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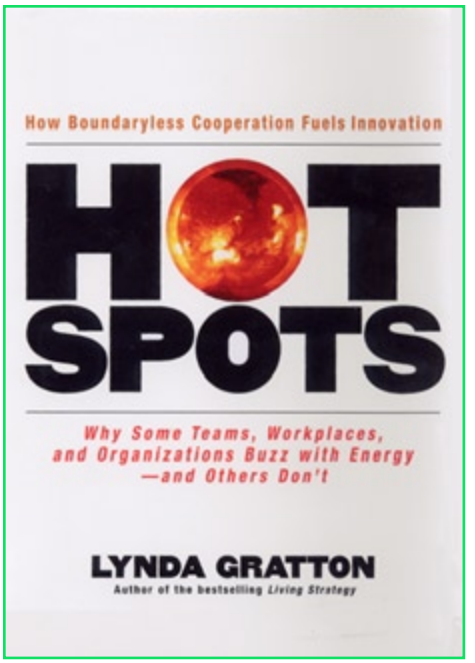
Hot Spots
Part 1

By Lynda Gratton

Editor's Note: What is the formula for "magic" in a company?

By magic I mean the release of productivity and profit that flow when people co-operate around an inspired, igniting purpose or vision, and the business benefits from their energy, innovation, flawless teamwork and creativity.

London Business School professor Lynda Gratton has sought out such "hot spots" within corporations for many years. Her new book *Hot Spots* (Berrett-Koehler) contains her findings, and the recipe for creating the conditions which Hot Spots need to grow.



Lynda Gratton's name is becoming ever more renowned in management circles on both sides of the Atlantic, and rightly so. The *Financial Times* raves about *Hot Spots*: "Gratton has written a succinct and utterly compelling book. She is really a kind of one-woman hot spot in herself. To avoid the next business ice age, try to make sure you have a few hot spots of your own burning within your walls."

Based on empirical research with dozens of global corporations, Professor Gratton tells us how to create the conditions for these Hot Spots of high performance.

SINCE HOT SPOTS ARE EMERGENT rather than controlled and directed, what can the role of the leader be? The old rules of command and control will have little effect on Hot Spots and may actually work against their emergence. In companies with more than their fair share of Hot Spots, my research colleagues and I found that leaders had played a crucial role by asking the difficult igniting questions, creating a network of friendships and opportunities for boundaryless cooperation, and championing and supporting the unique signature processes that create the context for the emergence of Hot Spots. [*Editor's Note: A "signature process" is akin to a "best practice" except, crucially, it is imbued with the "idosyncratic, unique, and essentially personal nature" of the host enterprise.*]

Leader as Socrates

There are leaders in Hot Spot-rich companies whose vision of the future is so enticing that it results in the almost instantaneous release of latent energy. The founders of Wikipedia and Linux were able to galvanize thousands of volunteers with the promise of knowledge for all and the idea of an open system platform, respectively. Not all leaders have this all-encompassing vision of the future. What they do have is big questions. In their own way, they are latter-day versions of Socrates.

The ancient philosopher Socrates established the utility of asking big questions of ordinary people he met as he walked the streets of Athens. Socrates used these conversations to analyze the issues of the day and his own ideas. He was convinced that people might be wrong, even when they held important positions and when they were espousing beliefs held for centuries by vast majorities of people. The reason was simple: they had not examined their beliefs logically.

In his own practice of questioning, Socrates established that while there is value in finding affirmation for existing assumptions and beliefs, the most useful learning occurs through falsification. Falsification requires the discipline of reason and hypothesis testing. What are the assumptions behind this proposal? What data or evidence would we need to prove those assumptions to be false? What do we believe to be true that is actually untrue? What do we believe to be untrue that is actually true? These were the types of questions Socrates asked, and they provide the foundation for rigorous, rational conversations and guide leaders toward potential igniting questions.

A Hot Spot needs a leader like Socrates as a source of vigorous and disciplined questioning. At BP, John Browne personally embodies this belief in rigor and rationality. "Rigor implies that you understand the assumptions you have made," he said, "assumptions about the state of the world, what you can do, and how your competitors will react, and

how the policies of the world will or will not allow you to do something." He regularly takes his top team through intellectually challenging inquiries. Could the price of oil drop below $10 a barrel in the medium term? It's unlikely, but what happens if it does? How will technical substitution work in the short term? "The main point is that we keep interrogating and asking questions about these things, and that ensures that others in the organization will do so too," says Browne.

Most companies have developed an internal environment in which any form of doubt is perceived as ignorance or weakness and all forms of questioning are interpreted as either manipulation or affront. It is this delegitimization of questioning and doubt that kills the spirit of inquiry and reduces conversations to ritualized, dehydrated talk. The first task of the leader in creating good conversations is to institutionalize questioning and expressing doubt as normal and routine parts of the way in which the company operates.

Although systems such as scenario planning can help people in companies overcome the constant need to project an aura of certainty, the most important power for legitimizing questioning and expressions of doubt lies in the personal influence of top-level leaders. This will perhaps be John Browne's most important legacy at BP: long after the novelty of acquisitions and industry restructuring have faded into footnotes of BP's history, his ability to convert the ritualized, bureaucratic norms of interactions within the company into an environment of constant, vigorous yet courteous questioning and inquiry will be remembered.

The ability to ask incisive questions requires careful cultivation. Spotting potential weaknesses or fallacies in an argument is a bit like exploiting good luck; both need prepared minds. To be effective questioners, top-level leaders need to constantly expose themselves to a variety of information and stimuli inside and outside the company so as to be able to generate independent and insightful thoughts.

This is precisely what Browne and his top-level colleagues at BP have done. They have all built individual links with faculty members in high-quality universities — Cambridge, Stanford, Yale, and a variety of experts in other institutions — and regularly visit them "to keep in touch with people who know more than we do," in the words of Nick Butler, BP's policy adviser. Browne himself uses his board positions at Intel and Goldman Sachs to gain new insights into industry models. Discussions on the Intel board are precisely what encouraged him to question BP's IT investment plans and to avoid overinvestment in new systems, even though the company looked old-fashioned at the time.

The risk, however, is that constant questioning would lead to a highly politicized environment of second guessing and point scoring. The antidote to that risk is a relentless focus on purpose. It is the focus on

goals that converts great questions into effective learning. "You can implore people to learn," said Browne, "and they will, to some extent. But if you say, `Look, the learning is necessary in order to cut the cost of drilling a well by 10 percent,' then they will learn with a purpose."

To legitimize honest expressions of doubt, leaders need to admit their own doubts and uncertainties. Underlying Socrates' ability to question was his belief that he knew nothing. Top managers who believe that they must always have the right answers kill curiosity and inquiry. It takes a lot of self-confidence and courage for leaders to acknowledge their own ignorance, but nothing serves as a better reminder to others of all the things that they themselves do not know. Authenticity in human relationships almost inevitably requires reciprocal expression of vulnerabilities and weaknesses, and leaders expressing honest doubts provide a key foundation for developing authenticity in organizations.

So one of the key tasks of leaders who want to encourage Hot Spots is to authentically shape the conversational agenda in their companies. Of course, routine must be dealt with and urgencies must be tackled. But great leaders always ensure that the day-to-day pragmatics do not take over the entire conversational space for employees. They keep in play a few broad questions to engage the intellect and the imagination of their people. Great conversations around those topics not only translate into concrete here-and-now benefits but also constantly renew the identity of the institution and the bonds among people and between them and the company.

In his very first meeting with senior managers after taking over as the CEO of IBM, Lou Gerstner made a new rule: no overhead projectors and no slides will be allowed into the room. In IBM, meetings had become totally ritualized, with formal presentations of information using well-crafted color slides. Managers spent an enormous amount of time preparing these presentations, which took up all the available time during the meetings. Instead of fancy presentations, Gerstner wanted quality conversations. Hence his new rule: no slides.

James Houghton, at the time the CEO of Corning, made a similar rule. Anyone who believed that he or she would add or receive nothing of value at a particular meeting could remove his or her name from the list of participants for that meeting. A very large number of ritualized meetings died very quickly.

Imposing another rule, a department manager at Sun Microsystems set a bunch of small black flags in his meeting room. Whenever a participant believed that someone was preventing a good conversation in any way, the participant could hold up a flag for all to see. It took a while for people to develop the confidence and comfort to use the flags, but once they did, the quality of conversations rapidly improved.

Individual habits and organizational inertia lead to the persistence of poor conversations in companies. Most leaders can think of any number of such simple rules that break habits and inertia. The actual rule needs to be adjusted to the historical and cultural context of the company; what matters is that the leaders consciously ask the questions: What is blocking quality conversations in our organization? What can we do to eliminate the blockages? Once the questions are asked, some creative and insightful instrument for breaking old habits inevitably emerges.

Similarly, creating new forums is often a powerful way to redirect conversations in companies. Established forums get institutionalized over time, and it becomes increasingly difficult to change the patterns of conversations that occur in those forums. In new forums, new patterns can be established, among new participants.

Leader as the Creator of Friendships

I remember being very struck by a conversation with Rory Sutherland, the creative director of OgilvyOne. His point was this: "The most important role of the manager at OgilvyOne is to create friendships." This was at the very beginning of the Hot Spot research, and frankly, at the time, I thought this was rather extreme. Friendship is not a word you hear much around companies. Yet over the intervening period, I have warmed more and more to his view. It is clear to me that this job of creating friendships is crucial to the emergence of Hot Spots.

It begins with the quality and depth of relationships the members of the leadership team have with each other. Poor-quality relationships have a profoundly negative effect on the capacity of the company to thrive. But more than this, they send out strong messages to the other members of the organization about what is legitimate and what is not.

Sometimes these friendships require real courage on the part of the leader. While OgilvyOne under the direction of its founder, David Ogilvy, had been a friendly place, by 1992 its original entrepreneurial culture had ossified into highly autonomous factions led by barons who were more interested in protecting their turf than in building the business. "The London office was horrible," a senior manager told me, "with constant backbiting and a lot of bad blood."

The change started with Charlotte Beers, the then-CEO of Ogilvy, who invited all the business leaders to a two-day off-site meeting. Breaking with norms, she began the conversation by asking direct questions: "How do we feel about one another? Why can't we work together? Do we recognize what that is doing to our clients?" That meeting was the turning point. Initially, the discussions were very difficult. "We simply did not know how to talk openly to each other," the same senior manager told us. "We were so used to being defensive and polite. It took two years and eight meetings

— and some changes in the cast of characters — before we learned to deal with emotions and feelings, to be authentic. It's only through that process that we learned the power of friendship."

Leader as the Architect of Signature Processes

Hot Spots emerge; they cannot be ordered to appear. However, their presence and longevity are highly influenced by the context of the company, in particular its practices and processes. I have suggested a whole portfolio of practices and processes that will make a significant impact on the probability of Hot Spots emerging. Selecting cooperative people, broadening socialization and induction, and engaging in activities that encourage a feeling of community are just a few of the wide range of potential leverage points. Much of the responsibility for the design and delivery of these practices and processes can be taken by members of the human resource function.

However, in each company, there are a handful of practices and processes that leaders must personally involve themselves with, ones that are unique to the company. These are not best practices imported from elsewhere; rather they are the practices and processes that resonate with the values of the company. These are signature processes, and leaders play a crucial role in defining and sponsoring them.

At the heart of signature processes such as peer assist at BP, the modular architecture at Nokia, the selection process at Goldman Sachs, and the Challenge Cup at BT are the CEOs and their teams. In each of these companies, the CEO believes that the signature process in question is key to the organization's long-term success, and each is committed to maintaining the signature process. By putting resources and commitment behind these signature practices, these leaders support the spontaneous development of Hot Spots. What can other executives learn from these companies?

Most executives know that values are important in their day-to-day behavior; few understand that it is through a small number of signature processes that these values can be integrated into the goals of the business and the behaviors of individual employees. What I learned from leaders such as John Browne at BP and Jorma Ollila at Nokia is that these exceptional leaders use signature processes as a means to communicate their values and the values of the company. To do so requires that the leader be very clear about what those values are.

The executive role in identifying externally developed best practices is essentially rational and analytical; in contrast, the executive role in signature processes is value-based and insightful. I could hear the pride in senior executive Mikko Kosonen's voice when he talked of Nokia's

modular structure: "One of the distinctive characteristics of Nokia is the organizational architecture. It is avant-garde." Over hours of discussions, Nokia executives tried to describe the structure, their ideas behind it, how it worked, and what it meant. Figures were drawn, analogies made, and examples given — all with enthusiasm and caring. And at BP, there is a huge amount of pride in the philosophy that underpins the peer assist process. As Deputy CEO Rodney Chase remarked, "In our personal lives, we all know how much joy we derive from helping others. As a mother, a brother or a friend, we derive great pleasure from helping those who are close to become successful. Why don't we believe that the same can be true in business? Historically, we didn't. But you can get there when people in the company can almost derive more pleasure from the success of others than from their own success."

We saw that when people are participating in the signature processes, they are "in the flow." The energy they exhibit is palpable, and they are oblivious to time. When people participate in these signature processes, they feel good precisely because, deep down, the process expresses something they believe in. They feel that what they are doing deeply resonates with who they are and what they value.

Executives know exactly what they have to do to build best-practice processes. They have to approach the task with rigor and a clear time frame in mind. These characteristics are not useful to the executive in the creation of signature processes, which are at their core value-driven. The creation of signature processes is more serendipitous and is by its nature slower, more complex, and more expressive of values.

These executives have learned that, like values, signature processes can be ephemeral. They understand that describing, protecting, and engaging in signature processes is one of the most valuable opportunities they have to live up to their company's values. These executives feel passionate about these processes because they understand that day-to-day activities can be a crucial link between the goals of the business and its values. As a result, signature processes are potentially energizing and can bring meaning in a way that best practices never can.

To be concluded next week, with an interview with Lynda Gratton

About the author: Dr Lynda Gratton is Professor of Management Practice at London Business School where she directs the school's executive program, "Human Resource Strategy in Transforming Organisations".

From 1992-2002 Lynda led the Leading Edge Research Consortium, a major research initiative involving companies such as Hewlett Packard and Citibank. The initial results from the research were published by Oxford University Press in 2000 in the book "Strategic Human Resource Management: Corporate Rhetoric and Human Reality". She has recently launched a second research consortium , The Cooperative Research Initiative.

In *Living Strategy: Putting People at the Heart of Corporate Purpose*, published by FT/Prentice Hall in 2000, Lynda called for a more strategic approach to people management. The book has been translated into ten languages and was voted one of the 20 most influential books by American CEOs. More recently she has addressed the issue of organizational purpose in *The Democratic Enterprise: Liberating Your Business with Freedom, Flexibility and Commitment*, published by FT/Prentice Hall in 2004. Lynda is currently working on a book provisionally titled *Cooperating on Purpose: How organizations create value more successfully when people collaborate more skilfully.* Her current research, 'The Collaborative Research Initiative', was launched in October 2005 and involves 20 large companies in the USA and Europe.

Lynda has written for managers and academics. Her article "Integrating the Enterprise" was awarded the Sloan Management Review's best article of 2003, and her case on BP was recently awarded the ECCH best strategy case of 2005.

Lynda is acknowledged as one of the world's most influential thinkers in HR Strategy. She serves on the advisory boards of Exult and the Concours Group and consults to a wide range of multinational companies including Shell, Unilever, Royal Bank of Scotland and HP.

In 2004 Lynda was appointed a Research Fellow of the Advanced Institute of Management in the UK (www.aimresearch.org) and is a Visiting Professor at the Centre for Human Resource Strategy at Michigan Business School.

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