Why do some companies flourish but others founder after the charismatic CEO leaves? A World Economic Forum/Booz-Allen & Hamilton study finds that the most effective firms make leadership more than a solo act.

Beyond the Cult of the CEO

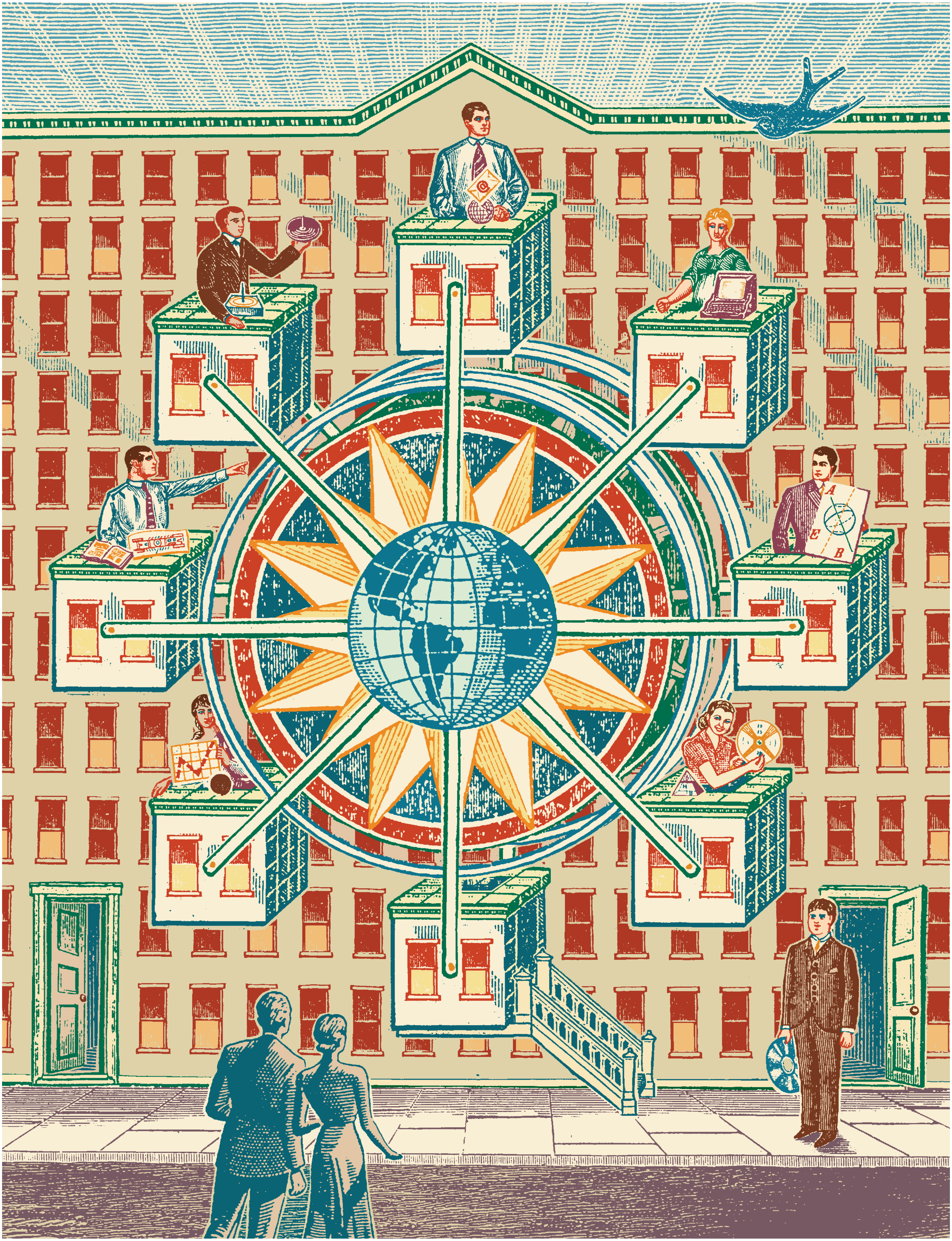
Building Institutional Leadership

by Bruce A. Pasternack, Thomas D. Williams, and Paul F. Anderson

Illustration by John Craig

Last September, Secretary-General Kofi Annan told the United Nations General Assembly that the most important lesson of the 20th century was that "centrally planned systems don't work." A decade ago, many delegates would have responded by banging their shoes on their desks or stalking out in protest. But now the world clearly has changed. Although the rulers in Beijing and their counterparts in Singapore aren't quite sold yet, most of the world has bought into the notion that political decisions in which the citizenry participates are better than fiats of dictators.

A similar sea change is under way in the corporate world.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Bruce A. Pasternack
(pasternack_bruce@bah.com)
is a senior vice president and managing partner of the Organization and Strategic Leadership Competency Center at Booz-Allen & Hamilton in San Francisco.

Thomas D. Williams
(williams_tom@bah.com)
is a vice president of Booz-Allen & Hamilton based in Munich and is the European head of the Organization and Strategic Leadership Competency Center.

Paul F. Anderson
(anderson_paul_f@bah.com)
is a senior vice president of Booz-Allen & Hamilton based in Chicago. He is an authority on the implications of globalization for the automotive industry.

After surveying thousands of executives and interviewing hundreds of them as part of the World Economic Forum's Strategic Leadership Project (see "Research Methodology," following page), we have discovered that many successful companies are creating systems that enable leadership to flourish up and down their ranks. Their success shows that leadership need not be a solo act performed by a charismatic CEO. Rather, leadership can be *an institutional capacity*, a strategic asset whose strength we measure as the institution's Leadership Quotient, or LQ. It can be developed, nurtured, and increased through appropriately directed effort.

Rather than an aria, leadership can be a chorus of diverse voices singing in unison. Consider these cases, most of which have cruised below the radar screen of the business press:

- At the Intel Corporation, engineers laboring deep in the viscera of the organization also serve as leaders of their own entrepreneurial startup companies — with the full blessing and financial support of the corporation.
- At Motorola Inc., a low-ranked manager in Division A sends e-mail to the president of Division B, suggesting a way the divisions can cooperate to develop a line of business. No titles are allowed on Motorola's intranet, and the president evaluates the idea on its merits rather than on the status of its initiator.
- At Hyundai Electronics Industries Company in South Korea, more than 50 managers from many levels in the hierarchy come together to design and implement systems to make the company more responsive to global competitive challenges.

These examples are more than delegation of authority or employee involvement. What these companies have in common is their use of systems and processes to institutionalize leadership behavior down the line. By examining their efforts to build LQ, we can better understand how such firms — among them General Electric Company, Nestlé SA, Motorola, and others whose names appear perennially on "most respected companies" lists — have institutionalized their leadership capacities and are able to renew themselves year after year, over the tenures of different CEOs, while other companies stall or fail.

The Inadequacy of Personalized Leadership

Although many an all-powerful business leader has compelled an organization to achieve a focused end (in the manner of former Soviet Premier Nikita Khrushchev ordering the creation of Sputnik, or the East German leadership establishing a sports factory to mass-produce Olympic gold medalists), evidence shows that such business leadership is unstable in the long run.

As in geopolitics, and for many of the same reasons, solo leadership in the corporate world is ultimately inefficient and ineffective, with a high risk of serious error. No one individual, no matter how gifted, can be right all the time; no one individual, particularly in a large organization, has the relevant information to make every important decision. Over time, resources become misallocated, opportunities are missed, innovation becomes stifled. Over-control saps initiative, and bureaucratic behavior ensues. Harold Geneen could single-handedly run the ITT Corporation, but after his retirement, the conglomerate crumbled like the Warsaw Pact after the fall of the Berlin Wall. The General Motors Corporation after Alfred Sloan, the Polaroid Corporation after Edwin Land, and the Coca-Cola Company after Roberto Goizueta all seemed to lose their way.

In a celebrity era that views corporations as reflections of the personalities who head them, institutional leadership capacity has not received anything like the attention showered on star CEOs. Business magazines celebrate not the managerial practices of Citigroup Inc., but the personal leadership of its CEO, Sanford Weill. The high-tech world is abuzz not with news of the Oracle Corporation's databases, but with the antics of its CEO, Larry Ellison.

Recent research by public relations firm Burson-Marsteller found that investors are willing to pay a premium for shares of a company with a celebrated CEO, joining journalists in a form of corporate transubstantiation that embodies the company in the character, biography, and charisma of its chief executive.

Academic theorists have done the same: The parsing of leadership styles has become de rigueur in American business schools. Professors 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 how to manage those perceptions. A growth industry called executive coaching caters to the leadership-impaired.

This focus on leadership as an individual trait skews analysis away from organizational factors that, in reality, are more important drivers of corporate performance. Although an institutional capacity for leadership is not new, it has always been obscured by the powerful light that emanates from high-profile leaders, as well as by the current wisdom that personalized leadership is essential, particularly in times of rapid change.

Most global companies operate, to one degree or another, under a traditional model of strong individual leadership at the top, and the quality of that leadership bears on the overall performance of those companies. Yet academicians have been unable to quantify the relationship between CEO style and organizational performance, and have, in fact, found little objective correlation between those two factors.

What's more, a look beneath many of the "personalized" success stories reveals a hidden pattern of institutionalized behavior. At GE, Jack Welch works overtime to build leadership bench strength throughout his organization, seeking, as he prepares to retire, to institutionalize leadership in the company's structure and systems. Even in Asia, where corporate power is often centralized in the hands of an owner/founder, many large publicly traded companies in South Korea, India, and Japan now seek to make leadership institutional, as opposed to individual. Since the death of Akio Morita, the Sony Corporation has moved to a more decentralized leadership model; at Fuji Xerox Company, the legendary CEO Yotaro "Tony" Kobayashi, as he prepares to retire, is generating major efforts to make the company far less dependent on a single leader.

At three of the most impressive corporate performers in recent years — Corning Inc., Continental Airlines Inc., and the Enron Corporation — many key leadership tasks are institutionalized in organizational systems, practices, and cultures. To an unusual degree, these companies are rich in leadership — men and women who take owner-like responsibility for financial performance and manag-

The Research Team

This article is based on surveys and interviews conducted for the World Economic Forum's Strategic Leadership Project. The authors were joined by their Booz-Allen & Hamilton colleagues John Harris, Karen Van Nuys, and Christian Wrede, as well as by Jennifer Blanke, representing the World Economic Forum. Professors Cristina Gibson and James O'Toole of the University of Southern California's Center for Effective Organizations participated in survey instrument design and data analysis.

Research Methodology

Surveys were completed by more than 4,000 leaders and managers at all levels in a dozen large organizations on three continents. We also interviewed 20 to 40 individuals in each of these companies. The survey asked respondents to score their organizations on 65 measures of behavior. Instead of measuring attitudes, respondents were asked to score, on a seven-point scale, how individual leaders did specific things (e.g., "hold people accountable for their performance"). Responses were grouped into scales designed to produce quantitative scores of the effectiveness of the 12 enabling systems or organizational capabilities (see p. 9). This information was then analyzed and fed back to leaders of each company, allowing them to see how they scored in comparison with other companies, how their various business units differed, and how leadership performance measured up at various levels within the organization.

The theoretical framework for the study was refined through discussions with Warren Bennis, Charles Handy, Ronald Heifetz, John Kay, Edward E. Lawler, James O'Toole (chair), and Jeffrey Pfeffer, at the time members of Booz-Allen & Hamilton's Academic Advisory Board. The authors thank all of them for their many contributions to this team effort.

Exhibit 1: **Using Contrasting Leadership Models to Drive Innovation**

Oracle	Enron
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
There is a centralized structure for innovation, brand management, and shared services, with power concentrated in the 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 Larry 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

ing risk, people at all levels who take initiative to solve problems, and even to start new businesses. Enron's Kenneth Lay, Continental's Gordon Bethune, and Corning's Roger Ackerman resist the ego-satisfying, media-approved urge to lead by push, particularly when times are rough and the fainthearted call for a strong hand at the helm. These CEOs understand that reverting to a Stalinist model of leadership would only destroy their credibility — and their organizations' overall capacities to be self-governing and self-renewing. Instead, they discipline themselves to practice good old capitalist leadership, using the pull of incentives linked to purpose. And no matter what happens, they trust in people and markets.

The Economics of Embedded Leadership

Significantly, at Enron, Continental, Corning, and other such corporations, although the business models vary, the emerging model of leadership embodies principles of accepted economic theory:

- **Minimal Organization.** The less structure the better, because people are rational and organizations only rarely so. Corporate activities are limited to those few things that require scale or rare technical expertise; everything else is left to individual initiative.
- **Decentralization of Decision Rights.** Better information leads to better decisions, so unless there is a compelling market-oriented reason for a decision to be made at the top of the hierarchy, the decision is delegated to the lowest appropriate level, where the best information resides.
- **Market Mechanisms.** The market is the most efficient mechanism for allocating resources, so central planning staffs and powerful budget offices are shunned in favor of market-like processes that allow scarce resources to flow to individuals or departments based on an objective assessment of profitability and risk.
- **Ownership.** Entrepreneurial behavior is desirable, so the rule is to fix accountability wherever possible by making people at all levels feel the consequences of their own decisions.
- **Rule of Law.** Capitalist nations need the rule of law in order for markets to operate effectively. Companies, too, need unambiguous rules that everyone understands — and the violators must go directly to jail without passing Go, even if they are making money for the company through their transgressions.

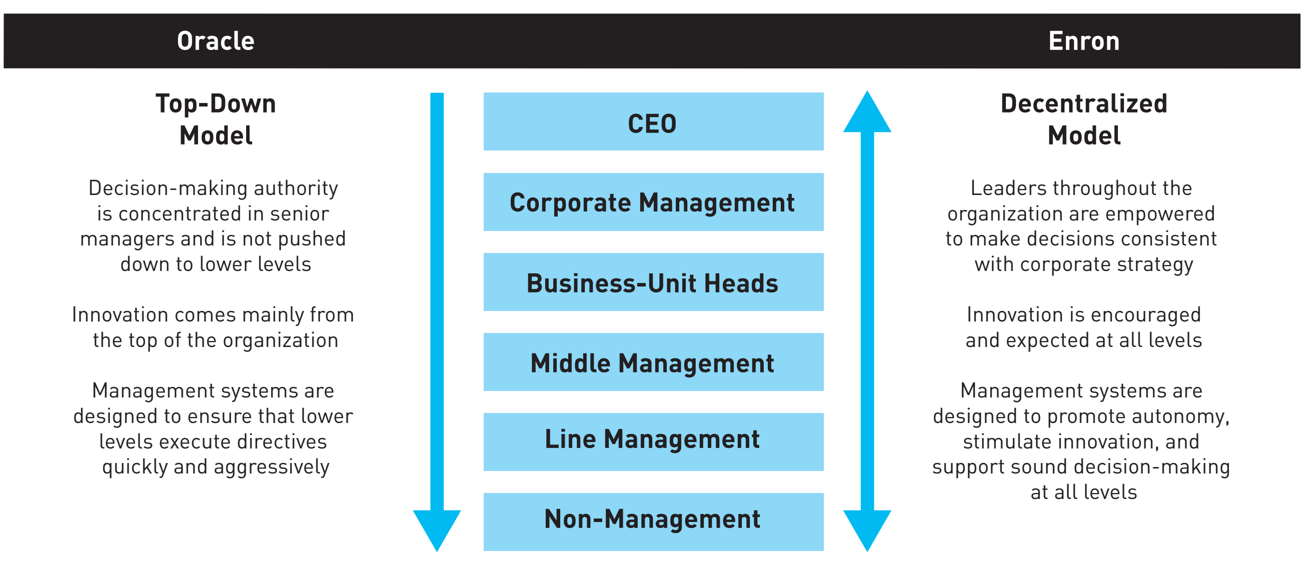
Surely, most corporate executives would assert their belief in these underlying principles of market capitalism. Yet they often behave in ways inconsistent with those beliefs. The reason is simple: Ego gets in the way. Nearly all CEOs think of themselves as the sort of all-knowing, tough, take-charge leader whose photo appears on the cover of *Forbes*, and they find irresistible the temptation to centralize authority in their offices, making all important capital allocation decisions themselves.

But some companies — and some business units within others — are characterized by a different pattern of leadership. Key tasks and responsibilities of leadership are institutionalized in the systems, practices, and cultures of the organization, and this practice warrants closer examination. Institutionalized leadership goes well beyond the now-well-known concept of cascading leadership, in which a strong leader empowers other leaders down the line. Cascading leadership depends on the support of whoever the leader is at any given time; it is personality-dependent. In high-LQ organizations, many people act more like owners and entrepreneurs than employees and hired hands. They assume owner-like responsibility for financial performance and management of risk, and they take initiative to solve problems, and, in general, act with a sense of urgency.

Institutionalized leadership is not necessarily the most effective approach in every case. Oracle and Enron, the fastest-growing companies of the 12 we studied, demonstrate the range of possibilities. (See Exhibits 1 and 2.) Oracle is a battleship commanded by a strong captain; its adaptability and innovation are largely driven by its CEO, who uses powerful management systems — particularly compensation — to ensure that lower-level managers execute his directives quickly and aggressively. Enron operates more like a flotilla of destroyers, in which responsibility for adaptability is shared. Responsibility for innovation is widely diffused and systematized; leaders throughout the company are empowered to make major innovations; management systems are designed to promote the autonomy to do so.

Companies like Enron and Intel do not pay much attention to traditional — that is, individual — leadership development. Instead of asking, "What qualities do we need to develop in our leader?" these companies ask,

Exhibit 2: **Oracle's "Battleship" vs. Enron's "Flotilla"**



"What qualities do we need to develop in our organization?" This approach has allowed Intel to outperform competitors over the tenures of CEOs Gordon Moore, Andrew Grove, and, now, Craig Barrett. Motorola has a decades-long pattern of self-renewal that has belied the predictions of Wall Street analysts who, on at least four occasions, wrote the company off as dead. The secret at Motorola, we suggest, is its strong institutionalized leadership capacity — its systems of participative decision-making, extensive training, and rewards linked to performance, all consciously created by former CEO Robert Galvin's leadership teams over a period of 30 years.

Alignment and Adaptability: Two Forms

One might assume, as we did initially, that leaders of all high-LQ organizations use enabling systems, in the manner of Motorola, to create alignment and adaptability, widely regarded as prime attributes of long-term success.

Alignment has come to mean that behavior throughout an organization is directed toward the achievement of shared goals: Through clear objectives and a commonly shared vision, alignment keeps a business focused. In this view, companies with high levels of alignment are "built to last," and the task of leadership is to get "the right fit" among such institutional systems as strategy, metrics, and rewards.

But alignment is not so simple. It can be a positive force, as at Continental Airlines, where alignment keeps employees focused on the importance of on-time arrivals. Or it can be a negative influence, as at Eastman Kodak Company, where alignment keeps the company anchored in habits of the past. This produces bureaucracy and deadly slow decision-making. With companies needing to detect changes in the external environment and to act quickly with the full force of their resources, inflexible alignment gets in the way.

That's where adaptability comes in. Organizational adaptability is the institutionalized ability to detect and cope with changes in the external environment, especially when such changes have been difficult to anticipate. Here, too, we found positive and negative aspects. Transformational adaptability involves the revolutionary reinvention of a corporation's business and often leads to lasting structural change. Mr. Ellison at Oracle, Sir John Browne at BP (formerly known as BP Amoco PLC), and Mr. Ackerman at Corning are acknowledged masters of this (witness Corning's strategic shift from rust-belt technologies to high-tech fiber optics). Incremental adaptability is also important, as it involves the constant fine-tuning of products and services, usually at market-oriented companies like 3M. But incremental adaptability is not enough in today's rapidly changing world.

Unexpectedly — and contrary to common wisdom — we found that no trade-off is necessary between organizational alignment and adaptability: In the highest-performing companies, they went hand in hand. Executives and staff in the best-aligned and most adaptable companies have the greatest confidence in their organizations' subjective performance. They believe their companies are achieving their fullest potential, satisfying customers, and producing enviable financial results.

At many high-LQ companies, not only are the operating systems directed to those ends, but leaders also view their prime task as *creating* those attributes. Enron, for example, aligns on adaptability: It rigorously measures and rewards the seemingly loose entrepreneurial behaviors of responding to market changes and taking risks. It uses systems of planning and budgeting to create organizational coherence around shared business objectives, while simultaneously encouraging the ability to meet discontinuous threats and opportunities.

The Role of Enabling Systems

When a company starts with the idea that leadership must be plural and systemic, the consequences are profound. At the ABB Group, for example, the internal accounting and information system, ABACUS, provides continuous access for — and to — more than 4,000 profit-center heads. This allows each to make the kind of risk assessments that other companies reserve for top management; it turns the profit-center heads into leaders, rather than just engineers or managers. (Confident that ABB's depth in leadership ensured the company's success, its

At Corning, dozens of teams were given full responsibility for finding and implementing $450 million in process and product changes.

former CEO, the highly regarded Percy N. Barnevik, stepped aside at age 55 to take on greater responsibilities for the Wallenberg family, ABB's largest shareholder).

Intel also treats leadership as an organizational trait. Through its New Business Investment Fund, Intel created a systemic way to enter new high-potential markets, turning the ideas of its most creative employees into start-up businesses. Paul Scagnetti, for example, was an engineer working on ways to package Intel's microprocessors when he hit on the idea of creating an electronic gadget to track the effects of daily exercise. At another company, he might have quit and gone in search of venture capital; at Intel, he was funded and made CEO of his own little company, Vivonic. If the product flies, Intel might spin off his company or keep it as a subsidiary; if it fails, Intel will retain Mr. Scagnetti as a valued employee. This strategy also helps Intel maintain a single-digit attrition rate in the overheated Silicon Valley job market.

The continuing success and successful CEO handoffs at ABB and Intel reflect more than good succession planning. The key factor is that neither company is dependent on any one, two, or half-dozen key individuals. Neither company is much concerned with individual leadership; instead, they focus on building a broad-based capacity to manage the systems that are at the heart of their respective successes. Other high-LQ companies do the same:

• The **Veritas Software Corporation** has been one of Wall Street's highest-performing companies over the last five years. Its chairman and CEO, Mark Leslie (who recently announced his retirement), says much of that success derives from the way Veritas uses communication systems to drive alignment. He broadcasts an e-mail message to every employee every week so they all know what the CEO is thinking about and doing and can begin to think like leaders themselves. Veritas holds monthly open staff meetings, encourages all staff to listen in on analysts' briefings, and has an in-house radio station that airs human-interest stories and personnel matters. These constant and candid communications contribute to a culture of trust. 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. (During discussions about one recent merger, five dozen managers were consulted, and no news leaked.) Like Intel, Veritas ranks among the companies with the lowest turnover in Silicon Valley.

• **Baxter International Inc.**, a $12 billion medical products company, has adopted a unique incentive system for pushing the sense of ownership deep. About five years ago, CEO Harry M.J. Kraemer Jr. encouraged the top 70 people in the company to take out personal loans of, on average, $2 million to buy Baxter stock. Suddenly, positive leadership behaviors spread through the ranks of top management. Instead of the 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 their personal capital is riding on their collective success.

• **Asda Group PLC**, Wal-Mart Stores Inc.'s British subsidiary, has been a pioneer in using decision-making systems to diffuse the sense of leadership throughout the company. Using systems with memorable names, the company puts the burden of continuous improvement on store and shift managers, as well as business-unit leaders. These systems include PIGS (Process Improvement Groups, to encourage quick experiments and share best

Enron built organizational agility by introducing a free labor market internally. Employees' salaries and even titles are portable.

practices across its 200 stores), 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 SHITMs (Store/Head-Office Interactive Trading Meetings, during which store managers make unresponsive managers from headquarters "walk the plank"). All were designed to keep the initiative for leading change concentrated at the lowest levels of the organization.

• At Corning "the ability to drive change often comes down to a simple yet resolutely abstract concept — leadership," Mr. Ackerman says. Not *his* leadership, but the emergent leadership of hundreds of Corning managers, engineers, and employees. Recently, dozens of cross-functional teams were given full responsibility to find $450 million in opportunities for process, product, and technological innovation, and then to implement the changes they identified. Top management's role is to create systems and processes by which others can lead and to reiterate frequently the purpose and importance of the effort. Corning consistently and consciously pushes leadership down in the corporation: A recent $3 billion acquisition was executed, in a matter of days, by a third-echelon manager.

Different in Countless Ways

In essence, we found something palpably different about companies that emphasize the construction of enabling systems, compared with those dependent on a single strong leader. When every leader's contributions are viewed as important, a concerted effort is made to define and to measure leadership behavior down the line. There also is accountability at all levels for how the enabling systems are used — and these companies make certain they are used.

We have identified 12 enabling systems for institutionalizing leadership. These systems are:

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

2. Goal-setting/Planning. The extent to which challenging goals are used to drive performance.

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

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

5. Risk Management. The extent to which the company measures and mitigates risk.

6. Recruiting. The extent to which the company taps the best talent available.

7. Professional Development. The extent to which employees are challenged and developed.

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

9. Incentives/Compensation. The extent to which financial incentives are used to drive desired behaviors.

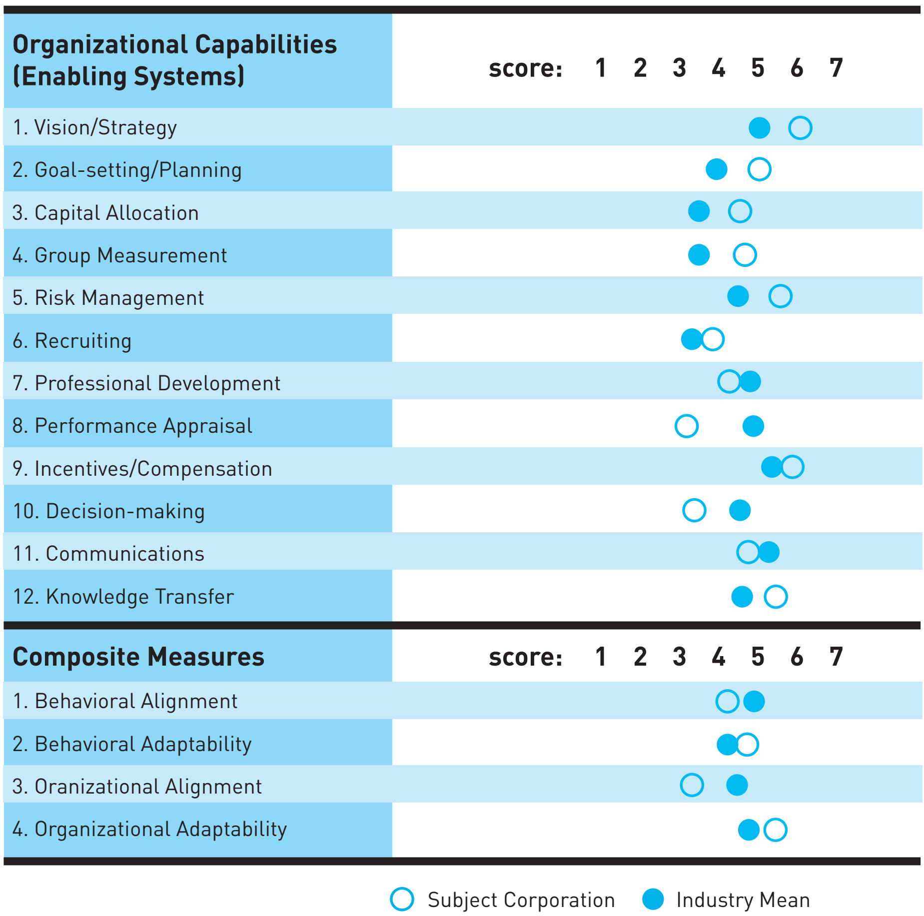
10. Decision-making. The extent to which decision-making authority is delegated to lower levels.

11. Communication. The extent to which management communicates the big picture.

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

None of the companies surveyed emphasized all 12 enabling systems. One company may stress communication, another planning. But managing just several of these systems better can significantly improve performance. The particular enabling systems a company chooses to emphasize should reflect the strategy, industry, or challenge it faces.

Exhibit 3: **Leadership Quotient of One High-Tech Company**



No pattern has emerged as to which systems a particular company chooses, nor is there a clear correlation between emphasis on a particular system and corporate performance. Whatever systems they choose to emphasize, the highest-performing companies *stick to their choices* in a disciplined way and *hold leaders at all levels accountable* for behaving consistently with the selected course. Leadership is thus a rational and analytical process — not a natural trait with which some fortunate few are born. In contrast, lower-performing companies are often characterized by inconsistent enforcement of systems, lack of follow-through in implementation of policy and change initiatives, and arbitrary behavior.

Enabling Systems at Enron and Fuji Xerox

Because Enron's flotilla model of leadership is unusual, let's examine it more closely. In the 1980s, Enron was a slow-growing Texas-based natural-gas pipeline company. As recently as a decade ago it was an unlikely candidate to be chosen as *Fortune*'s "most innovative company." But it was in 1999, and again in 2000. Today Enron is one of the fastest-growing, most entrepreneurial corporations in the world, moving into many new businesses, including power-marketing, bandwidth trading, and video delivery by wire. It transformed itself by creating the opportunity for many leaders at all levels to take risks, create businesses, and share in the fruits of their success.

Enron started the process of change through an expensive recruiting initiative. Competing against the enticements offered by high-tech companies and high-paying financial institutions, Enron persuaded a large cadre of MBAs from top schools to come to its Houston headquarters. Their unambiguous charge was to shake things up. Mr. Lay, the CEO, may not have had a detailed blueprint of what those energetic young people would do, but he created 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 has kept it up: Enron makes a vigorous recruiting effort each year.

To build organizational agility, the company introduced a free labor market, allowing employees to move around and providing training that enabled them to "own" their own employability. Employees' salaries and even their titles are portable. This system, says Enron's recently appointed CEO, Jeffrey K. Skilling, allows people to respond to "the recurring nature of nonrecurring events," leaving them free to move within Enron as growth areas open (or when bad news strikes). When one of Enron's traditionally strong businesses, fixed-price gas contracts, dried up in 1992, Mr. Skilling says, Enron "didn't miss a beat" as the free labor market allowed people to gravitate to other growing parts of the company. "We started our power-marketing business in 1993," he says, "so we redeployed almost painlessly."

In a clear example of what it means for leadership to be an organizational trait, all individual performance appraisals at Enron are made by committees composed of two dozen people. "Your performance rating comes from the organization, not your boss, so you have little risk to mobility," Mr. Skilling says.

In addition, Enron provides freedom to fail — if people take the right kinds of risks. Mr. Lay and his team give the 1,000-plus new leaders Enron has recruited the opportunity to run the businesses they create — and a healthy financial stake in their success. Enron was chosen in 2000 as one of *Fortune* magazine's "10 best corporations to work for."

Over the last dozen years, Fuji Xerox of Japan has led the way globally in shifting from analog to digital technology and from black-and-white to color copiers. These innovations came under the hand of Mr. Kobayashi. But now, with the copier business changing rapidly and the CEO contemplating retirement, he and his management team have begun a series of systemic efforts designed to bolster leadership capacity. In particular, they are emphasizing adaptability by changing recruiting and compensation systems to attract more innovation-minded and entrepreneurial employees and by altering the corporate structure to enable newly formed divisions to break precedent and take risks.

To give every employee the opportunity to be creative, the company launched an initiative called Virtual Hollywood. This very un-Japanese, un-Xerox-like program encourages groups of employees from all levels and functions to band together and create innovative ideas and new products in a process that one might liken to the making of independent movies. The teams can get quick funding for their ideas and move 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.

Using Data to Build LQ

Fuji Xerox's evolution demonstrates that companies can purposefully build their LQ. And one of the best methods of doing this is surveying organizational leadership capacities and then feeding the findings back through the management team. Using the systemic levers that surveys provide is a much more powerful agent for change than relying on executive charisma and on experts who teach executives how to alter their leadership style.

Using survey data as a tool makes it easy to put leadership on the agenda in a way that is company-wide, easy to digest, and less likely to make people defensive. When we surveyed leaders at four different levels of a global high-tech company, we discovered that executives had competing theories about why the company was not as profitable as its competitors. When we analyzed the data and fed the results back to top management, people were able to compare the relative effectiveness of their systems with those of other companies. (See Exhibit 3.) They discovered that their score was high on six of the 12 enabling systems we measured, and was average on four. But in the categories of performance appraisal and decision-making, their scores were near the low end of the scale.

The data was unequivocal: Members of top management weren't holding operating heads to their commitments, and decision-making was based more on relationships than on facts.

The executive team had been in denial about some of this, but the data helped force the team to acknowledge those organizational leadership problems and to create an agenda for repairing the broken systems. First, the executive team was able to identify a "concrete layer" in the hierarchy where the transmission of messages was getting stuck on the way down the line. By feeding the survey data back to the next two levels of the organization, the executives were able to build consensus about what needed to be done and by whom.

They also analyzed how other companies dealt with similar problems and, over two months, discussed these and built a common language about, and approach to, leadership. To get where it wanted the company to be, the team concluded that it had to change the structure and function of its central staff.

The executive team learned how to measure performance more effectively, how to hold people accountable to their commitments, and how to use capital allocation more systematically. In sum, the team greatly increased its LQ. The executives came away from the data-based exercise with the belief that although leaders cannot be taught charisma, they can learn how to manipulate enabling management systems better.

Six months after the first survey, a second survey found statistically meaningful change in four high-leverage systems that the executive team had chosen to pinpoint for improvement.

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: In this view, by definition, the CEO is *the* leader of his or her company. High-LQ companies can counter this by identifying business-related activities as the source of leadership development — that is, stressing the ability of the collective leadership to do its central tasks, rather than trying to strengthen each individual leader. It's not that individual leadership behaviors are unimportant, but that, in many cases, they should be secondary to organizational issues. It is far easier for leaders to learn to do things differently in terms of business processes than to change who they are.

Individual Leadership's Institutional Equivalent

Mr. Lay at Enron doesn't think he needs to know all the answers. He defines his task as creating systems under which others are encouraged to do all the things that typically end up on the desk of do-it-all leaders. Like Mr. Lay, we believe it is easier to motivate and reward people down the line who take up the mantle of leadership than it is to provide direction to hundreds or thousands of managers.

When high-LQ companies succeed, they develop the institutional equivalent of great individual leadership. The good fortune of having a Jack Welch, Tony Kobayashi, or Larry Ellison at the helm is as rare as it is desirable. However, high-LQ companies get many of the benefits of such leadership, even without a superstar in the executive suite. Strong systems can also offset the morale-sapping effects of arbitrary, erratic, indecisive, weak, or egotistic leadership.

Certainly, the personality-driven model of leadership is not headed for extinction, nor should it be. It will continue in small and startup companies, in organizations still headed by the founder, and in places where appeals to the human heart are needed to bring about drastic change that requires considerable sacrifice. Nonetheless, CEOs of large companies should come to see that it is more productive and satisfying to become a leader of leaders than to go it alone. A scarcity of "cover boy" CEOs might be bad news for celebrity-driven journalism, but more effective corporate leadership on a broad front will be good news for everyone else. +

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