

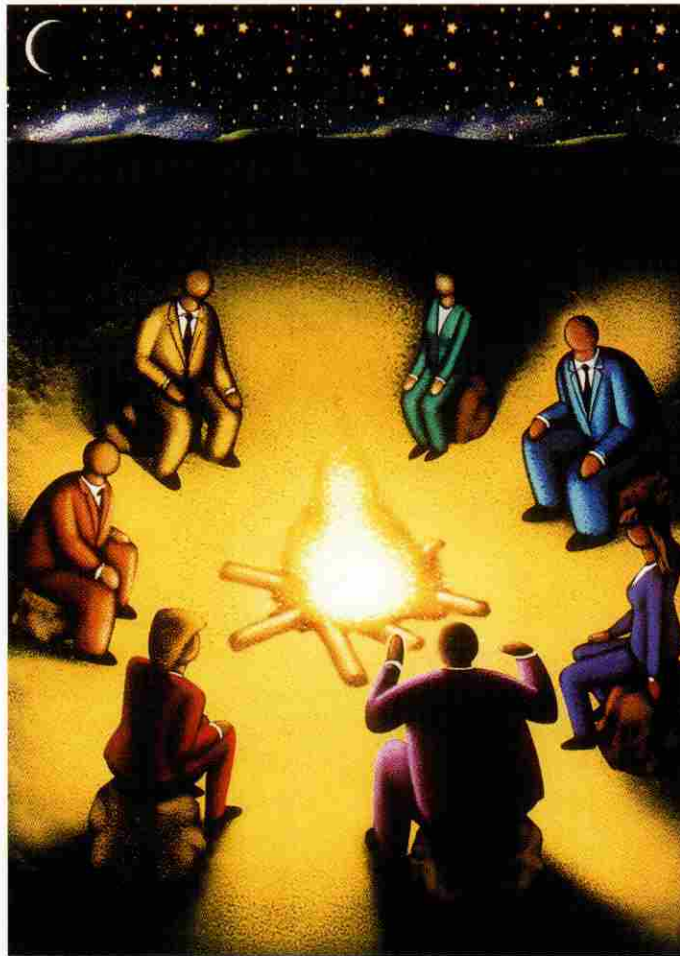
How Storytelling Builds

Next-Generation Leaders

In recent years, the need to develop next-generation leaders — people who can translate strategy into results and core values into day-to-day behaviors — has become the paramount challenge for many chief executives and their top teams. But even though this issue has risen to the top of the agenda, most executives would be the first to admit that they are failing at the effort. And that's a significant admission, because they would also concur that their leadership "inventory" is woefully insufficient.

In retrospect, the reasons for this shortfall are easy to understand. From the mid-1970s to the mid-1990s, the growing phenomenon of globalization compelled top teams to focus on such priorities as strategic differentiation and the need for sustainable core competencies.¹ There was no sense of urgency in this era about developing new leaders, and senior executives all but abdicated ownership of the task to the human resources function, where it was relegated to a second-tier staff responsibility. This path of benign neglect by top management can best be thought of as "the cream will rise to the top" theory of leadership development.

But by the mid-1990s, this approach was clearly inadequate. Unprecedented advances in information technology and jolting demographic changes revealed the scarcity of technical and leadership talent. Seemingly overnight, top teams came to realize that the inability to find leaders with the right skills in the right place at the right time would be the ultimate barrier to their companies' chances of sustaining competitive advantage.



Executives know they need to develop their company's next leaders, but many are disillusioned by all the once-promising fads that have come and gone. Some, however, have discovered how an approach that's as old as Homer can be one of the most effective means of developing high-potential managers.

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Unfortunately, top management had little control over the matter. Leadership specialists, lacking clout inside their own organizations, had outsourced their company's leadership-development programs to brand-name consultants and business schools. In other words, disengaged top teams had delegated an otherwise critical activity to staff specialists who, in turn, had farmed out key aspects of *their* jobs. High-potential employees paid the greatest price in this process. Although "high potentials" sometimes learned specialized skills in external courses or were exposed to points of view that stimulated behavioral change, they all too often found themselves participating in a series of ill-conceived, out-of-context leadership programs that would come to be viewed as little more than fads-of-the-month and false starts.

In the past few years, there has been a momentous shift away from the use of external faculty and consultants; companies are using their own executives as dialogue leaders, coaches and teachers.² Top teams want to regain control of the process, and they have one question on their minds: What works? For more than a decade I have led a series of large-scale studies to identify the most pressing leadership-development challenges in 45 global companies.³ (See "About the Research.") They have told me and my colleagues repeatedly and without equivocation that there are two essential criteria that differentiate effective approaches to building leadership talent.

First, leadership is best learned within the context in which it will be practiced. When connected to the company's context, leadership-development efforts help managers see real and immediate value in acquiring new behaviors; such efforts can be a powerful tool for building organizational capability. Second, leadership's lessons are best learned from those who are trusted and well respected inside their own organizations. This finding strongly reinforces research showing that leaders learn best from other leaders.⁴ It also indicates that leadership-development initiatives can be an excellent vehicle for building organizational character. While learning from top executives, emerging leaders absorb the company's culture, values and guiding principles in preparation for the day when they will be called upon to serve as role models in their organizations.

So, what works? These two findings come together in one

approach that has, in my experience, been a powerful way of building leadership effectiveness: storytelling. When done the right way — and it's not as easy or as simple as it may sound — storytelling by a company's senior executives is a way of providing potential leaders with the necessary context from respected role models. It can produce impressive results that help position a company to succeed when the current generation of leaders has departed and a new generation steps in to take the helm.

The Elements of Effective Stories

Storytelling has been an effective means of communicating important substantive and cultural messages for thousands of years. The Bible is one of the best examples of how storytelling has been used to shape behaviors, cultural norms and core values. Great stories create a rich visual imagery in our minds, and great storytellers invite us to walk the landscape that is created by this imagery. Consciously or not, these are undoubtedly some of the reasons that storytelling has emerged as the preferred approach for teaching leadership effectiveness in many companies today.

Consider how storytelling played a role in transforming Continental AG, the world's fourth largest tire company. In the mid-1990s, Continental was a domestic powerhouse in its native Germany but only a fledgling global player. Continental's top team knew that for the company to survive, it would have to build new core capabilities outside of tire manufacturing and grow significantly outside its domestic market. To accomplish those goals, it would have to acquire companies in other geographic and product markets. The challenge was daunting. Continental's proud culture was built on 125 years of manufacturing tires that were among the most technologically advanced and highest quality in the world. To accomplish its new strategic objectives, the top team and the group of managers just below it would have to deal with their fears that other companies wouldn't be up to Continental's standards for quality and innovation.

Hubertus von Grünberg, Continental's CEO at the time, invited a select group of employees to participate in Continental's high-potential leadership program. He knew he had to persuade them to accept the fact that Continental could not grow organically to achieve the scale of a formidable global player — it needed

help from outside. Such thinking would go against the grain of the company's self-reliant culture. Von Grünberg did not try to win over the program's participants by having them endure an endless stream of lectures on global business strategy. Instead, he told them a story about Continental's changing place in an increasingly competitive industry, a place that could become increasingly smaller given the inroads competitors were making into territory traditionally held by Continental.

Von Grünberg added a key element to the story by talking directly about the company's heritage of pride. He recounted how it had even prevented him from identifying partners that could strengthen Continental's competitiveness. He said that he had to change — to think more broadly about partnership prospects — and he challenged the group to do the same. The future leaders reflected on von Grünberg's underlying message: that adhering to the behaviors and mind-set that made Continental great in the past might be the biggest obstacle to the company's transformation.

As a central component of the leadership initiative, Continental's high-potential employees formed project teams and built new cross-border relationships with subsystems suppliers, technology providers and other tire manufacturers. That work helped make the company into a highly successful global competitor. The company's future leaders learned to become change catalysts by explaining and selling the need for growth while helping to integrate new partnerships and acquisitions. Continental remains proud of its innovative qualities but is no longer too proud to share its expertise — or to learn from others. Von Grünberg believes that his story, which encompassed both strategic interests and the need to adopt a new set of shared values and behaviors, was instrumental in launching Continental's transformation.

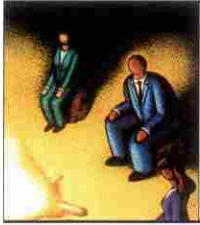
Among other things, this example helps reveal what storytelling is *not*. It is not, for example, a matter of having the CEO come to the first 10 minutes of the company's leadership program to welcome people and encourage them to "engage." Nor is it about asking any senior manager who happens to be available to have a discussion with the group about the company's top three strategic priorities. It is certainly not about letting senior executives wing it when they are in front of an audience. Storytelling, strange as it may sound, is hard work and very labor-intensive for those who choose to try it. There are a number of ingredients that must be combined to make storytelling an effective approach to teaching leadership. I've identified five key components that must be in place in order to shape and tell great stories that build leadership effectiveness.

Effective stories are context-specific. Earlier research confirms that linking a leadership-development activity directly to a company's strategic challenges improves the effectiveness of the initiative.⁵ Moreover, internal executive-development programs have proven to be a powerful tool for reinforcing cultural norms, strengthening intracompany learning networks and improving organizational learning capability.⁶ Storytelling, when linked directly to a company's strategic and cultural context, is a powerful means of simultaneously building strategic competence (the "doing" aspects of leading) and strengthening organizational character (the "being" aspects of leading). This does not mean that an executive who is serving as a leader-coach cannot tell a story set outside of the company's environment. A storyteller might reflect on an experience during an earlier stage of his or her career, even one that happened at another company. The important thing is to relate the experience to the company's current challenges.

Effective stories are level-appropriate. For stories to be meaningful, tellers should frame them around experiences they had when they were at the same level of responsibility as the program's participants. After all, a manager of a small-town clothing store interested in improving operational efficiency wouldn't benchmark against Wal-Mart. The same lesson applies to leadership development. Most managers, even those identified as high-potentials, would gain little from listening to speeches by Jack Welch or Lou Gerstner about how they transformed their

About the Research

A team of five researchers interviewed human-resource-development practitioners as well as CEOs and top team members from a mix of industries and in a variety of geographic locations. We were looking for innovative and effective practices that were being used to develop leaders, and the executive-led storytelling initiatives emerged as examples of excellence that outperformed many other methodologies. In addition to the interviews, the team also developed 10 case studies of innovative leadership-development practices from among the 45 companies we worked with. Companies in the study included ABN AMRO, Acer, AT&T, British Airways, BP, Daewoo, DaimlerChrysler, Deutsche Telekom, Dow Chemical, ExxonMobil, Glaxo, IBM, Johnson & Johnson, Lufthansa, Merck, Mitsubishi Motors, National Australia Group, PDVSA, PepsiCo, Philips, RBC Financial Group, Samsung, Siemens, Sony, Sun Microsystems and Unilever.



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companies. Even though the speeches might be motivational and stirring, younger managers will not be able to learn much from them because of the gap in experience. The challenge for the leader-coach, then, is to frame a story so that participants can see themselves in it and reflect on what they might do to resolve the problems it poses.

Effective stories are told by respected role models. Stories designed to develop new leaders must generate relationships based on learning between mentors and their "students." Before such relationships can form, an executive must command the trust and respect of those participating in the leadership program. A story told by someone without high standing will be met with skepticism, which is why stories cannot be scripted and then told by training specialists in the company's HR department. At the same time, executives must walk a fine line in which their high standing does not render them unapproachable. Storytellers must be both highly respected role models and highly accessible coaches.

Effective stories have drama. A compelling story draws in participants and grabs their attention. Thus one story, for example, might be about an incident that challenged the storyteller's ethics or adherence to the company's values. Another might show the storyteller struggling with a new assignment that had skill requirements far in excess of his or her capabilities at the time. A third might have the storyteller recounting the need to remove key members of his or her team in order to push the business in a new direction. In each case, the drama centers on the storyteller's need to make tough choices, usually without perfect information or the complete alignment of the stakeholders involved. The drama challenges participants to reflect on whether they want — and will be able — to make the similarly tough choices that are required of leaders of today's complex organizations.

Effective stories have high learning value. For a story to be effective it must stimulate learning, and for learning to have impact it must produce changes in behavior. Different companies want to emphasize different skills and behaviors as components of

effective leadership, and they should map those elements against the stories they want to tell. In one company, for example, stories might be mapped against a comprehensive framework of leadership competencies (or skills), while in another, the stories might be mapped to a shared set of values (based on behaviors). The most effective stories do both: They build a cadre of leaders who understand the importance of strengthening the company's strategic competence and its organizational character simultaneously.

A review of how storytelling has helped one company build on its successful tradition shows how these five elements of effective stories come together.

Developing Leaders at RBC Financial Group

RBC Financial Group is one of the oldest and most admired companies in Canada. It has financed much of the commercial growth within Canada over the years while more recently becoming a player in the global-financial-services arena; RBC employs 60,000 people and does business in more than 30 countries. In 2001, it became Canada's most valuable (in terms of market capitalization) and most profitable company.

But just a few years ago, RBC's future strategic course seemed in doubt. By the mid-to-late 1990s, it was clear that the group's prospects for organic growth within Canada were becoming saturated. RBC attempted to pursue growth by merging with rival Bank of Montreal; the two banks developed a proposal to create what would have been a North American financial-services powerhouse. That proposal, however, was rejected by Canada's Competition Bureau, which contended that the merger would create a monopoly environment.

RBC's leadership then saw only two scenarios: The bank could do nothing and watch its hard-earned market share deteriorate, or it could leverage its strengths in Canada to grow outside the country. RBC's board and its top team agreed unanimously to pursue the latter scenario. The bank's leaders refined the strategy by articulating that most of RBC's growth in the first decade of the new millennium would take place in the United States; the company would grow in this way to become a major North American presence. Within just a few years, RBC's acquisitions in the United States included Centura

Banks and Liberty Insurance in the South, Prism Mortgage and Dain Rauscher Wessels in the Midwest, Tucker Anthony in the Northeast, and Sutro in the West. To more accurately reflect the new composition of businesses within the RBC family, the company added the Group Management Committee to its top management team. The GMC would be comprised of the leaders of the group's five divisions (called platforms), RBC's major functional leaders and the CEO.

On the surface, the strategy seemed to be unfolding flawlessly. But Gordon Nixon, RBC's CEO, was concerned. Company surveys and focus groups indicated that RBC's employees were feeling confused about the company's vision, strategy and core values. Before the acquisitions, when RBC was a big fish in a small pond, employees had always been clear about the bank's strategy and had understood its core values implicitly.

Elisabetta Bigsby, RBC's senior executive vice president for human resources, shared Nixon's concerns. She recommended that the company initiate a process that would bring RBC's top team together with its next-generation leaders. The goal would be to build a bridge between RBC's new strategic direction and the leadership capabilities that would be required to implement that strategy. Nixon agreed to the proposal, adding that he wanted to engage in a widespread series of discussions with RBC's high-potential leaders that would focus on understanding core values as well as strategy.

Bigsby got to work. With the help of other senior managers in the leadership area, she set up a series of discussions with every member of the GMC to obtain their views on the company's leadership-development challenges. As a first step in a process that would eventually involve thousands of employees, she also met with Nixon to help him clarify his views on RBC's values. As a result of these efforts, the GMC developed a collective and well-articulated point of view on what leadership effectiveness meant for RBC.

The GMC's next step was to determine how best to disseminate that point of view and build the capabilities of its key employees. The group explored a variety of options, including contracting with a prestigious business school and working with an external consulting firm. Following Bigsby's guidance, the GMC eventually came to believe that it was critical to design and implement an RBC-specific leadership program. Bigsby and Louise Smith, RBC's senior vice president for strategy and leadership, persuaded the GMC's members that they would be the best possible leader-coaches for what became known as the RBC Leadership Dialogues.

With the help of an adviser, the GMC members framed stories from their experiences that would help RBC's next-generation leaders. It was not by chance that Jim Rager, RBC's vice chairman

and head of the personal and commercial banking platform, was asked to serve as one of the two leader-coaches for the first session of dialogues. The P&CB platform is responsible for approximately 60% of RBC's gross revenues and 55% of its profits.

After reflecting on RBC's newly articulated leadership framework, Rager identified a theme for his story relatively easily. He then honed his story over a period of five to six weeks. Finally, when the program got under way in April 2001, he was ready to talk to his audience of 25 of RBC's senior managers who had been identified as likely to move up to senior-executive leadership positions.

Rager began his story by setting the context. He noted that in keeping with RBC's strategic priority of pursuing growth in the United States through acquisitions, P&CB had its eye on several acquisition candidates. But Rager worried that P&CB's operating expenses in relation to profits were high and would possibly be viewed as excessive during an acquisition courtship. He was concerned that the imbalance would cause analysts to advise against any given business combination. Rager then related how he had had to make certain moves that were viewed as draconian by employees in his platform.

Rager and his management team had executed a series of cost-reduction measures that resulted in taking \$1 billion out of P&CB's operating expenses. As part of these cuts, the division had laid off hundreds of people — a wrenching task, given RBC's culture of paternalism and fairness. Most people in the platform couldn't understand the reasons for these actions because P&CB seemed to be prospering at the time. And Rager couldn't be forthcoming. Because of the secretive nature of acquisition discussions, he was not able to fully disclose the precise reasons for the cost cutting. Eventually, the scenario played out as Rager had hoped it would. After making the operation leaner, P&CB was able to win the analyst community's approval when it announced its intention to purchase Centura Banks, a thriving financial-services network based in Rocky Mount, North Carolina.

But it hadn't been easy to get to that point. Rager recounted the many uncertainties that he and his team had faced throughout the process. He illustrated the importance of the acquisition to RBC's future but also talked about the agony he felt as a result of the choices he had to make to complete the purchase of Centura. His story wove back and forth between strategy and values, showing how he had struggled to balance choices that reflected RBC's strategy with those that were in keeping with RBC's values of integrity, trust and fairness. At one point, Rager's voice dropped to a whisper as he recounted the mix of emotions he had felt at different times during the process. He admitted to exhilaration while "doing the deal" but also spoke of the trauma of having to let go trusted, hardworking



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colleagues — people who had helped build the P&CB platform but would not fit as leaders of the new RBC.

When Rager finished his story, he asked the participants to reflect on what they might have done and how they might have felt under similar circumstances. This question emphasized the importance of both the “doing” and “being” aspects of leadership or, to put it another way, the importance of building strategic competence and organizational character simultaneously.

Before the dialogues began, RBC's top management had identified four dilemmas that new leaders would have to grapple with: They would need to manage large-scale complexity; to master multiple capabilities simultaneously (they would especially need the acumen to shape future business strategies while maintaining the discipline to cut costs); to reconcile the tensions between long-term strategic and short-term competitiveness considerations; and to make the tough choices required to sustain RBC's competitive advantage. In that context, Rager's story served as a high-impact learning opportunity for RBC's next-generation leaders.

The participants had not come to the sessions unprepared. They had all gone through a 360-degree feedback process on their leadership effectiveness beforehand, so they had an idea of the challenges they needed to address. Although Rager's story in itself took only 30 minutes to relate, he and another leader-coach engaged with the participants in a dialogue that lasted for two days. Toward the end of the session, each group member prepared a developmental action plan that he or she would follow with the supervision of his or her boss and a leadership coach.

Jim Rager's story is only one of more than a dozen stories that have been crafted by RBC's top team. The team members have praised the storytelling process on several levels. For some top managers, it was their first opportunity to distill and articulate many years of experience in what constitutes effective leadership. Others have spoken of the value of getting to know emerging leaders, especially in a rapidly growing company where it would otherwise be all too easy to lose touch. The GMC found the storytelling process to be so successful, in fact, that it asked the dialogue participants to serve as storytelling leader-coaches for the next level of leaders in the company. Some of RBC's business-unit leaders have also adopted the

process and have used storytelling to build leadership capability throughout their businesses.

Implementing a Storytelling Leadership Program

Storytelling can be a very effective means of developing leaders, but it is by no means the path of least resistance. For a storytelling initiative to succeed, hard work and dedication by a number of parties are necessary. Companies should be prepared to follow these steps:

- *Get the top team actively engaged.* This is perhaps the most important foundation block to be laid before proceeding. A leadership initiative of this magnitude should not be the pet project of a lone senior executive; nor is it sufficient to have the passive support of the top team. And if only two or three members of a 10-member team are engaged in storytelling, it will be easy for the initiative to be viewed as a peripheral task. Top teams must be highly engaged in and visible throughout the process.
- *Develop a collective point of view on leadership effectiveness.* Warren Bennis is fond of saying that “a point of view is worth 50 IQ points.”⁷ A top team should heed his advice, as they will find it simpler to teach leadership effectiveness once they have thought deeply about what effective leadership means for their company.
- *Consider all available alternatives.* Don't fall into the trap of thinking that every lesson to be taught about leadership must be framed as a story. Storytelling isn't the only way to develop leadership skills and behaviors. Other techniques and approaches — such as structured coaching, action learning, university-sponsored programs and even carefully planned benchmarking — are also helpful and can work well in conjunction with storytelling, which is best used as a vehicle for simultaneously building strategic competence and organizational character.
- *Get the right team in place to carry out the program.* The most enthusiastic members of the top team should serve as leader-coaches; passion leads to success, and success is contagious. An effective team will also include HR executives, who should be able to identify high potentials and should have developmental tools already in place. In addition, some companies

may want to partner with external advisers who are well trained in coaching senior executives and facilitating high-level dialogue.

- *Coach the storytellers and orient the participants.* An adviser who specializes in leadership should help the leader-coaches shape their stories for optimal learning and should also lead the executives through rehearsals so that the stories have the intended impact. The program's participants must be chosen carefully. They must be well briefed on the objectives of the program and their responsibilities as partners in a dialogue. They should reflect on the specific leadership stretch challenges they have before participating in the program, either by participating in a 360-degree feedback process or some other form of development planning.
- *Use stories to stimulate dialogue, reflection and action.* Stories in this setting are not speeches; they are catalysts for discussion. Executives have to be prepared to speak from the heart since effective stories must be about the "being" as well as the "doing" aspects of leadership. With that in mind, stories should be kept relatively short, perhaps 30 minutes long. A facilitated dialogue should follow in which participants and storytellers talk in more depth about the leadership challenges raised in the story. Following the dialogue, participants should be encouraged to reflect on the leadership stretch objectives they prepared before attending the program and to develop action plans that will reinforce their learning and help them become more effective leaders.

Safeguarding the Future

Storytelling should by no means be viewed as a panacea. Seen in those terms, it runs the risk of becoming another passing fad. Like other managerial techniques, it can help build an important part of an organization's capabilities, but only in conjunction with other tools and the hard work required to use them well.

At the same time, storytelling may turn out to be one of the more important tools of the next decade. The reality is that developing the next generation's leaders is a task of pressing importance. Companies need to have leadership capabilities that are broadly distributed and operational at all levels of the organization. A company's high-potential managers are the equivalent of its crown jewels, and it is vitally important for top teams to accept the responsibility to help form those who will follow them as enterprisewide leaders. And they, in turn, must challenge these next-generation leaders to do the same for those who work for them. By fostering the development of engaged leadership at all levels, such efforts make it possible for companies to build their strategic competencies and strengthen their organizational character.

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