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Leadership and the art of plate spinning

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Senior executives will better balance people and priorities by embracing the paradoxes of organizational life.

I often ask business leaders three simple questions. What are your company's ten most exciting value-creation opportunities? Who are your ten best people? How many of your ten best people are working on your ten most exciting opportunities? It's a rough and ready exercise, to be sure. But the answer to the last question—typically, no more than six—is usually expressed with ill-disguised frustration that demonstrates how difficult it is for senior executives to achieve organizational alignment.

What makes this problem particularly challenging is a number of paradoxes, many of them rooted in the eccentricity and unpredictability of human behavior, about how organizations really tick. Appealing as it is to believe that the workplace is economically rational, in reality it is not. As my colleague Scott Keller and I explained in our 2011 book, *Beyond Performance*,[1] a decade's worth of data derived from more than 700 companies strongly suggests that the rational way to achieve superior performance—focusing on its financial and operational manifestations by pursuing multiple short-term revenue-generating initiatives and meeting tough individual targets—may not be the most effective one.

Rather, our research shows that the most successful organizations, over the long term, consistently focus on "enabling" things (leadership, purpose, employee motivation) whose immediate benefits aren't always clear. These healthy organizations, as we call them, are internally aligned around a clear vision and strategy; can execute to a high quality thanks to strong capabilities, management processes, and employee motivation; and renew themselves more effectively than their rivals do. In short, health today drives performance tomorrow.

Many CEOs instinctively understand the paradox of performance and health, though few have expressed or acted upon it better than John Mackey, founder and CEO of Whole Foods. "We have not achieved our tremendous increase in shareholder value," he once observed, "by making shareholder value the only purpose of our business."

In this article, I want to focus on three other paradoxes that, in my experience, are both particularly striking and quite difficult to reconcile. The first is that change comes about more easily and more quickly in organizations that keep some things stable. The second is that organizations are more likely to succeed if they simultaneously control *and* empower their employees. And the third is that business cultures that rightly encourage consistency (say, in the quality of services and products) must also allow for the sort of variability—and even failure—that goes with innovation and experimentation.

Coming to grips with these paradoxes will be invaluable for executives trying to keep their people and priorities in balance at a time when cultural and leadership change sometimes seems an existential imperative. Just as a circus performer deftly spins plates or bowls to keep them moving and upright, so must senior executives constantly intervene to encourage the sorts of behavior that align an organization with its top priorities.

Change and stability

Organizational change, obviously, is often imperative in response to emerging customer demands, new regulations, and fresh competitive threats. But constant or sudden change is unsettling and destabilizing for companies and individuals alike. Just as human beings tend to freeze when confronted with too many new things in their lives—a divorce, a house move, and a change of job, for example—so will organizations overwhelmed by change resist and frustrate transformation-minded chief executives set on radically overturning the established order. Burning platforms grab attention but do little to motivate creativity. Paradoxically, therefore, change leaders should try to promote a sense of stability at their company's core and, where possible, make changes seem relatively small, incremental, or even peripheral, while cumulatively achieving the transformation needed to drive high performance.

A large universal bank provides a case in point. Given the tumult in the financial-services sector in recent years, it needs to change, and change profoundly. But the cry of "let's change everything" will be counterproductive in an organization where staff members are mostly hard-working, committed people operating processes that involve millions of transactions per hour.

One large automotive company I'm familiar with, buffeted by three different owners and five different CEOs in the last decade, has recently embraced this paradox with a new management model dubbed "balance," a word loaded with meaning in the automotive industry because of its association with reducing drag and increasing speed. The simple idea behind the model is that any changes to a company's systems, structures, and processes should always be introduced in a consistent way, typically quarterly, as part of an explicit change package. If a proposed change isn't ready in time for one of these regular releases, it is either deferred to the next one or abandoned.

Previously, leaders of each of the company's functions had been inclined to introduce, on their own, changes they thought might generate value—for example, finance would launch a program to make costs variable, HR would announce an initiative to shake up performance management and compensation, and manufacturing would bring in new vendor-management systems. Hapless middle managers found themselves in a blizzard of change that made it difficult to focus on the organization's top priorities. Now, *before* change programs are rolled out more broadly, all of them are integrated, and the resulting complexities are addressed at the *top* of the organization.

In this way, the company's underlying operating model has remained more stable than it would otherwise have been, and more stable than it used to be when changes were announced in an uncoordinated fashion. Managers now understand and accept the rhythm of change, while managers and employees alike have gained new confidence that the different elements in the releases will be complementary and coherent.

The result is that a well-intentioned but disjointed flow of unending change has been converted into a well-structured one. Moreover, after years of lagging behind industry peers, the company has shortened its product-development cycles and increased the quality of its products. And it is running much more smoothly, with 20 percent fewer managers.

Control and empowerment

All organizations need at least a thread of control to link those who own the business to those charged with implementing its objectives. Companies that neglect mechanisms that enforce discipline, common standards, or compliance with external regulation do so at their peril. The share price of one global energy group, for example, collapsed when it came to light that poor oversight had allowed internal analysts to develop metrics based on optimistic assumptions and to overstate the company's oil and gas reserves substantially.

Yet excessive control, paradoxically, tends to drive dysfunctional behavior, to undermine people's sense of purpose, and to harm motivation by hemming employees into a corporate straitjacket. The trick for the CEO-cum-plate-spinner is to get the balance right in light of shifting corporate and market contexts. In general, a company will probably need more control when it must actually change direction and more empowerment when it is set on the new course.

The story of how a major global technology company recovered from a crisis four years ago is instructive. Forced to write off more than $2 billion of unmanageable contracts—and facing insolvency—a new management team took drastic and decisive action to strip out costs, renegotiate old agreements, change established practices, and impose stringent new controls. The company (with more than 100,000 employees) was saved but in the process found that it had lost the ability to deliver on its top priority: creative new ideas that would fuel organic growth. That's because an unintended consequence of the much-needed cost reductions had been the emergence of a "parent–child" relationship between the company's top team and middle managers. These managers had become so used to being told what to do, and had been given so little room to maneuver, that they eventually lost the ability to experiment. The "tree" of top management had grown so large that nothing could grow in its shade.

This company's solution was to introduce an "envelope" leadership approach, which first involved defining a set of borders. Employees could not go beyond them, but within them there was almost complete freedom to innovate and grow. Other businesses have attempted to copy the envelope idea but few have had the success of this global technology company, whose approach had real teeth. The flame of empowerment was fanned by first identifying some 600 leaders with the best capabilities and then rotating them around different businesses, with a mandate to shake things up. Meanwhile, the company's purpose, vision, mission, and values were all rewritten and drilled into leaders. Its "signature processes" (five core ones, where it aspired to be truly differentiated) were fundamentally reimagined. And evaluation and reward mechanisms were dramatically tightened to reward stars and actively manage people who seemed to be struggling. As the company added a greater degree of empowerment to the stricter controls—plates both balanced and spinning—its performance improved. Sales are growing again, and fresh energy is palpable throughout the organization.

Consistency and variability

Producing high-quality products and delivering them to customers on time and with the same level of consistency at every point in the value chain is critical to success in most industries. Variability is wasteful and time consuming, not to mention potentially alienating for customers. Most organizations therefore applaud behavior that attacks and eliminates it.

Yet in human terms, consistency too often hardens into rigid mind-sets characterized by fear of personal and organizational failure. It's been shown that we feel the pain of failure twice as much as we do the joy of success, so employees naturally tend to protect themselves and their teams, behavior that can inadvertently hamper innovation and calculated risk taking. After all, mistakes—from Edison's countless failed filaments to 3M's accidental creation of the adhesive behind Post-it notes—can sometimes be the mother of invention; as they say in the mountains, "If you're not falling, you're not skiing."

It's hard to think of a sector where it's more important to get the balance between consistency and variability right than it is in pharmaceuticals. Lives are at stake, and the development and launch costs of a new compound often run to billions of dollars. Faced with the approaching expiration of many licenses, one of the world's biggest pharma companies found that its tradition of reliability and consistency had become a limiting mind-set. Although it desperately needed to make new discoveries, a status quo bias took hold of the organization, which froze around a complex bundle of assurance, governance, and controls. Fear of failure and an obsession with getting these things right produced defensive 100-page PowerPoint presentations in abundance, but little meaningful product-development progress.

Behavioral problems didn't help, of course. An excessive "telling" rather than "listening" culture had degenerated into bullying; some senior executives literally shouted at their underlings. On one notorious "away day," a number of exercises revolved around cage fighting, a sport (dubbed "human cockfighting") that combines boxing, wrestling, and martial arts. The signal this sent from the top was that the culture really was dog eat dog.

Things came to a head when two scientists, frustrated by the time needed to get approvals, left to set up their own successful research business and were openly lauded by colleagues for breaking free of a stifling bureaucracy and dictatorial culture. The morale of those left behind suffered further, and energy drained out of the organization.

The solution the company devised combined building "slack" (additional people) into its resourcing—a bold move in austere times—with a direct attack on negative behavior. The worst offenders were removed, and it was made clear that cage-fighting attitudes were unacceptable.

Steps were taken to bump up the innovation rate by investing in smart people, but the top team went further. It set out fundamentally to alter what it called the organization's "social architecture" by building worldwide communities of scientists and encouraging exchanges between them across geographical boundaries and industry disciplines.

Successful experiments, to be sure, were more highly valued than failures, but both had their place in the company's culture. An emphasis in communications on "our wealth of ideas" promoted the simple notion that wealth (economic progress) arises from ideas (experimentation and innovation) and showed how carefully crafted language can help drive change. The result was an increase in the pipeline of products and, over time, a resumption of profit growth.

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Embracing the paradoxes described in this article can be uncomfortable: it's counterintuitive to stimulate change by grounding it in sources of reassuring stability or to focus on boundaries and control when a company wants to stir up new ideas. Yet the act of trying to reconcile these tensions helps leaders keep their eyes on all their spinning plates and identify when interventions are needed to keep the organization lined up with its top priorities. Last, this approach makes it possible to avoid the frustration of many executives I've encountered, who pick an extreme: either they try to stifle complex behavior by building powerful and rigid top-down structures, or they express puzzlement and disappointment when looser, more laissez-faire styles of management expose the messy realities of human endeavor. Far more centered and high performing, in my experience, are those leaders who welcome the inconvenient contradictions of organizational life. ○

[1] See Scott Keller and Colin Price, *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*, Hoboken, NJ: John Wiley & Sons, 2011; and "Organizational health: The ultimate competitive advantage," mckinseyquarterly.com, June 2011.

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