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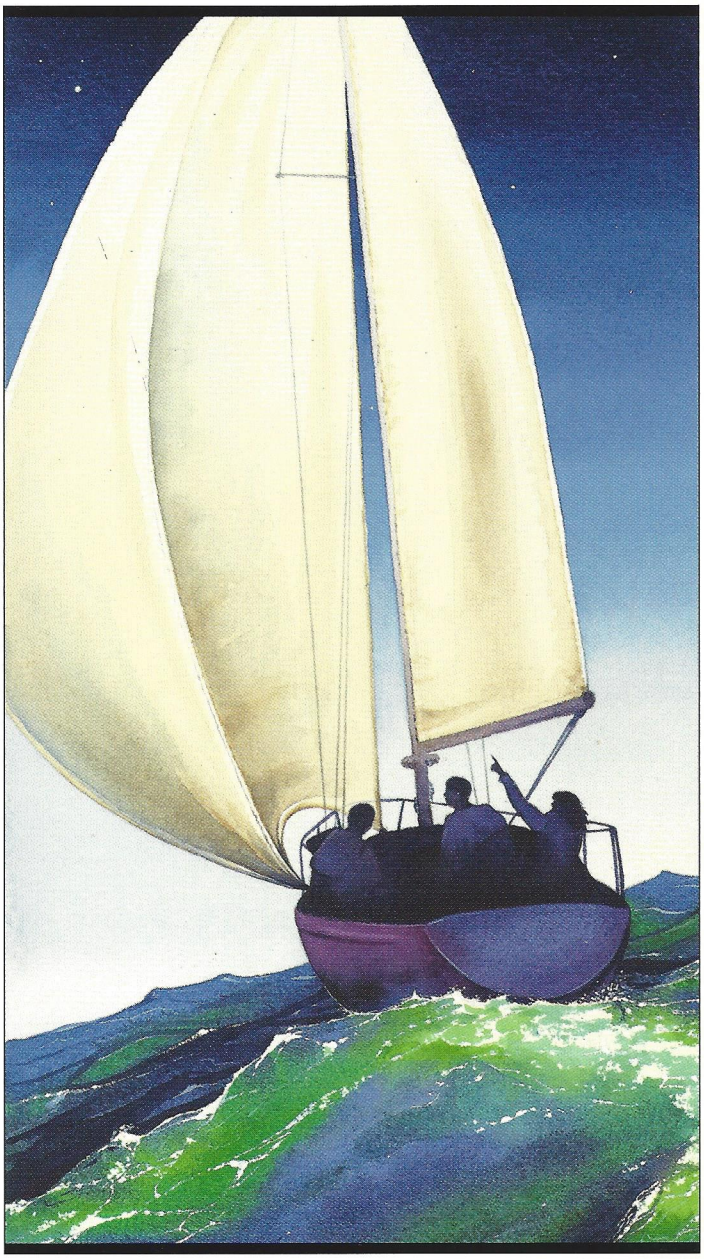

PETER F. DRUCKER

THE DISCIPLINE OF INNOVATION

What leaders must do to support change

PETER M. SENGE

THE PRACTICE OF INNOVATION

Why good intentions are not enough

DORIS KEARNS GOODWIN

LESSONS OF PRESIDENTIAL LEADERSHIP

Ten leadership strategies from the masters of the trade

SKIP LEFAUVE

GETTING RESULTS WHILE KEEPING YOUR SOUL

Five keys to real-world performance

RICHARD PASCALE
ANNE MILLER

ACTING YOUR WAY INTO A NEW WAY OF THINKING

A model for large-scale transformation

PATRICIA O'TOOLE

REINVENTING "THE GOSPEL OF WEALTH"

A leadership challenge for the new millennium

Acting Your Way into a New Way of Thinking

BY RICHARD PASCALE AND ANNE MILLER

Until recently, there has been little convincing evidence that transformational change is achievable. For all the hype, time-consuming group experiences, consultant advice, and investment of managerial credibility, we have very few unambiguous success stories. (So treacherous is this territory that the experts have a tough time agreeing on even five clear-cut organizational transformations that have occurred within the past ten years!) The cause of this disenchantment is simple enough—what we *say* and *think* is far easier to change than what we *do*. This is as true for organizations as for individuals.

However, pathbreaking innovations by two unlikely institutions—Royal Dutch Shell ($130 billion in annual revenues, 101,000 employees in 130 countries) and the U.S. Army ($60 billion in operating expenses, 600,000 soldiers and civilian employees deployed around the globe)—are demonstrating that replicable, sustainable, and profound transformation can be achieved.

The common denominator can be captured by a simple, profound, and paradoxical truth about most deep learning in adulthood: *We are much more likely to act our way into a new way of thinking than think our way into a new way of acting.*

This concept has been translated into action at Shell and the U.S. Army. Four essential design principles bring to life the change efforts of both organizations.

- A compelling, close-to-real-life experience is used to stress the team that needs to work together. These situations must be prolonged and intense enough to unfreeze the current social order—forcing members outside their comfort zone into ambiguous and uncharted territory.

- Skilled coaches maintain the tension and facilitate learning. Their work includes keeping group attention focused on the task at hand, moderating distress so that it

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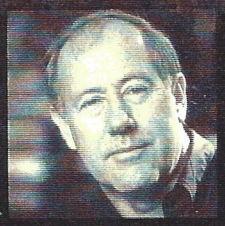
does not become dysfunctional, and handling the conflict that arises as groups struggle to find answers. The challenge is to maintain an environment that is intense enough to foster change but safe enough to promote learning.

• Leaders (particularly senior leaders) often take the heaviest impact from these experiences. Their traditional repertoire (which often relies on authority, expertise, or heightened levels of control) typically fails in the work of transformation. Achieving a breakthrough in performance requires a breakthrough in methods—an outcome rarely accessed via traditional leadership approaches. Keeping leaders in the hot seat through the trials of discovering a better way requires enormous commitment to stay the course.

• The cutting edge for learning is honed by real data—not subjective impressions. Both Shell and the U.S. Army have gone to extraordinary lengths to gather "ground truth"—an incontrovertible facts-base on customers, competitors, and the efficacy of one's own responses. New understandings, grounded in these facts, become embedded in new systems, rewards, and values.



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Transforming the Army

These design principles can be witnessed in action at the U.S. Army's National Training Centers (NTCs), arguably the most powerful organizational change experiences on the planet. The Army maintains three of these facilities—one for training smaller units for peace keeping, insurgency, and guerrilla warfare at Fort Polk, Louisiana (which includes towns and villages populated with impromptu actors playing the role of innocent civilians, hecklers, or demonstrators); a second for mechanized warfare at Fort Irwin, California (which encompasses nearly a million acres of rugged terrain in the Mojave Desert); and a hybrid facility in Germany.

For some, crediting the Army with a sustained transformation and state-of-the-art training is an oxymoron. Reconsider. General Gordon R. Sullivan, recently retired chief of staff—in effect, CEO—of the Army, states: "Following Vietnam, it was evident to many that the Army needed to reinvent itself. Yet, even with the successes of the Gulf War, the requirement for continuous renewal has been unrelenting. . . . The paradox of war in the Information Age is one of managing massive amounts of information and resisting the temptation to over-control with it. The competitive advantage is nullified when you try to run decisions up and down the chain of command. Every platoon and tank crew has real-time information on what is going on around them. Once the commander's intent is understood, decisions must be devolved to the lowest possible level to allow these front-line soldiers to exploit the opportunities that develop. As the eighth largest army in the world today, we must punch above our weight. We can do this by combining the best technology with an organization that is agile enough to exploit it."

Each afternoon at Fort Irwin, the brigade commander receives his assignment: "penetrate enemy defenses" or "defend your sector against a superior force." Inside crowded command tents, 30 to 40 staff officers and senior fighting unit commanders study the situation and endeavor to hammer out a winning strategy. By late

afternoon these intentions begin to filter out to 3,000 soldiers dispersed across many square miles of rugged terrain. Tank crews and platoons are briefed, minefields laid, artillery and helicopters coordinated, reconnaissance initiated. Only the munitions are not real. Commencing at midnight, both friendly and enemy probes get under way.

By dawn, the day's battle is in full swing. The "enemy" (the 11th Armored Cavalry Division) is permanently stationed at Fort Irwin. They know the terrain, behave unpredictably, and almost always devastate the unit in training. And it is all recorded. Perched on mountain tops, powerful video cameras zoom in on the hot spots. An elaborate laser-based technology precisely tracks when and where each weapon is fired, electronically disabling any fighting unit that gets hit. Audiotapes record communication and confusion over the voice net. By 11 A.M., the battle's outcome has been decided. Within 90 minutes, the respective observer/controllers begin to pull each combat team together near a piece of terrain that had been pivotal to their part in the day's battle.

Anne Miller is a cofounder and director of Genesis Affiliates, an international network of consultants that shares proprietary approaches with clients and others committed to large-scale corporate transformation. Miller was formerly a principal with CSC Index and has worked in Asia, South America, southern Africa, Europe, and the United States. She is based in London.

This critical part of the learning design is called an After Action Review (AAR). During one typical AAR, a team of two armored platoons has pulled into a tight circle in the shade of a desert outcropping. The fighting is in its fifth day. Exhaustion is evident. The unit was annihilated in the recent battle. The observer/controller asks a tank gunnery sergeant to explain his understanding of their mission:

Sergeant: Our overall mission was to destroy the enemy at objective K–2.

Observer/Controller: Why was this important? And do you know what your tank's particular role was in all of this?

Sergeant: I'm not sure.

Observer/Controller: Can anyone help?

A trickle of comments builds into a flood of discussion. It becomes evident that only the lieutenant in charge understood the rationale behind the mission. Individual units were not coordinated and had not concentrated on a particular sector of fire. Nor had they grasped that their main task together was to drive the enemy column away from a weak point in the defenses into a zone where they were within range of other friendly tanks and artillery.

Key learning points for the next day are recorded on a flip chart. Each soldier leaves with a picture of what he was in the middle of but could not see, and each has contributed to this composite understanding. Day after day, key themes are reinforced: (1) Everyone needs to understand the big picture. (2) Everyone needs to *think*. (3) Always put yourself in the shoes of an uncooperative enemy. (4) Prepare well enough that you are not surprised by surprise. (5) Put hierarchy aside, foster self-criticism, and learn to work as a team. States Brigadier General Leon La Porte, former commander of the NTC, "I learned more in the NTC in 14 days than I had learned in the previous 14 years of my career. . . . Day after day, you are confronted with the hard evidence of discrepancies between intentions and faulty execution, between what you wanted the enemy to do and what he actually did. The NTC trains you *how* to think, not what to think. It prepares you for the fast pace and unforeseeable events of Information Age warfare."

Since NTC's inception, the Army's 600,000 men and women have rotated through its programs one and a half times; most of the upper, middle, and senior officers and NCOs three times. Brigadier General W. (Scott) Wallace, former commander of the National Training Center, observes, "The National Training Centers and the After Action Review have democratized the Army. They have instilled a discipline of relentlessly questioning everything we do. Above all, this has resocialized three generations of officers to move away from a command and control style of leadership to one that takes advantage of distributed intelligence. It has enabled us to learn that we can never become too wedded to our script for combat and to remain versatile enough to exploit the 'broken plays' that inevitably develop in the confusion of battle."

In the most profound sense, the Army has resocialized itself from top to bottom—one regiment at a time. Over two decades, this has dramatically altered both the culture and performance of this enormous institution.

Put hierarchy aside, foster self-criticism, and learn to work as a team.

What works for the Army may not work for corporations. Armies have unique features—among them the ability to take a large "business unit" off-site for two weeks without losing "customers," and the training vehicle of battle, effective because of the close-to-life realism of the NTC. Mock battles are a perfect simulation since, after all, armies fight wars. Simulations of the business environment are much harder to create. Corporations face demanding customers, unpredictable competitors, and entrepreneurial risk. How do you create a business simulation with real-world complexity and inescapable relevance? For the answer, we turn to Royal Dutch Shell.

Action Labs at Shell

Royal Dutch Shell is often cited as the world's largest business—but certainly not one of the most agile. With its long history, deeply instilled sense of tradition, and carefully structured practices, Shell has never been a benchmark for cultural change or marketplace innovation.

In the early 1990s Shell was falling victim to its hundred-year history. While profits continued to roll in, fissures were forming beneath the surface. From 1992 to 1995, a full 50 percent of Shell's retail revenues in France were lost to Europe's fast-growing hypermarkets. Elsewhere in the world, new competitors, global customers (such as British Airways and Daimler Benz), and more savvy national oil companies were pressing for radical change.

In 1996, Steve Miller, then 51, was named head of Shell's Worldwide Oil Products business. With this appointment, Miller became a member of Shell's Committee of Managing Directors—the five senior leaders who guide the day-to-day activities of the Shell Group. Over the previous two years, the company had been engaged in a program to "transform" the organization. But neither the massive reorganization, traumatic downsizing, nor thousands of hours spent in senior management workshops had produced meaningful results. While Shell's earnings were solid, financial analysts were disappointed with its overall market performance.

Employees registered widespread resignation and cynicism. And the operating units at the "coal face" (Shell's term for its front-line activities), saw little more than business as usual.

For Miller, Shell's impenetrable culture was especially worrisome. His responsibility for the downstream business (comprising dozens of product lines from fuels to lubricants to asphalt, and operations stretching from Supply & Trading to Manufacturing and Marketing) accounts for 40 percent of Shell's assets. Among the businesses in the Shell Group's portfolio, this suite of businesses faced the gravest competitive threats. Miller believed it was essential to reach around the resistant bureaucracy and involve the front lines of the organization—a formidable task given the sheer size of the operation. Shell's 47,000 filling stations, for example, employ tens of thousands of service personnel to serve approximately 10 million customers a day.

Executives at Shell had been observing the NTCs throughout the 1990s. The confounding question remained: How do you do this in a business context? The answer was simpler than one might expect. Instead of a mock enemy, use real-life customers and competitors. Instead of a simulated experience, use the real world. Instead of resocializing 3,000 people at a time, use wave after wave of small initiative teams to overload Shell's traditional way of doing things and push the larger system into a whole new order. Results? Shell's Action Labs have spawned a chain reaction of initiatives within the system, and Shell has increased its market lead over its largest competitors.

Reach around the bureaucracy and involve the front lines.

Efforts now under way at Shell are writing a new chapter on the technology of large-scale transformation. Giving the rank and file practical business tools developed by Columbia's Larry Selden, and with important process design help from University of Michigan's Noel Tichy, Miller and his colleagues at Shell evolved a methodology that is as revolutionary in the customer-centered world of sales and marketing as Toyota's Total Quality program was in the domain of manufacturing.

The key, says Miller, was to extend the change effort beyond the reach of a single leader or team, shifting the enterprise from a wholesale to a retail orientation. Miller brought six- to eight-person teams or Action Labs (from operating companies in Asia, Africa, Europe and Latin America) into an intense "retailing boot camp": five-day workshops focusing on market-development and leadership skills. As the first group went home, six more teams would rotate in. Over the next 120 days the first teams sampled customers, identified segments, and developed a value proposition—then returned to the workshop with a business plan.

One of the most important innovations for leading change was "the fishbowl," says Miller. In these sessions, Miller and a number of his management team sit in the middle of a room with an Action Lab. The other team members listen from the outer circle as the group in the hot seat talks about what they're going to do, and what they need from management in order to be able to do it. "That may not sound revolutionary," says Miller, "but in our culture it was very unusual for anyone lower in the organization to talk this directly to a managing director and his reports."

In the fishbowl, Miller adds, there is even more pressure on him and his colleagues than on the team that is presenting. Letting a weak or flawed plan pass without comment or with false praise would undermine managers' credibility. "The first time we're not consistent, we're dead meat," says Miller. "That kind of straight talk is another big culture change for Shell."

Braced by this feedback, the Action Labs went back to the field for another 60 days to put their ideas into action, then returned to analyze the breakdowns and breakthroughs. These breakthroughs in retail performance resulted in local company turnarounds in Europe and enhanced positions of strength in the Far East and Latin America.

"Week after week, team after team, I, my six direct reports and our cadre of internal coaches at Shell worked directly with a diverse cross-section of customers, dealers, 50-year-old shop stewards, and young and midlevel professionals from over 25 countries representing over 85 percent of Shell's retail sales volume," says Miller. "Operating company CEOs, historically leery of any 'help' from headquarters, saw their people return energized and armed with solid plans to beat the competition. The participants got to touch and feel the 'New Shell'—a more informal give-and-take culture. And best, we all learned!"

God Is in the Details

It's one thing to put people through a workshop, challenge them to achieve breakthrough results, and tell them that periodic failure is part of the learning experience. The first question such teams invariably ask is: "Do they really mean it?" As they look to others for the answer, they encounter conflicting views. Ultimately there is an epiphany as the participants realize it is up to them. Senior management actually needs their help. The facilitators coach participants through the eye of this emotional needle, encouraging participants to have the courage to create the answer themselves. Techniques for dealing constructively with conflict are introduced to help the lab participants surface and resolve issues among themselves and others.

All this points to a paradoxical rule of thumb for such undertakings: When an Action Lab is not experiencing upsets or failures, it is probably not being bold enough. While Steve Miller, his top team, and the sponsoring country managers might regard the lab as a 'safe haven,' participants usually feel they are walking a tightrope between tepid results that will make them appear foolish and proposals so bold as to endanger their future career prospects.

When a team is not experiencing upsets or failures, it is probably not being bold enough.

Shell's particular means of harnessing the design principles noted earlier contain a number of innovative touches. First, the individuals sent from each of the operating companies were carefully selected—informal leaders including account executives, tanker truck drivers, dealers, and refinery operators. When such individuals returned home as advocates of a particular market opportunity, they had the credibility to mobilize others. Second, realism was provided by the expectation that each Action Lab would have a major impact on business results. This was no academic exercise. Their business plans, once accepted, would be bankrolled by the most senior executives in the downstream business. Pressure

to succeed, long hours during the workshops and back in country (where these individuals continued to carry their regular duties along with project work) achieved the cultural unfreezing effects. Participants were re-socialized by necessity into a much more direct and informal and much less hierarchical way of working.

Shell evolved its version of ground truth, scrutinizing the customer surveys and competitive data collected by each team. This was the facts-base from which the business case was built and performance (with pay at risk) ultimately measured.

As in the Army's case, for profound change to take root it had to affect senior executives as much as it did participants. Miller spent fully half his time for nearly two years working with the initiative teams. He staked his own credibility on their success—for example, by the end of 1997 the French operating company had regained initiative and achieved double-digit growth, return on capital, and market share.

Profound change must affect senior executives as much as participants.

Says Miller, "I and my direct reports felt a heightened commitment to the people we trained and who go back to their businesses to make it happen. Those are *our* people now—not just abstract 'head count.' It's the same feeling you have as a teacher, a coach, or even a parent. . . . You want to do it for them, you want to make it all come out right—but you can't. What you *can* do is to feel for them."

But more than empathize, leaders must also give up control. That, says Miller, is difficult, but brings unexpected benefits: "What you don't realize until you do it is that you may, in fact, have more control—but in a different fashion. You get more feedback than before, you learn more than before, you know more through your own people about what's going on in the marketplace and with customers than before. But you still have to let go of the old sense of control. . . . In the end, these folks go back and say, 'I just cut a deal with the managing director and his team to do these things.' It has completely changed the dynamics of our operation."

A Tool for Transformation

Twenty years ago, who would have imagined that the U.S. Army would become a benchmark of change studied by large corporations and governments around the world? A program of war-fighting simulations and After Action Reviews brought the unwieldy organization to that point. Similarly at Shell, who would have imagined that a managing director and his team would reallocate up to 50 percent of their time to work with front-line employees, eventually achieving a critical mass for change? The simple model of Action Labs was perfected and replicated, in turn spawning hundreds of initiative teams throughout this huge company and making it a model of agility as well as strength.

In ways that appear outwardly different but that share common principles and disciplines, the Army and Shell have both tapped into the distributed intelligence within their organizations and vastly strengthened the linkages between senior executives and front-line employees (see sidebar). The action learning environment has brought to the fore a new generation of leaders

who might otherwise have been tuned out and turned off. Finally, and most surprisingly, the followers, in a well-orchestrated process, become powerful teachers for senior executives and, through their commitment and enthusiasm, have actually made believers of those in the jaded ranks above them. By relocating initiative, redefining leadership, and forging a new relationship with failures, Shell and the Army continue to act their way into a new way of thinking—not a bad formula in a world in which ongoing reinvention may be the most important capability for future success. ■

Disciplines of Sustained Transformation

These seven disciplines are key to sustaining change:

• *Intricate understanding of the business.* An organization's members do best when they can bridge the gap between overall strategy and individual performance. An understanding of both the big picture and the particulars of their situation enables people to connect the broad strategic intentions and operational factors that are keys to execution and ultimate success.

• *Uncompromising straight talk.* The Army's After Action Review is predicated on a frank exchange among soldiers as they sort through the confusion of battle and figure out where things went wrong. Likewise, Shell's "fishbowl" is a crucible for constructive honesty. Meaningful change is impossible without such questioning.

• *Managing from the future.* The leader's job is to bring perspective to the process of moving forward—not standing in the present trying to pull the leaden past toward a future goal, but offering a vision that creates new imperatives. When Steve Miller defined Shell's inevitable future as a retailer, a stream of appropriate innovations flowed forth.

• *Harnessing setbacks.* Human beings are hard-wired to react adversely to mistakes. But effective leaders recontextualize failure, treat breakdowns as a source of future breakthroughs, see defeat as an opportunity. Change agents, coaches, and facilitators extol the benefits of "controlled failure" until everyone learns to embrace setbacks as windows to learning.

• *Inventive accountability.* Close contests are won by exploiting the enemy's broken plays. Both Army combat units and Shell business teams, once fully proficient, are encouraged to improvise—held accountable to achieve the goals established but given the latitude to press an unforeseen advantage.

• *Understanding the quid pro quo.* It takes more than "enhanced employability" to inspire the kind of deep, creative commitment and enthusiasm that organizations so badly need. It takes a sense of meaning in the work strong enough to generate intrinsic satisfaction. It also takes having a real say in the company's destiny.

• *Relentless discomfort with the status quo.* The AAR is based on the notion that people can improve on everything they do. But that requires us to internalize a repeated, gnawing question: "How can we do this still better (faster, cheaper)? Is there a radical new approach we haven't thought of yet?" Day in and day out, people must become accustomed to questioning the practices and assumptions they take for granted.

Based on work by Richard Pascale, Mark Millemann, and Linda Gioja