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## THE PARADOX OF DEVELOPING LEADERS\*

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At a roundtable business lunch at the end of 2008, the discussion moved inevitably to the recapitalization, and near failure, of Royal Bank of Scotland (RBS), where I held the exciting and constantly challenging post of “head of executive development.”

“Oh, well, it’s all your fault,” commented a local business leader.

“We all have responsibility, and I take some,” I responded.

I had been deeply involved in the development of the top three hundred leaders during RBS’s incredible and confident growth that heralded the inauguration of a purpose-built RBS Business School—with an auditorium modelled on Harvard Business School teaching space and strong relationships established with Harvard, London Business School, IMD, and Duke Corporate Education.

My lunch colleagues muttered excuses about how it was really all the CEO’s fault. I did not buy the totality of that explanation. Scapegoats have always helped our human need for abdication of responsibility. Yet resorting to the scapegoat relieves us all of a key leadership principle—accountability.

The purpose of this essay is not an analysis of “what went wrong” but rather to share some examples of how we developed leaders and leadership capabilities at RBS that will still hold well into RBS’s recovery and eventual reinvention.

\*The following essay represents a personal opinion on developing leaders and does not necessarily represent the views of RBS.

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## The RBS Story

The pre-2008 RBS organization was a big success story. The RBS group was one of the world's leading financial service companies, boasting a pedigree of great diversity and a variety of financial services from insurance to retail banking to investment banking. The group experienced rapid growth over the decade 1999 to 2008 through acquisitions and organic growth. Having snatched NatWest Bank from the jaws of Bank of Scotland back in the year 2000, the group rose to the position of the UK's second-largest bank by assets.

After the NatWest acquisition, the group went on to acquire UK Churchill Insurance, adding to its substantial direct line insurance business. The insurance operation is now the second biggest in the UK, behind Aviva (Norwich Union). Furthermore, during the latter half of 2007, a consortium of banks led by RBS and including Spain's Banco Santander and Belgo-Dutch bancassurer Fortis, won a contested takeover battle for Dutch bank ABN Amro. However, the eventual victory was, unfortunately for RBS, overshadowed by the unfolding of a global credit crisis, with the epicenter being the U.S. sub-prime mortgage market. The ABN Amro acquisition has been poorly judged in hindsight.

RBS exploded from an organization of 35,000 employees predominantly based in the UK in 1999 to a global organization operating in fifty-three different countries with 170,000 employees. Keen to embrace learning from manufacturing industries such as GE (Work Out), Motorola (Six Sigma), and Toyota (continuous improvement), RBS boasted one of the most efficient income ratios in the banking sector.

Despite significant fundraising earlier in 2008 by RBS (£12 billion) and other banks, the crisis in the global banking sector only continued to deteriorate. The result was an eventual plan to recapitalize the banking sector through a cash injection of funds from their respective governments globally and led by the UK. Furthermore, the group chief executive who led the Dutch bank ABN Amro takeover, Sir Fred Goodwin, resigned and was replaced by former Abbey National executive Stephen Hester.

In such a turbulent environment, I started to refine some thoughts on my practice as a developer of senior leaders. Had any of it been worthwhile? Had we been teaching the wrong things with the wrong partners? I share with you some personal observations of some processes that worked. "Worked" is defined for me as observable facts that leadership capability was enhanced and measurable results were evident. For this I will focus on two examples: first, a process to share with senior banking executives the theory and practice of innovation and, second, the transformational power of encouraging leaders to be teachers. I will end this article with some optimism that there are some primary areas of management

development that will drive the future agenda of the world's most successful organizations from 2010 onward.

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## Engaging RBS Executives in Innovation

Following the acquisition of NatWest in 2001, RBS executives saw that engaging and developing its leaders would be of paramount importance to building a strong culture of growth and efficiency. Upon this realization, we began a deliberate culture shift toward encouraging innovation in the retail sectors of RBS.

The RBS external website on Innovation Business outlines four key principles for introducing innovation into a business without abundant resources:

1. Start with a well-thought-out innovation and technology strategy. This sets out the choices, which helps the firm to position its innovation efforts and defines where the company is headed and how it intends to get there. The strategy has to be aligned with the overall business strategy and communicated with commitment by top-level innovation leadership—right at board level.
2. To deliver the strategy effectively, select and build innovation growth platforms to provide the critical mass and focus to develop a sustainable stream of new offerings and business opportunities. Examples of platforms can range from “new modular building systems for the developing world market” for a cement company to “applications of polypropylene to food packing in China” for a small polymer processing company. Platforms are built around capabilities, well-researched future foresights, and external markets.
3. Orchestrate and build the requisite innovation capabilities and create and support a culture conducive to innovation and relevant, rapid decision making to embed innovation in the company.
4. And, finally, create the organizational structure and processes to nurture the growth platforms as they develop. A big mistake is to assume innovation is the sole responsibility of the R&D, marketing, or new business development department. Innovation requires ownership across the whole company, with accountability sufficiently focused to drive forward the necessary activities (Innovation Business, 2008).

These four principles came out of the 2006 RBS Executive Leadership Programme (ELP) that introduced executives to some countercultural concepts in developing a culture of innovation. The ELP was a mixture of Harvard Business School case studies, lectures, and active group work sessions facilitated by IDEO, a leading innovation consultancy. IDEO was selected as a partner due in part to

some of their financial services industry experiences. (IDEO's "Keep the Change" campaign, which rounds up purchases made with a Bank of America Visa debit card and deposits the difference into the user's savings account, was successfully replicated by Lloyds Bank in the UK.) The practical IDEO sessions were broken down over five days into "Insights to Challenges," "Challenges to Opportunities," "Developing a Proposal," and "Presenting your Proposal." One important insight for delegates was that selling an idea is as important as the idea itself.

These sessions captured the imagination of the RBS CEO to sponsor the "winning idea" with protected venture-capital-type funding. These business prototypes were to be encouraged to apply the key principles of growing an innovation-inspired business or product.

To date, several new revenue streams have been derived from this program, including RBS Revolve, a credit card with a customizable photo option, and an emergency lost card product launched in January 2007.

The first countercultural concept, "to fail quicker to succeed earlier," was taught energetically well by Professor Stefan Thomke of HBS, whose excellent book, *Experimentation Matters*, was the cornerstone of his lectures. One precursor to RBS's post-2008 reality was Thomke's lecture that reported from his research that "the challenge of sustained innovation performance is that failure can most often be traced to a change of context (environment) with a lack of organizational response."

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## Engaging Leaders Through Teaching

The second example of a process that worked to improve business performance is the mass experiment of leaders teaching leaders that was initially facilitated by Professor Noel Tichy. Tichy is one of the world's leading experts on large-scale corporate change. He is a professor at The University of Michigan Business School, where he is director of the Global Leadership Program. From 1985 to 1987 he led management education at General Electric, where he was manager of the company's Leadership Development Institute at Crotonville.

Tichy ran a session on leaders as teachers and shared the story of his tactics to engage the then-CEO of GE Jack Welch. He stressed the importance of developing a "teachable point of view" that in essence is about the process of making your knowledge available to others—a personal process of "sorting through ideas and beliefs to figure out what you know." The key elements are the ideas about the plan for success and the values that achieve that success.

I was personally convinced that involving leaders in such a direct way worked. My opportunity at RBS was to prove it. So, in 2006, I invited Tichy to lead a

ninety-minute “master class” for senior executives on the ideas contained in his book, *The Cycle of Leadership*, and to share his extensive experience on what makes organizations successful—mainly, that great leaders are constantly teaching their people about the organization and the skills and behaviors needed to make it great. He refers to the “virtuous teaching cycle” or The Cycle of Leadership: as leaders teach, they themselves learn by breaking down and reframing their ideas. What leaders teach is called a “teachable point of view.” It is made up of three key elements that work together: the ideas or strategy of the organization, the values of the business, and something called E<sup>3</sup>, or Emotion, Energy, and Edge, which is about decision making and creating a high-energy/high-engagement place to work.

In 2007, the three RBS divisions—UK Commercial Banking, Group Manufacturing, and Ulster Bank Group—were all inspired to adopt this energizing approach to develop strategy, generate income, empower managers to become teachers, and build cohesiveness within their organizations. These three groups all undertook a significant commitment to rollout of programs based on the Cycle of Leadership.

For each of the three divisions, there were distinct reasons for embarking on this energizing and dynamic approach:

For Group Manufacturing, which had rigorously overhauled its operating strategy, the key purpose of the program was to communicate and embed this new strategy. It was also the opportunity to reinforce its values and its way of working (or E<sup>3</sup>). Its aim was for those in the organization to clearly articulate how their roles fit into the strategy (or ideas) of their departments and the division as a whole, how the values shape their jobs, and how manufacturing works. The group wanted to create an organization that is consistent and flexible.

In UK Commercial Banking, the focus was on strategic leadership whereby all levels would sign up to the concept and practice of Leaders as Teachers. The group wanted its new senior leadership team to “gel” and also to “upskill” and empower middle managers within the division who were all involved in cascading the process.

Ulster Bank Group adopted the process initially to gain clarity on its own Leadership Teachable Point of View. Subsequently, the group continued to focus on the development of all Leaders as Teachers across Ulster Bank Group.

In all three divisions, every member of the senior leadership team was involved in becoming teachers and in the development of other leaders as teachers. Approximately 31,000 employees have been involved in this development cascade and some four thousand Leader Teachers have been identified and developed.

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## A Teachable Point of View at RBS

In most cases, timescales for the rollout of the programs across the divisions were aggressive and challenging, but the momentum for their successful outcomes resulted in extremely high levels of engagement and participation across the board.

**Step 1.** The process includes the top executive team in each division creating personal and then team teachable points of view on (1) ideas: how the business makes money and can win in the marketplace; (2) values: what behaviors are required to put business ideas into practice; (3) emotional energy: how do you keep people motivated and working with sustained high energy; and (4) edge: how do you make difficult decisions?

The sessions always start with self-disclosure. The senior leader tells his or her leadership story in the form of a leadership journey line. “Who am I?” is the question this process helps illuminate.

Tichy provides almost evangelical repetition of the imperative that creating an environment that encourages teaching and learning is central to developing front-line leaders and that the process has to start at the top.

**Step 2.** Cascade teach to all. The top team members become the direct teachers to the next level. At RBS, the Manufacturing team used its top-sixty talent pool to be the first teacher group.

I observed that the tension and expectation this process creates leads to leaders taking very seriously the need to understand the material they will be teaching. Buy-in and support for developing leaders becomes more than just opening a workshop and uttering some platitudes on the importance of leadership.

**Step 3.** Get teaching syndicates involved in achievable ninety-day projects of either a revenue generator or cost saver. This tends to build motivation and a sense of achievement for the front line teams.

**Step 4.** Use the cascade teaching process for building leadership capability.

**The results.** RBS has an engrained culture of measurement of employee engagement, and one of the strongest people drivers in global organizations is leadership and management effectiveness. This correlation shows up on employee opinion surveys across the globe. When Towers Perrin-ISR looked at global high-performing organizations and compared its employee opinion survey scores to those of other global companies in its database, the global high performers outperformed the rest in leadership effectiveness by 14 percent.

Within RBS, our own employee opinion survey data supported the importance of leadership, with our highest-performing business units having on average a 35 percent higher sales performance. This number was positively validated post-program in the Ulster Bank Group. With response rates of 90 percent, we can also be sure that this data is reflective of our population.

From the three divisions that applied the Cycle of Leadership principles, significant income was generated in the commercial division, cost savings audited in all divisions, and employee opinion survey scores showed increases of 9 percent in those areas related to divisional leadership effectiveness.

The following qualitative benefits were remarked on during focus group discussions with the teams involved:

- High engagement levels from all areas;
- Improved team building;
- Middle-manager empowerment;
- Involvement of large numbers of staff in large programs and projects—“mobilizing effort and energy en mass”;
- Improvements in the customer experience;
- Initiation of a whole range of projects for improvements across the division in efficiencies, capacity management, and income generation; and
- Clarity of strategic leadership agendas and a fluid process for dissemination of and contribution to the agendas.

Tichy challenged leaders during his workshops, “Why do you need consultants to help tell you your strategy?” He was keen to encourage RBS to be self-sustaining in the process and introduced me to Bob Knowling, CEO of Telwares and former CEO of the NYC Leadership Academy. Knowling had some first-hand experience with getting leaders involved in teaching in three organizations he had led and it fuelled his own personal experience of developing a teachable point of view. It helped him define himself in his story as a change agent:

“If you do this thing right, if you’ve got a point of view, if you are bold and free, you’ve become one of the most valuable people in the organization. People with those qualities can work anywhere. In a technical company like this one, give me a choice between somebody who understands bits and bytes or a change agent, and I’ll take the change agent. You have to understand what the job of a change agent is. It’s about talking about the issues that we don’t want to talk about, the ones that drive the business. It’s about moving people out of their comfort zones. It’s also about focusing on financial performance and creating shareholder value. This is not just about the “soft stuff.” Change agents who don’t really understand the financial issues of the company aren’t worth much.” (Tichy, 2002, p. 123)

His view convinced me that we should use the concepts more broadly. The concept of cascade teaching has been used as the core design principle for the design of the RBS Integration Programme for the ex-ABN bank executives who joined the RBS group in 2008 following the RBS acquisition of key components

of ABN Amro. The sessions on this three-day program were entirely taught by RBS executives. Executives who attended then were expected to cascade teach from a teaching pack of materials. Feedback was overwhelmingly positive, as we seemed to have hit on a process to accelerate the process of cultural induction of the RBS culture, whose brand was summarized accurately by the ad tag line “*Make it happen*” as subtly different from ABN’s “*Make more possible*.”

Since the cascade teaching process was developed at RBS, there is evident cultural acceptance that getting leaders involved in such a personal way indeed drives deeper levels of engagement. It forces interaction with first-line leaders—who drive the real results of the business with an accessible and easily understood plan for how the business works and a vision for its future.

The process also forces listening. If the message does not land at the front line, then it is obvious to the leader-teacher, who has not only a disengaged delegate group but evidence of an inauthentic message on leadership and business direction. Tichy often refers to the process as “empowered command and control.”

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## The Future Focus of Management Development

I have observed that leaders are under even more scrutiny during turbulent times and need to understand the impact of their presence and comments. At RBS, we have found that helping leaders create clarity on priorities during uncertain times is a critical skill. The leader-as-teacher process has built deeper resources for leaders to use as they help their teams navigate uncertainty.

As we move into the next decade, many of the assumptions of successful business models have been challenged to the core. My prediction is that the focus of management and leadership development professionals will be on management as a profession and the ability of leaders to manage paradox. This may lead to development processes biased toward teaching managers how to think and be aware of the assumptions that guide them—perhaps a latter-day return to Aristotle’s academy.

This emergent debate is summarized well by Nitin Nohria and Rakesh Khurana (2008), who propose that we can professionalize management, which they define as follows:

- A common body of knowledge resting on a well-developed, widely accepted theoretical base;
- A system for certifying that individuals possess such knowledge before being licensed or otherwise allowed to practice;

- A commitment to use specialized knowledge for the public good, and a renunciation of the goal of profit maximization, in return for professional autonomy and monopoly power; and
- A code of ethics, with provisions for monitoring individual compliance with the code and a system of sanctions for enforcing it.

Their definition of a profession gives us signposts to possible content in a future curriculum. This future curriculum would include elements on helping leaders be more aware of the assumptions they hold about managing, organization design, risk, corporate responsibility, and governance. The process would help them think about managing paradoxes and balancing conflicting but necessary goals.

My personal paradox is the resolution of my conflict of developing leaders in a resultant “bombed-out bank,” yet being proud of facilitating leadership development processes that worked well for many leaders and that may help build a new foundation for the business.

How will we execute development of the above concepts if we are to professionalize management? This is still an open question, but I know my answers will involve leveraging the lessons of innovation and encouraging myself and other leaders to teach.

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**Steve Mostyn** was head of executive development for RBS Business School until 2009. He led the development of innovative leadership programs for executives within the RBS group. Among his central achievements was the development of mixing academic approaches from Harvard Business School, Duke CE, London Business School, and IMD to engage leaders working together on real issues. This has been strengthened by getting leaders “teaching” what they learn to each other and their teams. Previously, Mostyn was programme head for Motorola University and was responsible for the development of the Chairman’s Leadership Institute with Kellogg School of Management. He believes that you can only develop leaders by understanding the world of the executive and as a result is a certified, trusted, and confidential coach to many. In addition, Mostyn is a faculty member of Columba 1400, a charity dedicated to the leadership development of young people who come from “tough reality” backgrounds.