

## Leadership System Design for Sustainable Excellence: CEO Perspectives

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Conference Paper Draft as of May 1, 2009 (version 2)

### INTRODUCTION AND BACKGROUND

In the summer of 2006 a "summit" meeting of executives from Malcolm Baldrige National Quality Award (MBNQA) recipients, academic researchers from a variety of universities, and the Monfort Institute was held to discuss the challenges that leaders of high performing organizations face in maintaining high performance and achieving even higher levels of performance in a constantly changing world (Latham 2008). This forum identified the management dilemmas that the leaders faced, these were translated into research questions and prioritized to form a research agenda. The two top ranked research agenda topics were "organizational culture" and "leadership." These two issues were viewed as being negatively impacted by turnover throughout the organization including at the top. Constancy of purpose and continuity of leadership have been identified as key factors in achieving and sustaining high performance (Alexander, Jares, and Latham 2007 and Deming 1986). High performing organizations (e.g., MBNQA recipients) have experienced mixed results after achieving high performance and MBNQA recognition. Consequently, the group felt leadership development and systematic approaches to leadership are needed to help mitigate this problem. Systematic approaches to leadership would make the development of leaders both easier and more consistent.

While much is known about leadership in general (e.g., Bass 1990), about senior leader activities and practices (e.g., Hambrick and Mason 1984, Hambrick, Finkelstein, and Mooney 2005, and Kotter 1990), leading organizational transformation (e.g., Kotter 1995, Collins 2001, and Beckhard 1987), leading in times of crisis (e.g., Clinebell and Rowley 2003, and Fowler, Kling, and Larson 2005), and the relationship between high levels of quality improvement and transformational and transactional leadership (Laohavichien, Fredendall, and Cantrell 2009), our current knowledge of systematic approaches to leading the journey to performance excellence are primarily anecdotal examples from high performing organizations (e.g., Spong and Collard 2009 and Ryan 2007). While there is experience and applied knowledge about leadership systems based on the Criteria for Performance Excellence (CPE), the contextual factors, key elements, how it fits into the larger system, and so forth (e.g., Latham and Vinyard, 2010), the relationships between the MBNQA criteria categories, including leadership (e.g., Prybutok and Cutshall 2004), and much is known about organization systems and systems thinking in general (e.g., Ackoff 2006 and Senge 2006), little empirical evidence exists on the systematic combination of leadership and systems and the key success factors and characteristics that high performance leadership systems have in common and the contextual factors that impact the effectiveness of the leadership systems. In addition, little is known about the interaction of the leader's characteristics impact on the leadership

system (LS) design and deployment. As Ackoff (1998) notes, he has found little inspiration in the leadership literature that connects leadership and systems.

Senior leaders currently face many challenges and pressures from a variety of stakeholders. Customers using their leverage of purchase decisions continue to put pressure on organizations to provide value and to operate in a ways that also provide value for society and the environment. Employees put pressure on organizations by choosing to work for organizations that are not only good places to work but also are good corporate citizens. Investors watch consumer behavior and put pressure on organizations to become sustainable and reduce risks associated with climate change and other potentially costly practices. In addition, the public is putting more pressure on business through their "agents" (e.g., Government representatives, public policy and NGOs) to operate in ways that create value for society. The CPE model is a multi-stakeholder model with core values and concepts, practices and processes, and results focused on creating value for these multiple stakeholders. Leading the journey to excellence, as defined by these multiple stakeholders, requires a LS that facilitates the transformation of the organization's systems, individuals, and culture.

This study had a dual purpose of contributing to both the scholarly literature by building a bridge between practice and theory and to provide new insights to help practitioners design leadership systems that mitigate the negative impacts of leadership turnover so that the continuous journey of excellence is not interrupted. The purposes of this study are to: (a) identify the common leadership system (LS) design characteristics and practices found in MBNQA recipients; (b) analyze and synthesize these common design characteristics into a framework that can be used to guide the custom design of leadership systems for a wide variety of organizations; and (c) identify the contextual considerations for LS design decisions.

#### Research Questions:

1. For each MBNQA case, what are the key leadership system characteristics?
2. How do the design and deployment of leadership systems compare across the various MBNQA cases?
3. How do the behaviors of the most senior leader (e.g., CEO) affect the design and deployment of the leadership system?
4. How do the type and level of organizational learning affect the design and deployment of the leadership system?

To address these questions, in-depth interviews were conducted with 14 senior leaders (CEOs) to explore their personal experiences leading a successful organization transformation. All the participants

had led successful organization transformations that were characterized by creating value for multiple stakeholders and ultimately resulted in the validation and recognition of a Baldrige award. The participants represented a variety of organizations including 6 large businesses (3 manufacturing and 3 service), 2 small businesses, 3 education (higher ed and K-12), and 3 healthcare organizations. The interviews lasted on average nearly 2 hours. The interviews began with a general open-ended question to get the CEO to tell his personal story of leading the transformation, including the challenges and how they were handled, the leadership activities, benefits and so forth. The researcher asked follow on questions during the dialogue to clarify key points and fill to in any gaps needed to address the research questions. Verbatim transcripts were created and imported into NVivo8 (Qualitative Data Analysis Software) for coding and analysis. The leadership system and design considerations were developed inductively through an iterative process of analysis and theory building. This paper frequently identifies how many participants out of the 14 discussed the various components, behaviors, and factors most important to their organization's transformation. In some instances a few of the participants did not identify a particular component, behavior, or factor. This does not mean that this was not important to their organization's transformation. It simply means that the participant didn't think to include it in his remarks. The responses might have been different if deductive questions were asked about each component. See appendix for more on the research methodology.

This paper provides two views of leadership systems - the design process and framework used to develop a custom leadership system and a model of a leadership system to inform the design process. The first half of the paper is focused on the various discovery and diagnosis activities that eventually inform the design of a customer LS. The second half of the paper focuses on the LS model that emerged from the interview data. Together they provide new insights into the design and use of a LS to create value for multiple stakeholders. Finally, the paper presents the benefits of a formal leadership system, limitations and recommend research, and future applications.

## **PART 1 – LEADERSHIP SYSTEM DESIGN CONSIDERATIONS**

### **What is a systematic approach?**

The CPE focus on two dimensions of organization performance - process or systematic approaches and the results that validate those approaches. The CPE define "approach" as " the methods used by an organization to address the Baldrige Criteria Item requirements. Approach includes the appropriateness of the methods to the Item requirements and to the organization's operating environment, as well as how effectively the methods are used" (NIST, 2009, p. 56). These methods will vary depending on whether the approach is a work process (requiring detailed procedures) or a management approach which "implies general understandings regarding competent performance, such as timing, options to be included,

evaluation, and reporting" (NIST, 2009, p. 61). NIST 2009 also defines "systematic" as "approaches that are well-ordered, are repeatable, and use data and information so learning is possible. In other words, approaches are systematic if they build in the opportunity for evaluation, improvement, and sharing, thereby permitting a gain in maturity" (p. 63). Consequently, a systematic approach as applied to a leadership system does not imply that the organization can develop specific procedures that can be followed to effectively lead an organization. Rather, it provides a framework or flexible approach that can enhance the "art" of leadership.

### **What is a leadership system?**

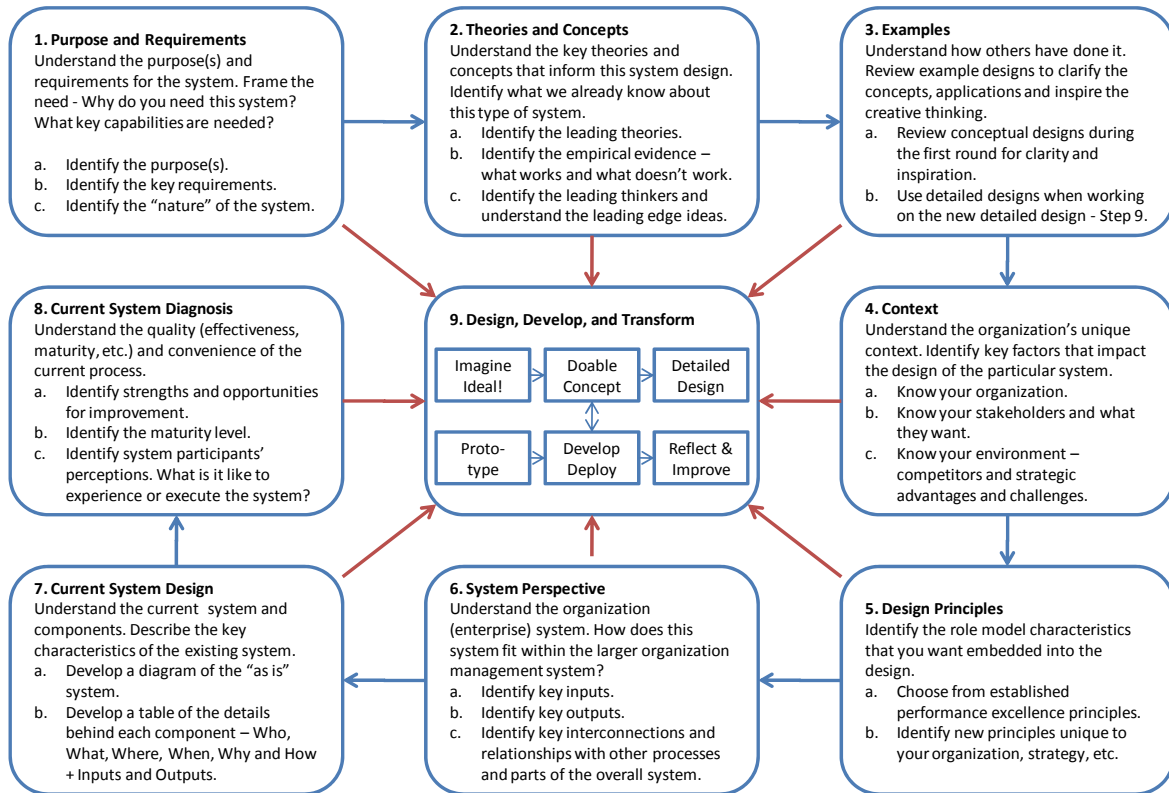
The CPE do provide a more specific definition of a leadership system which "refers to how leadership is exercised, formally and informally, throughout the organization; it is the basis for and the way key decisions are made, communicated, and carried out. It includes structures and mechanisms for decision making; two-way communication; selection and development of leaders and managers; and reinforcement of values, ethical behavior, directions, and performance expectations" (NIST, 2009, p. 59). The CPE go on to add that "an effective leadership system respects the capabilities and requirements of workforce members and other stakeholders, and it sets high expectations for performance and performance improvement. It builds loyalties and teamwork based on the organization's vision and values and the pursuit of shared goals. It encourages and supports initiative and appropriate risk taking, subordinates organizational structure to purpose and function, and avoids chains of command that require long decision paths. An effective leadership system includes mechanisms for the leaders to conduct self-examination, receive feedback, and improve" (p. 59). Thus a leadership system is the blending of leadership, systematic methods, and ultimately culture. But why create an explicit framework for leadership and how?

### **Design Framework**

A leadership and management systems design framework developed from practice and informed by approaches used in product design (e.g., Kelley and Littman 2001 and Kelley and Littman 2005) was used to explore the data (Figure 1). This design framework consists of three phases: discovery, diagnosis, and design. The discovery phase consists of seven distinct but related components including: purpose and requirements; theories and concepts; example designs; context; design principles; systems perspective; and a description of the current system. The diagnosis phase consists of a single step (step 8 – current system diagnosis) that typically includes both a technical assessment and an assessment from the users' perspectives. The design phase integrates the outputs from the discovery and diagnosis phases and uses these to inform the new design. These outputs are the "springboard" to the creative design and development process. In practice, the challenge is to integrate and incorporate all of the

discovery and diagnosis elements into the design thinking without letting them inhibit creativity.

**Figure 1 – Leadership and Management System Design Framework**



Source: Latham and Vinyard, 2010

**What is the purpose of a formal leadership system?**

The first step in designing any management system or process is to identify the purpose of the system (Latham and Vinyard, 2010, p. 554). The participants identified several purposes for creating and using an explicit LS including: to address the requirements of the CPE; integrate the enterprise management systems; communicate, assess, and improve; develop leaders at all levels;

Several (4) of the participants in this study noted that in the beginning there wasn't really a purpose for the LS except to address the CPE requirements. They were simply responding to the criteria. This is not unusual, a CPE assessment often identifies numerous gaps in the organizations systems. And, one of the benefits of doing a CPE-based assessment is that it asks many questions that leaders have not previously thought to ask. What makes this gap a bit more problematic is there was little to nothing written

on leadership systems, what they are and how to use them. As one participant summed it up: "Well there wasn't any purpose. What happened was we were reading the criteria and we were trying to write an application and the damn criteria said describe your leadership system and we didn't know what the hell that was." In fact, one participant said, "I don't know that anybody that hasn't already gone through a Baldrige application process would have even developed that graphic [leadership system diagram] until they start to write the first application." While for several the development of a LS was at first to simply answer the CPE questions, the participants also identified several more practical purposes for an explicit LS.

Some of the participants noted that an explicit LS allowed them to integrate the various other management activities, practices, and processes into an coherent and congruent approach. Or in one participants words it provided the "glue" that holds the larger system together. As one participant noted, "I think that most people don't understand all the pieces..., they understand them but they don't fit them together in an integration and show how they all fit together to work together." So one purpose of the LS is to integrate and align the organization's strategy, action, and results.

Another purpose is to make the decisions and actions of leaders explicit so they can be communicated, assessed, and improved. As one participant noted, "Deming says if you can't...describe what you're doing as a process, then you don't know what you're doing." Another participant noted, when the consultant asked him to describe his leadership system "I began to describe it and she said now draw it for me. I really couldn't draw it." Without an explicit system it is very difficult to communicate your leadership approach to others, examine your approach, reflect on it, improve it, and teach it to others.

Several participants found that an explicit leadership system "made it easier for people to understand how to lead and what we meant by it." One participant noted that "after we came up with that [LS] then we realized you know we had all the pieces but we didn't have a way to train people and make this a living leadership system one that you could point to and say this is how we think and this is how we do things." The LS enabled this organization to develop leaders by helping them think about how they integrate their personal style with the LS and the associated practices. "So, if you will the systems up there and all the components of it, the training was a little bit more about you thinking through what style of leadership and what your going to use how you going work through this situation? Is it one that you effectively delegate or is it one that you can't delegate we want you up there. So it is kind of a situational leadership if you will."

Another key aspect of leadership is the ability to influence the actions of people and engage leaders and the workforce in purposeful actions that are aligned with and contribute to the improvement of the organization's performance. Or as one participant put it, "you got to stay in touch, you've got to have the

employees engaged, and you've got to make sure that the systems tools are being used." One purpose of the LS is to provide a framework for the purposeful interaction of leaders with people throughout the organization.

When performance measurement is integrated in the leadership system, it helps to drive results both breakthrough and incremental improvement. As one participant responded when asked about the purpose of his LS, "I think number one I think it drives results." A formal LS enables leaders to systematically review progress and work with people to adjust their actions to improve performance and progress.

Finally, another purpose of an explicit LS is sustainability. Sustainability in this context is the sustainability of the new practices and the associated results. One participant identified one of the main purposes of a leadership system is to help ensure continuity when leaders turnover. He noted that, "it [LS] keeps you from being dependent on anyone individual. You know I have always said that leadership is very, very important but on the same hand you know you don't build a great organization around personality you know you don't build a great organization around charisma or all that." This was one of the key issues identified by leaders at a 2006 Summit that drove this study (Latham 2008). Leaders of high performing organizations often have two fundamental questions. First, how do we sustain the gains in performance in a dynamic global environment? Second, how do we take the organization to the next level and what does that look like? These purposes provide the foundation or basis for the design of a LS and provide criteria for testing the design once developed. Another aspect of the foundation are the specific requirements of the LS.

### **What are the key requirements and characteristics of a leadership system?**

The requirements for a management system often come from a variety of sources and inputs including users, customers (internal and external), regulations, industry standards and so forth. The CPE also provide key questions that the system design should address. The CPE questions that are directly applicable to the design of a LS are found in the leadership category and specifically item 1.1. This item begins with two overarching requirements: "Describe HOW SENIOR LEADERS' actions guide and sustain your organization. Describe HOW SENIOR LEADERS communicate with your WORKFORCE and encourage high PERFORMANCE" (NIST, 2009, p. 7). This item also provides 16 specific questions or requirements that the LS should address.

#### **a. Vision, Values, and Mission\***

How do SENIOR LEADERS set organizational VISION and VALUES?

How do SENIOR LEADERS deploy your organization's VISION and VALUES through your LEADERSHIP SYSTEM, to the workforce, to KEY suppliers and PARTNERS, and to CUSTOMERS and other stakeholders, as appropriate?

How do SENIOR LEADERS' personal actions reflect a commitment to the organization's VALUES?

How do SENIOR LEADERS personally promote an organizational environment that fosters, requires, and results in legal and ETHICAL BEHAVIOR?

How do SENIOR LEADERS create a SUSTAINABLE organization?

How do they create an environment for organizational performance improvement, the accomplishment of your mission and STRATEGIC OBJECTIVES, INNOVATION, competitive or role-model PERFORMANCE leadership, and organizational agility?

How do they create an environment for organizational and WORKFORCE LEARNING?

How do they develop and enhance their personal leadership skills?

How do they participate in organizational learning, in succession planning, and in the development of future organizational leaders?

#### b. Communication and Organizational Performance

How do SENIOR LEADERS communicate with and engage the entire WORKFORCE?

How do SENIOR LEADERS encourage frank, two-way communication throughout the organization?

How do SENIOR LEADERS communicate KEY decisions?

How do they take an active role in reward and recognition programs to reinforce high PERFORMANCE and a CUSTOMER and business focus?

How do SENIOR LEADERS create a focus on action to accomplish the organization's objectives, improve PERFORMANCE, and attain its VISION?

What PERFORMANCE MEASURES do SENIOR LEADERS regularly review to identify needed actions?

How do SENIOR LEADERS include a focus on creating and balancing VALUE for CUSTOMERS and other STAKEHOLDERS in their organizational PERFORMANCE expectations?

\*Source: NIST, 2009, p. 7

These questions are non-prescriptive in that they don't specify a particular method to accomplish these various tasks. It is up to the organization to design and develop a LS with the features and functions that address these requirements. The non-prescriptive nature of the CPE make them ideally suited to inform the design process while allowing for a custom design suited to the unique context of the particular organization.

**What is the "nature" of a leadership system?**

The "nature" of the system is a key input into an effective design. As previously noted, a LS is not a mechanistic process with detailed procedures. Although some components of the supporting systems may contain elements comprised of more formal mechanisms (e.g., a stakeholder survey process). NIST 2009 defines a process as "linked activities with the purpose of producing a product (or service) for a customer (user) within or outside the organization" (p. 61). However the CPE go on to clarify that "knowledge work, such as strategic planning, research, development, and analysis, process does not necessarily imply formal sequences of steps. Rather, process implies general understandings regarding competent performance, such as timing, options to be included, evaluation, and reporting" (NIST, 2009, p. 61). A LS is by its nature a combination of knowledge processes, leadership practices, and cultural values and norms. Consequently, the design of an effective LS is characterized by flexible frameworks, principles, information and activities that enhance the "art" of leadership. Once one understands the purpose, requirements and nature of the system, the next question is what do we already know about this type of system?

**What theories inform the design of a leadership system?**

There are many theories that could potentially inform the design of a LS such as leadership theory (e.g., transactional and transformational), strategic management, systems theory, psychology, sociology, and culture to name just a few. However, the concept of a CPE-based leadership system, as is the case with many new management practices, began in the field with little conscious connection to existing theory. While few academic theories informed these early designs, the designers of these leadership systems were often influenced by their education and many popular business and leadership books, concepts, and consultants and gurus as well as their own experience. A couple of participants indicated that much of their current thinking on leadership was based on their own experience in their particular industry. As one participant put it, "I have been in it my whole life of how to build these big capital projects and operate them, and so it's been it's like everything I've ever done. So I don't know if you could take what I do and apply it in a retail environment." While, a couple of the participants talked about how they had learned from their experience and that influenced how they led, most were influenced by consultant gurus and popular business books.

In a couple of instances when asked about influential concepts and theories the participants pointed to internal and external consultants who were instrumental in their transformation. In at least two instances the external consultants were also authors of popular business books (e.g., Zenger and Folkman 2002). According to Zenger and Folkman 2002, their concepts and assessment instruments are based on research with over 1,000 participants. In another instance the leader employed servant leadership as part

of his system and used a consultant and author along with the associated instruments to develop his leadership team. In addition to consultants, most of the leaders were influenced by popular books on business and leadership (e.g., Collins 2001). While many of the consultant gurus and popular business books are written by scholars and scholar-practitioners, and many are based on empirical research findings, there was little evidence that leadership theories were consciously used to inform the design of the leadership system itself. Since a conscious and systematic effort to use established theory to inform the design of the LS was not evident, it is not clear how their knowledge of leadership concepts influenced the design of the LS.

While the "leading edge" nature of LS design makes the limited use of theory difficult for many practitioners. As Pfeffer and Sutton (2006) note, it is not unusual for practitioners of management to not incorporate empirical evidence in the determination of their explicit and tacit management practices. Of course there is plenty of blame to go around. Pfeffer and Fong (2002) note that academics often do not produce new theory and knowledge suitable for consumption by the practitioners. It is not clear how we got to this point. It is hard to imagine an architect not taking into consideration important scientific evidence (e.g., metallurgy) when designing a new building. It seems clear that there is a need for efforts to bridge this gap between research and practice if we are to advance beyond anecdotal evidence from organizations to a more robust theory of leadership systems to help inform future designs. While theories and concepts can be very useful for practitioners if communicated in ways that make them accessible, examples also help to illuminate new concepts.

### **How were examples used to inform the design?**

In the beginning, which seems to date back to 1997 and Boeing Airlift and Tanker's efforts to develop a LS, a few of the early adopters had to start from "scratch" without the benefit of examples to follow (Spong and Collard, 2009). These "trail blazers" developed leadership systems that were conceptual diagrams of the key activities and their relationships using only their experience, ingenuity, the requirements from the CPE, and advice from consultants. Once these early examples were published and presented at annual Quest for Excellence Conferences (e.g., Clarke 2002), other organizations were able to leverage these examples and creatively adapt the concepts to their own organizations. One participant noted that once published he "then read every Baldrige application I could get because those intrigued me because I really got into these categories and specifically leadership, customer market focus, and process management – it really, really intrigued me a lot." As another participant pointed out, examples can be very helpful to "bring alive" concepts that are in the early stages of development. Once created organizations received feedback on their LS designs from the MBNQA examiners through a formal feedback report that detailed the LS strengths and opportunities for improvement which enabled further development and improvements (see diagnosis section). Note: LS examples are available from a variety

of sources including, award application summaries for the 44 MBNQA recipients since 1999 that are available free for download from the NIST website; Quest for Excellence conference presentations and discussions, Latham and Vinyard 2010, and Spang and Collard 2009.

Experience suggests that in some circumstances, examples can be a "double-edged sword." The author has observed senior leadership teams that once they saw an example they liked simply changed a few words and adopted the system for their own use. While it is possible for this approach to be successful, without a truly custom design that is created by the senior leader team, it is less likely the LS will be adopted and actually used to drive improvement and results. This danger seems to be supported by the remarkable similarity among many of the leadership systems since Boeing Airlift and Tanker and Clarke American leadership systems were made public.

Benchmarking and the use of best practices to improve performance is not a new idea or concept. Several researchers and practitioners have described methodologies and numerous examples (e.g., Camp 1989, Camp 1995, and Rolstadas 1995). Bogan and English 1994, make the case for the creative adaptation of best practices to the unique context of the organization v. simply copying the practices of others. In fact, they provide several examples where organizations dramatically improved their processes by creatively adapting best practices from organizations in very different industries. In order to successfully adapt practices to the unique context, one first must understand the context.

### **How was context used to inform the design?**

Understanding the unique context of the organization is an important step in designing a custom LS that fits the particular organization. How the context impacts the design seems to differ depending on the level of specificity - conceptual design v. detailed design. The conceptual design is often very high level diagram with components that are written at a fairly generic level (e.g., set direction). At the conceptual level it appears that the LS design is common to many or maybe most organizations. As one participant summed it up, "it fits [our company] but I think it fits everybody." He went on to add a few examples such as, "There is the bit about reward or recognize your people, now maybe some organizations don't do that, but I think they ought to, training and learning well shouldn't they all do that. So it's generic." So while it appears that the concepts might be the same for each organization, once one asks how this will actually work for our organization, the answers vary widely.

So, while the overall the context may not influence the conceptual design, the detailed design depends heavily on many factors including the current and desired culture (mission, vision, values), organization size, stakeholders (segments and needs), workforce profile, and geography to name just a few. Several

of the organizations were already in the process of a major organization transformation when they identified the need for a LS and consequently designed the leadership system to bring together and integrate existing systems and initiatives. As one put it, they branded the new LS as an enhancement to their existing journey and focus v. as something new. "So everything we did we were very sensitive about this under [our journey] umbrella had to be our brand we didn't use any generic brands [e.g., Baldrige] if you will. And so then we owned it and then the culture accepted it and that was really important." The context of the organization not only identifies what is relevant and important to the particular organization but it also helps inform the identification of key characteristics in the design of the LS. These characteristics are often called design principles.

### **What are the key design principles that should inform the design of a leadership system?**

The CPE identify 11 core values and concepts that are "embedded beliefs and behaviors found in high performing organizations" (NIST 2009, p. 49). While all eleven seem to be useful to inform the design of a leadership system, Evans and Ford 1997 identified visionary leadership as the core value and concept that was most directly associated with the CPE questions found in Item 1.1 Senior Leadership (see previous section on requirements). The other ten were rated as "low" or a "Weak relationship: The core value has some implications for designing an effective process." This study was conducted prior to the emergence of formalized leadership systems that integrate the various components of the enterprise system. Consequently, the results may be very different for this particular CPE Item if the study was repeated today. The participants also identified visionary leadership as a key design principle for their LS as well as nine additional core values and concepts from the CPE. These additional nine included: valuing workforce members and partners, organizational and personal learning, focus on the future, managing for innovation, agility, management by fact, focus on results and creating value, customer-driven excellence, and system perspective. The one remaining CPE value and concept that was not specifically identified by the CEO participants was "social responsibility." However, this principle was identified by the BAR focus group. The CPE continue to evolve and the most recent version (NIST 2009) includes specific questions asking how the organization considers sustainability issues including what is often called the triple bottom line of economic, environment, and societal (Elkington, Emerson, and Beloe 2006).

According to the CPE, "visionary Leadership" includes many dimensions of leadership including the setting of direction, values, and expectations as well as planning, coaching and so forth (NIST, 2009, p. 49). As one participant put it, "you got to really have a vision and a lot of that to me is not just a nice words but in your mind is seeing the gaps that really exist." While the participant's thoughts on leadership were consistent with the CPE core value of "visionary leadership," they all went beyond this definition and included a leadership approach that what was ultimately labeled "collaborative leadership." In fact, all

participants described an approach to leadership that was highly collaborative and in most cases transparent. As one participant summed it up, "You can't just go off and have your leadership team function in a vacuum." This underlying principle drove a very engaged leadership team focused on enabling and engaging the workforce.

Two concepts embedded in the core value of "valuing workforce members and partners" are leader and workforce development and engagement. Acquiring and developing the right people was a key finding in the overall journey to excellence. As one participant noted, "it's hard to be a leader if you don't have followers. So, that's a big component of it is making sure you have the right people. And making sure you have the right people in the right positions, you know Collins [2001] talked about the right people on the bus in the right seat. It's very true, and then you've got have the plan you know and then I would much rather have great people and poor plan than great plan and poor people. Because great people will overcome a poor plan, that won't happen the other way around so it really does, in my opinion, start with having the right people in the right places in the organization."

While empowerment is not specifically called out in the CPE requirements or the core values and concepts, it was a key design principle for several of the participants. "We really empowered these local teams we really pushed empowerment to those local teams they had to we had requirements, they had to come up with this strategic plan, they had to have a quality plan, they had to put everything they did together, and they had to do their processes every month, they had to have people in training, they had to be monitoring safety and quality and client service and regulatory performance, so they ended up with a lot of metrics they had to do and then we recognized them and rewarded people that did that extremely well so we encouraged people to do it." As Hater, Schmidt, and Hayes 2002 point out, leadership is critical to high levels of employee engagement. Employee engagement was a key cross-cutting principle in the design of the leadership systems; it was an integral part of the leadership systems components v. a stand alone process. By far one of the most interesting findings during this study was that the CEOs "got their kicks" by making a difference in peoples live's. When asked what was most satisfying about leading the transformation to excellence, almost all of the participants (13 of 14) shared anecdotes of how employees had done great things, developed and reached their potential, and found meaning in their work. It was clear by the words they chose and the nonverbal indicators that they were truly touched by the stories they told about the employees.

Most of the participants (13 of 14) identified the involvement and engagement of employees as a key to organizational and personal learning and organizational transformation. Involvement helped to reduce the resistance to change. Engagement leveraged the talents of the employees to improve the organization. As one participant put it, "certainly the employee involvement or engagement or development this kind of a thing the people have an opportunity to grow and learn."

A key aspect of leading a transformation is a focus on the future. For many of the participants this was a balancing act between the short-term needs of the organization (e.g., cash flow) and the longer-term needs of developing sustainable performance and customer loyalty. "I was always concerned about that because I know it's very easy to get very short sighted and short-term thinking and you know the short-term is called short-term for a good reason it doesn't last very long you know I was always concerned about what would we look like in and are we on the road to being better you know a year, two years from now so it was a big emphasis so I felt that we had that system but we also had a planning system that was pretty robust." The challenge here is to design the LS so that both running the business and changing the business are integrated into the planning, actions, and results.

One of the risks associated with explicit systems and process is they often are counter to innovation. As previously noted, the nature of the LS does not lend itself to specific processes and procedures. Part of the reason is like many service situations, leaders face a wide variety of situations that defy standardization. In addition, standardization tends to reduce variation, which reduces innovation and creativity. One participant was concerned that too much structure would inhibit innovation and creativity. "I believe that there needs to be a certain amount of organic freedom within the organization...and not let organizational structure shut us down but also be systematic...but never let the systems and the processes get in the way of...the kind of random way that human beings have created breakthroughs and innovation." In addition, given the rapidly changing environment, flexibility is key to an "agile" system.

The concept of "management by fact" is deeply embedded in the CPE. The notion here is that smart innovative leaders will perform even better when they are armed with information that will help them understand the system and how changes in the system affect results. As one participant noted, "obviously management by fact is near and dear to my heart." Management by fact also enables the leaders to focus on results and creating value. Consequently the LS design is more effective when it is supported by a comprehensive set of measures and analysis tools and techniques. The CPE specifically call out customer-driven excellence as a core value and concept. Not only do the leaders have to focus the organization on customers through their words and deeds, they also have to follow through and use fact-based approaches to identify customer requirements and track performance.

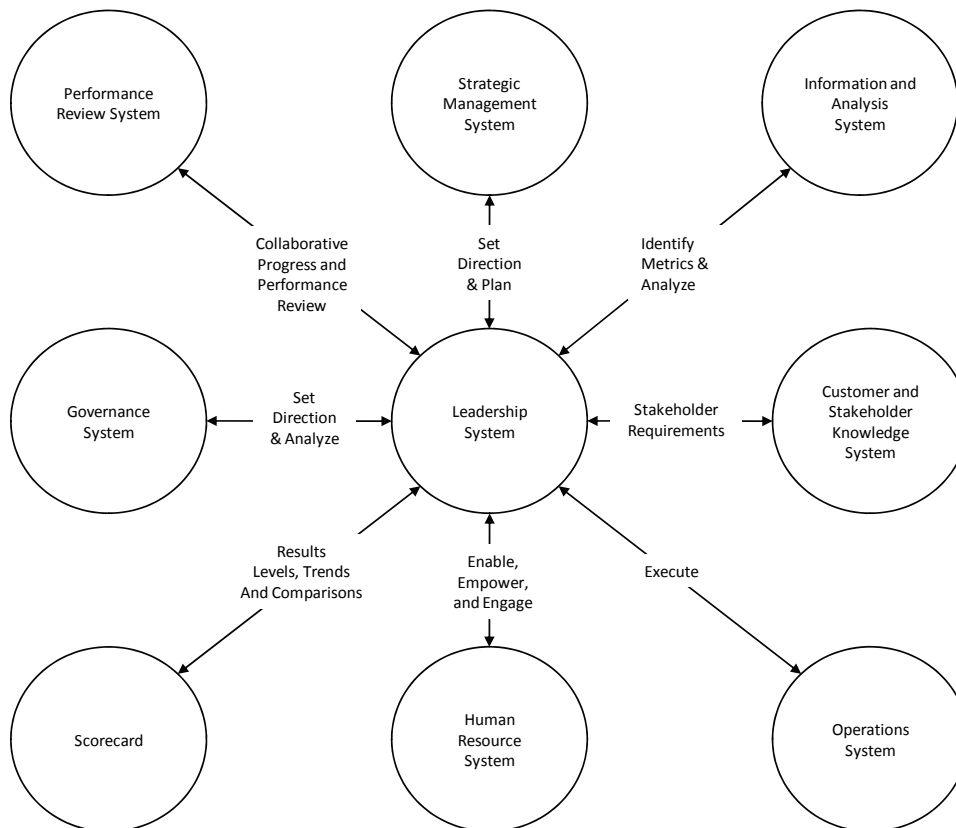
Finally, a "system perspective" helps design a LS that is congruent, aligned, and integrated with other management systems. Alignment and integration are also evaluation dimensions included in the CPE scoring guidelines (NIST, 2009, p. 68). "The term 'alignment' refers to consistency of plans, processes, information, resource decisions, actions, results, and analyses to support key organization-wide goals. Effective alignment requires a common understanding of the organization's purposes and goals. It also requires the use of complementary measures and information for planning, tracking, analysis, and

improvement at three levels: the organizational level, the key process level, and the work unit level" (NIST, 2009, p. 56). "Alignment I think was really key because of the way the team evolved to more process-driven and process heads core and enablers and everybody had a seat at the table and now it was fairly big there were 18 of us." In addition, "The term 'integration' refers to the harmonization of plans, processes, information, resource decisions, actions, results, and analyses to support key organization-wide goals. Effective integration goes beyond alignment and is achieved when the individual components of a performance management system operate as a fully interconnected unit" (NIST, 2009, p. 59). The design principle of a system perspective informs the next step in the design process.

**What other management systems are connected to the leadership system?**

The LS is supported by and integrated with several other major management systems including: strategic management system, information and analysis system, customer and stakeholder knowledge system, operations system, human resource system, the enterprise scorecard, performance review system, and

**Figure 2 – System Integration**



the governance system (Figure 2). In fact, 5 of 14 identified all 8 systems as key alignment and integration points in the design of their LS. As one participant noted, "the first thing I think you've got to see the connectivity in these things I think you got to be a systems thinker so that you see that if I push in here it's going to push out somewhere else so these things are related and you got to see them as a system" By far the most common system identified was the strategic management system.

Strategy is the primary vehicle for senior leaders to set direction. During the interviews most (12 of 14) of the participants identified strategic management as a key integration point for the LS. In fact, some of the participants had difficulty separating the leadership system from the strategic management system, especially at the top echelon of the organization. "In fact for me I don't think you can really separate category 1 [Leadership] and category 2 [Strategic Planning] because to me they are so closely intertwined that I pretty much view them as the leadership process for us." The strategic management system itself is an integrated system of information, planning, action and measurement and adjustment.

The information and analysis system was identified by half (7 of 14) of the participants as a key supporting system for both the strategic management and leadership systems. "I think it's got to link in and especially in today's world to the information analysis." "I think in today's environment the integration of the financials along with the strategy and the process to attain those financials there are huge gaps there and I see it all the time and people call it different things short-term decisions and in business you make short-term medium and long-term [decisions] but the technically a lot of times the financial pieces actually further deteriorate your ability to get the results. So in our leadership system the financials were imbedded in the goal deployment process because the budgeting process was aligned to goal deployment." A customer and stakeholder knowledge system is an important support process for both the strategic management and leadership systems. The second most popular system connection was the integration of the external perspective. Most (9 of 14) participants identified customer and stakeholder knowledge as a key input to the LS. "When you start off in the middle of the [LS] diagram, at least our diagram which says all the constituents, well obviously there are the stakeholders which means that all of the stakeholders have certain things that need done."

Nearly half (6 of 14) participants identified the execution or the operations system as a key linkage to ensuring the deployment of leadership direction and strategy. "I think a third leg is something built around operational excellence how are you going to move the operations and have a system in place where you are going to continually improve year after year you're going to have metrics in place and monitor those metrics and make adjustments where necessary so the systems that I have found over the years that worked the best for me anyway." Of course execution doesn't happen without people. Over half (8 of 14) participants identified the people systems as a key enabler of the operations system and a key leadership issue. As one participant noted, "the most important one in my opinion go back to people so Category 5

and it can't be delegated, its got be a personal commitment." The LS helps align the various leadership practices focused on the employees including: "weekly email, senior leader rounding, knowledge boards, employee communication meetings, lots of reward and recognition, sending thank you notes to people's homes...that's part of the leadership system, because what that does is creates a atmosphere of wanting to congratulate people as opposed to beat people up."

Half (7 of 14) of the participants identified a comprehensive scorecard as a key system supporting the LS and just over half (8 of 14) participants identified an associated performance review process as critical to enabling the validation of and learning from the various changes required to transform the organization. The scorecards included a variety of measures such as financials, customers and markets, people, program or process effectiveness (e.g., cost, quality, schedule), service quality, product quality, and growth. "I would say prior to the [company name] experience and prior to that focus and change in evaluation system there was a lot of it that was pretty subjective and you know we were rewarded ourselves for a lot of things that I don't know were really getting us top performance I mean now that we focused on measurement and specific things that we believe that are most important to move our organization forward, I think everybody is very focused and understands that that's what we got to move forward and measurement plays a key role." The performance review process is often part of the information and analysis system. However, it was called out separately by the participants.

Finally, there seems to be a natural connection between leadership at the top and the governance system. Half (7 of 14) of the participants identified the governance system as a critical dimension of organizational leadership and the LS. This seemed to be more important for some participants than others. The participants represented a wide variety of governance situations including: parent organizations, school boards, family owners, and formal boards of directors.

### **What was the design of the leadership system prior to the CPE self-assessment?**

A common practice inherent in the CPE assessment and improvement cycle is the description of the existing leadership system. This description is usually documented in a formal MBNQA application. Most of the participants did not have an existing leadership system, at least not one they could describe, so this step generated the design process was a "blank sheet" exercise. One participant described his experience struggling with the concept of describing his approach to leadership. One participant summed it up this way, "Deming says if you can't describe, this is the big lesson I have learned in all this kind of thing, if you can't describe what you're doing as a process then you don't know what you're doing." In fact, "I don't know that anybody that hasn't already gone through a Baldrige application process would have even developed that graphic until they start to write the first application." Once the leadership

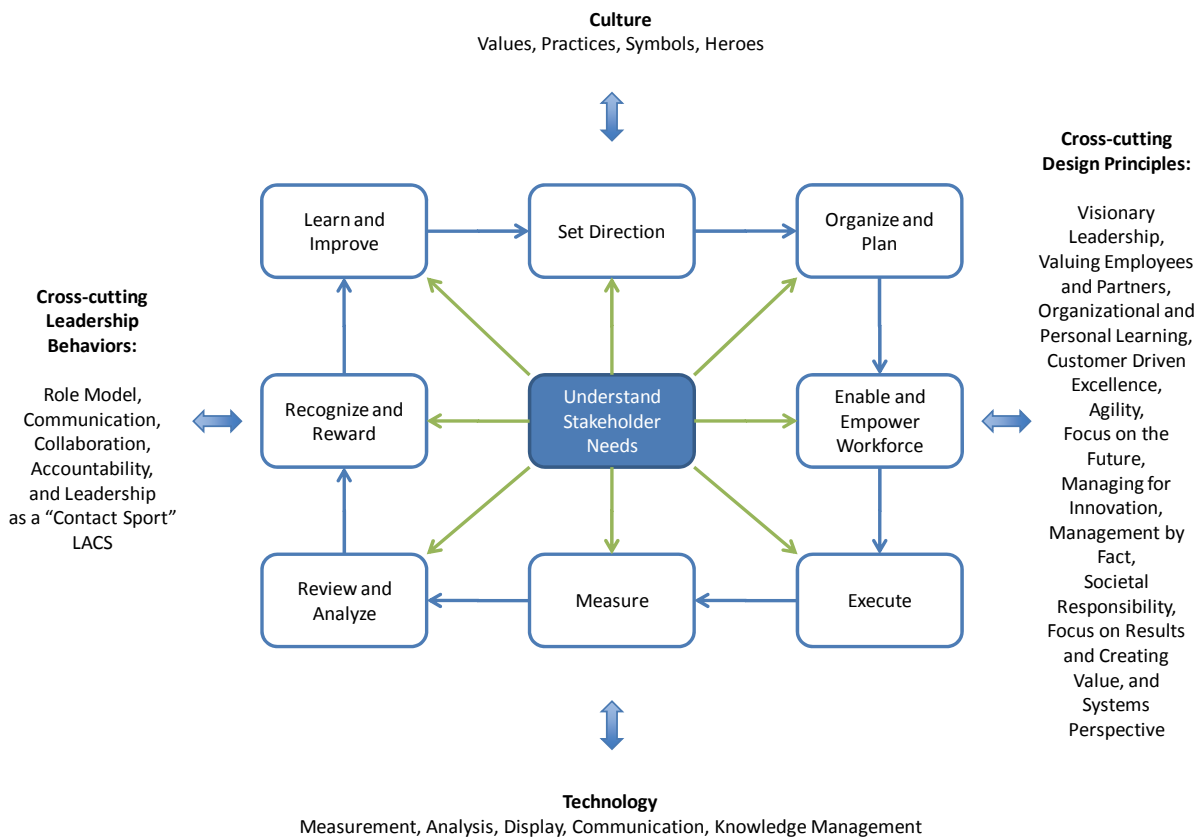
system was developed and documented in the application document, the participants received feedback on the design.

**How was the current leadership system evaluated and diagnosed?**

Most of the participants did not have an existing leadership system when they started the design process. Consequently, the diagnosis was not much of an issue. However, as part of the CPE assessment process some of the participants did diagnose and improve their LS. "I think we had a yearly assessment of it and obviously we tried to stay up with the criteria [CPE changes] because it was a convenient way of addressing the criteria. As we looked at the underlying processes to the [LS] at times we would change things to better align it sometimes just better explain it to ourselves and things of that kind."

**PART 2 – LEADERSHIP SYSTEM MODEL**

**Figure 3 – Leadership System Model**



In addition to the considerations for leadership system design, the interview data also provided the basis for the development of a leadership system model to guide the design of a custom leadership system to fit the unique needs of an organization (Figure 3).

### ***Leadership System Components***

#### **1. Understand Stakeholders Needs**

As previously noted, the CPE form a multi-stakeholder model of systems and results. The CPE define stakeholders as "all groups that are or might be affected by an organization's actions and success. Examples of key stakeholders might include customers, the workforce, partners, collaborators, governing boards, stockholders, donors, suppliers, taxpayers, regulatory bodies, policy makers, funders, and local and professional communities" (NIST, 2009, p. 62). These stakeholders are represented in the criteria questions, the core values and concepts, and the results or CPE scorecard. While many of the participants talked about feedback from employees (10 of 14), customers (12 of 14) and investors (10 of 14) or the "people, service, profit" chain (AMA 1991 and Heskett, Sasser, and Schlesinger 1997); less than half (6 of 14) of the participants talked about the suppliers and partners and community feedback as a key input into understanding the current reality.

This first component consists of identifying the stakeholders and their needs. To understand the needs of the stakeholders, the organizations used several practices and techniques. Some leadership teams personally spent time listening to stakeholders. For example, "Leaders should spend time with suppliers on their turf and on ours. Leaders at all levels should spend time listening to customers on the phone because we didn't have a lot of interaction with the end customer, but we took 40 to 50 million phone calls. So we set it up so you could call in and listen to them live." Others used quantitative surveys to identify their priorities and measure progress. While a score card of stakeholders helped the organizations figure out how to improve the system of employees, operations, products and services, customers' satisfaction and eventually financial performance, at least one participant pointed out the importance of being able to "connect the dots" from strategy, organization system improvement, and financial results. "But in the end of the day the old view that motivating people and taking care of your customers and improving your process your bottom line is going to be there. Very few shareholders really care about that, that is what I actually believe and that is how we ran the company with balanced business and scorecard. You know, I believe that if you motivate your people and they do a good job with your customers you retain them you introduce new products you gain new ones you improve processes you know and I didn't really have to worry about the bottom line because I knew it was going to be there. But in this day and age I think you need a very clear pathway to show that your leadership system is going to give superior financial results."

While these organizations successfully figured out how to improve the value chain, most of them still treated the community, environment, and society as a whole, as separate issues. It appears that the same thinking and leadership system that allowed these organizations to become high performing for several core stakeholders (employees, customers, and investors) might also be useful for integrating additional stakeholders including the environment and society. The relationship between stakeholders and corporate responsibility is not new. Several scholars have researched and written on this relationship and how to improve it (e.g., Bhattacharya, Korschun, and Sen, 2009).

## 2. Set Direction

A compelling desired reality combined with an understanding of the current reality (e.g., stakeholder feedback) creates tension and energy for change. The desired reality is described by four key components including vision, identity and mission, purpose or meaningful work, and the desired values and culture. As one participant put it, "I think first and foremost I think you have to define the critical factors that run your business how you are going to govern them." A compelling vision was the most common component of setting direction identified by the participants (13 of 14). The visions came in a variety of forms from explicit statements to thick rich descriptions of the desired organization. The visions often included several elements including a vision for the products and services, the culture, and the people (Latham, 1995). The second most common element describing the desired reality was the organization's identity and mission. This element was identified by many participants (11 of 14) as a key to developing energy and focus for the transformation. Closely related to the identity and mission was meaningful work. Meaningful work was identified by most (9 of the 11) participants. Meaningful work is directly related to a meaningful identity and compelling mission. In many cases the mission was a key element of meaning. This component seemed to evolve along with the leaders' personal evolution and identity throughout the journey to excellence. A vision of the culture was identified by most (9 of 14) participants as a component of the desired reality. While culture was not an initial driver for change, it did show up several times as a key element later in the journey. Setting the direction and the associated components were often depicted on the LS diagrams. "Inside the 'race track' [referring to the LS diagram] is something that I call the wallpaper and the wallpaper has the vision and values and things of that kind on it and the way I say it is in essence we must conduct all this leadership business with a backdrop of these values." Some of the values identified by the participants included: teamwork (12 of 14), respect for employees (11 of 14), quality (11 of 14), customer-driven excellence (9 of 14), and integrity and trust (7 of 14). The desired reality was an integral part of the strategic management processes and provided focus and guidance for the strategy.

### 3. Organize and Plan

Not only did all (14 of 14) participants identify strategy as one of their key activities, it was by far the most mentioned activity. In fact, the coding revealed that they talked about strategy and planning more than twice as much as any other activity. The participants identified four strategic sub-activities: developing strategy, identifying priorities and focus, setting goals, and communicating clear expectations. All of the participants (14 of 14) identified strategy as a key activity for further defining the desired direction of the organization. While this is not surprising since it is expected that CEOs are involved in strategy. It is interesting that it plays such a prominent part of organization transformation including people and culture. Nearly all (13 of 14) participants identified setting priorities and focus as important activities for planning the desired change. Most of the cases had many more good ideas than they had resources to implement. Priorities and focus were key to actually getting things done. Ultimately a limited numbers of goals focused on the priorities were developed by at least 13 of 14 participants to provide tangible guidance. "I began to ask the board to focus instead of on six or seven or eight goals with a number of subsets or what we call strategic objectives for each of those broad goals, I began to ask them to minimize the number of goals and then I also asked them to look bi-annually at goals rather than annual goals so that we could have a more of a focus over more prolonged period of time." Finally, several identified the need to communicate the strategy. "Then you need to tell your people and the constituents what you're going to do what's the plans, what are the boundaries and what are the goals and what are the plans."

Some felt the organization needed a new structure for the top leadership team. "I think you need like a top leadership council that consists of the top individual whether it's the vice president or CEO and their direct reports to watch over the things like the vision, the mission you know the health and welfare of the organization and so on." For some this was an integral part of the LS. "Well in the leadership system is kind of our structure you mean in the way I would generally describe it that's it our structure to set the priorities the objectives the vision of where we are going as an organization and the structure that allows us to implement that and engage the entire organization in understanding it and developing plans and focus to allow the organization to move towards those goals and objectives and then the means to be able to check those objectives on an ongoing basis to ensure they're really the ones that we need to be focused on and to ensure that if they are the ones that were really need to be focused on that were making progress on achieving them." Of course plans are important but they don't implement strategy, that requires a workforce of talented and engaged people.

### 4. Enable and Engage the Workforce

Most of the participants (13 of 14) identified employee development as a key enabler of the transformation. Employee development included both formal education and training programs and

experience. Formal training was an important prerequisite enabler to participation in system learning and improvement. Employees were also developed through experience, including participation in organization learning and improvement projects. Enablement is a prerequisite for empowerment. Most of the participants (9 of 14) also talked about empowerment and the need for enabling employees through a variety of methods (e.g., employee development, vision). With an enabled and empowered workforce, the organizations were ready to execute the plans and transform the organization.

## 5. Execute

Most of the participants focused on the implementation and follow-through of the strategic goals and action plans. Or as one participant called it, "goal deployment." Most of the participants (12 of 14) identified the deployment of change (implementation, level of deployment, and deployment to multiple locations) as key activities requiring their attention. "So we are going to spend 20% of the time on strategy and 80% of the time on deployment and if we say we are going to do something we are going to do it, we are going to do it [in] world class speed and we are going to get it done and we are going to get the results." Note: two of the organizations used CPE to validate a transformation that had already taken place, consequently they did not spend much time discussing the deployment of goals. Some organizations developed an enterprise process model to help senior leaders understand the overall system of operations and assist in the deployment of goals. "In fact, the enterprise process model, which is just a repository in some way just a numbering catalog system for processes and is only in my opinion useful in that context if you thought of the leadership model that we have as a repository of processes that you need to execute your business maybe that is a utility in of itself." These enterprise process models were as one participant put it, "a logical assembly of processes that you need to do to run your business." To fully understand the operations as a system requires understanding the relationships among the various components, which requires the organization measure the key components.

## 6. Measure

For most of the cases (13 of 14) performance measurement and analysis was a key input into understanding the current reality, tracking progress, and making refinements to plans. It was difficult to tease apart the performance measures from the organization assessments and stakeholder feedback. Comparisons were used by many of the organizations to determine both what is possible and identify the organizations from which to learn. The scorecards were comprehensive sets of measures addressing the key stakeholders. As one participant noted, "realign our plan around our stakeholders this is pretty much the company, the customers, and the employees and terminology is different and the strategies and these measurements." For example most participants (10 of 14) expressed concern with the satisfaction and morale of the employees. In addition to the comprehensive enterprise scorecard, a few (4 of 14) of the

organizations had formal leader scorecards as a mechanism for holding senior executive accountable for both actions and results. In one instance, "We had a saying, 'your priorities are where your feet are' and that leadership scorecard measured all the aspects of leadership and literally gave you a grade. And the beauty of it was in most cases like my secretary took my calendar each work and would apply it and then come show me, [participant's name] you have to listen to the customer or you haven't been to a supplier this quarter, you haven't sponsored a team, or you didn't... whatever it may be, you didn't go to an employee function, or you are suppose to take a week of vacation, you didn't this quarter, you got two quarters left, the beauty of the quarterly thing where ever you are lacking a little bit you can make it up the next quarter, so your annual score could still be good. Because a lot of times you go through and my gosh it is already September and haven't done this or that, so it was just an easy snap shot." Other organizations used formal leader assessment methods (e.g., 360 degree feedback). These measures enabled the periodic review and analysis of organizational and leader performance.

### **7. Review and Analyze**

Most of the participants (12 of 14) identified follow through as key to a successful transformation. People tend to pay attention to the things for which they are held accountable. Accountability is a cross-cutting leadership behavior. "So you got to follow through you can't just be a visionary I use to think people would naturally follow me; I was wrong. I used to think I'll just communicate and they will all jump in there and make it happen - that didn't happen." The participants used several practices to hold people accountable including periodic organization performance reviews which were identified by many of the participants (10 of 14) as a key process to making progress. "We had our strategic initiatives that we could track you know green, red, yellow to see that we're on track and so with those three mechanisms in place you know we that met every month we were able to monitor a pretty good chunk of business..." In addition to periodic reviews, leaders and employees in many of the organizations could go anytime to the intranet to check the status of the key performance measures.

### **8. Reward and Recognize**

Most of the participants (12 of 14) also identified recognition and rewards aligned with the desired behaviors as a key to reinforcing the right behavior. The participants used a wide variety of methods to reward and recognize including: thank you notes sent to the employees' homes, awards (some monetary but many not), recognition of accomplishments during senior leader visits to the employee's work section, to name just a few. Others held large organization-wide celebrations for major accomplishments including when they were recognized as state or national Baldrige-based award recipients. The key to these rewards was their alignment with the desired direction and focus of the organization and those things that were meaningful to the recipient.

## 9. Learn and Improve

Organizational learning is the main “engine” for transformation. It is composed of three key elements including changing systems, people, and the culture. “I think a third leg is something built around operational excellence how are you going to move the operations and have a system in place where you are going to continually improve year after year you’re going to have metrics in place and monitor those metrics and make adjustments where necessary.” All 14 participants used four key processes or methods to learn and improve. The main learning cycle for each organization was an integral part of the strategic management system that provided guidance for the other three approaches to learning and improvement. The other three learning processes that each organization used included: organizational self-assessment based on the CPE, benchmarking or learning for others, and continuous improvement. The core or central learning process was the learning that was integrated into the strategic management cycle. All the other learning processes supported the strategy of the organization. It is the strategy that gave the other learning processes focus and purpose. There was clear evidence single and double-loop learning in all four methods (Argyris and Schon, 1996).

All of the organizations had some form of continuous improvement process that was used to evaluate and improve processes of all types. Benchmarking or learning from others showed up in the first interview and continued to be a key practice for all of the organizations. Benchmarking in this case includes everything from attending Quest for Excellence and discussion with peers to formal benchmarking studies to best practice sharing via formal organizations. It might seem obvious since all the participants were Baldrige recipients, however, all of the organizations learned from the Baldrige feedback and made changes to the design of their systems. Even the two “validation” cases made some adjustments to their processes and practices. This learning and improvement didn't come without some resistance. The reactions to the inputs from the various assessments and measures were often defensive in nature and often followed the sequence of emotions described by Elisabeth Kubler-Ross' grieving cycle (Kubler-Ross, 1997). The grieving cycle consists of the five stages of denial, bargaining, anger, depression, and acceptance. In fact, several of the CEOs said they “got angry” when they saw the feedback and initially denied that the feedback was valid. It was only after they worked through this cycle and arrived at acceptance that learning took place and improvements were made. Participation in the systems improvement processes supports individual learning and transformation, and the steady use of new business practices supported the transformation of the culture.

In addition to the organizational learning processes, the participants themselves described how they learned throughout the process and continue to learn today. The methods used by the participants for personal learning included: books, experiences, reflection, formal education and training, and mentors. The two most common sources of learning were books and experiences. Most of the CEOs interviewed

(12 of 14) read about modern management practices. The reading list was quite long and varied. The one book that emerged as a common theme among the group (8 of 14) was *Good to Great* by Jim Collins. In addition to books, most of the CEOs (12 of 14) described situations where they learned from their experiences. Most of those (11 of 12) that described situations where they learned from experiences also demonstrated a high degree of reflection. As might be expected, the ability to examine their experiences and learn from them was highly correlated with learning from experience. The ability to reflect, however, meant that most of the participants not only learned new techniques to help improve their skills but they also were able to question even their deeper assumptions and change their own behavior. This resulted in most of the participants experiencing a personal transformation along with the organization transformation. Many of the participants (9 of 14) identified formal education and training as a key element of their development. Examples of formal learning ranged from Baldrige-based examiner training to conferences, to executive education programs at universities. Half of the CEOs (7 of 14) identified mentors (formal and informal) as key influences in their development as leaders. Personal learning is part of being a role model which was identified as one of five cross-cutting leadership behaviors.

### ***Cross-Cutting Leadership Behaviors***

#### **Role Model**

Most of the CEOs (11 of 14) demonstrated positive role model characteristics. These leaders demonstrated through their own behavior the same behavior that they expected and required of their followers. This was an important form of communication. As the old saying goes, "actions often speak louder than words." As one participant put it, "...the CEO has to change because I was a product of our culture, so everybody said I will change when I see [the CEO] change." As noted in the previous section, personal learning was a big part of being a role model. These leaders were asking their people to learn and change their behavior and ultimately the culture. Demonstrating that they also were learning and changing helped their credibility. While this was a benefit of their personal learning, it appeared to just be a natural part of their personality. One way to help senior leaders develop and implement role model behavior was to measure how they spent their time. "The key that I really found through all of this, this is were the leadership scorecard came in was role model behavior and so the scorecard, if you will, defined what leaders do in our company. And so by putting that in then it allowed us to effectively measure your role model leadership in the company and what your scores were." This approach helped them translate concept into tangible action and measure the performance to enable leaders to improve.

Just over half of the CEOs (8 of 14) described situations where integrity was key to a successful transformation and high performance. However, this does end up being an important cultural dimension related to a high level of teamwork. More exploration of this characteristics is needed to fully understand

the role this plays in the transformation. "In our environment I think you got to 'walk the talk' because we're too small for everybody not to know what's going on or to be perceived you have absolutely if you set out on a course then you've got to go that course or if you change that course then it's got to be clearly articulated why you're not doing that anymore." Role model behavior and integrity combined to create credibility, which was essential for effective communication. As one CEO put it, "And so the way I like to say it to people is that when I started in the...business they had vision and values up on the posters and the pasted on the columns, but they didn't mean anything because we didn't see the leaders wearing them like a coat."

### **Communication**

Communication continues to be one of the greatest difficulties in leading and managing complex organizations and leading change. At the heart of communication is the concept of rhetoric. Numerous scholars have written about the influence of rhetoric (both positive and negative) on the process of change (e.g., Carter, C., & Mueller, F., 2002, Jameson, D. A., 2007 and Masocha, W., & Weetman, P., 2007). However, in this particular situation rhetoric was a positive influence on organizational change or as Spender (2009) notes, "Rhetoric becomes a topic as a powerful means of shaping others' agency into directions determined by the rhetor. This is rhetoric as the comprehensive spur to human action, not simply persuasion. It entails facts and meaning with a passion that demands action." Most participants (12 of 14) identified communication as one of their key activities during the transformation. Of the two that did not talk about communication, one of them was a case where the CPE were used as a validation of the transformation so the transformation had already taken place and the other was a small business where communication may be more natural and automatic v. a conscious part of the leadership process. "I think that people need a powerful purpose and the leader has to be able to communicate that power, there is a purpose in what you're doing and you've got to give people a reason for being. That's number one." Several CEOs (6 of 14) talked about establishing and communicating clear expectations as an important part of translating direction into individual action. "Now we are going to do all that here is what we expect of you: participation, teamwork and engagement we expect you to do be involved in joint goal setting based on continuous breakthrough so we don't just want you to have continuous but also want breakthrough..." Much of the communication was done one-on-one with employees during what one healthcare participant described as "rounding." These periodic visits were accomplished systematically and were focused on key issues related to employee engagement such as ensuring the workforce had everything they needed to accomplish their jobs (Harter, Schmidt, and Hayes, 2002). This method was closely related to the concept of "leadership as a contact sport" described later.

## Collaboration

All of the participants (14 of 14) described situations that indicated that they often were very collaborative in their approach to leading the organization. This was a central characteristic that seems to be related to the humility that was demonstrated by most of the CEOs. Most of the participants (13 of 14) demonstrated a high degree of humility through their descriptions of how they handled particular situations, the credit that they gave to the team, and so forth. The one case where this was not evident was also the case that had the least amount of learning. In this case CPE was focused on validation. Since there wasn't a "journey" at this organization with this participant, it is possible that the reflective aspects of their profile did not have an opportunity to come out. Of all the leader characteristics or behaviors, humility seems to be a key common characteristic that supports or promotes several other key factors that lead to and support organizational learning. Humility seemed to promote the leaders' personal learning; it is difficult to learn when you think you know everything. Leaders as learners promoted organizational learning by being a role model enabling the leader to coach the senior leadership team through difficult problems. In addition, humility seemed to promote a collaborative style of leadership. Again, if you don't think you know everything, you work with other smart diverse thinkers to work through issues as a team. A collaborative approach appeared to help reduce or work through defensive routines and promotes organization learning. In addition, it seemed that leaders with a high degree of humility attract and retain a diverse talented team. "I think it is good to have diversity so you don't have everybody I don't want a bunch of robots, I want people that can express their opinions and that's why I said open leadership, express their opinions and even though we may disagree it's going to be a professional disagreement. I am not going to spear the messenger, I try not to."

## Accountability

Many of the CEOs (10 of 14) identified accountability as key to getting people to actually take the actions necessary to transform the organization. "But following right close to it you've got to put in the systems and the processes and the tools to achieve operational excellence in everything you do and so you got to be in touch with people but then in your back room you've got to say what are we doing you know \_\_\_\_\_ has not submitted a strategic plan for two years; is she off the map here?" If the individuals didn't change and improve, eventually the participant had to let them go. Most of the participants (12 of 14) had to get rid of employees who didn't change and support the transformation and the desired reality. Some of these individuals left on their own after realizing they didn't want to change, but half of the participants (7 of 14) had to force employees to leave. "So there was very high expectations model. And once that happens a few times your culture takes over and you know we had one guy he came from outside and worked with him for a while and told him all the expectations up front got all that set up got him into the monitoring systems and he wanted to do things the way he had always done them, we said

we don't do them that way here, here is what you need to do and after the third time we just said look you don't need to be a leader here." One of the organizations that did not experience turnover due to the journey had a CEO who took over late in the transformation. Getting rid of people was a last resort for these leaders. Many of the CEOs (10 of 14) described how they had to deal with resistance to change. "And my basic belief in people is that I would rather work with you and do everything I can to help you get through denial and get on the right track and go." Or as another CEO described it, "we are going to try it one year, if it doesn't work we will go back to what's not working now." One method used by the organizations to hold people accountable was a periodic individual performance review. While all the organizations had some form of individual performance review, only half of the participants commented on the importance of individual performance reviews as a mechanism to reinforce the desirable behavior, make corrections to undesirable behavior, and set improvement goals and strategies.

Another essential leadership characteristic that supports organization transformation was perseverance. Given that most organizational change efforts fail it is not surprising that a high degree of tenacity is needed to successfully address the many challenges that leaders face during the process. Call it determination, tenacity or perseverance most of the participants (13 of 14) did not waiver from their mission to transform the organization. This is a particularly important characteristic given the many challenges and low success rate of those leading organization change. Many of the participants (9 of 14) were very realistic in their assessment, and they remained committed to the transformation even though several (6 of 14) had doubts at one point or another during the transformation about the organization's ability to change. Perseverance seems to support the variety of methods used by the participants to follow-through and reinforce the many changes needed for transformation. In addition, a collaborative style can be difficult to effectively implement if the leader doesn't have the patience or perseverance to see it through. Perseverance is also an important role model characteristic that promotes others to stay the course and ensure the changes are successful. For these first four behaviors (role model, communication, collaboration, and accountability) to be effective requires a "high-touch" approach to leadership.

### **Leadership as a Contact Sport**

Many of the participants (10 of 14) described leadership as a contact sport (LACS). "Well leadership is a contact sport so you got to be in touch with people and I have heard people can do it from an office I'm just not one of them." In addition, just over half of the participants (8 of 14) described situations where they coached individuals in the organization through the individual transformations to new ways of thinking and acting. While for some participants this seemed to be a natural part of their personality, for others it was a conscious effort.

## ***Culture***

Culture came up throughout the discussions as a key dimension of the organization transformations. In fact, several participants identified it as the ultimate manifestation of organizational transformation. Culture is both an input to the LS design process and an output of a successfully implemented LS. Culture is considered as part of the context step during the LS design “discovery process.” LS design should be consistent with the culture of the organization, and assist in the transformation of the culture as necessary. While there was general agreement on the role and importance of culture, there was wide variation in the specific comments around culture with the exception of two themes: values and habit. While the specific values varied among the organizations, most of the participants (13 of 14) talked about the values of the culture and the importance of having the right values embedded in the culture. From a sustainability of change perspective, the most important culture theme that emerged in most of the interviews (12 of 14) was the relationship between the length of time the culture had been in place (habit), and the degree to which the changes were sustainable. Often organizations will change but then revert back to the original habits once the emphasis on the new practice(s) is removed. It seems that maintaining the pressure on the organization is required - at least until the new ways become ingrained habits. This is consistent with Deming's notion of constancy of purpose. This is not to say that the purpose shouldn't change over time. However, it seems clear from the experiences of the participants that the new culture has to have time to become ingrained before the organization can adjust the focus to new directions of emphasis areas.

While there was little agreement on the specific values that the participants discussed during their descriptions of the transformation, a few themes did emerge that appear useful for organizations attempting to transform their organizations or continue to transform their organizations. The most common value identified by 12 of 14 CEOs was teamwork. As one CEO described it, "teamwork in the sense of agreeing the vital few through the strategic planning goal deployment process, bubbling up everything working together in the past what we would do we do that superficially we would sit and say here are the goals but we still acted functionally so we had to move from a functional organization to a more of a team-based, process driven organization." Another theme that supports teamwork was “knowledge sharing” which was identified in 6 of the 11 teamwork cases. A culture that respects and values employees was identified by most of the participants (11 of 14) as a key cultural value. As one CEO put it, "The thing that did change was I began to understand really how important everything I said and did was to the culture of the organization. And I learned that not only do you have to be caring you have to be demonstrably caring." Or as another CEO commented, "I am not a screamer or yeller and from a culture standpoint we don't allow that here. So people that are screamers and yellers either have to change their behavior or they don't stay." Most of the participants (11 of 14) also identified quality as a key value for a high performing culture. One CEO described in an anecdote "I can remember one of the

things that we did in fact we couldn't get the production line schedule to stabilize to deliver \_\_\_\_\_ on time because of the manufacturing guys were schedule driven and not quality driven. And he said, stop the line, don't move [the product] and these manufacturing guys looked at us like my god he's lost it." This was a major cultural shift for some of the organizations but one that was necessary to becoming customer-driven. Many of the CEOs (9 of 14) identified "customer-driven" as a key cultural value. As one CEO commented, "...it is not about Baldrige its about the culture [of] patient satisfaction" Finally, while fewer participants (7 of 14) specifically identified Integrity and trust as cultural values, they were closely related to a culture of teamwork. "Define valued based culture what our values are is what is how we live and you can get in trouble in our company with integrity violations you only use your integrity once and that is really key." It seems that the dominant cultural values found in the majority of the participating organizations were related to the "people, service, profit chain." This is consistent with the themes identified in the stakeholder feedback - a key component of understanding the current reality.

### ***Technology***

While the use of technology varied widely in both scale and scope, most of the organizations used it to support the LS activities. It was particularly useful for capturing, analyzing and presenting data to enhance the performance reviews and it was also used to communicate with the workforce. For some organizations transparency was an important issue and technology assisted in increasing the transparency of decisions, organization performance and so forth.

## **CONCLUSION**

### **Benefits of a Formal Leadership System**

What benefits did the participating organizations experience related to a formal leadership system? As previously noted, in the beginning, the benefits of a formal LS was unknown for several of the participants. They were simply doing what the CPE model asked them to do. However, as they began to develop and implement a formal LS, they began to experience several benefits including it: (a) drove positive change in the organization; (b) established new boundaries, roles, and responsibilities and provided a constant reminder of their focus and purposeful leadership approaches; (c) enabled the development of leaders and employees throughout the organization; (d) provided a systems perspective for leadership; and (e) drove results.

As the leaders developed their custom leadership systems they noticed that the process drove positive change. As one CEO noted, "it triggered us to come up with some things that we didn't have like cross-cutting councils. We recognized that the life of a leader in the organization really happens with a lot of

informal stuff but that we could be a little more intentional by creating some cross-cutting councils whose job it was to see that these activities go across the functional silos. Just the process of doing that [developing a formal LS] and then operating within it improved our organization. So, again we think they were good questions because we weren't there and we had to struggle with it, and what we came up with felt organic to who we are and more than just describe it, it served as a catalyst for improving and that was the value of it."

The formal LS also helped organizational members understand the boundaries and their new roles and responsibilities within the organization. As one participant noted, "a concept tends to help people to understand that they have freedom within boundaries." The formal LS also provided a visual framework that was a constant reminder for leaders of the organization's focus and their roles, responsibilities, and activities. As one CEO noted, "I think the utility of it is it keeps in front of you all the things you do or all the things you are suppose to do and, in fact, at the start of each of our meetings we used to put the picture up and say were here today." In some instances this was enhanced by technology that facilitated the various activities.

Leaders also found that it helped create continuity and reduce the dependency on any one individual or leader. "It keeps you from being dependent on anyone individual. You know I have always said that leadership is very, very important but at the same time you don't build a great organization around personality and you don't build a great organization around charisma or all that." A formal leadership system enabled the development of leaders and employees at all levels. One participant relayed a story of one young women in his organization who "briefed the leadership team model for some senior executive and was absolutely awesome in what it was and what it did and how you used it etc., and I kind of thought boy I wish everyone got it like that. And, she was 23 years old! I mean she hadn't been in the workforce but maybe 5 years and maybe less. I don't even remember if she had a degree or not."

The LS provided a systems perspective that enhanced the process of setting direction, planning initiatives, measuring progress, and refining the plans to create value for multiple stakeholders. "Originally, when we thought strategic plan, we thought five year plan, we thought evaluation, but we didn't think how all of these processes fit together and in reality, part of what we learned during the Baldrige journey and or the Baldrige piece of our journey was to think about process and think about one, do we really have a process for all of these activities and two, is it the same process across the entire system are they different processes. Should they be the same process? Are they documented? Do people understand them? Do people understand how one process works with another process? Do people understand how measurement works with accountability?" The LS helped align and integrate the stakeholders' needs with the organization's direction, goals, actions, and measures.

Finally, as one participant noted, "I think number 1, I think it drives results." All the organizations experienced improvement in the levels, trends, and comparisons of results across a variety of key measures including employees, operations, customer satisfaction and financial performance. Nearly half of the CPE model is based on results across a variety of areas. MBNQA recipients are evaluated not only on their approaches (processes and practices) but also on the associated results in six key areas: product outcomes, customer-focused outcomes, financial and market outcomes, workforce-focused outcomes, process effectiveness outcomes, and leadership outcomes (NIST 2009).

### **Limitations and Recommended Research**

This study was limited to CEO or most senior leaders' personal perspectives. It is quite possible that leaders and employees at other levels in the organization have a different perspective on the LS than the most senior leader. Future research should consider including participants with different perspectives to form a richer "picture" of the transformation process and the LS.

This study included only 14 cases and thus the generalizability of conclusions may be limited to these particular organizations. In addition, no comparison cases were included in this study. Future research should consider including additional cases and control groups (e.g., non-Baldrige recipient organizations) to verify the applicability of the design considerations, the LS model and the conclusions.

While the study includes a variety of organizations from business, education, and healthcare, no non-profit or government cases were included. Now that there are MBNQA recipients in the government category, future research should consider including cases from this sector to determine the differences, if any, between leading transformation in government and non-profit organizations and the sectors represented in this study.

The participant group did not include any female CEOs. Future research should consider including both male and female senior leaders to determine the differences, if any, between gender and the LS model components including the cross-cutting leadership behaviors.

Specific deductive questions on the various components and conclusions were not asked during the interviews. More research is needed to verify the LS design considerations, the LS model and components and the conclusions produced by this study. Future research should consider more objective quantitative methods to test and refine the findings and insights produced by this study.

While it appears from the discussion on the leadership system model, and evidence from at least one of the participants, that the LS design considerations and the LS model and components are useful for

addressing the environmental and social challenges currently facing leaders and organizations, more research is needed on how to leverage the LS model to address these issues.

### **Future Applications**

It appears that these organizations have come a long way from the limited focus on investors and Milton Friedman's rather narrow view that the organization's only purpose is to maximize shareholder value provided they play by the rules (Friedman, 1970). Unfortunately, the rules of the game (e.g., public policy) often lag behind the needs of society and in the case of climate change, the new rules (e.g., cap and trade system) may be too late. It seems a more effective and proactive approach might be to redefine the purpose of the organization to include multiple stakeholders as was done by the senior leaders in the 14 cases presented in this paper. These organizations did not reallocate resources to balance the value for employees, customers, and investors. Instead, through the use of the CPE model, they figured out that these stakeholders formed a system and they learned how to change the system to create more value for all three groups. The result was improved results in all three areas. In addition to changing their system to create value for these groups, it appeared that the leaders also went through a learning process and experienced a personal transformation.

At the end of each interview the CEOs were asked what was most satisfying about being a senior leader and leading the journey? Interestingly, none of the CEOs identified extrinsic rewards as a satisfying part of the job. There was no mention of financial success (personal or company) and there was no mention of the Baldrige award, although they were all proud of that accomplishment. From the dialogue it appeared that all of them had found a deeper meaning for the organization and themselves during the journey, and their comments focused on intrinsic rewards related to making a difference in the lives of people. Most of the responses focused on the difference they were able to help make in the lives of the employees and customers (including patients in the healthcare organizations and students in the education organizations). Many of the comments paralleled key points made by Frankl (1984) in his book *Man's Search for Meaning*. Many of them had found a deeper purpose for their work as leaders and for their organizations. Given the central focus of the LS on stakeholders and the direction of the organization including mission, vision, values and purpose, it seems that this may be a leverage point that could be modified to elevate and integrate the status of society and the environment into the organization system.

Not too many years ago it was possible to succeed in business in the United States focusing solely on the financial statements. After WWII there was pent up demand for products and services due to rationing during the war and there was little global competition. By 1980 the Japanese were selling products in the United States at a price equal to what it was costing US companies to make comparable products (Kotter and Heskett 1992). At first the U. S. response was that higher quality would require increased expense.

However, business soon learned to think differently about how to create high quality at a reasonable price (Deming 1994, Juran 1989, and Crosby 1979). Soon the bar was raised again and organizations discovered that a talented engaged workforce was key to success, especially in the more service and knowledge oriented businesses. Again, many organizations met this challenge using new insights provided by research and practice (e.g., Harter, Schmidt, and Hayes 2002). It is time once again to raise the "bar" and redefine "excellence." Or as Hamel (2007) proposes "what is lacking is not insightful analysis, but truly bold and imaginative alternatives to the management status quo – and an army of innovators who have the stamina to reinvent management from the ground up" (p. 40). Today, leaders face even greater social and environmental challenges and must rethink the purpose and design of their organizations to create organizations that create value not only for the current stakeholders but for the generations yet to come. This is not just a practical business issue brought on by external stakeholders but at its core is an ethical and moral issue (for a summary of related literature see Grant 2008).

If leaders focus solely on a few stakeholders, a short time horizon, and their narrowly bounded organization, they are able to avoid the ethical dilemmas facing society at large. If leaders limit their knowledge of the system in which they operate and the longer-term effects of their actions, they are able to comfortably make decisions and reap the short-term benefits without ever facing the deeper and more insidious ethical and moral issues that exist. However, once leaders gain an appreciation for the system with which they operate in and the longer-term impact of their decisions and actions, they cannot avoid the ethical dilemmas associated with creating a standard of living using methods and means that mortgage the standard of living for future generations. As with previous challenges the answer does not lie in the reallocation of resources. The answer lies in the redesign of the leadership system to incorporate a larger purpose, a systems perspective, and a long-term horizon.

## **APPENDIX – RESEARCH METHODOLOGY**

The overall approach used was a two phase, inductive, qualitative multiple case study with aspects of grounded theory built into the methodology. Phase 1 was a grounded theory approach that built concepts inductively from the CEO interview data, the leadership system documents, and previously published articles about the system (Glaser 2002 and Corbin and Strauss 1990). Phase 2 further developed tested the concepts against existing theories and enfolded the literature into the cross-case analysis (Eisenhardt 1989 and Mintzberg 2005). In addition, feedback and insights from practitioners were analyzed and incorporated into the testing of the concepts.

The interview guide consisted of both inductive open-ended questions and planned quasi-deductive questions. The inductive open-ended questions were focused on the experiences of the senior leaders using the leadership systems and were used to get the participants to tell their "story" of leading the

transformation. The quasi-deductive questions were based on existing knowledge of leadership systems, the design framework and process, and the questions in the CPE Item 1.1.

At the time of this study, the population for this study included all 72 MBNQA recipients (1998 - 2008). The first formal CPE-based leadership system appeared around 1989 in the Boeing C-17 MBNQA application summary. Consequently, the sampling frame was focused on the 41 most recent MBNQA recipients from the last 10 years

Individual participants were chosen using a purposive sampling approach. The criteria used to select participants included: industry sector (initial target was 2 from each sector - large manufacturing, large service, small business, healthcare, and education); geographic location to help consolidate travel costs and schedules, and willingness to participate. This study began with approximately 10 cases (2 from each sector). Additional participants were added as necessary until "saturation" in the data was reached.

Data collection activities consisted of in-depth interviews with CEOs and document reviews of the leadership systems used including the history of their evolution and the MBNQA process. Document reviews included the leadership system description found in the MBNQA application summary for each organization.

The data were input into a Qualitative Data Analysis Software Package – NVivo 8. From there they were coded and analyzed using a variety of inductive and quasi-deductive techniques described by Miles and Huberman (1994), Corbin and Strauss (1990), Glaser (2002) and Richards (2005). In addition, analysis using tables, data displays, etc. Miles and Huberman (1994) was used to augment the software. Once the concepts and theory emerged they were tested against the data, the literature and existing theory was unfolded into the analysis as described by Eisenhardt (1989) – a process that continues.

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