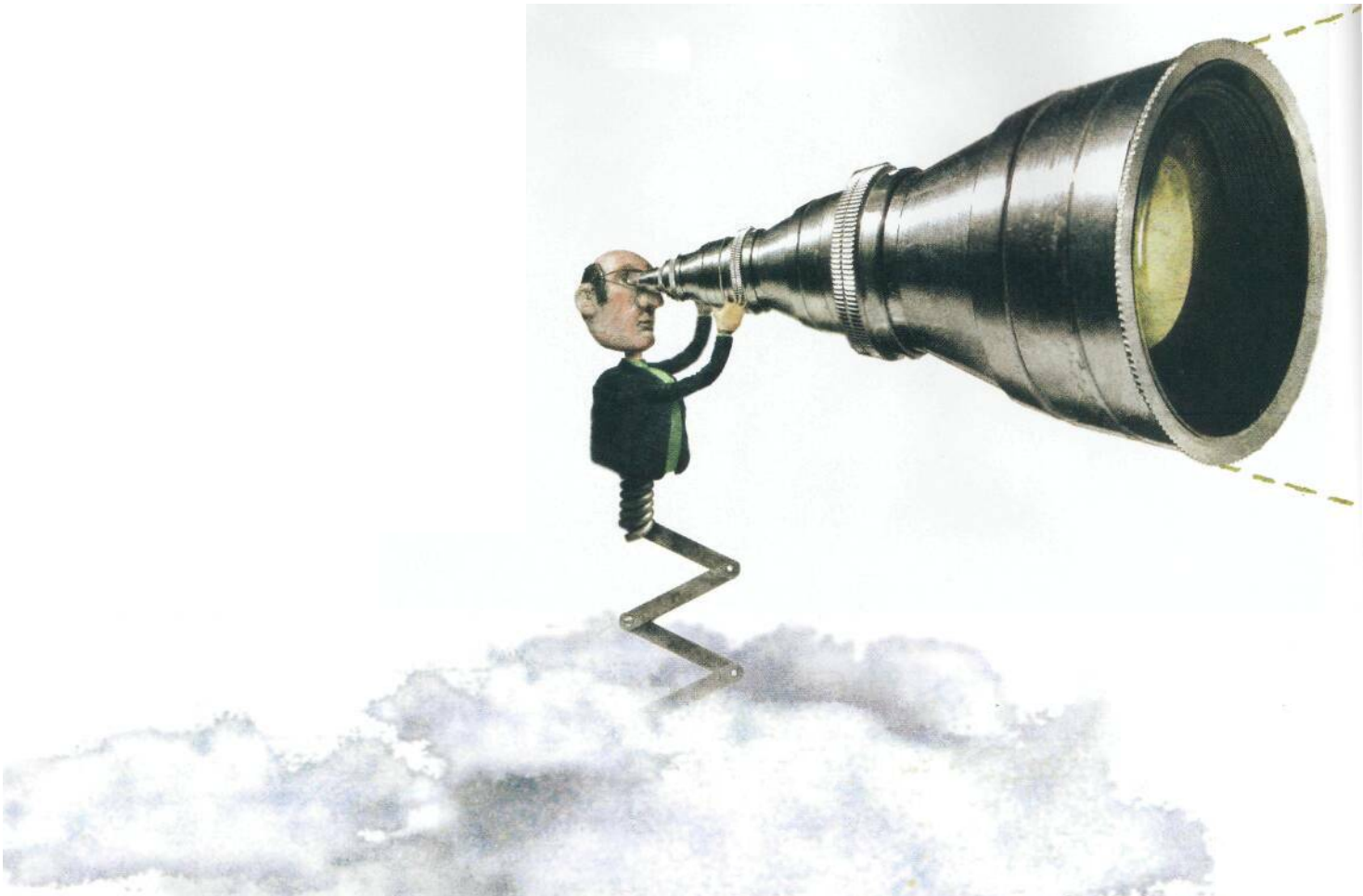
The biggest test that rising leaders face is aggressively championing a business unit while looking out for the enterprise as a whole. Helping them meet that challenge demands a new approach to leadership development.



RICHARD BORGE

How to GROW Great Leaders

by Douglas A. Ready

WHILE IT MAY BE TRUE that "all politics is local," as the late Speaker of the U.S. House of Representatives Tip O'Neill famously said, leadership is another story. Ground-level execution and networking are essential leadership skills, but so are framing and communicating broad, sweeping issues of national importance. Chris Matthews, the host of the television talk show *Hardball*, has dubbed these two sets of skills "retail" and "wholesale," respectively. Very few political leaders - only the most effective, like Franklin D. Roosevelt and Lee Kuan Yew - excel at both.

The same can be said of business leaders. But the structure of modern corporations and the nature of modern markets have begun to call for leaders of the Rooseveltian sort, men and women who can run business units, functions, or regions (in other words, are retail savvy) *and* have the vision to work well at the enterprise (or wholesale)

level. Many companies have a sufficient pipeline of strong retail leaders yet lack wholesale leaders. The challenge is not to teach the former to focus on the enterprise agenda alone; it's to develop leaders who can manage the inherent tensions between unit and enterprise priorities.

In some ways, this problem is as old as the modern corporation. It has confounded the likes of DuPont, GM, Philips Electronics, and Unilever over the past century. As soon as a company becomes large enough to offer multiple lines of business in various regions, it begins to face tensions regarding how to go to market, who has primary accountability for which customers, and how to factor revenue and profitability into performance measurement. What has changed in the past few years is that companies must synchronize the actions of business units and the goals of the enterprise as a whole more tightly than ever. This is because customers increasingly demand integrated or global solutions, which require the collaboration of multiple business units or locations.

Look at what happened when PriceWaterhouse merged with Coopers & Lybrand in the late 1990s to create PricewaterhouseCoopers. The merger made PwC the largest professional services firm in the world. Then-CEO Jim Schiro pressed the idea of PwC's becoming the first truly globally integrated services firm; he envisioned PwC drawing on expertise from its six lines of service to provide complete solutions. He believed that joining forces from within could allow the firm to quickly gain a powerful competitive advantage due to its sheer size and reach. So Schiro was stunned when the partners heading the service lines staunchly resisted executing his strategy.

This resistance was grounded in institutional history. Both PriceWaterhouse and Coopers & Lybrand had deep-rooted cultures that rewarded excellence within each line of client service. The partners and their subordinates had little experience crossing boundaries and no role models to emulate. So it was natural for them to continue striving to provide the best possible service within unit boundaries. Furthermore, both pricing authority and profit-and-loss (P&L) accountability were vested in the individual lines' practices-tax, audit, and so on. There was no organizational mechanism to maximize revenue at the firm level, especially if it meant sacrificing revenue at the line-of-business level. What's more, the new strategy affected client relationships. Before the merger, the companies consisted of 150 small to midsize independent businesses brought together by brand and a shared infrastructure. The leaders of these businesses had deep relationships with their client firms' CEOs. Rolf Windemoller, the former head of Coopers's German firm, was a close friend of Lufthansa CEO Jurgen Weber. After the merger, Windemoller was expected to become an enabler for cross selling into Lufthansa, a position that threatened to put a strain on his relationship with both Weber and his new colleagues at PwC.

For a more detailed example of the tensions between retail and wholesale thinking, consider the challenges facing RBC Financial Group, one of the largest and most profitable companies in Canada. Founded 140 years ago as a small trading bank, RBC now serves more than 12 million customers throughout the world; its assets of $446 billion make it the seventh-largest bank in North America. The group comprises five main divisions (internally called "platforms"): RBC Banking, RBC Investments, RBC Insurance, RBC Capital Markets, and RBC Global Services.

More than ever, companies must synchronize the actions of business units and the goals of the enterprise.

For most of its history, RBC followed a straightforward strategy: Offer high-quality products at a fair price in every line of business. The company's approach to executing that strategy was equally simple: Get the best people, make them accountable for building successful business franchises, and pay them very well. It worked until about the mid-1990s, when two forces collided to change RBC's competitive dynamics. First, in an effort to preclude monopolies, the government announced that the Big Six banks in Canada (which dominate the country's domestic-banking business) could neither merge with nor acquire one another. This led to a major change in RBC's strategy - the decision to grow through cross-border acquisitions, primarily in the United States. Second, there was a shift in customer preferences. Quality was no longer enough in financial services. Customers wanted to simplify their decisions, so they wanted to be able to purchase bundled products and services. This sparked another big change in RBC's competitive strategy. The company would reach across its traditional stand-alone businesses to offer integrated solutions, an initiative that RBC leaders referred to as achieving cross-enterprise leverage.

Gordon Nixon, RBC's chief executive, knew that to make the new strategy work he would need to get the sup-

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port of many different constituencies throughout the organization. He worked with his top executive team, the group management committee (GMC), to craft a clear statement of the company's new strategic priorities, and he sent it to the entire organization.

The statement didn't immediately elicit support. Employees reacted instinctively against what would amount to a delicate balancing act: They would have to lift their focus out of their silos while continuing to deliver on plan. Despite the best of intentions, Nixon's effort to articulate the new strategy initially raised more questions than it answered. Regional heads in Canada wondered whether their roles had diminished in importance and whether they should go after the new jobs opening up in the United States. The heads of RBC's businesses and platforms understood the importance of the strategic initiative, but they knew they could make the strongest contributions to RBC's growth in the short term by continuing to run their stand-alone businesses effectively. They understood how to manage growth, boost profitability, and earn bonuses within their businesses; it was less clear how they could produce cross-platform revenues, even if they wanted to. In short, managers of regions and business units had well-developed retail skills but lacked the wholesale ability to lead across boundaries.

Are You Growing Great Leaders?

A checklist for senior executive teams

1. Have you crafted a clear policy that encourages employees to develop expertise and vision outside their current business units, functions, and regions? yes ☐ no ☐

2. Do you seek candidates from other units when trying to fill key openings? yes ☐ no ☐

3. Have you created formal mechanisms (such as leadership groups or task forces) that bring together high-potentials from across your company so managers can discuss the natural tensions and conflicts inherent in leadership? yes ☐ no ☐

4. Are leaders rewarded for sending talented employees outside their domains and for accepting individuals from other areas for developmental purposes? yes ☐ no ☐

5. Will strong individual contributors and successful business builders who fail to pay attention to broad enterprise priorities continue to make it to the senior executive team in your company? yes ☐ no ☐

This is a familiar story. Obstacles like those RBC faced are difficult to clear because the retail-wholesale tensions are very real, with three common conditions serving to reinforce them. First, most organizational structures lack mechanisms to air and resolve the natural conflicts that may arise between business-unit and enterprise priorities. Second, most foster silo thinking and unimaginative career paths. And third, many have well-intentioned but misguided reward systems that pit unit performance against enterprise considerations in a zero-sum game. Fortunately, people and companies can be trained to think and act differently, as you'll see in the case of RBC.

Air the Tensions

RBC's directive to fuel growth and develop markets across boundaries clearly made sense from an enterprise point of view, but it sparked zero-sum thinking among platform leaders: *If I share a client with another business unit, I'll lose power and control, as well as the revenue and profitability associated with that client.* Managers anticipated that they would need to make trade-offs on a daily basis and that customers might be confused if they were approached by (or heard conflicting messages from) different parts of RBC. In the absence of a forum for addressing these tensions, frustrations began to build and collaboration became a casualty of conflict.

So RBC's management team designed a series of leader-facilitated discussions, an initiative called the RBC Leadership Dialogues. Each session was run by Nixon and two rotating members of the GMC, and approximately 30 senior leaders were invited to attend at a time. Committee members who led the sessions told stories of their experiences trying to reconcile dilemmas similar to those that RBC's next generation of leaders would face. The objective was not to portray the GMC and Nixon as having all the answers; rather, it was to have the committee acknowledge that the dilemmas did exist, to open them up for discussion among RBC's managerial ranks, and to help prepare rising leaders for the tough choices they would inevitably face.

The first dialogues were led by two of RBC's most powerful vice chairs - Jim Rager, head of personal and commercial banking (now known as RBC Banking), and Suzanne Labarge, head of group risk management. Rager's unit is by far the largest division in the company and is considered by employees and analysts to be the firm's most powerful growth engine. That expectation

requires RBC Banking to be "suitably entrepreneurial," as Rager once put it. Labarge's role is to protect RBC from inappropriate risk that might threaten the bank's long-term health. Not surprisingly, Rager and Labarge often disagree on what constitutes appropriate risk. Before the dialogues took place, the party line was "It's not personal; we're both just doing our jobs." Employees knew better, but the mistrust between units was understood to be one of many "undiscussables."

To their credit, both Rager and Labarge acknowledged during the dialogues that, in addition to being vice chairs, they were both human and that the competing priorities hardwired into their respective roles sometimes placed a strain on their personal relationship. They emphasized their respect for each other and openly discussed the steps they were taking to resolve their concerns-meeting more frequently so tensions wouldn't build, for example, and bringing their staffs together more often so those relationships would improve as well. And both vice chairs stated emphatically that if the participants in the dialogues aspired to lead at the enterprise level, they should be prepared to face similar tensions in their future roles. Virtually all of RBC's top 150 executives participated in the dialogues.

These meetings had a genuine impact on the leaders who attended. One such leader was Ann Louise Vehovec, who had spent her entire career before the dialogues in RBC Capital Markets. In her 20 years at the company, she had developed a passion for that platform and hadn't worried much about the enterprise as a whole. The dialogues helped her see that she could remain a passionate advocate for her business unit while leading with an enterprise perspective. Taking note, Nixon offered her a new job that would require cross-platform thinking: RBC's first senior vice president for brand management and advertising. Leaders of the various platforms were reluctant to take part in enterprisewide marketing and advertising efforts because in the past they'd seen little direct benefit to their individual units. But Vehovec drew on the networks she'd developed through the dialogues to organize an operating committee for marketing. At committee meetings, she invited people to voice their concerns; ultimately, she won them over because she paid attention to their requests for a better link between broad-based advertising - image advertising, you might say - and product advertising. But at the same time, she stayed focused on doing what was best for RBC as a whole. "Three years ago, meetings of this nature simply wouldn't have taken place," Vehovec told me. "We'd all be worrying about protecting our platforms or holding on to the power we had built up in our functions."

The next step was to create ways to bring managers who were further down in the organization into the conversation. After all, plans for cross-platform collaboration often get undone not at the executive level but below, where individual incentives and career goals are tied to unit results. To change that at RBC, Nixon and his team created another series of leader-facilitated discussions closely patterned after the dialogues; these were called Leaders' Exchanges. Participants in the dialogues became the coaches for the exchanges, to ensure that the message cascading throughout RBC would be consistent. The coaches shared their own stories of conflicting priorities at these meetings, just as GMC members had done at the dialogues.

Nixon and his top team also instituted a quarterly conference call with thousands of employees to deliver the same core messages to every employee in every platform and region where RBC did business. And finally, Nixon and the GMC set up task forces to deal with the many tensions that were surfacing daily as the company executed its new strategy. One task force was called E^2, which stood for *efficiency* and *effectiveness.* In trying to manage business and enterprise priorities simultaneously, managers continuously struggled to decide what held a higher priority: the efficiencies of implementing enterprisewide actions or the targeted effectiveness of focusing on what was best for a particular business or region. E^2 took on the job of resolving this dilemma when it arose.

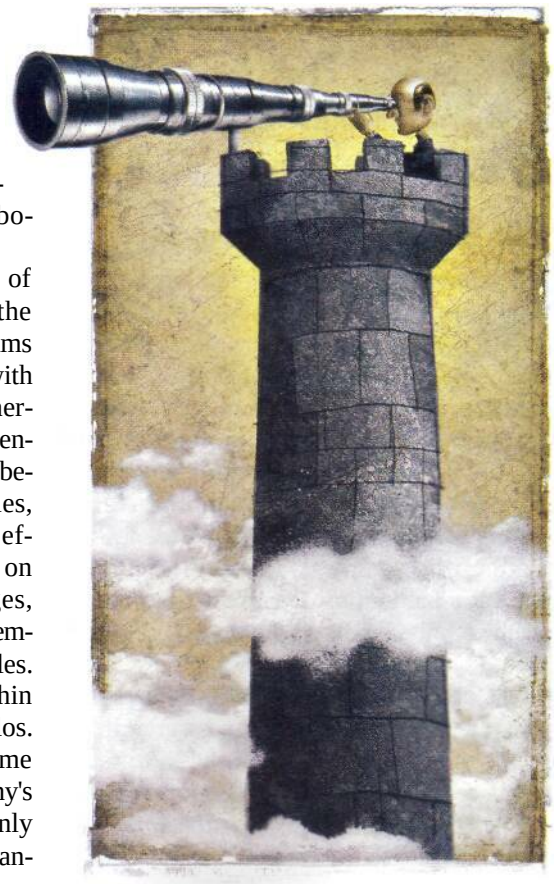
For instance, like many companies, RBC has "global" functions - HR, IT, finance, and so forth - but those functions are embedded in each of the company's business units as well. RBC Banking has its own HR, IT, and finance departments. This duplication often results in redundancies, bureaucratic decision making, and excessive costs, with little value added to customers. Each function had

the opportunity to present its best business case to the E^2 group by describing the value it added both to its individual platform and to the enterprise. This was just one of 35 E^2 projects focused on reducing costs while improving service.

The dialogues and exchanges went well beyond assessing the contributions of various functions; they opened the lines of communication across platforms, generated free-flowing conversations, and allowed as many people as possible to put their thumbprints on the company's strategy. It's this kind of open environment that can dispel confusion, anger, and cynicism, and engender straight talk, collaboration, and shared accountability. Two years into the process of airing tensions, employees reported that they had a much better understanding of the company's enterprise strategy and perceived a significant improvement in the quality of communication between the GMC and the next several layers of management.

Escape the Silos

RBC had invested heavily in leadership development. In the 1980s and 1990s, the company was, in the words of one executive, "a consultant's dream come true." It made avid use of university-based executive programs, funded an array of academic research initiatives, and bought the services of dozens of brand-name consultants in every facet of management and leadership development. It had the latest competencies package, the most up-to-date performance management system, the most sophisticated assessment instruments, and a turbocharged e-learning platform.



But despite the hundreds of millions of dollars invested, the leadership development programs weren't producing leaders with the capacity to manage the inherent tensions between unit and enterprise considerations. That's because, as with most companies, RBC's leadership development efforts were piecemeal, focused on particular skills and challenges, and therefore didn't prepare employees to take on broader roles. Development was confined within the organization's various silos. Every time a key position became available in one of the company's platforms or functions, the only candidates offered up were managers who had already worked in that area. So rising executives never had a reason to venture outside their silos.

Organizations have been managed in this way for years, and managers have had little reason to question the approach until recently. Why? As former New York Yankees great Yogi Berra might have put it, the problem with this problem is that most of the time there is no problem. In many cases, it makes great sense to have clear lines of authority and strong unit boundaries, and to give ultimate power to those who manage P&Ls. However, silos become pathological when they deprive customers of better products and services or, in pursuit of conflicting priorities, hinder a company's overall growth. The dialogues and exchanges at RBC stimulated open discussion of tensions that go along with leading across boundaries. But if managers returned from these discussions to develop their careers exclusively in their silos, their progress would be short-lived.

To build leaders who don't see the world in zero-sum terms but who appreciate the unique contributions of businesses, divisions, functions, and regions, companies must take people out of their career comfort zones and offer them challenging assignments in different roles. Ann Louise Vehovec's transition from line management to an enterprise job wasn't easy, but Vehovec saw the new job as key to her professional development. In her words:

> This has been the most challenging time for me at RBC. I came to realize how narrow my networks were, having worked only in Capital Markets for my entire career. It soon dawned on me that in order to succeed in this new role, I needed to build relationships across all of RBC's businesses, functions, and regions-and I didn't have them. For the first time in my career, I was worried about failing. When I was in investment banking, I thought if you weren't directly wired into a profit center, you were pure overhead and had little to no value. Now I understand the importance of platform performance, but with an enterprise perspective. We need to run our businesses and functions and do whatever is possible to contribute to RBC's overall success. That learning wouldn't have happened without this assignment.

Many others made a similar shift as part of the company's

effort to bring people out of their silos. The head of North American markets for RBC Banking was asked to serve as chief operating officer for RBC Investments in Canada, for example, and the chief strategy officer for RBC Investments in Canada was recruited to serve as chief risk officer for RBC Centura in North Carolina. Nixon himself had grown up in a silo (Capital Markets), and he needed to learn more about RBC's other businesses-banking, wealth management, insurance, custody, and so forth.

To ensure that these assignments would be made strategically and that high-potentials wouldn't slip through the cracks, Nixon took accountability for executive development out of the business units and built it into the individual goals of GMC members. The committee members are now assessed in terms of their participation in the dialogues, the quality and diversity of the succession pools for their own jobs, and the extent to which their employees feel they are receiving the coaching to grow as leaders.

Right the Rewards

Companies are used to paying for performance-but most of the time, rewards are tied to unit performance, regardless of overall strategy. This was the case at a very large, profitable company whose strategy for ten years had been based exclusively on acquiring distressed companies. The firm slashed costs in its acquired companies and installed managers who would follow scripted, standardized operating practices. These leaders were chosen for their capacity to aggressively manage P&Ls; those who did this successfully could easily meet the metrics of the company's incentive system and double their base pay.

The company changed its strategy when market research indicated that its customers were looking for integrated solutions rather than the stand-alone products offered by its fiercely independent lines of business. Yet while the new strategy was clear and the company's managers intellectually understood the nature of the challenge, managers continued to operate independently. Why? The company's rewards and incentives were still geared toward strong unit performance. Most senior managers had company stock or options, which would theoretically reward cross-boundary cooperation, but the chain of results to rewards with equity-based compensation is indirect and long, especially in a large company. There's little incentive for people to change their behavior if they're giving up an immediate, certain payoff for stocks or options that may or may not eventually increase in price.

Rewards can also be noneconomic, with equally fruitful or damaging consequences. Some years ago, the CEO of a financial services institution in New England was interested in launching a leadership program to transform the bank's culture. His concern was that his managers were too risk averse and that the bank would miss out on important growth opportunities. Thus, the CEO named the new course "The Entrepreneurial Leadership Program." His opening remarks to participants went something like this:

> Welcome. This is an exciting day, as we set out to transform our culture to one of searching for new opportunities and embracing a spirit of entrepreneurship. As members of our first class, you are our crown jewels…and let me tell you why. The industry benchmark data are just in, and I am delighted to inform you that we have won the coveted spot of having the lowest loan-loss ratio in the industry nationally!

Although the goal was to develop scores of innovative and enterprising leaders, the CEO was unintentionally praising people for being the most conservative managers in the country.

At RBC, Nixon and his team learned during the quarterly conference calls that employees saw little personal benefit in complying with the company's new strategy; they saw RBC's performance management system as rewarding unit rather than enterprise results. So the company made changes to its reward system, creating both economic and noneconomic incentives to manage the tensions between platform and enterprise priorities.

Plans for cross-platform collaboration often get undone not at the executive level but below, where individual incentives and career goals are tied to unit results.

Economic Rewards. RBC now combines salary with both short- and long-term incentives. It approaches salary and long-term incentives as it always has: paying slightly more than its competitors to recruit employees and using shares and options to motivate people to strive for sustained success. The short-term incentives, however, have changed; they encourage employees to pay attention to business growth and enterprise performance simultaneously. Short-term incentives are divided into two categories: personal performance and the bonus pool.

The personal performance incentives are rewards offered for growing one's business unit and contributing to

RBC's enterprise strategy. An individual may earn incentives for meeting or surpassing specific objectives within his or her platform and also for making clear, measurable contributions to the company as a whole. The bonus pool is calculated in terms of how close RBC comes to achieving its return-on-equity goal and how its earnings-per-share growth fares against that of its competition. So a functional leader can be granted short-term incentives for contributing to his or her function and to RBC, but that person's bonus is based 100% on what he or she does for the company. Enterprise contributions might include participating on the E^2 task force or collaborating across platforms to create new products or services. RBC Banking and RBC Investments, for example, worked together to create a new advisory service for people with high net worth.

Similarly, GMC members who run platforms might receive certain short-term incentives for building their business units, but their bonuses are based entirely on RBC's overall performance. The bonus pool percentages change for people at other levels of the organization to reflect their relative contributions to either business or enterprise priorities. For example, a senior platform leader would receive 50% of his or her bonus on the basis of enterprise results linked to cross-border initiatives, such as RBC Banking managers collaborating with RBC Investments to deliver on the financial advisory service created for high-net-worth individuals. Meanwhile, the bonus for a leader the next level down would be 30% for the company's results as a whole. In the past, the bonus for a lower-level business manager or functional professional would have been based solely on unit performance.

Noneconomic Rewards. Participation in special sessions like the dialogues and exchanges is by invitation only, and participants are told from the outset that they have been selected because they are critical players in helping the company achieve its objectives. This is an unusual move for the typically egalitarian RBC. Although the company still provides extensive training and development for everyone, it has decided to cultivate its next generation of senior leaders without worrying too much about discouraging the rest.

Even within this select group, further incentives are used to motivate behavior. The participants who contributed most valuably to the dialogues demonstrated the courage to discuss the undiscussables - for instance, by pointing to specific GMC members who have served as poor role models for cross-border collaboration - and were later asked to serve as coaches in the exchanges. Being anointed as a role model is a powerful motivator. So is placement on an enterprisewide task force such as E^2 or Vehovec's operating committee for marketing.

When Nixon revamped RBC's reward system, he recognized that employees took great pride in working for one of the largest, most profitable financial services firms in Canada, not to mention the most admired. He drew on this pride, which was deeply entrenched in the culture, and shared stories that he hoped would promote leadership behavior. For example, in one dialogue session, he told participants about a highly successful business builder who had been asked to leave the company because of his inability to pay attention to larger enterprise priorities. Nixon had attempted to help the executive shift his focus, but time after time, the employee made it clear that he was interested in serving his own clients and not helping RBC as a whole. In other words, he was a great moneymaker for the company but didn't demonstrate the organization's values. Such stories have sent the unambiguous signal that RBC is interested in growing leaders who are committed to managing both retail and wholesale priorities.

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RBC doesn't try to formally assess the impact of the dialogues and exchanges. When asked, Nixon has said:

> Look, you either believe that developing leaders is important or you don't. There are so many variables that could be used to either make or break your argument for leadership development. We're not going to play that game. We firmly believe it's important to grow leaders who can run their businesses, their functions, and their regions, yet who can lead with an enterprisewide perspective. People make this business happen, and we will let our performance speak for the importance of developing leaders.

But even without a formal analysis, the picture looks promising: 154 of RBC's senior executives have participated in the dialogues (virtually all of its top 150, with the normal employee churn), and 477 managers have participated in the exchanges. All of the GMC members have acted as coaches for the dialogues multiple times.

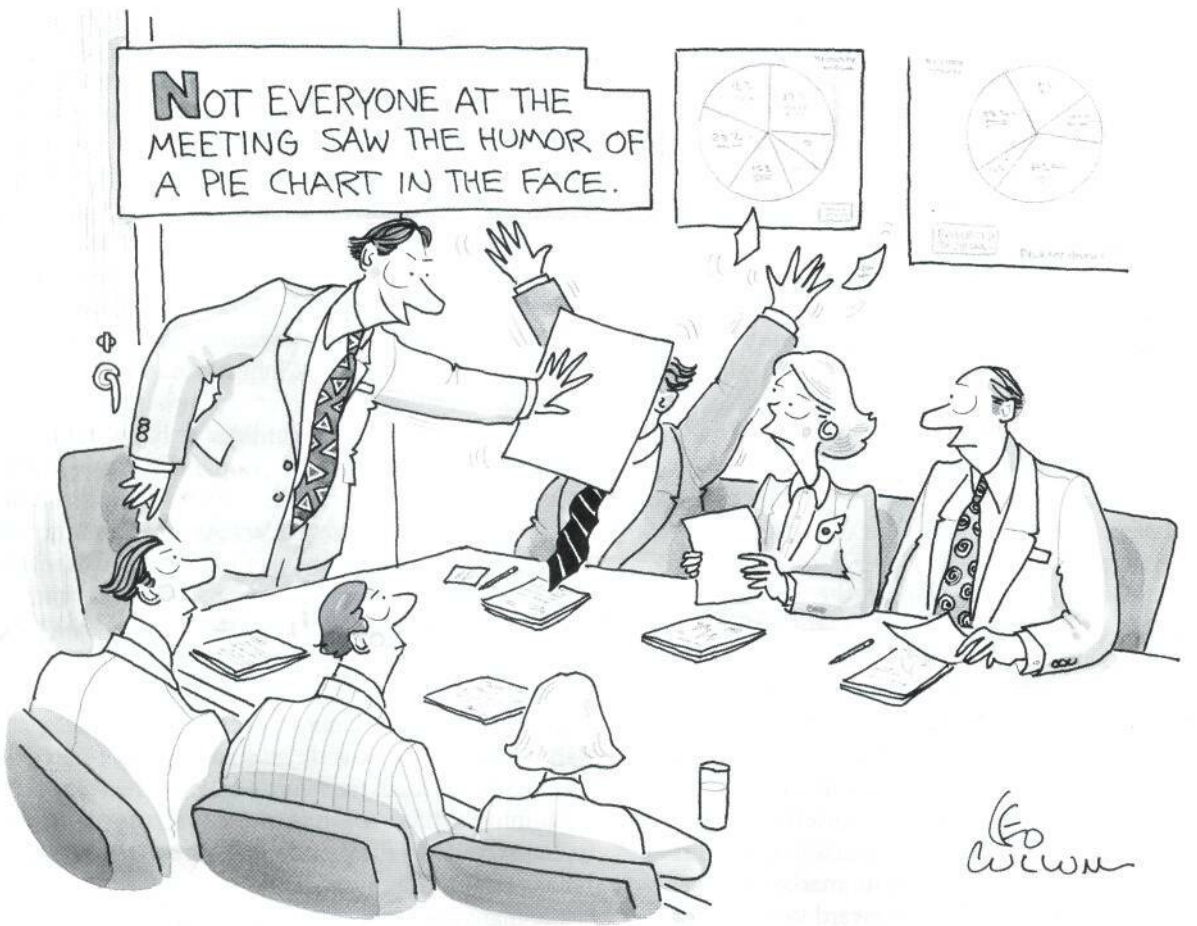
What's more, 20% of RBC's high-potential senior executives are currently working on cross-platform/enterprise assignments; almost no one did this before the implementation of the dialogues. People are still allowed to grow in their silos, but then they are not considered to be high-potential enterprise leaders. And new products and services have emerged directly from the dialogues. RBC's Snowbird Package is one example. Roughly four million Canadians spend four months of the year in Florida and other parts of the southeastern coast of the United States to get away from the harsh Canadian winters. Participants in the dialogues created a seamless extension of services that could be offered through RBC's acquisition of Centura Banks in North Carolina, with branches that extend deep into Florida - services that cut across platforms to include retail banking, mortgages, insurance, and wealth management.

For many companies, implementing the sorts of remedies outlined in this article will be much harder than they expect, because the silo focus is so ingrained in their

cultures. RBC certainly struggled at times and made some missteps. Nixon initially announced the cross-enterprise leverage strategy without communicating it broadly to the GMC. Then he faced the challenge of building ownership for a strategy he had already announced, rather than the opportunity of helping executives discover its value for themselves. He also, at first, didn't define what the cross-enterprise approach would mean to customers but instead essentially offered up pure "strategy as slogan." But he was able to get past these mistakes by engaging and communicating extensively with employees, cross-fertilizing talent across RBC's platform boundaries, and targeting rewards to shape behavior.

Competition has changed, as have customers' expectations. Leadership development has not kept pace. Many companies have created new organizational structures to accompany the need for a broader perspective on the business, but the vast majority of leadership development initiatives still take place in the very silos the organizations are trying to transform. When people are trapped in business units, functions, or regions, they're at risk of becoming prisoners of zero-sum thinking.

The responsibility for solving the problem rests primarily with a company's senior executives. Only they have their hands on all of the necessary levers of change. Top managers must work tirelessly to break down their silos and forge imaginative career paths. They must create robust venues for managers to openly discuss the tensions that are a natural by-product of managing complexity. They must realign reward systems and motivate managers to lead according to the realities of today's competitive environment. And they must acknowledge that there will be no easy answers and take decisive action instead of running from the ambiguity surrounding the challenge.



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