The virtues of
transformational
leaders

They are a rare breed: transformative leaders earn that heady title by transforming not just companies, but industries. **Charles Spinosa**, **Billy Glennon** and **Luis Sota** believe there are four virtues that such leaders manifest.

Great leaders grow extraordinary companies in ways that make their whole industries more highly valued. Consider John D. Rockefeller using vertical integration to stabilize the oil industry, including high-risk exploration. Consider J.P. Morgan transforming banking to bring stability to each of its clients and to markets. Consider George Eastman who created popular photography. Not all industry transformations are so massive. But consider the kind of growth shareholders seek today: only transformation of some size can achieve it.

We have found four core virtues critical to the success of industry-transforming leaders:

- Taking a stand to accomplish the impossible
- Seeing personal transformation in others
- Setting the corporate style, and
- Listening for difference

We have worked closely with three leaders who possessed these virtues. To speak intimately about the difficulties involved in adopting these values, we have disguised the identities of these three leaders. All started their industry transformations in the 1990s; two are still leading these transformations today. One is a telecommunications entrepreneur who has grown two companies each worth well over $1 billion, both facing rivals with dominant market share, good technology and competitive cost structures. Having displaced such Fortune 500 competitors as Verizon, his second company now dominates its entire region. Our second leader grew his credit card-processing company from nothing to take on such established rivals as American Express, Barclaycard, Capital One, Citigroup, GE Money, First Data, MasterCard and Visa. The third leader transformed a small, regional Latin American manufacturing company into a global titan worth multiple billions.

In each case, no one thought these leaders could grow their companies and transform their industries as they did. Thus, they provided the centre for our research; but we have also drawn on research of recent, successful leaders in over 100 other companies. The most transformative leaders in the very best corporate examples demonstrated four key virtues.

Taking a stand to accomplish the impossible

A leader today declares a new way of looking at things, and his or her followers have to extend that to every important circumstance the enterprise faces. Since the change implied in the new way of looking at things goes against common wisdom, most will say that his vision is impossible. Yet, the leader has to present the change as an implacable necessity. Without that urgency, followers fall back into the usual pattern of following circumstances, not leading them.

For example, one leader we studied, who faced intense scepticism, declared that he would find financially transparent structures to enable his Latin American manufacturing company to use acquisitions to become one of the top

three in the world. No one thought that a company with more than half of its profits in an unstable Latin American currency could raise cash to compete for acquisitions with well-capitalized American and European companies.

The mobile telecommunications entrepreneur we worked with declared that he would use flexible, fast, customer-sensitive management techniques to threaten control of markets owned by single competitors. Everyone around him believed that success in mobile telecommunications was tied to locking customers into long contracts.

Then there was the would-be card-processing leader who declared he would grow his start-up to rank among the top three US processors in just five years by treating customers more like friends. Most scoffed at the very idea; the accepted wisdom was that big business was, first and foremost, about scale and price – friendship was far down the list of success factors, if on the list at all!

Making a declaration of a bold new stand in the industry creates, in essence, a new frame for anticipating and evaluating the leader's actions. Thus, leaders must travel through three key phases in exercising the virtue of taking a stand, each phase harder than its predecessor.

Find what's wrong The leader comes to this by asking: *What is our company doing wrong? What are our competitors doing wrong? What does our industry do wrong for customers or for shareholders?* Then, of all these things that go wrong, which *always* go wrong? Our Latin American leader said to himself, "Latin American companies are always unable to compete in acquisitions because they pay a premium to borrow." Our credit card leader was told over and over that card processing could never be a customer service-oriented friendly business. Similarly, for our leader in mobile telecommunications, most said that it was a given that customer churn would always be every company's weak point and only binding, long-term contracts could

help. A problem that will "always exist" or "never go away" is an ideal impossibility to overcome. Transformational leaders find this as soon as possible.

Find the means The second phase involves identifying the means to achieve the impossible. While there is no simple process for engineering an industry transformation, certain general elements come out of taking a stand. The leader asks what convention (or conventions) he or she has to change in order to simulate a company or an industry that already has a better business model. In short, finding the means often starts with asking profoundly unusual questions, ones that no one else in the industry is asking. For example, asking how a credit card-processing company could simulate the friendliness of a Ritz Carlton caused our leader to develop a series of small service enhancements and deliver each to a micro-segment of merchants segmented by their service preference. Our leader broke with the thinking that a high level of service only meant exclusively special treatment of wealthier customers. Last, to do all this while maintaining profitability, he hired iconoclastic IT developers who worked with him to break the rules and manage these new micro-segments in innovative ways.

Elevate the stand The third phase of taking a stand involves personally becoming the stand, modelling behaviours that speak to a new and better way. Even those closest to the leader can easily start resisting the departure from the comfortable status quo. They are charmed by the new vision the leader espouses, but they do not see it as the new centre of the industry. Such resistance can turn to a form of mutiny when followers' doubts cause them to become entrenched in what they have always done.

For our credit card leader, the crisis came when he was about to deploy a bold, new service offering to a segment of small merchants. His partner of many years balked and secretly went to the venture capitalists and asked

that they remove the leader from power. When this was discovered, our leader was forced to mount a fierce counterattack – even involving the testimony of a psychiatrist – that he won. Nonetheless, the victory threw him into an emotional paradox. He led a company devoted to competing by creating a friendly business, but he could no longer feel a personal joy in that good because he had been forced to destroy a key friendship to do it. Most transformative leaders we've met talk about a moment similar to what happened in that case, about a time when they identified themselves with the business vision even if it meant revoking personal loyalties and ideals that made the work profoundly personally fulfilling.

Seeing personal transformation in others

F. Scott Fitzgerald said that there were no second acts in American lives. With this keen observation, Fitzgerald captures how most senior managers currently see their teams. Senior managers see life stages: from formulating desires and ambitions, assembling talented people with critical skills, assigning roles and responsibilities, tracking progress in delivering what is due and measuring what has been done. Senior managers focus mainly on the work their teams are going to do or have already done. But what about all those people required to perform the work? Most senior managers do not see team members as struggling to achieve their own particular definition of a good life.

By contrast, transformational leaders connect the larger corporate vision to those of the individuals needed to make the grand vision happen. In particular, transformational leaders gain the loyalty and trust of their senior team – particularly as they pursue industry transformations together – by recognizing and celebrating each and every personal transformation.

The Latin American manufacturing leader likes to tell the story of his energy director who started out as a college professor, became a →

→ research manager, then an energy trader and finally an energy czar who served not only the company but also a whole geographical region. "What's next?" was the question the energy director asked as he achieved each of his personal career transformations. Our transformational leader was smart enough to answer the question

How can their past successes play a role in the industry change now being envisioned?

Setting the corporate style

Transformative leaders follow Winston Churchill's dictum that "We shape our buildings; thereafter, they shape us." That is, they set a corporate

natural to project excitement and look for an unusual way to help a customer. Howard Schultz has everyone at Starbucks serve some time as a barrista. Can anyone doubt that the barrista style matters? Jeff Bezos requires that everyone at Amazon serve one day a year on the customer service phones. Creating

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by showing how tackling a higher level of professional challenge would help not only the energy director but his company and industry as well. Likewise, the leader who brought friendliness to credit card processing regularly called his senior team members late in the evening to discuss the corporate strategy and how achieving it would also change them for the better.

Transformative leaders hire people whose personal challenges line up well with the impossible goal the leaders are trying to achieve. Our Latin American manufacturing leader promoted other managers who were out to prove that they could beat first-world managers. Our telecommunications leader expressly did not hire proven deal makers as much as people who admired his deal-making skills and wanted change in their careers. Our credit card leader hired a team of brilliant IT misfits who banded together as friends and then showed they could provide cool, user-friendly services.

To cultivate the virtue of seeing others as engaging in personal transformation, leaders ask a handful of basic questions of their colleagues and members of their team. *What previous transformations have each undergone? Which business challenge most made them want to get out of bed in the morning? Thinking back, which particular challenge was the most meaningful?*

style that aligns totally with the new stand on which the company needs to operate. They create organizational norms and rules that underscore the need to think (and be!) different from the status quo. Transformational leaders exercise power by getting people to see as real and urgent *exactly* what the leader sees as real and urgent. As Tamara Erickson and Lynda Gratton noted in the March 2007 issue of *Harvard Business Review,* the transformative leader carefully designs the roles, key meetings and other practices, sometimes signature practices, in the organization in order that they fit with the leader's own style of acting.

Tables of an organization's roles are usually the easiest places to begin to embed the leader's style of thinking and acting. Southwest Airlines has peppered its senior ranks with people who specialize in caring for other people and whose titles say it. Thus, Southwest employees assume that caring for each other and the customers is the basic part of any business. But signature practices also embed a leader's way of acting. Umpqua Bank convenes the whole company every morning for a motivational moment in which managers get their teams excited for the day. Then, once a year, the entire Umpqua staff assembles for a meeting like the Academy Awards during which the legendary stories of its front-line staff are celebrated. Staff members simply think it is

roles, establishing meetings and embedding practices set a style that ultimately *becomes* the organizational reality.

Within manufacturing in which engineering disciplines usually reign supreme, our Latin American leader created his transformational organization design intuitively. While most organizations have functional and regional leaders at the top, the leader's top four reports represented the aspects of the corporate style that he embodied and used to drive his company: deal making, cost optimizing, speed and cutting-edge technology. All functional areas reported to a paragon of one of these aspects of style.

For instance, since finances were about acquisitions, the CFO, heads of investor relations, corporate communications and marketing reported to his top deal maker. Likewise, most of his regions reported to his chief cost optimizer, who would regularly run corporate-wide, cross-departmental projects to invent new ways to cut costs. Manufacturing reported to the third senior officer, who was famous for running the fastest post-merger integrations in the industry. The technology chief soon became responsible for the areas that the transformative leader wanted to become more high tech: logistics, energy and HR. This setting of corporate style became such a matter of fact that direct reports of the four leaders would say, "The real
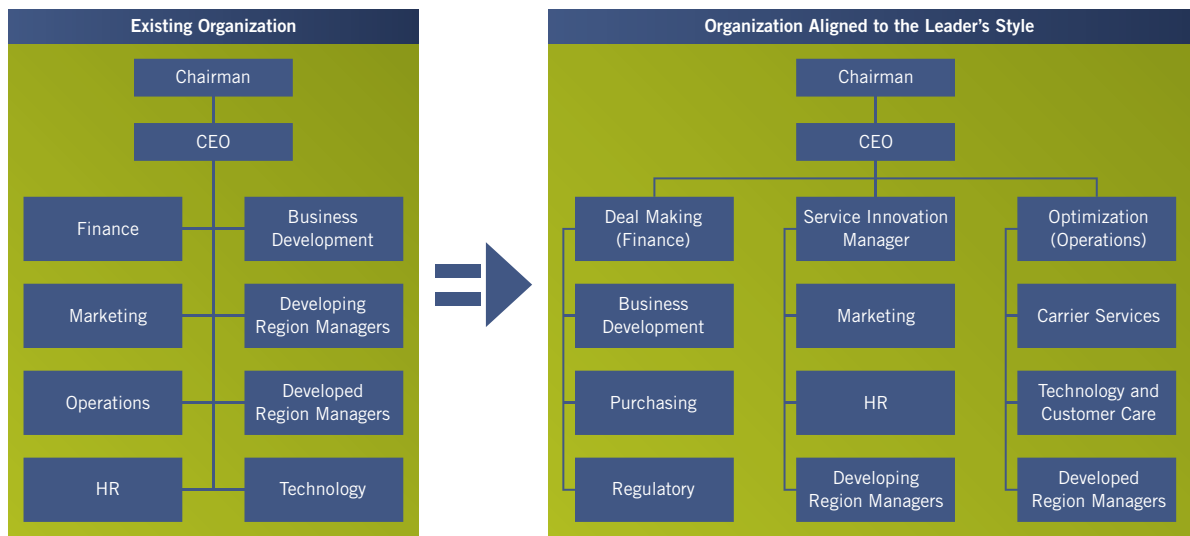
Existing Organization		Organization Aligned to the Leader's Style		

Existing Organization:
- Chairman
- CEO
- Finance
- Business Development
- Marketing
- Developing Region Managers
- Operations
- Developed Region Managers
- HR
- Technology

Organization Aligned to the Leader's Style:
- Chairman
- CEO
- Deal Making (Finance) / Business Development / Purchasing / Regulatory
- Service Innovation Manager / Marketing / HR / Developing Region Managers
- Optimization (Operations) / Carrier Services / Technology and Customer Care / Developed Region Managers

Figure 1: Transforming an organization to fit a leader's style

business of our company is cost optimizing." Or they might alternatively assert, "The real business of our company is making deals."

Perhaps the real test of whether a transformative leader has created a new corporate style is to attune oneself to what people in the organization are talking about on a

regular basis. If a leader finds herself angry over excess costs, lack of product innovation or poor service, then cost optimizing, innovation and service should soon become the topics most evident in recurrent conversations of people throughout the organization. If a leader has truly set the style for the organization, he's also set the agenda for organizational dialogue and debate.

Listening for difference

Tim Waygood is an expert in motivating people, and he has posted a classic bit of wisdom on his weblog (timwaygood.blogspot.com): "Effective listening is central to success in business, as it is key to establishing and maintaining good relationships with clients and colleagues."

Looking at the study of listening practices in business, one finds three kinds of listening most often cited. *Confirmation listening* occurs when a manager listens to gather evidence for his or her own views. Then comes *active listening.* Here, the manager repeats the speaker's words and checks his or her understanding of

what the speaker intended to say. Such listening improves understanding where there is candour and trust. *Empathetic listening* focuses on the background mood, concerns and functional orientation of the context in which words are spoken. The listener moves beyond the words to the deeper significance of the words, such as when a leader says to his marketing chief, "Your sales representatives are complaining about the price, but I sense some greater disappointment. Are you and they disappointed by the product's design?"

Transformational leaders listen for difference. In their listening, they penetrate beyond the actual words and background concerns to identify the speaker's stand in life and how it

fits or conflicts with the leader's own stand. Such leaders vigilantly listen for what they do not want to hear.

When a customer complains that she has to spend too much time following up on a mortgage application, is the customer taking a stand in her life for simple convenience, speed or exploiting

opportunities? The transformative leader listens for the difference. That means insistently wondering what stand would generate the speaker's comments and probing for hints to understand the significance of the communication.

A classic example of listening for difference is to be found with Francisco Garza, president of Cemex's North American Region, who exhibited the virtue in the face of a special problem. In the late 1990s, he held a fair to get to know Mexico's growing population of mostly poor, do-it-yourself homebuilders who were on-and-off-again Cemex customers.

At the fair, Garza saw a commotion in the free-vaccination line. The do-it-yourselfers did not want vaccinations, but they did want →

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→ the Cemex baseball caps that came with the vaccinations. Francisco gathered a number of the do-it-yourselfers and thoughtfully explained the diseases the vaccinations prevented, the suffering caused by the diseases and the slight inconvenience of waiting. They listened respectfully, but at the end, said they simply wanted the baseball caps. Nothing he could say would change their minds.

He soon understood that these customers stood for a way of life different from his. Knowing this was enough for Francisco to think in new, different ways – even to withdraw a product from the marketplace. His design teams had noticed the do-it-yourself builders struggling with large bags of cement and had created small bags. None sold.

The design managers thought that common sense would drive the do-it-yourselfers to the bags. Francisco realized that what is common sense for one is not necessarily common sense for everyone. So, he cut production of the smaller bags until he and his managers understood their customers better. He started by tasking his team to find out what life was like for the do-it-yourselfers: what mattered and what did not – and why? His observing and interviewing teams worked with one guideline: understand how the do-it-yourselfers are different from us and why they care about that difference.

Garza learned that fitting into the community mattered very highly to the do-it-yourselfers. When a person was going to build, he announced it with a big – not a puny – bag of cement in front of the site. No do-it-yourselfer could easily articulate this sense of group solidarity, but they could say that it would be embarrassing to build without first announcing it with a bag of cement. This was enough to withdraw small bags of cement from the Cemex product line. In time, however, the Cemex managers learned much more.

For example, they learned that neighbours felt obligated to pay their debts to each other but not to large companies like Cemex. They found that neighbours formed money-pooling groups in which each member would get the whole pot in turn. Out of this listening for difference came a group-savings programme that fit community standards, enabled the extension of credit, drove higher sales and profits for Cemex and won the coveted 2006 ICC World Business Award. Listening for difference enabled Garza and his team to pursue such counterintuitive lines of conversation and, in turn, new business practices.

Listening for difference goes against the grain of assumed knowledge. It's not comfortable, but it can be transformative. How does one practice such listening? First, start with the assumption that people see things differently from you. Second, listen to identify unusual statements that do not make sense to you (as in not wanting to wait for a vaccination). Third, with genuine respect, ask about any unusual "hard to understand" statements to get added details: "What else is like this?" or "How did you come to think this?" Fourth, synthesize a hypothetical stand that makes sense of what they are saying; see how it fits with other things you've heard. Keep in mind that your goal is to find a new reality in which your business can grow beyond its current state and start serving those you're listening to in dramatically new ways.

Virtues personified

Taking a stand for achieving the impossible, seeing personal transformation in others, setting your corporate style and listening for difference demand more of leaders than today's common list of leadership virtues. In our conversations with transformational leaders, two stories stand out because they were repeated so often.

Transformative leaders told us how strongly they believe that they need to transform their companies because of the good they will do for their customers and other key stakeholders. They also told us that the quest to transform their companies and industries always involved severe testing of their commitment to their innovative stand and whether they would cave into the existing norms of their organizations.

True transformative leaders commit themselves to the virtues of taking a stand to accomplish the impossible, seeing personal transformations in others, setting the corporate style and listening for difference. They are so committed to these four traits that they become the personification of these virtues. ⁜

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