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Leading a Virtuous Spiral Organization

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In today's organizations it is impossible to separate the performance and well being of organizations from the performance and well being of their members. In order to provide people with meaningful work and rewards organizations need to be successful. And to be successful, organizations need high performing individuals. The challenge is to design organizations that perform at high levels and treat people in ways that are motivating and satisfying.

Treating people in ways that lead to both organizations and their members being successful is not easy to implement. It takes visionary leadership and skilled management. It requires a wide range of well thought-out structures, programs, and practices that are oriented toward motivating people to perform at their *highest* levels. And it takes commitment and dedication to creating an environment where management and employees genuinely respect and value each other.

Virtuous Spirals of Success

When both individuals and organizations achieve more and more of their goals, I call this relationship a "virtuous spiral." Virtuous spiral relationships come about when an organization values and rewards its people, and as a result, they are committed to performing well. Through their performance, people can propel their organizations to higher levels of accomplishment, and as a result they are able to reward them better and to attract and retain highly talented people. This in turn spirals the organization to higher and higher levels of performance. Virtuous spirals are actually the ultimate competitive

advantage – powerful and hard to duplicate sources of positive momentum, and higher and higher levels of performance.

Developing and maintaining a virtuous spiral requires going far beyond simply being nice to people and treating them fairly. It means developing a wide array of human capital management practices that motivate people to excel and reward them when they achieve high levels of performance. And it takes people making greater commitments to their organization and becoming responsible for their behaviors.

A virtuous spiral begins when an organization's leaders take intelligent, strategy-driven, conscious actions to attract, retain, motivate, develop and effectively organize committed, talented individuals. This generates a high-performance organization. It boosts the rewards for employees, which increases their motivation and commitment. The more challenging and rewarding environment that results further reinforces the organization's ability to attract, retain and develop effective employees, who further positively affect performance. Thus a virtuous spiral forms and expands, carrying the organization and its members to greater heights. Figure 1 captures this in graphic form.

Virtuous Spiral Organizations

Let me present three examples of organizations that have achieved impressive results due to their dedication to treating people right. Microsoft is one of the most impressive examples of a company that has profited from a virtuous spiral relationship with its people for decades. Since the early 1980's, the company has had an environment in which its employees have done well and the company has done well. The employees have had challenging work and, of course, one of the most highly rewarding stock plans around. Microsoft has been an enormously attractive place to work, especially for high

performers. As a result it has attracted some of the country's top software engineers and marketing executives.

Southwest Airlines is a second example of an organization that has managed to maintain a virtuous spiral for decades. From its very beginning, Southwest was a human capital-focused organization that sought a high-quality relationship with its employees. Its founder, Herb Kelleher, stressed from day one that the company's competitive advantage is its people. The result has been excellent customer service and an absence of the hostile labor relationship that is characteristic of every other major airline. Despite being highly unionized, Southwest has never had a strike and is frequently mentioned as one of the best places to work.

Like many other organizations that have created virtuous spirals, there is no one secret to Southwest's success. The company has emphasized the careful selection of employees, building a employee-friendly work environment, giving employees freedom to control their jobs and work environment, profit sharing and stock ownership for all employees, and the opportunity for employees to grow and develop, and advance in the company.

Procter & Gamble is yet another example. Though the company is over 100 years old, the past 40 years of its existence have been marked by many forward-thinking efforts to establish a virtuous spiral relationship with its employees based on an employee-involvement and the development of leaders throughout the company. P&G was an early adopter of employee involvement practices in its manufacturing plants. It also has a stock ownership plan that has placed over 30% of its stock into the hands of its employees.

Creating a virtuous spiral is something most organizations can do. I have identified seven principles that are key to organizations developing virtuous spirals. These seven principles, which are summarized in Exhibit 1, can be used to guide a wide assortment of specific practices and design choices. For the rest of this article I will focus on one of them: Effective leadership; it is simultaneously the most complex one to put into place and the one which must be the glue which holds the others together.

Lead People Right

To say that effective leadership is critical to having a virtuous spiral is an understatement. The leadership of managers at all levels in an organization has an impact on both individual and organizational effectiveness. It determines the type of relationships that people develop with organizations, how motivated they are, how long they stay, and how they treat customers and other employees. Leadership behavior at the top has a particularly strong impact on the strategic direction of organizations and their operating effectiveness. Organizations can do a number of things to be sure they have managers who are effective leaders.

Developing a Leadership Brand

Just as it is useful to brand your organization's business value proposition, branding its leadership style is an effective practice to distinguish your company in the marketplace. Having a clearly identified leadership style can be a powerful factor in attracting, retaining, and motivating the right employees. A positive leadership brand that permeates the organization can also serve as a touchstone for all current employees who

are managers or desire to be managers, guiding them toward your organization's "true north" with respect to the leadership behaviors and skills expected of them.

Every organization needs to develop its own leadership brand; no formula exists to indicate what is right. However, there are several characteristics that in my view are critical to strengthening your leadership brand and making it effective.

The most important characteristic is that your leadership brand needs to apply across the entire organization and at all times; it should not involve what is often called "situational leadership." Some leadership gurus have suggested that the most effective managers consider each work situation and then decide how to behave. They argue that managers should take into account such things as the experience of employees, the time available to make a decision, and the type of work that is to be done. I agree that these should have some influence on how a manager behaves, but all too often situational leadership results in confusion and alienates people. Employees do not want to be uncertain about how they will be treated, or not be able to count on being involved in decisions or informed by their manager.

In my view, it is far wiser to develop a leadership brand based on general principles and characteristics that are universally applicable to all managers and all leadership situations. For example, General Electric promotes companywide its "Four E's" of leadership. All leaders at GE are expected to have the personal *energy* to welcome and deal with change, the ability to create an atmosphere that *energizes* others, the *edge* to make difficult decisions, and the ability to consistently *execute*.

Motorola has adopted these same Four E's as part of their leadership brand, but added a fifth "E" – *ethical* Behavior. Both GE and Motorola use their leadership brand as

a management credo throughout the entire organization. In essence, they guarantee that employees will have a manager who practices the four or five E's of leadership.

Build Leadership Capability

Given the role it plays in determining success, organizations need to build leadership capability on an ongoing basis. Two approaches to grooming leaders can be followed: top management-focused or shared leadership.

The traditional top management-focused approach begins by identifying a group of "high-potential" executives who exhibit the skills and competencies that senior executives need. These executives are moved rapidly throughout the organization to gain experience in all aspects of the company's business. A few are then selected for very senior management positions, and ultimately, one is chosen to be CEO.

This approach has been used for decades by large organizations around the world. IBM, GE, and PepsiCo have been admired and imitated for their ability to make this type of leadership development process work well. Building leadership in this way clearly is the right model for highly centralized, hierarchically structured organizations.

As a result of their commitment to leadership development, GE has become an "academy" company that provides leaders to other companies. In recent years a number of GE alums have become CEOs of Fortune 500 companies. Does GE gain for being a net exporter of management talent? After all, it obviously costs them quite a bit. I think it does. First, it makes GE an attractive place to work for individuals who want to be leaders. But second and more important, the company gets the best shot at the "pick of the litter" when it comes to retaining the best management talent.

The top-management-focused approach is not right for all organizations, however, especially companies that want to develop a virtuous spiral by practicing a leadership approach that develops leaders at all levels of the organization. In essence, this shared leadership approach encourages people throughout the organization to develop leadership skills and to take on leadership roles and responsibilities.

The shared leadership approach to building leaders operates best from the bottom up. Rather than identifying and grooming a select group of potential leaders from the top, the company uses its corporate structure, work designs, and development programs to open the way for the emergence of leaders at all levels. This requires making leadership training and development programs available to people throughout the organization and opening up information about business results and business strategy to create a shared sense of mission and direction.

In its 2002 annual report, Procter & Gamble CEO A. G. Lafley describes his view of what has made and will continue to make P&G a virtuous spiral company. He argues that it is developing leaders at all levels and creating a culture that values and embraces leadership. According to him, this leads to a "passionate sense of ownership" of the business by all employees.

One caveat is that poorly implemented shared leadership can lead to chaos. Leaders need guidelines, rules, and an overall direction that guides them but does not undercut their initiatives. They need to have room to operate, but they also need to know where the boundaries are that they cannot go beyond without seeking approval and permission. Ultimately, a balance must be achieved that encourages emergent leadership

without stifling it – a system that is simultaneously tight and loose, that allows initiatives but has solid checks and balances.

Identifying and Hiring Potential Leaders

Organizations need to proactively manage their supply of leadership talent. The place to start is with the hiring process. Although there is no magical test to prove how effective someone will be as a leader, there are a number of ways to get a good reading on potential.

First, look at people's behavioral history to assess whether they have demonstrated effective leadership already in their career. Use the interview process to identify the scope and nature of their leadership, whether they initiated projects or were asked to head them up, how many people they led, how they managed resources, and what were the results of their leadership.

A second powerful way to gather information about how people are likely to perform as leaders is to put them into realistic job previews or simulations that allow you to observe them interacting with others, tackling problems in teams, and generally behaving in situations that require management and leadership skills.

The start of people's careers as managers is a particularly critical period of time to develop them as leaders. You want to be sure that new managers behave in ways that are consistent with the leadership brand of the organization. Dell Computer, for example, takes the onboarding process very seriously for its new managers. They are provided with several types of training experiences at the point of initial hire, as well as at thirty, sixty, and ninety days after joining Dell. The training includes classroom learning and meetings with senior executives to talk about managerial behaviors and how Dell operates as an

organization. The training especially emphasizes Dell's culture – how it is developed and sustained through Dell's brand of effective management.

Ongoing Leadership Development

Leadership development needs to continue well beyond an employee's initial year or two with your company. People should have access to learning experiences throughout their careers. Although formal classroom training is helpful in developing leaders, a considerable amount of research suggests that the most effective learning arises from experience. Emerging leaders learn most from challenging job assignments that force them to examine their capabilities and improve their behaviors. Overall, the best leadership development efforts are those that combine classroom education, coaching and strategically timed and designed job changes.

One last issue to emphasize is the importance of creating leaders at the top who are role models and can educate and communicate well. It is particularly hard – and in fact, it may be impossible – to get managers throughout an organization to adhere to a leadership brand if senior managers do not follow it and teach it to others. Both the development of the brand and a consistent leadership style need to start at the very top. At the very minimum, senior managers must be able to articulate the organization's leadership brand in an "elevator speech."

Regular Assessment of Managerial Performance and Behavior

For any approach to management development to be taken seriously, organizations must regularly assesses managers against leadership, behavioral, and performance criteria. Fortunately, modern assessment technology makes it easy for

organizations to gather information about the leadership behaviors of their managers. Using technology, much of the paperwork and forms associated with appraisals can now easily be handled via intranets and e-mail communication.

When leadership is assessed, customers, employees, peers, and bosses should all be asked to offer their views of a manager's performance. This breadth of measures creates a far more useful appraisal of someone's leadership behaviors and skills than is derived from a single boss' appraisal. All too often, managers develop the ability to manage upward, and as a result get good performance reviews from their bosses, even though their ability to manage downward or laterally is poor. As a result, poor managers are rated highly simply because they manage upward well.

Rewards for Effective Leadership

Organizations sometimes practice an unconscious hypocrisy, preaching a human capital-focused leadership style, while rewarding their managers solely on the basis of their financial and operating results. The problem is that this can cause managers to focus more on the bottom-line results than on the process of obtaining them. Often this leads to a number of counter-productive outcomes, such as managers resorting to demanding, autocratic, or punitive leadership in order to get short-term results. Of course, the long-term consequences of this type of leadership are horrific, including alienating good employees and driving them away.

A "results are all that counts" approach to leadership is especially prone to arise in companies that frequently rotate managers from one job to another. Because the negative effects of their behavior do not show up until they have left, autocratic managers are often not held accountable for the long-term impact of their management style.

Furthermore, all too often, new managers who follow them end up failing as a result of inheriting the bad situation created by their predecessors.

A Focus on the Competitive Environment

The last best practice reflects another skill that organizations must develop in their managers – adjusting to the competitive environment. Some managerial behaviors that are appropriate in a booming economy are not appropriate in a business downturn. Effective managers need to adjust their leadership behavior to the economic times. They need to do things differently when the economy is booming than when it is declining, but they must remain true to the basic leadership brand of their organization.

For example, in an adverse economic environment, what my colleague Jim O'Toole calls "yellow-light leadership" is appropriate. Managers need to make tough analytic decisions about cost controls, investments in new products and services, and especially the treatment of their human capital. If they have to downsize, it must be done in a way that remains respectful of their staff, with a positive long-term vision. The leadership needs to focus on performance and skills as a basis for workforce reductions and place an emphasis on giving terminated individuals a soft landing.

Difficult times are not usually a period in which to focus on growth opportunities and developing visions of where the organization is going to go. But leaders must not lose this emphasis entirely. There are often great opportunities in a downturn for organizations to improve their competitive position and continue their virtuous spirals by outperforming their competitors. They can, for example, build new capabilities and improve their relationships with customers by offering superior services during

economically stressful times. They can also position themselves to rebound quickly when the economy changes.

Above all, what should never be lost are the principles that support a virtuous spiral approach to human capital management. These principles can go by the wayside whenever management stops focusing on acting in ways that are good for both the organization and its people. This often happens in downturns, when leaders make short-term decisions that destroy the relationship between people and their organization. As a result it becomes extremely difficult to relaunch a virtuous spiral when the economic environment improves. It also can easily happen in an upswing, when leaders become arrogant and cease to focus on the importance of their human capital's sharing in the success of the organization.

In short, in order to maintain their virtuous spirals, organizations need to maintain their leadership brand regardless of the economic conditions they face. What they need to change when the business environment changes are their tactics, business practices, and business models. Microsoft's move from the use of stock options to the use of restricted stock is a good example of a change in practices that reflects a change in the business environment, and is supportive of maintaining the virtuous spiral. In today's business environment it creates a more effective link between how successful it is and how well individuals are rewarded.

Concluding Thought

Designing an effective organization is a journey without end. Yesterday's performance is unlikely to be good enough tomorrow, so leaders must continuously think of ways to improve their performance and that of their organization. This means change, experimentation, strategic alignment, and leaders who adopt a learning stance toward organizational design and effectiveness.
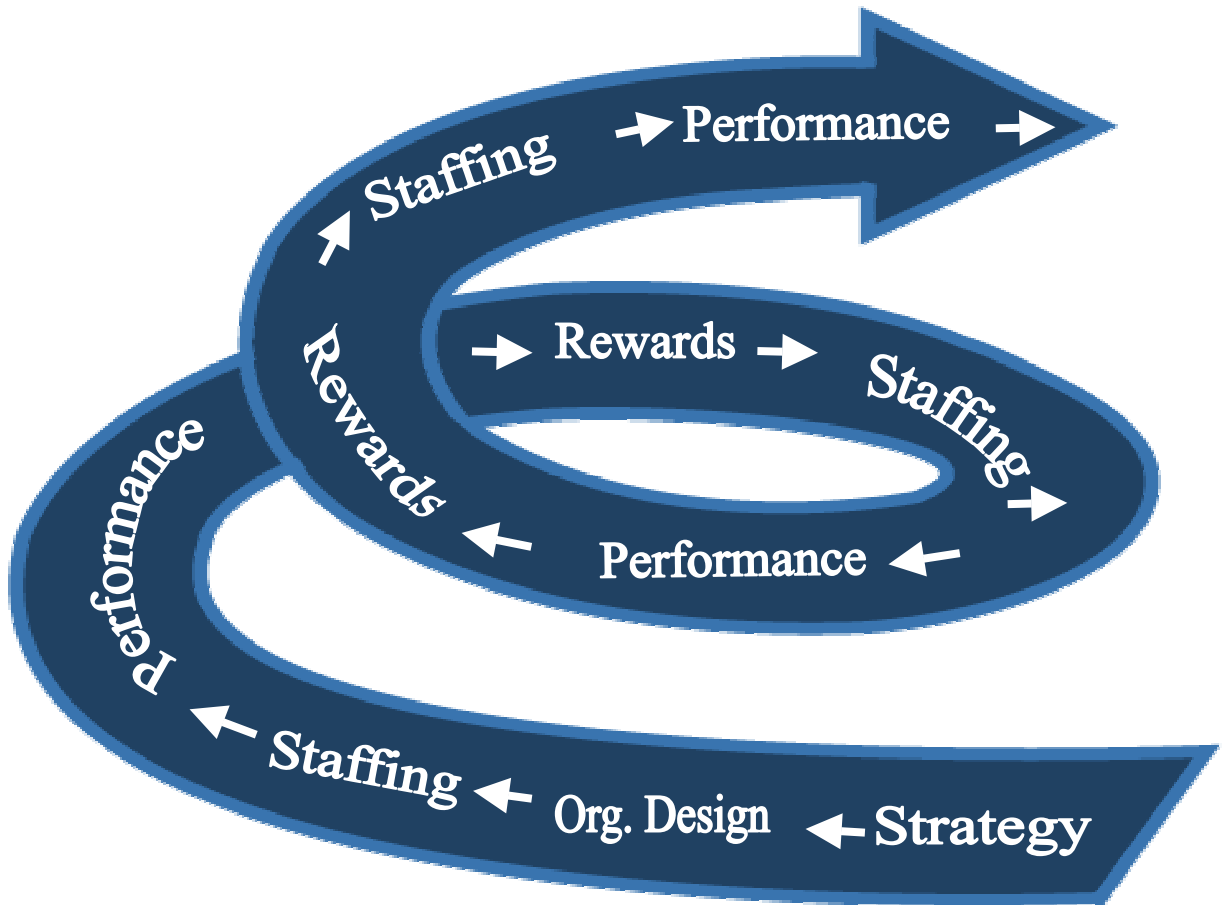
Figure 1

Virtuous Spiral

Exhibit 1

Seven Principles for Treating People Right & Creating a Virtuous Spiral

1. *Attraction and Retention*
   Organizations must create a value proposition that defines the type of workplace they want to be so they can attract and retain the right people.

2. *Hiring Practices*
   Organizations must hire people who fit with their values, core competencies, and strategic goals.

3. *Training & Development*
   Organizations must continuously train employees to do their jobs and offer them opportunities to grow and develop.

4. *Work Design*
   Organizations must design work so that it is meaningful for people and provides them with feedback, responsibility, and autonomy.

5. *Mission, Strategies, and Goals*
   Organizations must develop and adhere to a specific organizational mission, with strategies, goals, and values that employees can understand, support and believe in.

6. *Reward Systems*
   Organizations must devise and implement reward systems that reinforce their design, core values, and strategy.

7. *Leadership*
   Organizations must hire and develop leaders who can create commitment, trust, success, and a motivating work environment.

This article is adapted from *Treat People Right: How Organizations and Individuals Can Propel Each Other into a Virtuous Spiral of Success*, by Edward E. Lawler III. It was published by Jossey-Bass Publishing in 2003.