

A Conversation

From Paternalism to Performance: Leading Enterprise-Wide Change

The Lord Simon of Highbury and Douglas A. Ready

An industry giant in the U.K., British Petroleum (BP) is the world's fourth largest oil company. BP extracts oil from around the world and sells its products in over 100 countries. In addition, it operates a large chemicals business and manages one of the largest solar operations in the world. In the mid 1980s, due to declining oil prices and several failed exploration activities, BP came under intense pressure to cut its operating expenses. In 1992, after the first quarterly loss in the company's history, BP fired its Chairman and elevated Sir David Simon to that position. Widely regarded as a brilliant strategist, he led BP from its nadir to stellar operating performance in just four years. The challenge, at least in part, was leading the transformation from a highly paternalistic, inward-looking culture to a fiercely competitive, market-focused company. In May of this year, Sir David Simon was appointed Minister of Trade and Competitiveness for Europe and a member of the House of Lords, becoming The Lord Simon of Highbury. This conversation took place in September 1996, when he was still leading BP.

Dr. Douglas Ready, Executive Director of the International Consortium for Executive Development Research (ICEDR) and a Professor at the Arthur D. Little School of Management, had the opportunity to interview Lord Simon as a part of the Developing Global Capability study he was leading. The study, jointly sponsored by ADL and ICEDR, is a comprehensive look at the behaviors of 28 global companies in their quest to achieve sustained competitiveness. This is the second of a series of articles by Dr. Ready on leading enterprise-wide change.

Doug Ready: What do you see as the difference between the BP of 1987 and the BP of 1997 – and even perhaps the BP of 2007 – in terms of the top strategic challenges facing British Petroleum?

David Simon: Our main challenge over the past 10 years has been to build a capacity for competitive performance. That's been the number one strategic priority. We've understood that none of our other achievements – becoming more effective at strategy, broadening the company's asset base, internationalizing – would be effective for our shareholders unless we married those achievements with continuous short-run performance. So over the last 10 years we have at last achieved real competitiveness. And this may sound a bit strange to you, Doug, but for us, performance is strategy. They're not two separate things.

Looking forward, the biggest challenge will be maintaining discipline within the company to balance competitiveness and growth. I believe we will operate in a continuously liberalizing market with ever-increasing worldwide competition. So we'll need to stay in some sort of sync as we take on wider and wider challenges, because growth will probably imply a more complex organization. How to marry together continuous competitiveness and performance with the strategic notions of growth I think will be the big challenge for large corporations.

DR: There's a lot of talk today about globalization. CEOs often talk about making their organizations globally effective as a key objective. I'd like your views on this notion. Do you see globalization as an objective for BP?

DS: No, I don't, frankly. Clearly, as an oil company, we're bound to an extent by geology. The greatest asset for us is oil in the ground. And the second-greatest asset is customers to sell it to. But we start with the product and then we find the customers. So in a sense, we're forced by geology to be an international company competing at the world-class level.

But I don't understand the notion of being a global company. We have to compete in diverse markets because of the business that we happen to be in. But that competition doesn't necessarily make us global. Competition may make a company regional or national or international. To me, the real question is, do you compete effectively and can you create value for shareholders by continuing to do what you do? It may be that you have to be global; it may not. I don't see any logic in thinking globally initially.

DR: That's an interesting point. Then how do you think about the notion of going about building organizational capability within BP and throughout BP and around the world?

DS: Well, going back to the earlier point about sustaining performance and growth at the same time, these simple words are very complex in management terms. Our experience is that the key route to developing this capacity is to build up the largest possible number of people within the organization who understand both the objective of the organization – what it really is trying to achieve – and how that organization feels comfortable about going about this mission – in other words, the organization's style and culture. You need a large, committed group of people – the leadership in the broadest sense – who can set the direction and inspire and encourage more and more people in the organization into this process. The committed group may start by including only the six executives at the top of the company. But that doesn't last very long, because the process won't be very effective unless it includes the next 50 people. And that phase won't last very long or be very

effective until it has included the next 250 people. So you continuously build alignment in the organization, between the objective and the style in which you're going to meet that objective. To me, that is the leadership approach that we want to develop.

Back to your earlier question, I'm not sure whether that has to be global-minded. I think it has to be consistent, but it could equally well be national-minded or regional-minded. The key is the coherence between people's understanding of the objectives of the organization and the comfort with which they go about meeting those objectives in stylistic and cultural terms.

DR: I think you've hit on a key point. In many organizations there's a painfully evident gap between this notion of a shared sense of purpose and meaning and the actual day-to-day behaviors practiced in the organization. As chairman of BP, how do you think about this notion of building that sense of alignment?

DS: Of course, you don't start with a blank sheet of paper. When it became both my responsibility and my privilege to be thinking about the leadership role in BP, the organization already had immense strength. It's an 80-year-old company, it's a very large company, and it had been very successful. To me the key to its success had been a continuous understanding of strategic development over time. BP understood what it needed to do to grow. It's a very capital-intensive business. It understood project development on a worldwide basis. It had a very good nose for geology. It had political understanding. All of these are part of the inherited culture of the company.

But I didn't feel that it had a real understanding of performance in a highly competitive and fast-changing world. So the initial techniques we used to build the capacity to compete were actually targeting and focusing on very simple achievements that could be related to everyday performance, and which we could talk about continuously and align people to. It was targeted numbers that were very simple.

Now you'll say, but doesn't everybody do that? The answer is, many competent, strategic organizations don't do that. And when they start to change behavior, they take enormous risks. Changing behavior is very complex. Unless it's grounded in some outcome that people can measure very clearly, they get quite confused. And the bigger the organization, the more confusing.

So technically (in a leadership sense), what was crucial for our organization was to get more focus on performance achievement, as defined in detail by the leadership. And that focus on performance achievement started to build the alignment we needed. After all, we could be the most strategically competent oil company in the world, with enormous reach and international understanding, but if we don't produce a profit that grows every day, we've got a problem. Now that's a simplistic notion, but it was absolutely fundamental to embedding change in this company. We needed a realistic, measurable output that would focus people's minds on what change was about.

DR: Continuing this thought about performance measures, many companies have one stated set of measures and values, yet actually reward people for other behaviors. Other companies face the challenge of establishing one set of measures that everyone can agree to, to move forward. Have you encountered that problem in BP?

DS: Over time there has been a trend to change BP's overall remuneration package in two areas, both of which have helped underpin the change progress. First, we've increased the amount of flexible remuneration versus fixed salary. We had had what we would regard as a fairly paternalistic structure and approach the previous two or three decades. So making the package more flexible was crucial. Second, we tied the flexible element of the reward, both short and long-term, to real performance criteria. These include both financial performance and project performance in the broad sense. We spent a lot of time realigning the remuneration package to reflect the kind of change we wanted to achieve within the company. And that's a never-ending task. *You* can't ever say you've finally got the balance right once and for all. It should never be set in concrete. These things will change according to the messaging and priorities that the leadership wants to set for the company. The new remuneration structure certainly contributed to greater flexibility and more focus.

DR: There's a good deal of talk today about the notion of global leadership. What's your view? Do you deliberately try to develop global leaders in BP, or are your efforts directed more toward developing broad-based leadership capability?

DS: I'm going to have trouble with this, Doug, because as I've said earlier, I don't understand the concept of global management objectives or global capacity. I don't think globalization is an objective. I think it's an outcome, if people choose to define their operations that way.

To me, the key issue is developing the appropriate leadership for your style and culture. And if you are, as we are, a company with a wealth of experience in Europe and the United States, the most important thing is to build on the strength of that capacity while making it flexible and adaptable. You can't take people who have strong cultural alignments and understandings and suddenly make them something different overnight. That's very confusing. So it's difficult for me to imagine what this global person would be.

We try to create a BP culture that builds on the strengths of the people within the organization and makes them flexible and adaptable for whatever markets we go into. That doesn't stop them from being fundamentally European or American people, with the behavior patterns and understanding and cultures that reflect their backgrounds. I don't know what would make them global all of a sudden. I mean, if you send them to Southeast Asia or the Middle East, do they become different people? I'm not sure. Certainly they must adapt, and they must understand the cultures they're working with. If that means they become global people, all right. But I don't have a model in my mind for a global manager. I have a model in my mind for an effective, adaptable, flexible, imaginative manager.

DR: What is your notion of an effective leader at BP?

DS: We have the technical aids that any company that believes in executive development has. We have our square boxes and our profiles, and we pay attention to whether our people are developing the strategic and operational capacities to fulfill the sort of objectives we give them. That's the „book“ answer. And we try to follow the latest developments in executive development, to keep up with the leaders, just as we do in planning and strategic capacity. You've got to understand where executive development is in a competitive sense.

So, having got the book answer out of the way, what do I look for in our leadership? I look for curiosity. I look for competence. I look for humanity. And I look for commitment. To me, those things are very, very important. I like people to enjoy getting out of bed every morning and coming to work. I like them to feel that they're committed to solving problems and contributing, and that every day they like the people they work with and they're going to feel a little better about it. Those are the sorts of things I look for. It's something I feel, actually. After years and years of working in this outfit, the back of my neck feels how the people in the team are doing and how they're behaving.

I like plans as well. I like executive development programs. I like what I call the „techie“ side of the business. But you can tick all those boxes and confirm that your people have all that capacity, and you can still walk into a room of your top 50 people and know they're not feeling good. And how they feel about what they're doing – their commitment, curiosity, humanity, humor as they go about their day-to-day business – you have to feel that in your organization. All the technical staff development in the world can't actually make that happen.

DR: Do you personally try to develop that sense of curiosity and compassion?

DS: Sure. If I don't behave like that, how the hell are they going to understand what all that executive development is about? After all, whether we like it or not – and there are some of us who don't like it very much – we're bound to be role models in our organizations. One of the toughest things executives have to learn, as we go up the scale in any organization or want to be considered capable of leadership, is that people within the organization try to analyze what it is that makes us tick. So if we don't exhibit these characteristics ourselves on a continuous basis, it's hardly surprising if nobody else does. Because they're bound to look to us for clues. That's what leadership's about. So we have to offer clues and signals in our own behavior that are compatible with what we want the organization to do.

In a sense, the challenge of people development is exactly like the strategic challenge for the organization's other assets: to make them both perform competitively today and grow in value over time. You've got to align or synchronize the same two things. You've got to ask, what's the feeling today and what is the behavior like right now? And at the same time, are we developing the capacity of people to have the behavior patterns we'll need in five or ten years' time? Are we correctly anticipating enough of the world they're going to live in to know that the behaviors we're adopting now are going to be OK? You can't sit and plan executive development and a leadership capacity in five or ten years' time without every day checking how you're feeling about the way the people are actually operating today. Synchronizing the people capacity and development with the asset performance and development is the whole shooting match. That's what you're trying to optimize on a daily basis, because if you don't do it on a daily basis you're not going to arrive in five and ten years' time with the model you want. This may sound highly intellectual, but we actually live it.

DR: As Chairman of a large complex organization such as BP, how do you ensure that you're receiving a diversity of views, so that as you begin to chart the course for the corporation into the future, you're sure that you're getting it right?

DS: Mainly through dialogue. You've just got to talk to a lot of people. Obviously, in a very strong culture such as BP's, there are many clans. Over time, you build up a network of contacts, which is part of your informal information system. We have in that sense a very strong continuous culture. Most of the top team in BP has been in the company for 25 to 35 years. Most of them have worked together throughout that period. We have both the strengths and the weaknesses of a very consistent, very continuous culture of people who work closely together, understand each other very well, and have their own secret languages and codes, like most cultures. If you've been in that for 35 years, and especially if you've been in many parts of the company, you have a terrific network. That's the way we work.

I don't need hours on telephones. In two minutes I can hear what a problem is, because that's the way we're taught. Now, that's the informal system, and the informal system is very strong in strong cultures. There are also the formal dialogues: the monthly performance reports, the quarterly group performance meetings, and all the preparation for the Board meetings. These are the formal processes. And I get information flows like those every company produces to keep me aware of the progress of the company.

I like all that. It's very important. But it doesn't make up for half an hour or three quarters of an hour every day walking around with the guys in the top team, just chatting. Hearing where the mood is. I mean, back to our curiosity and commitment and humor and humanity, when you walk about, you're cross-referencing all those things all the time.

DR: A very powerful and deep-rooted culture can certainly be a blessing. It can also be a curse.

DS: Absolutely.

DR: I imagine it might pose particular challenges when one is trying to be a change leader.

DS: I think one of the important issues is to have the capacity to be both „inside“ and „outside.“ To be „a stranger within your own organization“ is a phrase I sometimes use to myself. It's quite hard, because of the strength of commitment that comes from being part of a very strong culture. But you have to have this capacity to be a stranger. And that's why curiosity is important. You have to keep looking at things with different eyes all the time. It's an awareness issue. It's having the „vibes“ and always being restless about the way you look at things. These personality attributes are very important.

What actually drives the organization to change – irrespective of what a so-called leader or change leader does, in my view – is its pride in performance. You see change in many, many companies. It can come through fear. It can come through stimulation. It can come through the need to turn failure into success. But to my mind the most continuously effective way of changing any organization is to develop pride in performance, so that people themselves want to change.

And that pride should go as far as possible down the organization. So there are good aids and bad aids to change. Fear is a bad aid in an organization, but you sure can use it as a leader if you see performance under pressure. It won't help you in the long run, but it focuses people's minds. Pride, on the other hand, is a great long-run determinant of performance and change.

DR: How do you know in your bones, in your guts, that you're getting it right? When your objectives or your vision for BP is starting to materialize, what feels different about the company?

DS: The pride factor is extremely important. When you've been in an organization a long time, you can tell when people feel proud of what their organization is doing. Of course, performance goes in phases. You can't have continuously high performance. All leaders love to say, „We will have continuously outstanding performance.“ But I think personally that organizational performance is like life: it happens in waves. The important thing is that even when you're at the lowest point of the wave, it shouldn't be too bad. It's got to be OK-to-good. When you're at the top of the wave, it has to be outstanding. But I don't think you can achieve outstanding performance all the time. So the first thing a leader needs to understand is how the organization is feeling – is it very proud of what it is achieving? And that's a contact issue and a „smell“ issue as you „go walkabout.“

The second thing you notice when things are going right is that people take more risks. People understand that we're in a risk business. Capitalism is about taking risks and getting rewards. And the better the risks you can take, and the more risks you take that are rewarded, the better job you're going to do. When an organization is defensive and not prepared to make mistakes and take risks, you've got a real problem. You can access the feeling about risk from the way people talk – are they becoming more open-minded to risk?

Are they prepared to fail? Those are things that I love to hear within the organization.

I also love to hear people encouraging one another to take risks and supporting each other's risks within the organization. This is what I'm really looking for. In a very big organization, the skill in management is integrating activities and making everybody share everybody else's problems and successes in a psychological sense. And you can feel that sense of shared effort. When people stop distancing themselves from failures and start to help when their colleagues are getting into trouble, then you know the organization is coming out of the lower end of the cycle and going toward the higher. So those are the things I look for – and „smell“ for – every day.

Dr. Ready 'would like to thank Dr. Clive Dilloway from BP for arranging this interview.

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