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By James O'Toole and Bruce Pasternack

Here's a few stories you may have missed in the business press:

• At Intel, engineers laboring deep in the viscera of the organization also serve as leaders of their own entrepreneurial start-up companies—with the full blessing, and financial support, of the corporation.

• At AES (a global developer and operator of power plants) front-line employees assume high-level responsibilities--ranging from HR to planning--that were formerly assigned to central staff "VPs of."

• At Motorola, a low-ranked manager in "Division A" reaches out by e-mail to the president of "Division B," suggesting a way the divisions can cooperate to develop a new line of business (since no titles are allowed on the company's intranet, the executive evaluates the idea on its merits rather than on the status of the initiator).

• At Corning, 300 employees from all levels take responsibility to lead teams to redirect the technological orientation of the entire corporation.

• At Hewlett-Packard, two women (unburdened by fancy titles) successfully lead a large, multi-functional team assigned to solve a problem that threatens the viability of the company's largest division.

• At Korea's Hyundai Electronics, over fifty managers from many levels in the hierarchy, have come together to design and implement new systems to make the company more responsive to global competitive challenges.

All these stories are about how a few large corporations use systems and processes to institutionalize leadership behavior down the line. If you haven't heard about them, it is probably because they were deemed unnewsworthy in a celebrity era in which corporations are treated as mere reflections of the personalities who head them. Today, a business magazine won't run a cover story about the managerial practices of the Ford Motor Company; instead, it will feature the company's CEO, Jacques Nasser, in a full-color spread. Even in the high-tech world--where one would expect the full focus of attention to be on the latest cyber gizmo—the public eye is riveted on the persona of CEO Larry Ellison—but few people can say what his company, Oracle, produces. Indeed, recent research by the p.r. firm Burston-Marsteller shows that the perceived image of a high-profile chief executive brings a premium to a company's stock. Investors thus join journalists in the personification of corporations, focusing on the characters, biographies, and "charisma" of CEOs. As a result, American business organizations are more often than not portrayed as shadows of the "Great Men" who sit in the chief executive's chair: In the extreme case, Warren Buffet *is* the Berkshire Hathaway corporation.

And academic theory follows practice. Over the last decade, the parsing of leadership styles has become *de rigeur* in American business schools, the subject of practical (and arcane) professorial research, and stacks of graduate dissertations. In continuing education seminars, in MBA classes, even at the undergraduate level, professors now teach students to adopt the right leadership style for themselves, using "360 degree feedback" to make them aware of how they are perceived by others and, especially, to learn how to manage those perceptions. And for those who are severely leadership-impaired, there is always that growth industry called executive coaching.

This focus on the leader's personality is peculiarly American, perhaps a manifestation of our collective unconscious on which an image of George Washington astride his powerful, white steed is indelibly engraved. Although they invented charisma, in recent times Europeans have tried to resist the personification of leadership. Thanks to Hitler, Lenin, Stalin, Franco, and Mussolini, Continental Europeans were more than happy to concede the whole sorry field of leadership studies to Americans after 1945. If you don't count the scads of books written in French about Charles De Gaulle, Americans owned the subject of leadership for most of the second half of the 20th century. And, during that time, we applied our theories not only to political leaders but, unique in the world, to leaders of business corporations.

Of course, we got it wrong. We mean those of us in American business, academia, consulting, and journalism who habitually discussed, studied, and wrote about leadership solely as an *individual* trait. While this obsession on a single personality is often appropriate—particularly when an entrepreneur is still running a company he or she founded—we offer evidence here that this limited perspective may skew analysis away from organizational factors which, in fact, are more-important drivers of performance. We came to this conclusion quite by accident. In early 1999, our respective institutions began a joint, on-going research project on Strategic Leadership in conjunction with the World Economic Forum. For the last decade, leadership sessions had been a good draw at the Forum's annual Davos conclave, but there was a hunger for more substance than the usual bill-of-fare: a thin gruel of CEO war stories, anecdotes, and homilies. Thus, our organizations were charged with putting a little beef on the Davos leadership menu. We formed a research team and set out to create something that didn't exist: a data base of hard information about the soft subject of leadership. We have now surveyed over four thousand leaders on three continents—and buttressed these with hundreds of interviews—looking to pinpoint specific processes leaders use to bring about shifts in organizational behavior and, ultimately, improvements in business performance. (See box on Research Methods)

Working with Forum member corporations, we began our efforts with traditional premises about leaders--but soon were surprised to discover that the relative performance of large corporations could not be explained adequately by measures of the individuals who head them. Note that operative word *adequately:* As predicted, most of the large, global companies we studied operate, to one degree or another, under a traditional model of strong individual leadership at the top. Moreover, the quality of that leadership bears on the overall performance of those companies. But we also noticed that a few of the companies we studied--and some business units within others (see box on Unexpected Findings)--are characterized by a different pattern of leadership. Instead of leadership being a solo act, an aria sung by the CEO, in these organizations it is a shared responsibility, more like a chorus of diverse voices singing in unison. Significantly, this characteristic is more than the frequently observed phenomenon of "cascading" leadership (in which a strong leader at the top empowers other leaders down the line). Although cascading is often a part of what we observed, *in these organizations many of the key tasks and responsibilities of leadership are institutionalized in the systems, practices, and cultures of the organization.* While cascading leadership typically depends on the continuing support of whoever is "the leader" at any given time, we observed behavior that is not personality-dependent. Without the presence of a high-profile leader goading them on, we observed that people at all levels in these organizations act more like owners and entrepreneurs than employees and hired hands (they assume owner-like responsibility for financial performance and managing risk), take initiative to solve problems and, in general, act with a sense of urgency.

For example, at Cisco Systems mid-level managers recently took the initiative to design, implement, and manage a state-of-the–art, on-line recruiting system. While CEO John Chambers is a singularly impressive leader, what is most remarkable about Cisco, we believe, is the number of individuals at all levels of the company who assume leadership responsibilities without being ordered to do so. We believe that the incentive to step up and assume leadership responsibilities is deeply embedded in the company's culture, in particular, in incentives and decision-making systems that encourage initiative, and then reward it.

Obviously, we did not invent this model of leadership, nor do we believe it is new. Doubtless, it has been around a long time and we, like others, missed it because we were blinded by the powerful light that emanates from high-profile leaders. We were also prisoners of the current wisdom about the necessity for personalized "take charge" leadership--particularly in times of rapid change. Moreover, the organization-based model we identified was not the only one we observed in our study, nor was it necessarily the most effective. We discovered that leaders can have positive impact on an organization in quite different ways. For example, the two fastest-growing companies in our sample—Oracle and Enron--operate on opposite models of leadership: in the former, innovation is largely driven by a single, creative leader at the top and, in the latter, responsibility for innovation is widely diffused and systematized (See box). Thus, we are not advocating a newly discovered "best way to lead"—instead, we are calling attention to a previously unnoticed—but equally viable--alternative to the traditional leadership model. Among other things, this discovery helps to explain some persistent contradictions to the dominant personality-based model of leadership: If leadership were solely an individual trait…

·Why is it that some companies demonstrate a continuing capacity to innovate, renew strategies and products, and outperform competition in their industries *over the tenures of several different chief executives?* Intel, for instance, has been a rip-roaring success under the leadership of, in sequence, Gordon Moore, Andrew Grove, and now, Craig Barrett.

·Why is it that some CEOs who have succeeded in one organization often turn in so-so performances in the next? Consider George Fisher, who was a star at Motorola, but far less effective at Kodak. (Conversely, why is it that some companies headed by singularly unimpressive CEOs nonetheless rack up good performance records?)

·Why is that academics are unable to quantify the relationship between CEO style, on the one hand, and organizational performance, on the other (in fact, they have found no objective correlation between those two factors concluding, unhelpfully, that "it all depends")?

Moreover, as history shows, businesses that become dependent on a single leader run a considerable risk: If that individual retires, leaves (or dies in office), the organization may well lose its continuing capacity to succeed—witness the performance of General Motors after Alfred Sloan, ITT after Harold Geneen, Polaroid after Edwin Land, and Coca-Cola after Roberto Goizueta. More frequently, organizations learn the hard way that no one individual can save a company from mediocre performance—and no one individual, no matter how gifted a leader, can be "right" all the time. As one prominent CEO explains, "None of us is as smart as all of us." Since leadership is, by definition, doing things through the efforts of others, it is obvious that there is little that a business leader—acting alone—can do to affect company performance (other than to try to "look good" to investors).

In light of the above, perhaps it should not have been so surprising that our research uncovered the existence of successful companies where *leadership is treated as an institutional capacity*. Indeed, it turns out that many corporations whose familiar names perennially appear on "most respected" lists are ones with the highest institutionalized leadership capacities. Like individual IQ's, companies have collective LQ's–Leadership Quotients—that can be measured and compared. (Moreover, as we show below, unlike individual IQs, an organization's leadership capacity can be bolstered through appropriately directed effort). Hence, we now are better able to explain why companies like Intel, GE, Cisco, Ford, Nestle, and Motorola continue to renew themselves year after year, and over the tenures of many different CEOs: Such companies are not only chock-full-of leaders from the executive suite to the shop floor, they make conscious efforts to build their LQs--that is, their overall organizational leadership capacities.

That last point requires clarification. To our surprise, we discovered that some companies with continuing records of success do not pay much, or any, attention to traditional—that is, *individual*--leadership development. Instead of asking "What qualities do we need to develop in our leader?" these companies continually ask "What qualities do we need to develop in our organization?" And, while this may seem to defy the current wisdom about the importance of leadership, on reflection, it squares with experience. At Motorola, for instance, a decades-long pattern of self-renewal belied the predictions of Wall Street analysts who, on at least four occasions, wrote the company off for dead. When it suffered one of its periodic setbacks, analysts asked how Motorola could be expected to turn itself around without a "take charge" leader (a la Jack Welch) at its helm? But, in fact, it did so repeatedly, and under the collective leadership of several different individuals. In light of what we have learned from our study, we posit that the secret sauce at Motorola is their strong, institutionalized leadership capacity—systems of participative decision-making, extensive training, and rewards linked to performance--all consciously created by former-CEO Bob Galvin's leadership teams over a period of thirty years.

TWO FORMS OF ALIGNMENT AND ADAPTABILITY: Big "A" and little "a"

When we began our study, we assumed that leaders of all high-LQ organizations use enabling systems, in the manner of Motorola, to create what in the current academic wisdom are two prime attributes of long-term success: alignment and adaptability. Our findings were somewhat unexpected on this score, as well.

In the academic literature, alignment has come to mean that common behaviors throughout an organization are directed toward the achievement of shared goals. Thus, alignment keeps a business focused through clear objectives and a broadly shared vision. Until recently, scholars had posited that companies with high levels of alignment were "built to last," and that the task of leadership was to get the right fit among such key institutional systems as strategy, metrics and rewards. But not all institutional alignment is good. In fact, our surveys revealed the existence of two quite different types of alignment, which we call "Big A" and "little a." For example the positive "A" variety found at Continental Airlines keeps all employees focused on the importance of on-time arrivals. But at a formerly agile company like Hewlett-Packard, negative "a" alignment was until quite recently anchored in habits of the past. This can lead to bureaucracy, and even become deadly when there is a need for fast decision-making (a pattern we documented in more than a couple of the companies we surveyed). In today's high-speed world, companies need to detect changes in the external environment and to act quickly with the full force of their resources. Inflexible "a" alignment simply gets in the way. That's where adaptability comes in.

Organizational adaptability is the institutionalized ability to detect and cope successfully with changes in the external environment, especially when such changes are difficult to anticipate. Perhaps the most important distinction to emerge from our study is a measurable difference between "Big A" and "little a" adaptability. "A" adaptability involves revolutionary reinvention of a corporation's business, and often leads to lasting structural change. Oracle's Larry Ellison, BP-Amoco's John Browne, and Jack Welch of GE are acknowledged masters of "A" adaptability (consider such famous

GE initiatives as boundarylessness, six sigma, and e-commerce initiatives, all of which were driven from the top, and reinforced through alignment mechanisms). In distinction, "a" adaptability entails the constant fine tuning that occurs in the products and services offered by admirably market-oriented companies: For years, 3M was known for its capacity to create thousands of variations on the theme of sticky tape. While "a" adaptability often has been identified with corporate success, we found that too much of that good thing leads to chaos and wasting resources on duplicate efforts. The inefficient "silo-ing" effect found at such highly innovative companies as Microsoft is an example of this paradoxical "a" phenomenon.

We were relieved to discover that some companies could excel at both "A" alignment and "A" adaptability. Indeed, some high-performing companies in our study exhibit both attributes at the same time. Moreover, we discovered that the operating systems of high-LQ companies were not only directed to those two ends, *but that leaders viewed their prime task as creating those attributes.* Significantly, Enron actually aligns around adaptability: that is, they rigorously measure and reward the seemingly loose entrepreneurial behaviors of market-responsiveness and risk taking. They use systems of planning and budgeting to create organizational coherence around shared business objectives, while simultaneously encouraging the ability to meet discontinuous threats and opportunities. Moreover, and most remarkably, Enron seems capable of both "A" and "a" adaptability—a rare capacity in large corporations. Before turning below to specifics about Enron, we first should address some points of natural skepticism likely to arise concerning our general findings.

THE ROLE OF ENABLING SYSTEMS

Does it make any real difference when leadership is treated as an institutional capacity? Because fundamental premises drive behavior, there are profound consequences for almost everything that follows. For example, because ABB views leadership as an organizational trait, its highly respected former CEO, Percy Barnevik, could "retire" at age 54 in full confidence that the company had the capacity to carry on successfully without him (thus freeing Barnevik to take on even greater responsibilities for the Swedish Wallenberg family, ABB's largest shareholders). The company's internal accounting and information system, ABACUS, is one way in which ABB makes its four thousand plus profit center heads into leaders, and not just engineers or managers: They all have continuous access to information which allows them to make the kind of risk assessments reserved for top management in traditionally led companies.

Because Intel sees leadership as an organizational trait, the company did not miss a beat when Andy Grove retired—in fact, it was well-positioned to move on to a higher level, with the capacity to take on new strategic challenges. How often is it that a company not only doesn't go into the tank when a CEO as respected as Grove steps down, but actually renews itself by successfully entering an entirely new area of business (internet "building blocks"). The company's New Business Investment Fund is one systemic way by which Intel is entering new, high-potential markets, turning the ideas of its most creative employees into start-up businesses. For example, Paul Scagnetti was an engineer working on ways to package Intel's microprocessors when he hit on the idea of creating an electronic widget to track the effects of daily exercise. In the past, he would have gone to Sand Hill Road to chat about the idea with venture capitalists; instead, Intel funded him and made him the CEO of his own little company. If it flies, it either may be spun-off, or retained as a subsidiary; if it fails, Intel will not have lost Scagnetti as a valued employee. (A side benefit of the system is that Intel has maintained a single-digit attrition rate in the overheated Silicon Valley job market.) .

Our view is that the reason for the successful handoffs at ABB and Intel is not simply good succession planning. The key factor is that neither company is dependent on any one, two, or half-dozen key individuals for its on-going success. As observers note, neither company talks much about individual leadership, at all. Instead, they focus on building a broad-based capacity to manage the systems that, in fact, are at the heart of their respective successes. And that is what we have found at all high-LQ companies:

• Veritas Software has been one of the *Wall Street Journal's* highest-performing companies over the last five years. Its results have been astounding: over 700% growth in market capitalization in 1999, and a market cap of about $50 billion. Its Chairman and CEO, Mark Leslie, argues that much of that success is due to the way they use communication systems to drive alignment. He personally sends broadcast e-mails to every employee every week so they all know what the CEO is thinking about and doing, so they can began to think like leaders themselves. And the company holds open staff meetings monthly, encourages all staff to listen in on analyst briefings, and has adopted Radio Free Veritas to broadcast human interest stories and personnel matters. These constant and candid communications have contributed to a culture of trust in which "everyone knows everything." Even information about pending acquisitions is shared broadly and deeply on the assumption that, if people are treated like responsible leaders, they will behave accordingly (although some five dozen managers were consulted in advance about a recent merger, there were no leaks). Along with Intel, Veritas ranks among the companies with the lowest in turnover in Silicon Valley.

•Baxter International, a $12 billion medical products company, has adopted a unique incentive system for pushing the sense of ownership deep in their well-established, publicly traded company. About five years ago, CEO Harry Kraemer "encouraged" the top 70 people in the company to take out, on average, $2 million in personal loans in Baxter stock. Suddenly, positive leadership behaviors spread through the ranks of top management: In Kraemer's words, "to say that resulted in a slight change in attitude is an understatement." Instead of the former pork barrel approach to capital investment ("I won't criticize your budget, if you don't criticize mine"), executives now spend time carefully reviewing investment strategies—even helping other divisions at the expense of their own--because they recognize that their personal capital is riding on their collective success.

•Because he believed that management systems drive behavior more effectively than CEO hectoring, the Chairman and CEO of Alcoa, Paul O'Neil, looked for a simple metric that would connect people from the boardroom to its aluminum smelters when he sought to change behavior around the issue of safety. In order to focus everyone on the fact that safety was critical to their business--and to demonstrate real concern for the people working in the firm--Alcoa established a common safety metric that everyone could agree on, and that would be understood by all. Soon, information about unsafe practices became part of the language used in every board, management, and employee meeting. Soon, it wasn't just O'Neil talking about safety, people down the line started using the safety metric *and leading safety initiatives*: In a few years Alcoa had reduced lost worked days by 78 percent.

• Wal-Mart's British subsidiary, Asda, has been a pioneer in using decision-making systems to defuse the sense of leadership throughout the company. Using systems with memorable--if often rude--acronyms, the company puts the burden for leading continuous improvement not only on the heads of their business units, but on store and shift managers, as well. The company's PIGS (Process Improvement Groups to encourage quick experiments and share best practices across the company's two hundred stores), PAGS (cross-functional, problem solving teams), Saunas (intensive reviews of a business area designed to produce comprehensive change), Huddles (meetings of all employees at the start of every work shift) and the infamous SHITMs (Store / Head-office Interactive Trading Meetings—in which store managers make unresponsive mangers from headquarters "walk the plank") are all designed to keep the initiative for leading change at the lowest levels of the organization.

• Corning, America's shiniest spot in the rust belt, recently used institutionalized innovation systems to drive technological adaptability. CEO Roger Ackerman set a goal of reducing operational costs by $450 million over three years through technological improvements (as opposed to radical downsizing). He put the entire burden of change on the backs of three hundred people working in cross-functional teams. The teams met at the Donut Factory (so-named because they were housed next door to a Dunkin' Donuts outlet on the main street of Corning, NY), and were given full authority to identify opportunities for improvement, to plan change efforts, and to execute them without need of further permission from top management. The goal was easily met, because champions emerged in enough of the teams to ensure that recommendations were fully implemented. According to Ackerman "The ability to drive change often comes down to a simple yet resolutely abstract concept—leadership." Not *his* leadership, mind you, but the emergent leadership of hundreds of Corning managers, engineers and employees. And the role of top management in all of this? Creating the systems and process by which others could lead, and to constantly reiterate the purpose and importance of the effort. And Corning consistently and consciously continues to push leadership down in the corporation. Recently, a $3 billion acquisition was executed, in a matter of days, by a third echelon manager—without supervision from the executive suite.

In essence, we found something palpably different about companies that emphasize building enabling systems, versus ones dependant on a single personality at the top. Since the contributions of every leader are seen as important, there is concerted effort to define and measure leadership behavior down the line—and parallel emphasis on accountability at all levels for how the enabling systems are used--and to make certain that they *are* used.

DIFFERENT IN COUNTLESS WAYS

While parts of the above may sound familiar, what is striking is how managing several small systems differently adds up to a real difference in performance. Significantly, none of the companies we studied places emphasis on all twelve of the enabling systems we identified. For example, one high-performing corporation pays close attention to vision and communications, but they leave it to their business units to make decisions relative to structure, recruitment, planning and the rest. In another, the central emphasis is on planning. Significantly, we found no pattern in the choice of systems that are stressed, and no correlation between performance and what specific systems are emphasized. What seems important is that there be a clear focus on any two or three key systems—the particular choices being driven by the strategy, industry, or challenge faced by the company.

As noted above, Oracle and Enron (the two highest-performing companies in our study) are exact opposites of each other in terms of their leadership models and, as expected, they each emphasize quite different enabling systems to promote adaptability (See box). Oracle operates like a battleship driven by a single strong, individual leader at the top. The company draws its tremendous adaptability from the fertile mind of Larry Ellison, who then uses powerful management systems—particularly compensation--to ensure that lower-level managers execute his directives quickly and aggressively. In contrast, Enron operates like a flotilla of destroyers in which there is shared responsibility for adaptability: leaders through-out the company are empowered to make major innovations, and management systems are designed to promote the autonomy to do so. Yet, these two dissimilar organizations are mirror images of each other when it comes to making clear and conscious choices to stress certain systems--and then disciplining themselves to following through with the application of those systems.

When the highest-performing companies we studied create a system, announce a major managerial policy, or introduce a change in process, *they stick to it in a disciplined way, and hold leaders at all levels accountable for behaving consistently with the chosen course.*

In contrast, the lower-performing companies we studied are often characterized by arbitrary policies, inconsistent enforcement of systems, and the lack of follow-through in both implementation of policy and change initiatives . We found the above to be as true for companies that operate with a traditional model as it is for those where leadership is institutionalized.

When all the sixty plus variables in our study are analyzed—the regressions run, the variations standardized, and the chis squared--what the highest-performing companies seem to have in common is that they *consciously choose* what systems to emphasize. Enron has a decentralized model of adaptability in which innovation is in the bloodstream of the entire company, while Oracle is much more centralized and depends instead on execution. But both strive to use enabling management systems to drive both alignment and adaptability. The challenge, as we discovered, is for a company to design the right business model for the challenges it faces, and to pinpoint exactly what systems to stress in order to encourage the specific behavior it needs for success. Leadership is thus a rational and analytical process, and not a natural trait with which some fortunate few are born. Thus, we see why Oracle and Enron are both outstanding successes, even though they have adopted antithetical business models. Indeed, so different are their innovation models that, when we explained each to the leaders of the other, neither could understand how the other could possibly succeed if applied to their own companies. When we reported at Oracle that a manager at Enron had told us "If I had a good idea, I have no doubt, none, that I'd be able to do it," an Oracle executive replied, "You just can't have mavericks running around doing their own thing."

The difference between Enron and Oracle in terms of performance is negligible, and the only issue is the long-term concern, expressed even by Oracle executives, about what happens "after Larry." It is that concern which makes the Enron flotilla model of leadership a particularly interesting alternative to the Oracle battleship approach. Enron presents an instructive case of how a high institutional leadership capacity can contribute to long-term business performance. As recently as a decade ago the company was an unlikely candidate to be chosen as *Fortune* magazine's "most innovative company" in 1999 (and, again, in 2000). In the 1980s, Enron was a slow-growing Texas-based gas pipeline company. Today they are one of the fastest-growing, most entrepreneurial corporations in the world, moving into countless new lines of business (such as power marketing and bandwidth trading). They transformed themselves by consciously creating the opportunity for many leaders at all levels to take risks, create new businesses, and share in the fruits of their success. They started the process of change through an expensive recruiting initiative. Competing against the attractive enticements offered by high-tech companies and high-paying financial institutions, Enron successfully recruited a large cadre of MBA's from top schools to come to a company based in steamy Houston with an unambiguous charge to shake things up.

Enron's CEO, Kenneth Lay, may not have had a detailed blueprint of what all those energetic young people would do when they got on the job, but he established an environment in which they could think creatively, speak up, try new things—and motivate the existing corps of managers--all in the belief that "exposure to new talent stimulates people to do better work." And he kept it up: Enron has pursued a vigorous recruiting effort in each subsequent year. To build organizational agility, the company introduced a free labor market within the company, allowing people to move around, and it provides training that enables them to "own their own employability." Enron's president and COO, Jeffrey Skilling explains that the company has consciously created a system that allows its people to respond to "the recurring nature of nonrecurring events." To cope with constant change, people are free to move around in the company as growth areas open up (or when bad new strikes). For example, when one of Enron's traditionally strong businesses—fixed-price gas contracts—dried up in 1992, Skilling says that Enron "didn't miss a beat" because the free labor market allowed its people to gravitate to other, growth parts of the company: "We started our power marketing business in 1993—so we redeployed almost painlessly. We didn't lay off anyone—we hired." Again, none of this was by chance. Enron had designed systems and a strategy under which employees who change jobs don't see their salaries lowered, and in which even their titles are portable. In what is perhaps the clearest example of what it means for leadership to be an organizational trait, all individual performance appraisals at Enron are done by committees composed of some two-dozen people. As Skilling explains, "your performance rating comes from the organization, not your boss, so you have little risk to mobility."

Adding to their systematic approach to creating agility, Enron has created a policy in which there is freedom to fail without penalty if people take the right kinds of risks. Lay and his team gives the thousand plus new leaders Enron has recruited a free hand in running businesses they create--and a healthy financial stake in their success.

As the many leaders of Enron now say, "We are given the freedom and financial wherewithal to succeed." Not coincidentally, Enron also was chosen this year as one of *Fortune's* "ten best corporations to work for." This, remember, in the energy industry where employees have been thought of traditionally as idle resources. Adds Skilling, "I prefer a smart person to an asset."

BUILDING LEADERSHIP BENCHSTRENGTH

We feel the most important finding to emerge from our study is evidence that companies can build their LQs. For example, over the last dozen years, Japan's Fuji-Xerox led the way globally in shifts from analog to digital--and from black and white to color--copiers. They made those innovations under the directive hand of legendary CEO, Yataro "Tony" Kobayashi. But now, as the worldwide copier business is changing rapidly, and Kobayashi contemplates retirement, he and his colleagues have begun a series of systemic efforts designed to bolster the organization's overall leadership capacity. In particular, they are building the capacity for "A" and "a" adaptability by changing their recruiting and compensation systems to attract more innovation-mined and entrepreneurial employees, and through structural changes in which newly formed divisions are granted license to break precedence and take risks. And to give every employee the opportunity to be creative, the company has launched an initiative called Virtual Hollywood. This very unJapanese—and unXerox--program encourages groups of employees from all levels and functions to band together to become producers of the equivalent of Hollywood independent movies. The teams can get quick funding for their ideas and move ahead to production without short-term reporting requirements. If the idea is promising, Fuji-Xerox then acts like a big studio distributor of the "indie" creative properties. We also have been encouraged by signs that other established companies with "stars" at the top of their hierarchies are engaged in similar efforts to institutionalize their leadership capacity. For example, when we presented results from our study at the annual World Economic Forum meeting at Davos, General Electric's Vice Chairman, Dennis Dammerman volunteered that his company was preparing itself for the day when Jack Welch retires by initiating a concerted effort to build its overall leadership benchstrength. And the process GE is using entails strengthening its enabling systems much in the manner of Fuji-Xerox.

USING LEADERSHIP DATA AS A FULCRUM FOR CHANGE

Another outcome of our study is a tool for forcing and focusing organizational change. While collecting and feeding back survey data about leadership is still a new concept, and much remains to be done to make the information gathered both reliable and useful, the first efforts to use information generated from our survey to create an agenda for change have been extremely positive. In one company we surveyed--an organization where not all the information fed back about their leadership capacity was positive—a top executive had the following to say about the effort: "At least now we can discuss leadership without defensiveness. Instead of threatening egos, which is never effective, we can talk about needed changes in terms of organizational tasks. And almost everybody can buy into that process." We have found there is nothing like a little data to overcome denial and to get leaders focused on the collective work that needs to be done: When top management teams work with hard facts about the effects of their collective behavior, there are "*No fits, no fights, no feuds,"* instead, they are "*amigos, together*" (in the words of composer / lyricist Stephen Sondheim).

We recently surveyed leaders at five different levels in one large, global, high-tech company to collect data on the effectiveness of twelve categories of enabling systems that leaders use to affect behavior. (See accompanying box, Leadership Quotient of a High-Tech Company) In parallel interviews, we discovered that the company's executives held competing theories about the reasons why it was not as profitable as its competitors. When we then analyzed the survey data--and fed the results back to the top management team--they were able to compare the relative effectiveness of their systems to that of other companies. They discovered that they did well on about six of the key systems measured, and average on four, but that their scores for performance appraisal and decision making were near the low end of the scale. The data was unequivocal: top management wasn't holding operating heads to their commitments, and decision making was based more on relationships than on facts. The executive team, which had been in denial about some of this--and divided about what was causing the rest--was then able to come to grips with their organizational leadership problems, and to create an agenda for repairing the broken systems.

They also were able to identify a "concrete layer" in their hierarchy where the transmission of messages from the top was getting stuck on the way down the line. The executives then began a change process by feeding the survey data back to the next two levels of the organization, building consensus about the roles and responsibilities of each level, clearly identifying what needed to be done and by whom. In the process, they asked us to prepare cases of how other companies dealt with similar problems, and they discussed these in a series of four workshops over a two month period, building a common language about, and approach to, leadership. In sum, they were able to consciously build their organizational LQ by addressing the systems that had the greatest impact on the performance of their company: they learned how to measure performance more effectively, how to hold people accountable to their commitments, and how to use capital allocation more systematically. To do this, they found that they had to change the structure and function of their central staffs . By using such systemic levers, the executives became more effective change agents and leaders than in the past (when they had worked with organizational development experts to alter their individual leadership "styles"). They came away from the data-based exercise with the belief that, while leaders have to be born with charisma, they almost all could learn how to better manipulate a small set of enabling management systems. Moreover, they now had a way to measure the extent and degree to which the changes they had initiated had been adopted by leaders down and throughout the company.

The potential effectiveness of this approach should be particularly evident to those who have tried to change the behavior of a CEO—or of any executive whose career has been validated by rising to the top. Powerful executives tend to see leadership as positional. To them, by definition, the CEO is *the leader* of his or her company. We learned this first hand a couple of years ago we suggested to the CEO of a then-high-flying FORTUNE 500 company that he (and his executive team) might benefit from a leadership development program. He looked at us as if we were space aliens and testily replied, "If the board thought there was someone who was more qualified to lead this company, they would have named him instead of me." We believe it is not coincidental that this company has since gone into the tank, and that its CEO has be castigated frequently in the press for his "arrogance." Given that such ego-driven denial is fairly common in executive suites, it makes practical sense that the high-LQ companies in our study focus on identifying business-related activities as the source of leadership development—that is, they stress improving the ability of their leaders collectively to do their central tasks, rather than on trying to fix them as individuals.

The lesson we take from this is *not* that individual leadership behaviors are unimportant, but that in some cases, at least, it may be more effective to treat these as secondary to organizational issues. Moreover, it is far easier for leaders to learn to do things differently in terms of business processes than it is for them to change who they are (nearly a century of experience with psychoanalysis proves that it is almost impossible to change basic individual traits--and that the rare successes come only after considerable time and effort). We have found that, by reporting back the data generated in this study, leaders can see more clearly, and less-threateningly, how they have to change personally as leaders--and why they must do so--because the reason is business-related.

THE MORAL EQUIVALENT OF INDIVIDUAL LEADERSHIP

A message emerging from our study is that CEOs like Ken Lay don't need to know all the answers, and they don't have to do all the work of leadership by themselves. In fact, Lay defined his task as creating the systems under which others would be encouraged to do all the things that typically end up on the desk of do-it-all leaders. We believe that in many, if not most, corporations it is easier to motivate and reward leaders down the line to take up the mantle of leadership themselves than it is for a single CEO to provide detailed direction to hundreds, even thousands, of managers.

We conclude that the high-LQ companies we studied may have developed the moral equivalent of great, individual leadership. While having a Jack Welch, Tony Kobayashi, or Larry Ellison at the helm is obviously desirable--and companies who have such talented leaders are indeed fortunate--such good fortune is rare . But companies with a high-LQ get many of the benefits of such leadership, even if the individual in the executive suite is not a star performer. And when the individual in charge is sadly less-than-stellar, strong systems can help to make up for the morale-sapping effects of arbitrary, erratic, indecisive, weak, or egotistic leadership.

We have no illusions that the personality-driven model of leadership is headed for extinction, nor do we believe that it should be. Clearly it will continue in small and start-up companies, in organizations still headed by the founder, and in places where appeals to the human heart must be made in order to bring about drastic change that requires considerable sacrifice (paradoxically, the impetus to move toward the organizational model probably requires the personal leadership of a Bob Galvin or a Ken Lay, individuals willing to forego the exercise of personal power for the collective good of their enterprise). Nonetheless, we believe that more CEOs of large companies may be drawn to the organizational model of leadership for the simple reason that it is potentially more productive, and satisfying, to become a leader of leaders than it is to risk trying to look like George Washington while riding a white horse. The bad news--at least for those who like a *People Magazine* approach to business journalism--is that there may be fewer "cover boy" CEO leaders in coming decades. The good news is that there may also be much more effective corporate *leadership.* As we now have learned, leadership need not be just a solo act.

BOX "A"

UNEXPECTED FINDINGS

We began our enquiry with the assumption that it was possible to describe the leadership model of any given company in monolithic terms--as in, "there is a GE leadership model." The premise proved false. When we examined the data, in almost all of the companies we studied marked differences existed among respective business units. That is, inside each company we found a range and variety of leadership models at work, each stressing different business systems, and with varying degrees of success in terms of creating coherence and alignment and adaptability. In fact, we even found instances of organization-based leadership being practiced in business units where the CEO was a powerful personality in the traditional mode. Overall, we discovered that differences among business units are almost as great as differences between corporations in terms of both leadership models and performance.

We also started with the premise that leadership was a culturally determined activity and, hence, we would find different patterns of leadership behavior and effectiveness in Europe, Asia, and America. Consequently, we asked standard questions used by anthropologists to pinpoint, and statistically control for, cultural differences. But when we checked the data, we discovered another surprise:. results from surveys administered in Korea, Japan, India, France, Canada and the USA, showed little evidence of the cultural relativism that dominates academic theorizing about leadership. Instead, what we discovered is that differences in leadership behavior vary more within companies than they do among nations. For example: greater differences in leadership behavior were found within the business units of a single, large Asian corporation than existed, in general, between the Asian and American corporations we surveyed.

BOX "B"

RESEARCH METHODS

Our growing data bank now includes information gathered from surveys completed by over four thousand leaders at all hierarchical levels in ten large organizations based on threee continents. We also interviewed twenty to forty individuals in each of these companies to gain a qualitative perspective on each organization's perceived strengths and challenges and, in particular, how leaders used systems and processes to affect behavior.

The survey instrument asks a respondent to score his or her organization on sixty-five measures of behavior, for each measure giving two scores, the first for "managers directly above me," and the second for "people at my level." Instead of measuring attitudes, respondents are asked, on a seven point scale, to score the degree to which individual leaders did specific things (e.g., "hold people accountable for their performance").

Responses are grouped into scales designed to produce quantitative scores for each company in terms of the effectiveness of twelve enabling systems or leadership capabilities (for example, "Group Performance Measurement" and "Knowledge Transfer"), and four composite measures, Behavioral and Organizational Alignment, and Behavioral and Organizational Adaptability. This information is then analyzed and fed back to leaders of each company, allowing them to see how they score in comparison with other companies, how their various business units differ, and how leadership performance measures up at various levels within the organization.

[box C] ORACLE AND ENRON USE CONTRASTING LEADERSHIP MODELS TO DRIVE INNOVATION

ORACLE	ENRON
"You just can't have mavericks running around doing their own thing."	"If I had a good idea, I have no doubt, *none*, that I'd be able to do it."
• Very few ("less than 1%" of) ideas from outside the corporate core are developed	• Employees at almost all levels are allowed -- and expected -- to act on good ideas without prior approval
• Viable new ideas occasionally bubble up, but Oracle makes no investment in promoting innovation at lower levels	• All good ideas are funded
• Centralized structure for innovation, brand management, and shared services, with power concentrated in corporate core	• Separate business units are built around promising ideas and leaders at lower levels of the organization are given a chance to make them work
• Cultural lore focuses on Ellison's vision, charisma and personal exploits	• Cultural lore celebrates how bright, ambitious people create and run new businesses
• Employees are evaluated and rewarded strictly against top-down financial metrics	• Employees are evaluated in part on their ability to identify and exploit new business opportunities

BOX C CONTINUED

Top-Down Model

"Oracle's Battleship"

- Decision-making authority is concentrated in senior managers and is not pushed down to lower levels
- Innovation comes mainly from the top of the organization
- Mgmt. systems are designed to ensure that lower levels execute directives quickly and aggressively

CEO

Corporate Management

Business Unit Heads

Middle Management

Line Management

Non-Management

Decentralized Model

"Enron's Flotilla of Destroyers"

- Leaders throughout of the organization are empowered to make decisions consistent with corporate strategy
- Innovation is encouraged and expected at all levels
- Mgmt. systems are designed to promote autonomy, stimulate innovation and support sound decision-making at all levels

CEO

Corporate Management

Business Unit Heads

Middle Management

Line Management

Non-Management

Leadership Quotient of a High-Tech Company

<u>Organizational Capabilities (Enabling Systems)</u>

1. Vision / Strategy
Extent to which corporate strategy is reflected in goals and behaviors at all levels

2. Goal Setting / Planning
Extent to which challenging goals are used to drive performance

3. Capital Allocation
Extent to which capital allocation decisions are objective and systematic

4. Group Measurement
Extent to which actual performance is measured against established goals

5. Risk Management
Extent to which the company attempts to gauge and mitigate operating risks

6. Recruiting
Extent to which the company taps the best talent available

7 Professional Development
Extent to which employees are challenged and developed

8. Performance Appraisal
Extent to which individual appraisals are used to improve performance

9. Compensation
Extent to which financial incentives are used to drive desired behaviors

10. Decision-Making
Extent to which decision-making authority is delegated to lower levels

11. Communications
Extent to which management communicates the big picture

12. Knowledge Transfer
Extent to which necessary information is gathered, organized and disseminated

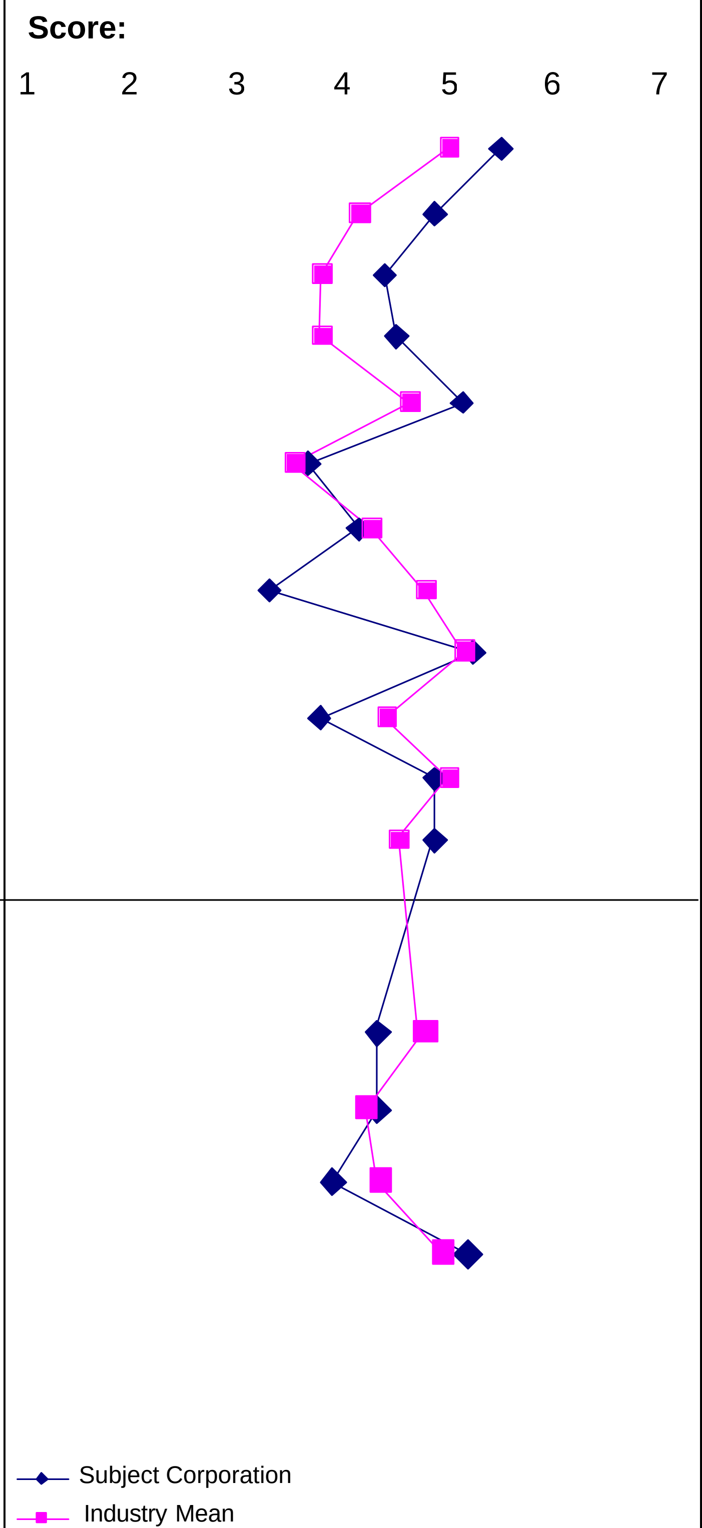
<u>Composite Measures</u>

1. Behavioral Alignment
Extent to which employees act in concert with the objectives of the organization

2. Behavioral Adaptability
Extent to which employees take initiative and behave like entrepreneurs

3. Organizational Alignment
Extent to which management systems support the overall objectives of the organization

4. Organizational Adaptability
Extent to which management systems promote responsiveness and innovation



(O'Toole, Research Professor at the University of Southern California's Center for Effective Organizations, is the author of fourteen books, including *Leadership A to Z: A Guide for the Appropriately Ambitious.* Pasternack is Managing Officer of the Organization and Strategic Leadership Center at Booz·Allen &Hamilton, and co-author of *The Centerless Corporation*. Last winter, in Davos, Switzerland, Pasternack presented first round findings from the World Economic Forum's knowledge initiative on Strategic Leadership, an in-depth look at how global corporations create the organizational capacity for renewal. This article is based on surveys and interviews conducted for that study. The authors gratefully acknowledge the contributions of the other members of the research team: Paul Anderson, Cristina Gibson, John Harris, Karen Van Nuys, Tom Williams, and Christian Wrede.)