junior, middle, or senior manager. The managers teach GE's business model and tools for teamwork and change, such as process mapping. They also launch projects designed to reduce costs and practice new cultural behaviors.

### Leaders under fire

Other organizations have their own ways of ensuring that leaders develop leaders. In the Special Operations Forces, only the best and brightest people are asked to become instructors. But every person that makes it into an elite unit is expected to develop other people.

Recently, we spent two days at Fort Benning, Georgia, with the U.S. Army's First Ranger Battalion of the 75th Ranger Regiment on a visit arranged by Col. David Abrahamson, a ranger at the United States Special Operations Command.

It was during that visit that we saw in action a culture of leaders developing leaders. The Special Operations Forces is known for the complexity of its missions and its detailed rehearsals and preparations. While at Fort Benning, we watched a simulated mission during which a platoon entered a compound of terrorists (actually, army personnel) who were well-armed and also had chemical weapons.

sources to steer them through complicated times, and they have experienced crises in recent years.

While having a discussion with a middle manager at Intel, we started to discuss Intel's success. It was like pushing a button. For 30 minutes, the manager laid out a case for why teaching is important and who ought to teach:

"At Intel, we had tough times in the late 1980s. That led us to be conservative in our hiring. For a long time, we grew but didn't hire anyone. When our sales were about three times what they had been, we hired more people.

"In the past three years, we've practically doubled in size. Half of our managers have never been through a downsizing. We are losing some of the hungry, paranoid culture. So, every leader—from CEO Andy Grove to experienced managers—is required to teach, and part of their bonuses

is based on whether they do it.

"It's not a big part of the bonus, but it was Andy's way of saying, 'This is important, and we want you to do it.' Most don't do it because of the money [but] because it's embarrassing to get dinged for not doing it.

"All of the guys that teach are busy so, in some ways, they wish they didn't have to. But they know it's important [that] managers that have 'been there' teach others. Otherwise, you end up like IBM. Its teaching was done by people that weren't leaders or weren't even in the company. When things changed, IBM's senior people didn't know how to make tough decisions. You can only learn that from people that have been there."

Intel's culture of leaders developing leaders isn't limited to senior leaders or classrooms. Even though the middle manager we spoke with had only recently been promoted, he saw

As the simulation unfolded, we saw that it was anything but the well-orchestrated ballet we expected. It was chaos. Such simulations aren't, as some people might think, opportunities to become perfect in choreographed maneuvers. Instead, they're meant to season soldiers to make split-second decisions and risk their lives based on those decisions. In other words, the simulations are designed to develop leaders.

After the mission, a dozen of the platoon and squad leaders gathered in a tent deep in Fort Benning's wooded landscape. Black camouflage still covered their faces. Despite their fatigue, they met to critique the operation while it was fresh in their minds.

For two hours, they discussed everything that they could have done better in the 45-minute raid. At the end of the briefing, a senior noncommissioned officer, a 20-year veteran, reminded the leaders of their most important mission.

"Everything we just discussed will let us do our jobs quicker with fewer casualties," said the NCO. "But don't forget: What gets the job done is bold, aggressive leadership.

"Nothing went according to plan. We were supposed to face a chain-link fence; we faced triple-strand razor wire. The enemy wasn't supposed to have night-vision goggles, but they did, so we were compromised before we breached the fence. Our radios were supposed to work; they didn't.

"That's going to happen. But we got it done because some men stepped up and made decisions. When the alpha-squad leader went down, his team leaders took charge. When the communication didn't work, the lieutenant didn't fiddle with the radio or yell at his communications specialist. He ran around to find out what was going on and gave orders. When the fence turned out to be razor wire, the bravo-squad leader changed his approach and commandeered two men to help him get everyone into the compound.

"When you leave tonight," the NCO told the group, "you can and should work with your men to correct the little things. But before you correct actions, remember to strike a balance. Never do anything to discourage that bold, aggressive leadership initiative."

### **A teachable point of view**

The idea of having leaders develop leaders has been formulating for years. In the late 1980s, Noel Tichy and Patricia Stacey, a principal of Action Learning Associates in Ann Arbor, Michigan, worked at General Electric Medical Systems to design its Work-Out program. Later at Ameritech, HarperCollins, and Shell Oil, leaders were asked to develop leaders.

For example, at Ameritech in 1993, 1,000 managers participated in a program, called Breakthrough, to develop their leadership skills. To kick off the experience, senior executives taught three-day workshops to 50 managers at a time. The executives discussed the threats and opportunities from accelerating changes in the telecommunications industry. They also taught managers about Ameritech's response—a renewed focus on growth, a reorganization into customer-focused units, and an aggressive drive for cost leadership. The senior leaders also introduced and helped people deal with a massive culture change to focus on customers, to encourage risk taking and initiative, and to break internal barriers and bureaucracy. Last, managers received tools in teamwork, problem solving, and change management.

The 1,000 managers were challenged to return to their work units and do two things: Hold workshops with their people to explain Ameritech's strategic and cultural shifts and launch action projects for practicing new behaviors, such as working across organizational boundaries.

The action projects were both learning opportunities and a financial benefit, in the form of \$700 million through cost savings or new revenue. Breakthrough also helped develop the executives and the 1,000 managers into better leaders by making them teach and develop others. Senior leaders developed the 1,000 managers. Then, the 1,000 managers developed their staffs while running the action projects.

When we integrated that work with our research, we made an important connection: The most powerful experience is when leaders teach their own points of view. You can't just hand leaders a deck of slides and tell them to go forth.

For two years, we have used a par-

ticular approach in more than 40 workshops at such organizations as GE Capital, PepsiCo, the Special Operations Forces, Royal Dutch/Shell, Ford Motor, and Royal Bank of Canada. In the approach, participants benchmark other companies and leaders, and they examine their own experience. Then, they're asked to state their points of view on leadership and how to win in their businesses.

The approach focuses on helping leaders do two things: Develop a teachable point of view and create a business-oriented story that is linked to their experience as a leader. We have helped leaders develop their points of view in four critical leadership areas: ideas, values, edge, and energy.

**Ideas.** A business starts with ideas about services or products in the marketplace. Those ideas lead the business to produce and deliver value to customers. Ultimately, that can be linked to success in the capital markets (for publicly traded companies). Leaders must be able to explain to all stakeholders how the business succeeds in creating value.

**Values.** Winning organizations have leaders that can articulate values explicitly and shape values that support business ideas. Such leaders avoid using abstract terms, focusing instead on operational values that affect the business. For example, GE's Jack Welch articulates the value of "boundarylessness" in order to facilitate speed-to-market, the generation of ideas, and the sharing of best practices. Andy Grove values constructive conflict because Intel's markets move too fast to waste time on wishy-washy feedback.

**Edge.** Leadership is about making tough yes-no decisions. Winning leaders face reality, and they make decisions about people, products, businesses, customers, and suppliers. They don't waffle. And they're willing to make decisions with imperfect data.

**Energy.** Winning leaders are motivated, and they motivate others regarding change and transition. Leaders must teach people how to energize others, face-to-face and through large-scale organizational efforts.

### **Business stories**

Leaders with a point of view have views about budgeting, planning, in-

vesting capital, and a host of other things. Great leaders take a point of view and use it as a springboard to action. First, a leader engages other people by translating his or her point of view into a dynamic story. In his book, *Leading Minds: An Anatomy of Leadership* (Basic Books, 1995), Harvard professor Howard Gardner says that stories are the basic human cognitive form. Most people think, recall, and communicate with stories.

Says Mark Helprin of the board of editors at the *Wall Street Journal*, "The classic business story is much like the classic human story. There is a rise and fall, the overcoming of great odds, the upholding of principles despite the cost, questions of rivalry and succession, and even the possibility of descent into madness." We couldn't agree more.

Leaders take the foundation of a point of view and build stories about beating the competition, satisfying customers, and other successes. Eckhard Pfeiffer is leading Compaq Computer with a story about becoming the computer company of the future—the leading company in wiring together the world. Compaq plans to do that by providing the servers that run corporate networks and the PCs that enable people to become more productive. For families, Pfeiffer wants Compaq to be the Proctor & Gamble of new digital homes by providing all of the necessary tools for work, play, and communication via computers. So, Compaq is investing in partnerships with such companies as toy and appliance makers to create the exciting new products.

In another example, Jack Welch's story is to create the "world's most exciting enterprise in which ideas win and people flourish and grow—in which the excitement from their work lives is transferred to their whole lives." All of Welch's actions—from delaying to re-jiggering GE's portfolio—aim to give employees a sense of ownership so they will feel excited about the business and their work.

We use the term *story* rather than *vision* on purpose. Organizations that want to stay ahead of the competition have to act quickly and decisively. That means that leaders must offer more than a vision or static snapshot of

where an organization wants to be. They must also foster motivation and action. They do that by creating stories.

Leaders' stories have these elements:

- ▶ a case for change
- ▶ an idea where the organization is headed
- ▶ how it will get there.

Based on those stories, leaders take irreversible actions that transform their organizations.

For example, at Royal Dutch/Shell, Tichy and Stacey worked with the four-member Committee of Managing Directors on transforming the company. The CMD took on that challenge when the company was at the height of prosperity. In 1994, Royal Dutch/Shell made more than \$7 billion, up 33 percent from the previous year. But the committee members felt that the aggressive pace of change in the business world would overtake the company eventually, if they didn't act. They wanted to change before they had to. The CMD needed to create a story that would make other people in the company feel the same urgency to change. To launch that effort in July 1995, Tichy, Stacey, and their colleagues Michael Brimm and Phil Mirvis conducted a two-day, off-site meeting with the CMD. That session, and several that followed, surfaced the members' teachable points of view and stories.

Drawing from their roots as career executives at Shell, the CMD members settled on a story that focused on the need for breakthrough performance in an increasingly competitive world. They spelled out some specific threats, such as the growing scarcity of oil supplies and the increasing presence of cheap retail outlets for gasoline that were stealing market share across Europe. They described the desired future as Shell being "the top performer" and as satisfying the "interests of customers, shareholders, and employees." And they discussed how they would achieve that.

To further the transformation, the CMD launched a series of intensive workshops involving all of Shell's separate businesses. It also engaged Shell's top 50 leaders in an intense development and change process, bringing them together in Amsterdam for a workshop in a magnificent old church

converted to a conference hall.

The workshop was designed to shock, energize, and mobilize the executives. Chairman Cor Herkströter broke with Shell tradition by not opening with a speech. Instead, he dove into a tough exercise. He asked each executive to write a letter of resignation from the "old" Royal Dutch/Shell to submit to the CMD. He also asked the executives to explain why they were resigning.

The group was silent. Then, a few people laughed, thinking it was a joke. When Herkströter returned to his chair to gather his thoughts, they realized he was serious. Everyone began to write. After 20 minutes, Herkströter asked the executives to divide into four groups, with a CMD member leading each one. In each group, people read their resignation letters aloud.

That exercise engaged the 50 leaders emotionally. Most were 25-year veterans of Shell. It was unsettling and eye-opening for them to have to resign and describe why. Intellectually, it was the start of them internalizing a story for the case for change.

Next, the executives received 360-feedback and participated in outdoor team building. Throughout the workshop, the CMD and the 50 leaders refined the Shell story, spelling out how the company would use five business lines to oversee its global businesses. The story set clear targets for revenue growth and return-on-capital, and gave employees new tools for meeting the targets.

The CMD and 50 leaders agreed that Shell required a shift in its culture. The new Shell, they decided, would reward executives that focused externally rather than internally and that fostered individual accountability and initiative instead of painstaking consensus. To assist that shift, leaders ran their own action-learning programs, and they changed evaluation and reward systems to reflect new financial and cultural priorities.

The story at Royal Dutch/Shell continues to evolve. Each month, leaders teach the story to more people and propel the change further. Herkströter is clear that it's a journey in progress. He says, "The story reflects aspirations we know we may not live up to in every case, but that we feel certain we

should be aiming towards." The company's efforts are paying off; it earned about \$9 billion in net income in 1996.

### **A teaching culture**

In such organizations as General Electric, the Special Operations Forces, and Intel, the idea of leaders developing leaders is the way to do business. Other companies face a challenge in creating a teaching culture.

At Shell Oil, that challenge has been part of a broad transformation initiated by CEO Phil Carroll. (Shell Oil is a subsidiary of Royal Dutch/Shell and operates independently within the parent company.)

In 1993, Carroll began working with Tichy and Stacey. In October of that year, Carroll convened a three-day, off-site meeting of his top team, facilitated by Tichy and Stacey, to work on Shell Oil's future. From the outset, their discussions were thorough and holistic. Carroll and his team (known as, the Leadership Council) had a sense of their place in

the company's history. Shell Oil had been delivering substandard returns. The Leadership Council felt that it had to turn the business around or face irreversible decline. The council members delved into their points of view, debating the external and internal reasons for Shell's poor performance, and wrestled with solutions.

The catalyst for the new story was a writing exercise at the off-site meeting. To ensure that everyone confronted the issues and contributed to the dialogue, every council member worked on his personal version of the story. Each spent an hour writing a mock *Fortune* article describing Shell Oil three years in the future and how it got there. Then, each read his story to the entire group. Next, Tichy and Stacey helped the council members coalesce around a common story. In that story, Carroll and his team described the Shell Oil Company as on a journey to becoming the premier company in the United States, providing superior financial returns, and be-

ing a great place to work. Behind that statement were detailed descriptions of how the company would get there through cultural shifts and new targets for financial performance.

The Leadership Council brought its story to life through irreversible actions. In 1994, Carroll convened a three-day session of Shell's top 200 leaders. He announced the formation of four teams that would meet for six months to work on strategic issues. Later, the Leadership Council began developing leaders to run the new Shell. Hundreds of managers attended workshops taught by senior leaders and then returned to work to spread the word and launch action projects.

Carroll and his team also reinvented Shell's governance and capital structures, working with Larry Selden, a finance professor at Columbia University Business School, to create the Shell Business Model. They launched operating companies, free of bureaucratic centralization. Those compa-

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nies are responsible for their use of capital and manage their businesses independently.

An internal team of 16 change agents, the Business Transformation Team, was created to help Shell leaders implement the business model. The team was launched on a fast-track development process designed by Tichy and Stacey.

By the end of 1995, the strategic initiatives, action projects, and business model were in place. Carroll and his team had restructured Shell and created a new language around leadership that emphasized urgency and change. For the fiscal year, Shell Oil delivered to its parent company more than \$1.5 billion in net income, the highest in 10 years.

It's at this stage that a lot of companies and leaders lose momentum. But Carroll was determined that his transformation would be total and long-lasting. He took steps to ensure that and, as a result, Shell continued its record performance by delivering \$2 billion in net income in 1996, the highest ever at the company.

One of Carroll's key steps was creating the Shell Learning Center, which like GE's Crotonville, is a lever for continuous transformation at Shell by developing leaders at all levels. Carroll recruited Jerome Adams from USF&G to lead the Learning Center. Adams had experience developing leaders at West Point, GE's Crotonville, TRW, and USF&G. He quickly saved Shell tens of millions of dollars by forming a partnership with the Woodlands Conference Center in Houston to house the Learning Center rather than build a new one.

### The Shell story

When Adams diagnosed the situation at Shell Oil, he saw a need to help leaders develop their teachable points of view and stories. Based on his experience with other large-scale transformations, Adams thought Shell was at a critical juncture. Though results had improved, the changes were taking a toll. There had been layoffs, and employees were working longer and harder.

Says Adams, "I had the sense that trust in senior leadership throughout all of Shell Oil Company had been

eroding. Some employees were caught up in downsizing, but the perception was that senior leaders weren't [affected. In fact,] though there used to be 24 people at the top, there were now 10. But the [mis]perception had led to this eroding trust."

In order to support Adams's leadership agenda, we [the authors] designed a program for Shell's leaders. Its dual

aim was to deal with the trust issue and increase the leaders' skills as change agents to further Shell's transformation. The program helped accomplish that by helping each leader develop a teachable point of view and story.

Shell's top 200 senior leaders gathered, 50 at a time, at the Learning Center. The three-day workshops were facilitated by Adams and two outside

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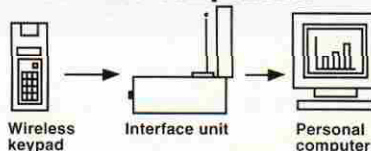


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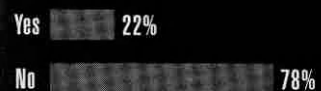
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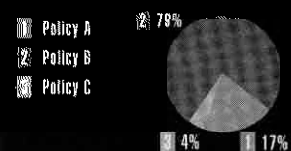
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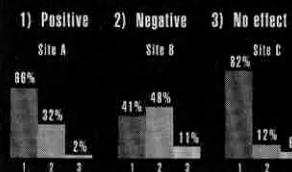
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## DO YOU HAVE A TEACHABLE POINT OF VIEW?

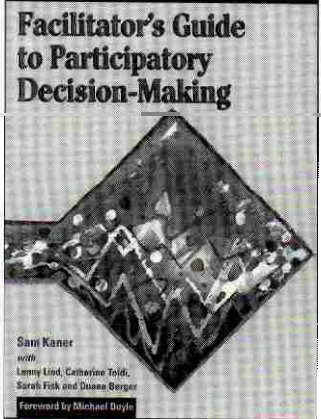
Here's a way to assess how you develop leaders and to see whether you have a teachable point of view.

	OLD WAY		NEW WAY
Focus	<ul style="list-style-type: none"> <li>Leadership is the combination of technical skills in strategy, finance, etc.</li> </ul>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Leadership focuses on hard and soft issues and on personal leadership stories.</li> </ul>
Ideas	<ul style="list-style-type: none"> <li>Coaching is on day-to-day items, not rethinking the business.</li> <li>Development programs are theoretical and focus on business-school cases taught by professors.</li> </ul>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Leaders offer their own ideas and challenge people to create their own points of view.</li> <li>Development programs are practical. Participants and program leaders work on real business issues, not cases.</li> </ul>
Values	<ul style="list-style-type: none"> <li>Value statements are for one-way communication.</li> <li>Values transfer consists of superficial, sheep-dip programs for masses of people.</li> </ul>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Leaders help people deal with having to integrate their personal values and the values of their work units.</li> <li>Leaders talk openly about paradoxes in conflicting values, such as individual initiative versus teamwork.</li> </ul>
Edge	<ul style="list-style-type: none"> <li>Coaching sidesteps issues having to do with decision making.</li> <li>Development programs focus on managing time and identifying priorities.</li> </ul>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Leaders help people by asking them to tackle dilemmas such as what to do with people who perform well but don't adhere to company values.</li> </ul>
Energy	<ul style="list-style-type: none"> <li>Programs are "cotton candy," giving people a sugar high. When they return to work, their enthusiasm dissipates.</li> </ul>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Leaders teach underlying frameworks for motivation.</li> </ul>
Senior executive role	<ul style="list-style-type: none"> <li>Senior executives that "sponsor" development programs parade in and out of them periodically.</li> </ul>	1 2 3 4 5	<ul style="list-style-type: none"> <li>"Player" senior executives lead all or portions of leadership development programs.</li> </ul>

faculty, Phil Mirvis and Ram Charan. Participants worked on the elements of a teachable point of view: ideas, values, edge, and energy. For each element, we attempted to seed ideas with participants and compel them to cultivate their own points of view. First, they examined their own experience in the context of Shell and their units. The facilitators presented videotaped benchmarks of leaders at other companies that had faced situations similar to the one at Shell. Those "video benchmarks" were taken from a database that

we had compiled during the previous two years. The video benchmarks feature interviews and footage shot in internal meetings at the benchmarked companies, showing their leaders in action. For the Shell workshop, we culled relevant examples from the database. After the benchmarking, participants developed solutions for their own situations and coached each other.

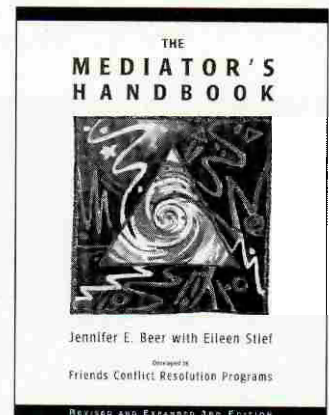
The result was 200 leaders that developed teachable points of view and created (or refined) their leadership stories. The stories became powerful



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tools for leading continuous change by detailing why leaders and the business needed to change.

That filled a void for many leaders at Shell. Says Adams, "Many leaders can use the Shell business model to say in the language of finance, 'Here is the gap between where we are and where we should be.'" But Adams cautions, "That isn't a case for action that touches everyone in all parts of an organization. Our program helped Shell leaders create a case for action by connecting with folks differently." They did it, Adams says, through leadership stories that illustrate the direction of the business and the leaders' personal stories.

The program helped Shell leaders with some immediate changes. Says Adams, "We had recently created six new companies by making our refineries separate entities, each headed by its own CEO and leadership team. We told them, 'You are no longer a through-put system...to the gas station. We want you to run the refinery as a business.'"

That change required Shell leaders to state their business cases for action in a way that they hadn't been asked to before. Says Adams, "Many of the refinery CEOs told me that the program was a valuable learning tool for them and helped prepare them for that new role." (See the box, Shell's High-Test Program.)

Several months after the program, we conducted interviews with participants. Here's what we learned.

**To transform a company, leaders need a teachable point of view.** In the past two years, Shell Oil has undergone immense change, and the pace is accelerating. Alan Kirkley, CEO of Shell's refinery near New Orleans, has the job of leading this newly independent company. To do that, he has focused on developing and delivering a personal point of view.

Says Kirkley, "One of the more powerful things that have happened across Shell is that leaders are telling more 'I' stories. It used to be that [we] would insulate [ourselves] from

change. We would talk in the third person—'management thinks' or 'the company wants to.' Now, the focus is on leaders personalizing the message from an intellectual and emotional standpoint. By doing that, people are dealing more with true feelings and beliefs. We quickly move to a less superficial level that is rooted in reality."

Charles Dunagan, vice president of marketing and sales for Shell Chemicals, notes that to lead in his unit, he was required to put "personal stakes in the ground" with his story.

"With where we are today and the amount of change that has to take place," says Dunagan, "we have to interact in deep relationships that are sustainable. People have to have a personal story that is powerful in terms of true conversation as opposed to a one-way exchange."

**Developing oneself is the first step.** A company needs leaders at every level. At Shell, the 200 leaders that participated in Adams's program had to



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continue to develop other leaders. The program gave those 200 leaders the opportunity to examine the business and their personal experiences in depth. It also enabled them to deliver their teachable points of view and stories, receive feedback on them, and refine them. The experience also gave many Shell leaders the confidence they needed to develop and coach other leaders.

Irv Doty, who leads a unit of more than 100 people, says, "I think that I had been perceived as a typical Shell manager in that I came across as though I had all of the answers. When I tried to open up and talk personally about an issue rather than say 'here's the answer,' it was powerful. It caused me to engage in a dialogue with others that resulted in mutual learning on all sides. My coaching turned from what I call, 'the technical approach,' to [issues regarding] transformation, style, and effectiveness. [Now,] I focus more on coaching people in leadership."

**Start with the hard stuff.** Developing a

teachable point of view and a story is a highly personal exercise. Leaders in the Shell program explored issues about balancing one's life, and many tied their personal leadership stories to their personal development as youths. Though that can be useful, a dialogue has to start from this standpoint: "We are here to improve this company's performance. Leadership is the key to that, and we will explore all facets of making ourselves better leaders."

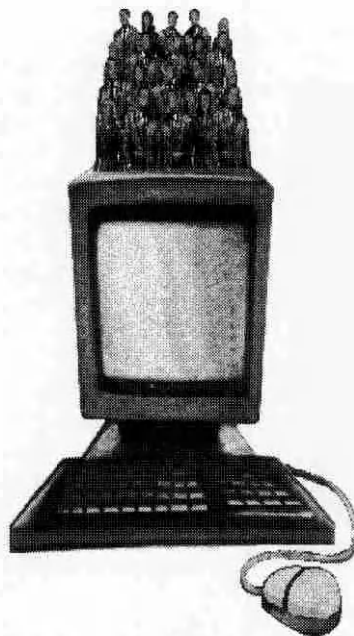
Adams says that the Shell program was grounded in the context of the business. "This was not personal therapy [or] development for development's sake. This was development in the context of furthering business objectives by making people more capable. We purposefully focused first on the question, 'What is the business framework?'"

Dunagan agrees. "The introduction to any leadership story has to come from the overall business context because that's where everyone is connected.

"When I told my story, I said that we were finishing third at best. Employee satisfaction was average. We were preferred suppliers for a fairly low percentage of customers. And our financial performance was sub par. I said that if we continued to do things the same way, we'd get similar results. If we wanted different results, we needed to do things differently."

For Dunagan, starting in that context made the transition to his personal story easier. "For all of us," he says, "there is a financial incentive. The rewards are better if you are number 1 than number 5. But more importantly, being on a winning team is much more satisfying than being average. It's certainly important to me to be among winners."

**Tough-love feedback is crucial.** Each of the modules in Shell's program featured an element of peer coaching. Participants presented ideas or situations on which they wanted advice from each other, their peers. Everyone was told to be honest.



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## SHELL'S HIGH-TEST PROGRAM

**J**EROME ADAMS, head of Shell Oil's Learning Center, has his own leadership story. The Learning Center, Adams insists, can never be a traditional management development center. It must always be a lever for Shell's continuous transformation.

That means that Adams creates cutting-edge programs linked closely to the company's business priorities. His programs focus on implementing the Shell Business Model across its operating companies and enhancing leaders' abilities to drive change and engage others in driving change.

The program for Shell's top 200 leaders furthered Adams's agenda by issuing a daunting challenge: Participants were *not* assigned to learn a leadership model. They were there to develop their own model in the form of a teachable point of view. To do that, they worked through various elements of leadership and then tied them together in a story. The result was that they were better able to lead their businesses and coach others.

During the three-day program, participants worked on each element of the teachable-point-of-view model: ideas, values, edge, and energy.

**Ideas.** Participants completed exercises designed to develop an intellectual framework. First, they looked at the outside business environment and theorized about major shifts taking place in markets and with customers and competitors. Then, they looked inside the company to see how they could align their businesses accordingly.

Before working on their own issues, participants benchmarked several companies to see how they shifted their business frameworks. One example was Com-

paq Computer's shift from producing a premium product to emphasizing cost competitiveness, market share, and new markets. Another was Intel's shift to the microprocessor market. They also examined how Larry Bossidy uses a combination of strong ideas and personal coaching to develop leaders by providing direction about where AlliedSignal is going and giving the leaders enough independence to lead their own units. The results of that loose-tight approach are dozens of better leaders in charge of AlliedSignal's business units and a market value of nearly \$20 billion, up from \$3 billion in just five years. The benchmarking was led by facilitators, who described the actions of such leaders as Pfeiffer, Grove, and Bossidy.

Next, participants examined their own business frameworks and presented ideas to other participants for feedback.

**Values.** On day 2, participants saw the front lines of other organizations



through videotapes, watching other leaders try to integrate their values into their work. For example, they saw how managers at ServiceMaster balance their values about developing others with the necessities of running a business.

From there, it was time for the leaders to deal with their own values. Each reflected on which of their values were most important to them. Next, they dealt with conflicts, helped by other participants and the facilitators. For example, the leaders struggled with conflicting values on the importance of people and the economic need for a lean organization.

**Edge.** Next, participants developed their organizational and personal stories, focusing on leading change. They examined several academic change models, including Lewin's Unfreezing-Change-Refreezing model and Tichy's Three-Act Drama.

The video benchmarks captured leaders engaged in massive change programs, including Bill Weiss and Dick Notebaert at Ameritech and the late Michael Walsh, former CEO of Tenneco. Participants were challenged to develop models for changing their businesses, using the benchmarks and each other's coaching to develop action plans. The plans focused on how each would create a sense of urgency and a compelling story, and how each would take the first steps toward change.

**Energy.** Even the best leadership stories are doomed if the audience is unprepared for them. Shell, a company that had been through two years of change before



Jerome Adams

the program, had its fair share of cynics. To overcome their resistance, Adams and his staff used the final learning module to focus on the importance of leading with passion.

Adams took an unusual approach in this part of the program. He invited community and military leaders to talk about their leadership. For example, from inner-city Houston, he brought a woman that had sold all of her possessions and dedicated her life to providing homes for elderly people without shelter.

The participants took away important lessons. Many said, "I have 700 people and an operating budget of three-quarters of a billion dollars, and I'm still struggling how to get this done. She isn't sure how she'll make payroll next week, but look at her passion and enthusiasm, and what she has been able to accomplish."

Adams capitalized on the contrast in participants' realization by getting them to help each other think about how they could foster passion in themselves and their company.

As the experiences at Royal Dutch/Shell, Shell Oil, and Ameritech show, after leaders create a teachable point of view, they must act to bring it alive. So, participants spent the last day of the program integrating their teachable points of view into stories.

First, they wrote an annual report for the coming year, describing what they were going to do to actualize their personal and organizational stories. Projecting only 12 months ahead was done on purpose to focus participants on taking immediate actions. They related their annual reports and stories to each other in groups of four.

The program ended by exemplifying the lesson that leaders develop other leaders: Participants coached each other on the content and presentation of their stories.

Though such feedback wasn't always easy to hear, many people benefited from it.

Andy Grove has built a culture at Intel that places a high value on feedback. He points out that it's better to share your ideas with other people at your company and let them criticize them. It may hurt, but not as much as when customers do it.

Cathy Lamboley, vice president of Shell's commercial products group, used the program as a forum to gain insight from other leaders about some plans she was thinking of implementing.

She says, "It was useful to get feedback. I talked with people off-line and during the exercises. It gave me time to reflect and benefit from the conversations. I went back and made some quick moves."

**Leaders will develop others if given an approach.** The program showed participants how to develop leaders. The starting point for each of them was to meet with their teams and tell their business and personal stories. In that context, they engaged their teams, asking for their reactions and comments. Through that process, the leaders arrived at a common story. Then, they helped their teams write their own stories for their units.

Another way Adams began ingraining the idea of leaders developing leaders at Shell was to ask the 200 participants to return to middle management programs to teach and facilitate modules on Shell's transformation. In those modules, the leaders told their personal stories about why they thought the transformation was important, what they were doing about it, and what they were struggling with.

At companies in which leaders develop leaders, a key role of HRD people is to help leaders craft their teaching approaches. That requires HRD staff to play a different role by collaborating with the leaders and "driving" a cultural mindset in which leadership and teaching are intertwined.

### **A shifting agenda**

The agenda for leadership development has shifted drastically during the past several years. The 1980s was an era of radical restructuring, spurred by

many mergers and acquisitions, and the decline of many leading companies. The idea of developing leaders seemed to fade in the face of fear of the future and the pursuit of quick fixes. The early 1990s will probably be remembered for management fads that emphasized processes and culture over leadership.

Now, the central challenge for senior executives is to create a company that wins continuously. Jack Welch, who has run General Electric for almost 17 years and led it to unprecedented levels of success, describes his challenge as "making this 100-year-old company younger every day." In other words, while GE chugs along delivering earnings increases quarter after quarter, Welch is focusing on how he can renew and invigorate GE's 200,000 people around the world.

In that context, most of what has been done in leadership development falls drastically short. It has been too rote, too backward-looking, and too theoretical. It has rarely been tied to a business's immediate needs, nor has it prepared leaders for the challenges of the future. Companies that win now and that develop leaders so they can win in the future take a different approach. Their leaders personally and actively develop leaders. This article has described companies that do that and companies that are beginning to do that, such as Shell Oil.

Larry Bossidy of AlliedSignal says that no matter how effective a leader is, he or she has no idea what kind of change, or how much, a successor will bring to an organization. If that's the case, we should all hope that we have prepared our successors well. ■

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