

Chapter 5

BUSINESS: MINDSET AND LEADERSHIP

ENRON AND THE TALENT MINDSET

In 2001 came the announcement that shocked the corporate world. Enron—the corporate poster child, the company of the future—had gone belly-up. What happened? How did such spectacular promise turn into such a spectacular disaster? Was it incompetence? Was it corruption?

It was mindset. According to Malcolm Gladwell, writing in *The New Yorker*, American corporations had become obsessed with talent. Indeed, the gurus at McKinsey & Company, the premier management consulting firm in the country, were insisting that corporate success today *requires* the “talent mind-set.” Just as there are naturals in sports, they maintained, there are naturals in business. Just as sports teams write huge checks to sign outsized talent, so, too, should corporations spare no expense in recruiting talent, for this is the secret weapon, the key to beating the competition.

As Gladwell writes, “This ‘talent mind-set’ is the new orthodoxy of American management.” It created the blueprint for the Enron culture—and sowed the seeds of its demise.

Enron recruited big talent, mostly people with fancy degrees, which is not in itself so bad. It paid them big money, which is not that terrible. But by putting complete faith in talent, Enron did a fatal thing: It created a culture that worshiped talent, thereby forcing its employees to look and act extraordinarily talented. Basically, it forced them into the fixed mindset. And we know a lot about that. We know from our studies that people with the fixed mindset do not admit and correct their deficiencies.

Remember the study where we interviewed students from the University of Hong Kong, where everything is in English? Students with the fixed

mindset were so worried about appearing deficient that they refused to take a course that would improve their English. They did not live in a psychological world where they could take this risk.

And remember how we put students into a fixed mindset by praising their intelligence—much as Enron had done with its star employees? Later, after some hard problems, we asked the students to write a letter to someone in another school describing their experience in our study. When we read their letters, we were shocked: Almost 40 percent of them had lied about their scores—always in the upward direction. The fixed mindset had made a flaw intolerable.

Gladwell concludes that when people live in an environment that esteems them for their innate talent, they have grave difficulty when their image is threatened: “They will not take the remedial course. They will not stand up to investors and the public and admit that they were wrong. They’d sooner lie.”

Obviously, a company that cannot self-correct cannot thrive.

If Enron was done in by its fixed mindset, does it follow that companies that thrive have a growth mindset? Let’s see.

ORGANIZATIONS THAT GROW

Jim Collins set out to discover what made some companies move from being good to being great. What was it that allowed them to make the leap to greatness—and stay there—while other, comparable companies just held steady at good?

To answer this question, he and his research team embarked on a five-year study. They selected eleven companies whose stock returns had skyrocketed relative to other companies in their industry, and who had maintained this edge for at least fifteen years. They matched each company to another one in the same industry that had similar resources, but did not make the leap. He also studied a third group of companies: ones that had made a leap from good to great but did not sustain it.

What distinguished the thriving companies from the others? There were several important factors, as Collins reports in his book, *Good to Great*, but

one that was absolutely key was the type of leader who *in every case* led the company into greatness. These were not the larger-than-life, charismatic types who oozed ego and self-proclaimed talent. They were self-effacing people who constantly asked questions and had the ability to confront the most brutal answers—that is, to look failures in the face, even their own, while maintaining faith that they would succeed in the end.

Does this sound familiar? Collins wonders why his effective leaders have these particular qualities. And why these qualities go together the way they do. And how these leaders came to acquire them. But we know. They have the growth mindset. They believe in human development. And these are the hallmarks:

They're not constantly trying to prove they're better than others. For example, they don't highlight the pecking order with themselves at the top, they don't claim credit for other people's contributions, and they don't undermine others to feel powerful.

Instead, they are constantly trying to *improve*. They surround themselves with the most able people they can find, they look squarely at their own mistakes and deficiencies, and they ask frankly what skills they and the company will need in the future. And because of this, they can move forward with confidence that's grounded in the facts, not built on fantasies about their talent.

Collins reports that Alan Wurtzel, the CEO of the giant electronics chain Circuit City, held debates in his boardroom. Rather than simply trying to impress his board of directors, he used them to learn. With his executive team as well, he questioned, debated, prodded until he slowly gained a clearer picture of where the company was and where it needed to go. "They used to call me the prosecutor, because I would hone in on a question," Wurtzel told Collins. "You know, like a bulldog. I wouldn't let go until I understood. Why, why, why?"

Wurtzel considered himself a "plow horse," a hardworking, no-nonsense normal kind of guy, but he took a company that was close to bankruptcy and over the next fifteen years turned it into one that delivered the highest total return to its stockholders of any firm on the New York Stock Exchange.

A STUDY OF MINDSET AND MANAGEMENT DECISIONS

Robert Wood and Albert Bandura did a fascinating study with graduate students in business, many of whom had management experience. In their study, they *created* Enron-type managers and Wurtzel-type managers by putting people into different mindsets.

Wood and Bandura gave these budding business leaders a complex management task in which they had to run a simulated organization, a furniture company. In this computerized task, they had to place employees in the right jobs and decide how best to guide and motivate these workers. To discover the best ways, they had to keep revising their decisions based on the feedback they got about employee productivity.

The researchers divided the business students into two groups. One group was given a fixed mindset. They were told that the task measured their basic, underlying capabilities. The higher their capacity, the better their performance. The other group was given a growth mindset. They were told that management skills were developed through practice and that the task would give them an opportunity to cultivate these skills.

The task was hard because students were given high production standards to meet, and—especially in their early attempts—they fell short. As at Enron, those with the fixed mindset did not profit from their mistakes.

But those with the growth mindset kept on learning. Not worried about measuring—or protecting—their fixed abilities, they looked directly at their mistakes, used the feedback, and altered their strategies accordingly. They became better and better at understanding how to deploy and motivate their workers, and their productivity kept pace. In fact, they ended up way more productive than those with the fixed mindset. What's more, throughout this rather grueling task, they maintained a healthy sense of confidence. They operated like Alan Wurtzel.

LEADERSHIP AND THE FIXED MINDSET

In contrast to Alan Wurtzel, the leaders of Collins's comparison companies had every symptom of the fixed mindset writ large.

Fixed-mindset leaders, like fixed-mindset people in general, live in a world where some people are superior and some are inferior. They must repeatedly affirm that they are superior, and the company is simply a platform for this.

Collins's comparison leaders were typically concerned with their "reputation for personal greatness"—so much so that they often set the company up to fail when their regime ended. As Collins puts it, "After all, what better testament to your own personal greatness than that the place falls apart after you leave?"

In more than two-thirds of these leaders, the researchers saw a "gargantuan personal ego" that either hastened the demise of the company or kept it second-rate. Once such leader was Lee Iacocca, head of Chrysler, who achieved a miraculous turnaround for his company, then spent so much time grooming his fame that in the second half of his tenure, the company plunged back into mediocrity.

Many of these comparison companies operated on what Collins calls a "genius with a thousand helpers" model. Instead of building an extraordinary management team like the good-to-great companies, they operated on the fixed-mindset premise that great geniuses do not need great teams. They just need little helpers to carry out their brilliant ideas.

Don't forget that these great geniuses don't *want* great teams, either. Fixed-mindset people want to be the only big fish so that when they compare themselves to those around them, they can feel a cut above the rest. In not one autobiography of a fixed-mindset CEO did I read much about mentoring or employee development programs. In every growth-mindset autobiography, there was deep concern with personnel development and extensive discussion of it.

Finally, as with Enron, the geniuses refused to look at their deficiencies. Says Collins: The good-to-great Kroger grocery chain looked bravely at the danger signs in the 1970s—signs that the old-fashioned grocery store was becoming extinct. Meanwhile, its counterpart, A&P, once the largest retailing organization in the world, shut its eyes. For example, when A&P opened a new kind of store, a superstore, and it seemed to be more successful than the old kind, they closed it down. It was not what they wanted to hear. In contrast, Kroger eliminated or changed every single store

that did not fit the new superstore model and by the end of the 1990s it had become the number one grocery chain in the country.

CEOs and the Big Ego

How did *CEO* and *gargantuan ego* become synonymous? If it's the more self-effacing growth-minded people who are the true shepherds of industry, why are so many companies out looking for larger-than-life leaders—even when these leaders may in the end be more committed to themselves than to the company?

Blame Iacocca. According to James Surowiecki, writing in *Slate*, Iacocca's rise to prominence was a turning point for American business. Before him, the days of tycoons and moguls seemed long past. In the public's mind, *CEO* meant "a buttoned-down organization man, well-treated and well-paid, but essentially bland and characterless." With Iacocca, all of that changed. Business journalists began dubbing executives "the next J. P. Morgan" or "the next Henry Ford." And fixed-mindset executives started vying for those labels.

Surowiecki even traces the recent corporate scandals to this change, for as the trend continued, CEOs became superheroes. But the people who preen their egos and look for the next self-image boost are not the same people who foster long-term corporate health.

Maybe Iacocca is just a charismatic guy who, like rock and roll, is being blamed for the demise of civilization. Is that fair? Let's look at him more closely. And let's look at some other fixed-mindset CEOs: Albert Dunlap of Scott Paper and Sunbeam; Jerry Levin and Steve Case of AOL Time Warner; and Kenneth Lay and Jeffrey Skilling of Enron.

You'll see they all start with the belief that some people are superior; they all have the need to prove and display *their* superiority; they all use their subordinates to feed this need, rather than fostering the development of their workers; and they all end by sacrificing their companies to this need. The fixed mindset helps us understand where gargantuan egos come from, how they operate, and why they become self-defeating.

FIXED-MINDSET LEADERS IN ACTION

Iacocca: I'm a Hero

Warren Bennis, the leadership guru, studied the world's greatest corporate leaders. These great leaders said they didn't set out to be leaders. They'd had no interest in proving themselves. They just did what they loved—with tremendous drive and enthusiasm—and it led where it led.

Iacocca wasn't like that. Yes, he loved the car business, but more than anything he yearned to be a muckamuck at Ford. He craved the approval of Henry Ford II and the royal trappings of office. These were the things he could measure himself by, the things that would prove he was somebody. I use the term *royal* with good reason. Iacocca tells us the Glass House, Ford corporate headquarters, was a palace and Henry Ford was the king. What's more, "If Henry was king, I was the crown prince." "I was His Majesty's special protégé." "All of us...lived the good life in the royal court. We were part of something beyond first class—royal class....White coated waiters were on call throughout the day, and we all ate lunch together in the executive dining room...Dover sole was flown over from England on a daily basis."

Iacocca achieved great things at Ford, like nurturing and promoting the Ford Mustang, and he dreamed of succeeding Henry Ford as the CEO of the company. But Henry Ford had other ideas and, much to Iacocca's shock and rage, he eventually forced Iacocca out. It's interesting that Iacocca was shocked and that he harbored an enduring rage against Henry Ford. After all, he had seen Henry Ford fire top people, and he, Iacocca, had used the axe quite liberally on others. He knew the corporate game. Yet his fixed mindset clouded his vision: "I had always clung to the idea that I was different, that somehow *I was smarter or luckier* than the rest. I didn't think it would ever happen to me." (Italics added.)

His belief in his inherent superiority had blinded him. Now the other side of the fixed mindset kicked in. He wondered whether Henry Ford had detected a flaw in him. Maybe he wasn't superior after all. And that's why he couldn't let go. Years later, his second wife told him to get over it. "You don't realize what a favor Henry Ford did for you. Getting fired from Ford

brought you to greatness. You're richer, more famous and more influential because of Henry Ford. Thank him." Shortly thereafter, he divorced her.

So the king who had defined him as competent and worthy now rejected him as flawed. With ferocious energy, Iacocca applied himself to the monumental task of saving face and, in the process, Chrysler Motors. Chrysler, the once thriving Ford rival, was on the brink of death, but Iacocca as its new CEO acted quickly to hire the right people, bring out new models, and lobby the government for bailout loans. Just a few years after his humiliating exit from Ford, he was able to write a triumphant autobiography and in it declare, "Today, I'm a hero."

Within a short time, however, Chrysler was in trouble again. Iacocca's fixed mindset would not stay put. He needed to prove his greatness—to himself, to Henry Ford, to the world—on a larger and larger scale. He spent his company time on things that would enhance his public image, and he spent the company's money on things that would impress Wall Street and hike up Chrysler's stock prices. But he did this instead of investing in new car designs or manufacturing improvements that would keep the company profitable in the long run.

He also looked to history, to how he would be judged and remembered. But he did not address this concern by building the company. Quite the contrary. According to one of his biographers, he worried that his underlings might get credit for successful new designs, so he balked at approving them. He worried, as Chrysler faltered, that his underlings might be seen as the new saviors, so he tried to get rid of them. He worried that he would be written out of Chrysler history, so he desperately hung on as CEO long after he had lost his effectiveness.

Iacocca had a golden opportunity to make a difference, to leave a great legacy. The American auto industry was facing its biggest challenge ever. Japanese imports were taking over the American market. It was simple: They looked better and they ran better. Iacocca's own people had done a detailed study of Honda, and made excellent suggestions to him.

But rather than taking up the challenge and delivering better cars, Iacocca, mired in his fixed mindset, delivered blame and excuses. He went on the rampage, spewing angry diatribes against the Japanese and demanding that the American government impose tariffs and quotas that

would stop them. In an editorial against Iacocca, *The New York Times* scolded, “The solution lies in making better cars in this country, not in angrier excuses about Japan.”

Nor was Iacocca growing as a leader of his workforce. In fact, he was shrinking into the insulated, petty, and punitive tyrant he had accused Henry Ford of being. Not only was he firing people who were critical of him, he’d done little to reward the workers who had sacrificed so much to save the company. Even when the money was rolling in, he seemed to have little interest in sharing it with them. Their pay remained low and their working conditions remained poor. Yet even when Chrysler was in trouble again, he maintained a regal lifestyle. Two million dollars were spent renovating his corporate suite at the Waldorf in New York.

Finally, while there was still time to save Chrysler, the board of directors eased Iacocca out. They gave him a grand pension, showered him with stock options, and continued many of his corporate perks. But he was beside himself with rage, especially since his successor seemed to be managing the company quite nicely. So in a bid to regain the throne, he joined a hostile takeover attempt, one that placed the future of Chrysler at risk. It failed. But for many, the suspicion that he put his ego before the welfare of the company was confirmed.

Iacocca lived the fixed mindset. Although he started out loving the car business and having breakthrough ideas, his need to prove his superiority started to dominate, eventually killing his enjoyment and stifling his creativity. As time went on and he became less and less responsive to challenges from competitors, he resorted to the key weapons of the fixed mindset—blame, excuses, and the stifling of critics and rivals.

And as is so often the case with the fixed mindset, because of these very things, Iacocca lost the validation he craved.

When students fail tests or athletes lose games, it tells them that they’ve dropped the ball. But the power that CEOs wield allows them to create a world that caters night and day to their need for validation. It allows them to surround themselves only with the good news of their perfection and the company’s success, no matter what the warning signs may be. This, as you may recall, is CEO disease and a peril of the fixed mindset.

You know, lately I've wondered whether Iacocca has recuperated from CEO disease. He's raising money (and giving a lot of his own) for innovative diabetes research. He's working for the development of environment-friendly vehicles. Maybe, released from the task of trying to prove himself, he's now going for things he deeply values.

Albert Dunlap: I'm a Superstar

Albert Dunlap saved dying companies, although I'm not sure *saved* is the right word. He didn't get them ready to thrive in the future. He got them ready to sell for a profit, for example by firing thousands of workers. And profit he did. He got a hundred million dollars from the turnaround and sale of Scott Paper. One hundred million for little more than a year and a half of work. "Did I earn it? Damn right I did. I'm a superstar in my field, much like Michael Jordan in basketball and Bruce Springsteen in rock 'n' roll."

Iacocca paid lip service to teamwork, the importance of the little guy, and other good things. Albert Dunlap didn't even pay lip service: "If you're in business, you're in business for one thing—to make money."

He proudly reports an incident at an employee meeting at Scott Paper. A woman stood up and asked, "Now that the company is improving, can we restart charitable donations?" To which he replied, "If you want to give on your own, that is your business and I encourage you to do it. But this company is here to make a buck....The answer, in a word, is no."

I'm not here to argue that business isn't about money, but I do want to ask: Why was Dunlap so focused on it?

Let's let him tell us. "Making my way in the world became a matter of self-respect for me, of a kid trying to prove he was worth something....To this day, I feel I have to prove and reprove myself." And if he has to prove himself, he needs a yardstick. Employee satisfaction or community responsibility or charitable contributions are not good yardsticks. They cannot be reduced to one number that represents his self-worth. But shareholder profits can.

In his own words, "The most ridiculous term heard in boardrooms these days is 'stakeholders.'" The term refers to the employees, the community,

and the other companies, such as suppliers, that the company deals with. “You can’t measure success by the interest of multiple stakeholders. You *can* measure success by how the shareholder fares.”

The long haul held no interest for Dunlap. Really learning about a company and figuring out how to make it grow didn’t give him the big blast of superhero juice. “Eventually, I have gotten bored every place I have been.” In his book, there is a whole chapter called “Impressing the Analysts,” but there is no chapter about making a business work. In other words, it’s always about Dunlap proving his genius.

Then in 1996, Dunlap took over Sunbeam. In his typical “Chainsaw Al” style, he closed or sold two-thirds of Sunbeam’s plants and fired half of the twelve thousand employees. Ironically, the Sunbeam stock rose so high, it ruined his plan to sell the company. It was too expensive to buy! Uh-oh, now he had to run the company. Now he had to keep it profitable, or at least looking profitable. But instead of turning to his staff or learning what to do, he inflated revenues, fired people who questioned him, and covered up the increasingly dire straits his company was in. Less than two years after the self-proclaimed superstardom in his book (and one year after an even more self-congratulatory revision), Dunlap fell apart and was kicked out. As he left, Sunbeam was under investigation by the Securities and Exchange Commission and was expected to be in technical default on a \$1.7 billion bank loan.

Dunlap deeply misunderstood Michael Jordan and Bruce Springsteen. Both of these superstars reached the pinnacle and stayed there a long time because they constantly dug down, faced challenges, and kept growing. Al Dunlap thought that he was inherently superior, so he opted out of the kind of learning that would have helped him succeed.

The Smartest Guys in the Room

Yes, it seems as though history led inevitably from Iacocca to the moguls of the 1990s, and none more so than Kenneth Lay and Jeffrey Skilling, the leaders of Enron.

Ken Lay, the company's founder, chairman, and CEO, considered himself a great visionary. According to Bethany McLean and Peter Elkind, authors of *The Smartest Guys in the Room*, Lay looked down his nose at the people who actually made the company run, much the way a king might look at his serfs. He looked down on Rich Kinder, the Enron president, who rolled up his sleeves and tried to make sure the company would reach its earning targets. Kinder was the man who made Lay's royal lifestyle possible. Kinder was also the only person at the top who constantly asked if they were fooling themselves: "Are we smoking our own dope? Are we drinking our own whiskey?"

Naturally, his days were numbered. But in his sensible and astute way, as he departed he arranged to buy the one Enron asset that was inherently valuable, the energy pipelines—the asset that Enron held in disdain. By the middle of 2003, Kinder's company had a market value of seven billion dollars.

Even as Lay was consumed by his view of himself and the regal manner in which he wished to support it, he wanted to be seen as a "good and thoughtful man" with a credo of respect and integrity. Even as Enron merrily sucked the life out of its victims, he wrote to his staff, "Ruthlessness, callousness and arrogance don't belong here....We work with customers and prospects openly, honestly and sincerely." As with Iacocca and the others, the perception—usually Wall Street's perception—was all-important. The reality less so.

Right there with Lay was Jeff Skilling, successor to Rich Kinder as president and chief operating officer, and later the CEO. Skilling was not just smart, he was said to be "the smartest person I ever met" and "incandescently brilliant." He used his brainpower, however, not to learn but to intimidate. When he thought he was smarter than others, which was almost always, he treated them harshly. And anyone who disagreed with him was just not bright enough to "get it." When a co-CEO with superb management skills was brought in to help Skilling during a hard time in his life, Skilling was contemptuous of him: "Ron doesn't get it." When financial analysts or Wall Street traders tried to press Skilling to go beyond his pat explanations, he treated them as though they were stupid. "Well, it's

so obvious. How can you not get it?” In most cases, the Wall Street guys, ever concerned about their own intellect, made believe they got it.

As resident genius, Skilling had unlimited faith in his ideas. He had so much regard for his ideas that he believed Enron should be able to proclaim profits as soon as he or his people had the idea that might lead to profits. This is a radical extension of the fixed mindset: *My genius not only defines and validates me. It defines and validates the company. It is what creates value. My genius is profit. Wow!*

And in fact, this is how Enron came to operate. As McLean and Elkind report, Enron recorded “millions of dollars in profits on a business before it had generated a penny in actual revenues.” Of course, after the creative act no one cared about follow-through. That was beneath them. So, often as not, the profit never occurred. If genius equaled profit, it didn’t matter that Enron people sometimes wasted millions competing against each other. Said Amanda Martin, an Enron executive, “To put one over on one of your own was a sign of creativity and greatness.”

Skilling not only thought he was smarter than everyone else but, like Iacocca, also thought he was luckier. According to insiders, he thought he could beat the odds. Why should he feel vulnerable? There was never anything wrong. Skilling still does not admit that there was anything wrong. The world simply didn’t get it.

Two Geniuses Collide

Resident geniuses almost brought down AOL and Time Warner, too. Steve Case of AOL and Jerry Levin of Time Warner were *two* CEOs with the fixed mindset who merged their companies. Can you see it coming?

Case and Levin had a lot in common. Both of them cultivated an aura of supreme intelligence. Both tried to intimidate people with their brilliance. And both were known to take more credit than they deserved. As resident geniuses, neither wanted to hear complaints, and both were ready to fire people who weren’t “team players,” meaning people who wouldn’t keep up the façade that they had erected.

When the merger actually took place, AOL was in such debt that the merged company was on the brink of ruin. You would think that the two CEOs might work together, marshaling their resources to save the company they created. Instead, Levin and Case scrambled for personal power.

Levin was the first to fall. But Case was still not trying to make things work. In fact, when the new CEO, Richard Parsons, sent someone down to fix AOL, Case was intensely against it. If someone else fixed AOL, someone else would get the credit. As with Iacocca, better to let the company collapse than let another prince be crowned. When Case was finally counseled to resign, he was furious. Like Iacocca, he denied all responsibility for the company's problems and vowed to get back at those who had turned against him.

Because of the resident geniuses, AOL Time Warner ended the year 2002 with a loss of almost one hundred billion dollars. It was the largest yearly loss in American history.

Invulnerable, Invincible, and Entitled

Iacocca, Dunlap, Lay and Skilling, Case and Levin. They show what can happen when people with the fixed mindset are put in charge of companies. In each case, a brilliant man put his company in jeopardy because measuring himself and his legacy outweighed everything else. They were not evil in the usual sense. They didn't set out to do harm. But at critical decision points, they opted for what would make them feel good and look good over what would serve the longer-term corporate goals. Blame others, cover mistakes, pump up the stock prices, crush rivals and critics, screw the little guy—these were the standard operating procedures.

What is fascinating is that as they led their companies toward ruin, all of these leaders felt invulnerable and invincible. In many cases, they were in highly competitive industries, facing onslaughts from fierce rivals. But they lived in a different reality.

It was a world of personal greatness and entitlement. Kenneth Lay felt a powerful sense of entitlement. Even as he was getting millions a year in compensation from Enron, he took large personal loans from the company,

gave jobs and contracts to his relatives, and used the corporate jets as his family fleet. Even during bad years at Chrysler, Iacocca threw lavish Christmas parties for the company elite. At every party, as king, he presented himself with an expensive gift, which the executives were later billed for. Speaking about AOL executives, a former official said, “You’re talking about men who thought they had a right to anything.”

As these leaders cloaked themselves in the trappings of royalty, surrounded themselves with flatterers who extolled their virtues, and hid from problems, it is no wonder they felt invincible. Their fixed mindset created a magic realm in which the brilliance and perfection of the king were constantly validated. Within that mindset, they were completely fulfilled. Why would they want to step outside that realm to face the uglier reality of warts and failures?

As Morgan McCall, in his book *High Flyers*, points out, “Unfortunately, people often *like* the things that work against their growth....People like to use their strengths...to achieve quick, dramatic results, even if...they aren’t developing the new skills they will need later on. People like to believe they are as good as everyone says...and not take their weaknesses as seriously as they might. People don’t like to hear bad news or get criticism....There is tremendous risk...in leaving what one does well to attempt to master something new.” And the fixed mindset makes it seem all that much riskier.

Brutal Bosses

McCall goes on to point out that when leaders feel they are inherently better than others, they may start to believe that the needs or feelings of the lesser people can be ignored. None of our fixed-mindset leaders cared much about the little guy, and many were outright contemptuous of those beneath them on the corporate ladder. Where does this lead? In the guise of “keeping people on their toes,” these bosses may mistreat workers.

Iacocca played painful games with his executives to keep them off balance. Jerry Levin of Time Warner was likened by his colleagues to the brutal Roman emperor Caligula. Skilling was known for his harsh ridicule of those less intelligent than he.

Harvey Hornstein, an expert on corporate leadership, writes in his book *Brutal Bosses* that this kind of abuse represents the bosses' desire "to enhance their own feelings of power, competence, and value at the subordinate's expense." Do you remember in our studies how people with the fixed mindset wanted to compare themselves with people who were worse off than they were? The principle is the same, but there is an important difference: These bosses have the power to *make* people worse off. And when they do, they feel better about themselves.

Hornstein describes Paul Kazarian, the former CEO of Sunbeam-Oster. He called himself a "perfectionist," but that was a euphemism for "abuser." He threw things at subordinates when they upset him. One day, the comptroller, after displeasing Mr. Kazarian, saw an orange juice container flying toward him.

Sometimes the victims are people the bosses consider to be less talented. This can feed their sense of superiority. But often the victims are the *most* competent people, because these are the ones who pose the greatest threat to a fixed-mindset boss. An engineer at a major aircraft builder, interviewed by Hornstein, talked about his boss: "His targets were usually those of us who were most competent. I mean, if you're really concerned about our performance, you don't pick on those who are performing best." But if you're really concerned about your competence, you do.

When bosses mete out humiliation, a change comes over the place. Everything starts revolving around pleasing the boss. In *Good to Great*, Collins notes that in many of his comparison companies (the ones that didn't go from good to great, or that went there and declined again), the leader became the main thing people worried about. "The minute a leader allows himself to become the primary reality people worry about, rather than reality being the primary reality, you have a recipe for mediocrity, or worse."

In the 1960s and '70s, the Chase Manhattan Bank was ruled by David Rockefeller, an excessively controlling leader. According to Collins and Porras in *Built to Last*, his managers lived day to day in fear of his disapproval. At the end of each day, they breathed a sigh of relief: "Whew! One more day gone and I'm not in trouble." Even long past his heyday, senior managers refused to venture a new idea because "David might not

like it.” Ray Macdonald of Burroughs, Collins and Porras report, publicly ridiculed managers for mistakes to the point where he inhibited them from innovating. As a result, even though Burroughs was ahead of IBM in the early stages of the computer industry, the company lost out. The same thing happened at Texas Instruments, another leader in the exciting early days of the computer. If they didn’t like a presentation, Mark Shepherd and Fred Bucy would yell, bang on tables, insult the speaker, and hurl things. No wonder their people lost their enterprising spirit.

When bosses become controlling and abusive, they put everyone into a fixed mindset. This means that instead of learning, growing, and moving the company forward, everyone starts worrying about being judged. It starts with the bosses’ worry about being judged, but it winds up being everybody’s fear about being judged. It’s hard for courage and innovation to survive a companywide fixed mindset.

GROWTH-MINDSET LEADERS IN ACTION

Andrew Carnegie once said, “I wish to have as my epitaph: ‘Here lies a man who was wise enough to bring into his service men who knew more than he.’ ”

Okay, let’s open the windows and let some air in. The fixed mindset feels so stifling. Even when those leaders are globe-trotting and hobnobbing with world figures, their world seems so small and confining—because their minds are always on one thing: *Validate me!*

When you enter the world of the growth-mindset leaders, everything changes. It brightens, it expands, it fills with energy, with possibility. You think, *Gee, that seems like fun!* It has never entered my mind to lead a corporation, but when I learned about what these leaders had done, it sounded like the most exciting thing in the world.

I’ve chosen three of these leaders to explore as a contrast to the fixed-mindset leaders. I chose Jack Welch of General Electric because he is a larger-than-life figure with an ego he held in check—not your straight-ahead naturally self-effacing growth-minded guy. And I chose Lou Gerstner (the man who came in and saved IBM) and Anne Mulcahy (the woman who

brought Xerox back to life) as contrasts to Alfred Dunlap, the other turnaround expert.

Jack Welch, Lou Gerstner, and Anne Mulcahy are also fascinating because they transformed their companies. They did this by rooting out the fixed mindset and putting a culture of growth and teamwork in its place. With Gerstner and IBM, it's like watching Enron morph into a growth-mindset mecca.

As growth-minded leaders, they start with a belief in human potential and development—both their own and other people's. Instead of using the company as a vehicle for their greatness, they use it as an engine of growth—for themselves, the employees, and the company as a whole.

Warren Bennis has said that too many bosses are driven and driving but going nowhere. Not these people. They don't talk royalty. They talk journey. An inclusive, learning-filled, rollicking journey.

Jack: Listening, Crediting, Nurturing

When Jack Welch took over GE in 1980, the company was valued at fourteen billion dollars. Twenty years later, it was valued by Wall Street at \$490 billion. It was the most valuable company in the world. *Fortune* magazine called Welch “the most widely admired, studied, and imitated CEO of his time....His total economic impact is impossible to calculate but must be a staggering multiple of his GE performance.”

But to me even more impressive was an op-ed piece in *The New York Times* by Steve Bennett, the CEO of Intuit. “I learned about nurturing employees from my time at General Electric from Jack Welch....He'd go directly to the front-line employee to figure out what was going on. Sometime in the early 1990s, I saw him in a factory where they made refrigerators in Louisville....He went right to the workers in the assembly line to hear what they had to say. I do frequent CEO chats with front-line employees. I learned that from Jack.”

This vignette says a lot. Jack was obviously a busy guy. An important guy. But he didn't run things like Iacocca—from the luxurious corporate headquarters where his most frequent contacts were the white-gloved

waiters. Welch never stopped visiting the factories and hearing from the workers. These were people he respected, learned from, and, in turn, nurtured.

Then there is the emphasis on teamwork, not the royal *I*. Right away—right from the “Dedication” and the “Author’s Note” of Welch’s autobiography—you know something is different. It’s not the “I’m a hero” of Lee Iacocca or the “I’m a superstar” of Alfred Dunlap—although he could easily lay claim to both.

Instead, it’s “I hate having to use the first person. Nearly everything I’ve done in my life has been accomplished with other people...Please remember that every time you see the word *I* in these pages, it refers to all those colleagues and friends and some I might have missed.”

Or “[These people] filled my journey with great fun and learning. They often made me look better than I am.”

Already we see the *me me me* of the validation-hungry CEO becoming the *we* and *us* of the growth-minded leader.

Interestingly, before Welch could root the fixed mindset out of the company, he had to root it out of himself. And believe me, Welch had a long way to go. He was not always the leader he learned to be. In 1971, Welch was being considered for a promotion when the head of GE human resources wrote a cautioning memo. He noted that despite Welch’s many strengths, the appointment “carries with it more than the usual degree of risk.” He went on to say that Welch was arrogant, couldn’t take criticism, and depended too much on his talent instead of hard work and his knowledgeable staff. Not good signs.

Fortunately, every time his success went to his head, he got a wake-up call. One day, young “Dr.” Welch, decked out in his fancy suit, got into his new convertible. He proceeded to put the top down and was promptly squirted with dark, grungy oil that ruined both his suit and the paint job on his beloved car. “There I was, thinking I was larger than life, and smack came the reminder that brought me back to reality. It was a great lesson.”

There is a whole chapter titled “Too Full of Myself” about the time he was on an acquisition roll and felt he could do no wrong. Then he bought Kidder, Peabody, a Wall Street investment banking firm with an Enron-type

culture. It was a disaster that lost hundreds of millions of dollars for GE. “The Kidder experience never left me.” It taught him that “there’s only a razor’s edge between self-confidence and hubris. This time hubris won and taught me a lesson I would never forget.”

What he learned was this: True self-confidence is “the courage to be open—to welcome change and new ideas regardless of their source.” Real self-confidence is not reflected in a title, an expensive suit, a fancy car, or a series of acquisitions. It is reflected in your mindset: your readiness to grow.

Well, humility is a start, but what about the management skills?

From his experiences, Welch learned more and more about the kind of manager he wanted to be: a growth-minded manager—a guide, not a judge. When Welch was a young engineer at GE, he caused a chemical explosion that blew the roof off the building he worked in. Emotionally shaken by what happened, he nervously drove the hundred miles to company headquarters to face the music and explain himself to the boss. But when he got there, the treatment he received was understanding and supportive. He never forgot it. “Charlie’s reaction made a huge impression on me...If we’re managing good people who are clearly eating themselves up over an error, our job is to help them through it.”

He learned how to select people: for their mindset, not their pedigrees. Originally, academic pedigrees impressed him. He hired engineers from MIT, Princeton, and Caltech. But after a while, he realized that wasn’t what counted. “Eventually I learned that I was really looking for people who were filled with passion and a desire to get things done. A resume didn’t tell me much about that inner hunger.”

Then came a chance to become the CEO. Each of the three candidates had to convince the reigning CEO he was best for the job. Welch made the pitch on the basis of his capacity to grow. He didn’t claim that he was a genius or that he was the greatest leader who ever lived. He promised to develop. He got the job and made good on his promise.

Immediately, he opened up dialogue and the channels for honest feedback. He quickly set to work asking executives what they liked and disliked about the company and what they thought needed changing. Boy,

were they surprised. In fact, they'd been so used to kissing up to the bosses that they couldn't even get their minds around these questions.

Then he spread the word: This company is about growth, not self-importance.

He shut down elitism—quite the opposite of our fixed-mindset leaders. One evening, Welch addressed an elite executive club at GE that was *the* place for movers and shakers to see and be seen. To their shock, he did not tell them how wonderful they were. He told them, “I can't find any value in what you're doing.” Instead, he asked them to think of a role that made more sense for them and for the company. A month later, the president of the club came to Welch with a new idea: to turn the club into a force of community volunteers. Twenty years later that program, open to all employees, had forty-two thousand members. They were running mentoring programs in inner-city schools and building parks, playgrounds, and libraries for communities in need. They were now making a contribution to others' growth, not to their own egos.

He got rid of brutal bosses. Iacocca tolerated and even admired brutal bosses who could make the workers produce. It served his bottom line. Welch admitted that he, too, had often looked the other way. But in the organization he now envisioned, he could not do that. In front of five hundred managers, “I explained why four corporate officers were asked to leave during the prior year—even though they delivered good financial performance...[They] were asked to go because they didn't practice our values.” The approved way to foster productivity was now through mentoring, not through terror.

And he rewarded teamwork rather than individual genius. For years, GE, like Enron, had rewarded the single originator of an idea, but now Welch wanted to reward the team that brought the ideas to fruition. “As a result, leaders were encouraged to share the credit for ideas with their teams rather than take full credit themselves. It made a huge difference in how we all related to one another.”

Jack Welch was not a perfect person, but he was devoted to growth. This devotion kept his ego in check, kept him connected to reality, and kept him in touch with his humanity. In the end, it made his journey prosperous and fulfilling for thousands of people.

Lou: Rooting Out the Fixed Mindset

By the late 1980s, IBM had become Enron, with one exception. The board of directors knew it was in trouble.

It had a culture of smugness and elitism. Within the company, it was the old *We are royalty, but I'm more royal than you are* syndrome. There was no teamwork, only turf wars. There were deals but no follow-up. There was no concern for the customer. Yet this probably wouldn't have bothered anyone if business weren't suffering.

In 1993, they turned to Lou Gerstner and asked him to be the new CEO. He said no. They asked him again. "You owe it to America. We're going to have President Clinton call and tell you to take the job. Please, please, please. We want exactly the kind of strategy and culture change you created at American Express and RJR."

In the end he caved, although he can't remember why. But IBM now had a leader who believed in personal growth and in creating a corporate culture that would foster it. How did he produce it at IBM?

First, as Welch had done, he opened the channels of communication up and down the company. Six days after he arrived, he sent a memo to every IBM worker, telling them: "Over the next few months, I plan to visit as many of our operations and offices as I can. And whenever possible, I plan to meet with many of you to talk about how together we can strengthen the company."

He dedicated his book to them: "This book is dedicated to the thousands of IBMers who never gave up on their company, their colleagues, and themselves. They are the real heroes of the reinvention of IBM."

As Welch had done, he attacked the elitism. Like Enron, the whole culture was about grappling for personal status within the company. Gerstner disbanded the management committee, the ultimate power role for IBM executives, and often went outside the upper echelons for expertise. From a growth mindset, it's not only the select few that have something to offer. "Hierarchy means very little to me. Let's put together in meetings the people who can help solve a problem, regardless of position."

Then came teamwork. Gerstner fired politicians, those who indulged in internal intrigue, and instead rewarded people who helped their colleagues.

He stopped IBM sales divisions from putting each other down to clients to win business for themselves. He started basing executives' bonuses more on IBM's overall performance and less on the performance of their individual units. The message: We're not looking to crown a few princes; we need to work as a team.

As at Enron, the deal was the glamorous thing; the rest was pedestrian. Gerstner was appalled by the endless failure to follow through on deals and decisions, and the company's unlimited tolerance of it. He demanded and inspired better execution. Message: Genius is not enough; we need to get the job done.

Finally, Gerstner focused on the customer. IBM customers felt betrayed and angry. IBM was so into itself that it was no longer serving their computer needs. They were upset about pricing. They were frustrated by the bureaucracy at IBM. They were irritated that IBM was not helping them to integrate their systems. At a meeting of 175 chief information officers of the largest U.S. companies, Gerstner announced that IBM would now put the customer first and backed it up by announcing a drastic cut in their mainframe computer prices. Message: We are not hereditary royalty; we serve at the pleasure of our clients.

At the end of his first three arduous months, Gerstner received his report card from Wall Street: "[IBM stock] has done nothing, because he has done nothing."

Ticked off but undaunted, Gerstner continued his anti-royalty campaign and brought IBM back from its "near-death experience." This was the sprint. This is when Dunlap would have taken his money and run. What lay ahead was the even harder task of maintaining his policies until IBM regained industry leadership. That was the marathon. By the time he gave IBM back to the IBMers in March 2002, the stock had increased in value by 800 percent and IBM was "number one in the world in IT services, hardware, enterprise software (excluding PCs), and custom-designed, high performance computer chips." What's more, IBM was once again defining the future direction of the industry.

Anne: Learning, Toughness, and Compassion

Take IBM. Plunge it into debt to the tune of seventeen billion. Destroy its credit rating. Make it the target of SEC investigations. And drop its stock from \$63.69 to \$4.43 a share. What do you get? Xerox.

That was the Xerox Anne Mulcahy took over in 2000. Not only had the company failed to diversify, it could no longer even sell its copy machines. But three years later, Xerox had had four straight profitable quarters, and in 2004 *Fortune* named Mulcahy “the hottest turnaround act since Lou Gerstner.” How did she do it?

She went into an incredible learning mode, *making* herself into the CEO Xerox needed to survive. She and her top people, like Ursula Burns, learned the nitty-gritty of every part of the business. For example, as *Fortune* writer Betsy Morris explains, Mulcahy took Balance Sheet 101. She learned about debt, inventory, taxes, and currency so she could predict how each decision she made would play out on the balance sheet. Every weekend, she took home large binders and pored over them as though her final exam was on Monday. When she took the helm, people at Xerox units couldn’t give her simple answers about what they had, what they sold, or who was in charge. She became a CEO who knew those answers or knew where to get them.

She was tough. She told everyone the cold, hard truth they didn’t want to know—like how the Xerox business model was not viable or how close the company was to running out of money. She cut the employee rolls by 30 percent. But she was no Chainsaw Al. Instead, she bore the emotional brunt of her decisions, roaming the halls, hanging out with the employees, and saying “I’m sorry.” She was tough but compassionate. In fact, she’d wake up in the middle of the night worrying about what would happen to the remaining employees and retirees if the company folded.

She worried constantly about the morale and development of her people, so that even with the cuts, she refused to sacrifice the unique and wonderful parts of the Xerox culture. Xerox was known throughout the industry as the company that gave retirement parties and hosted retiree reunions. As the employees struggled side by side with her, she refused to abolish their raises and, in a morale-boosting gesture, gave them all their birthdays off. She wanted to save the company in body *and* spirit. And not for herself or her ego, but for all her people who were stretching themselves to the limit for the company.

After slaving away for two years, Mulcahy opened *Time* magazine only to see a picture of herself grouped with the notorious heads of Tyco and WorldCom, men responsible for two of the biggest corporate management disasters of our time.

But a year later she knew her hard work was finally paying off when one of her board members, the former CEO of Procter & Gamble, told her, “I never thought I would be proud to have my name associated with this company again. I was wrong.”

Mulcahy was winning the sprint. Next came the marathon. Could Xerox win that, too? Maybe it had rested on its laurels too long, resisting change and letting too many chances go by. Or maybe the growth mindset—Mulcahy’s mission to transform herself and her company—would help save another American institution.

Jack, Lou, and Anne—all believing in growth, all brimming with passion. And all believing that leadership is about growth and passion, not about brilliance. The fixed-mindset leaders were, in the end, full of bitterness, but the growth-minded leaders were full of gratitude. They looked up with gratitude to their workers who had made their amazing journey possible. They called them the real heroes.

Are CEO and Male Synonymous?

When you look at the books written by and about CEOs, you would think so. Jim Collins’s good-to-great leaders (and his comparison to not-so-great leaders) were all men. Perhaps that’s because men are the ones who’ve been at the top for a long while.

A few years ago, you’d have been hard-pressed to think of women at the top of big companies. In fact, many women who’ve run big companies had to create them, like Mary Kay Ash (the cosmetics tycoon), Martha Stewart, or Oprah Winfrey. Or inherit them, like Katharine Graham, the former head of *The Washington Post*.

Things are beginning to change. Women now hold more key positions in big business. They’ve been the CEOs of not only Xerox, but also eBay, Hewlett-Packard, Viacom’s MTV Networks, Time Warner’s Time, Inc.,

Lucent Technologies, and Rite Aid. Women have been the presidents or chief financial officers of Citigroup, PepsiCo, and Verizon. In fact, *Fortune* magazine called Meg Whitman of eBay “maybe...the best CEO in America” of the “world’s hottest company.”

I wonder whether, in a few years, I’ll be able to write this whole chapter with women as the main characters. On the other hand, I hope not. I hope that in a few years, it will be hard to find fixed-mindset leaders—men *or* women—at the top of our most important companies.

A STUDY OF GROUP PROCESSES

Researcher Robert Wood and his colleagues did another great study. This time they created management *groups*, thirty groups with three people each. Half of the groups had three people with a fixed mindset and half had three people with a growth mindset.

Those with the fixed mindset believed that: “People have a certain fixed amount of management ability and they cannot do much to change it.” In contrast, those with the growth mindset believed: “People can always substantially change their basic skills for managing other people.” So one group thought that you have it or you don’t; the other thought your skills could grow with experience.

Every group had worked together for some weeks when they were given, jointly, the task I talked about before: a complex management task in which they ran a simulated organization, a furniture company. If you remember, on this task people had to figure out how to match workers with jobs and how to motivate them for maximum productivity. But this time, instead of working individually, people could discuss their choices and the feedback they got, and work together to improve their decisions.

The fixed- and growth-mindset groups started with the same ability, but as time went on the growth-mindset groups clearly outperformed the fixed-mindset ones. And this difference became ever larger the longer the groups worked. Once again, those with the growth mindset profited from their mistakes and feedback far more than the fixed-mindset people. But what was even more interesting was how the groups functioned.

The members of the growth-mindset groups were much more likely to state their honest opinions and openly express their disagreements as they communicated about their management decisions. Everyone was part of the learning process. For the fixed-mindset groups—with their concern about who was smart or dumb or their anxiety about disapproval for their ideas—that open, productive discussion did not happen. Instead, it was more like groupthink.

GROUPTHINK VERSUS WE THINK

In the early 1970s, Irving Janis popularized the term *groupthink*. It's when everyone in a group starts thinking alike. No one disagrees. No one takes a critical stance. It can lead to catastrophic decisions, and, as the Wood study suggests, it often can come right out of a fixed mindset.

Groupthink can occur when people put unlimited faith in a talented leader, a genius. This is what led to the disastrous Bay of Pigs invasion, America's half-baked secret plan to invade Cuba and topple Castro. President Kennedy's normally astute advisers suspended their judgment. Why? Because they thought he was golden and everything he did was bound to succeed.

According to Arthur Schlesinger, an insider, the men around Kennedy had unbounded faith in his ability and luck. "Everything had broken right for him since 1956. He had won the nomination and the election against all the odds in the book. Everyone around him thought he had the Midas touch and could not lose."

Schlesinger also said, "Had one senior advisor opposed the adventure, I believe that Kennedy would have canceled it. No one spoke against it." To prevent this from happening to him, Winston Churchill set up a special department. Others might be in awe of his titanic persona, but the job of this department, Jim Collins reports, was to give Churchill all the worst news. Then Churchill could sleep well at night, knowing he had not been groupthinked into a false sense of security.

Groupthink can happen when the group gets carried away with its brilliance and superiority. At Enron, the executives believed that because

they were brilliant, all of their ideas were brilliant. Nothing would ever go wrong. An outside consultant kept asking Enron people, “Where do you think you’re vulnerable?” Nobody answered him. Nobody even understood the question. “We got to the point,” said a top executive, “where we thought we were bullet proof.”

Alfred P. Sloan, the former CEO of General Motors, presents a nice contrast. He was leading a group of high-level policy makers who seemed to have reached a consensus. “Gentlemen,” he said, “I take it we are all in complete agreement on the decision here....Then I propose we postpone further discussion of this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about.”

Herodotus, writing in the fifth century B.C., reported that the ancient Persians used a version of Sloan’s techniques to prevent groupthink. Whenever a group reached a decision while sober, they later reconsidered it while intoxicated.

Groupthink can also happen when a fixed-mindset leader punishes dissent. People may not stop thinking critically, but they stop speaking up. Iacocca tried to silence (or get rid of) people who were critical of his ideas and decisions. He said the new, rounder cars looked like flying potatoes, and that was the end of it. No one was allowed to differ, as Chrysler and its square cars lost more and more of the market share.

David Packard, on the other hand, gave an employee a medal for defying him. The co-founder of Hewlett-Packard tells this story. Years ago at a Hewlett-Packard lab, they told a young engineer to give up work on a display monitor he was developing. In response, he went “on vacation,” touring California and dropping in on potential customers to show them the monitor and gauge their interest. The customers loved it, he continued working on it, and then he somehow persuaded his manager to put it into production. The company sold more than seventeen thousand of his monitors and reaped a sales revenue of thirty-five million dollars. Later, at a meeting of Hewlett-Packard engineers, Packard gave the young man a medal “for extraordinary contempt and defiance beyond the normal call of engineering duty.”

There are so many ways the fixed mindset creates groupthink. Leaders are seen as gods who never err. A group invests itself with special talents and powers. Leaders, to bolster their ego, suppress dissent. Or workers, seeking validation from leaders, fall into line behind them. That's why it's critical to be in a growth mindset when important decisions are made. As Robert Wood showed in his study, a growth mindset—by relieving people of the illusions or the burdens of fixed ability—leads to a full and open discussion of the information and to enhanced decision making.

THE PRAISED GENERATION HITS THE WORKFORCE

Are we going to have a problem finding leaders in the future? You can't pick up a magazine or turn on the radio without hearing about the problem of praise in the workplace. We could have seen it coming.

We've talked about all the well-meaning parents who've tried to boost their children's self-esteem by telling them how smart and talented they are. And we've talked about all the negative effects of this kind of praise. Well, these children of praise have now entered the workforce, and sure enough, many can't function without getting a sticker for their every move. Instead of yearly bonuses, some companies are giving quarterly or even monthly bonuses. Instead of employee of the month, it's the employee of the day. Companies are calling in consultants to teach them how best to lavish rewards on this overpraised generation. We now have a workforce full of people who need constant reassurance and can't take criticism. Not a recipe for success in business, where taking on challenges, showing persistence, and admitting and correcting mistakes are essential.

Why are businesses perpetuating the problem? Why are they continuing the same misguided practices of the overpraising parents, and paying money to consultants to show them how to do it? Maybe we need to step back from this problem and take another perspective.

If the wrong kinds of praise lead kids down the path of entitlement, dependence, and fragility, maybe the right kinds of praise can lead them down the path of hard work and greater hardiness. We have shown in our

research that with the right kinds of feedback even adults can be motivated to choose challenging tasks and confront their mistakes.

What would this feedback look or sound like in the workplace? Instead of just giving employees an award for the smartest idea or praise for a brilliant performance, they would get praise for taking initiative, for seeing a difficult task through, for struggling and learning something new, for being undaunted by a setback, or for being open to and acting on criticism. Maybe it could be praise for not needing constant praise!

Through a skewed sense of how to love their children, many parents in the '90s (and, unfortunately, many parents of the '00s) abdicated their responsibility. Although corporations are not usually in the business of picking up where parents left off, they may need to this time. If businesses don't play a role in developing a more mature and growth-minded workforce, where will the leaders of the future come from?

ARE NEGOTIATORS BORN OR MADE?

One of the key things that the successful businessperson must be good at is negotiation. In fact, it's hard to imagine how a business could thrive without skilled negotiators at the helm. Laura Kray and Michael Haselhuhn have shown that mindsets have an important impact on negotiation success. In one study, they taught people either a fixed or a growth mindset about negotiation skills. Half of the participants read an article called "Negotiation Ability, Like Plaster, Is Pretty Stable Over Time." The other half read one called "Negotiation Ability Is Changeable and Can Be Developed." To give you a flavor for the articles, the growth mindset article started by saying, "While it used to be believed that negotiating was a fixed skill that people were either born with or not, experts in the field now believe that negotiating is a dynamic skill that can be cultivated and developed over a lifetime."

The participants were then asked to select the kind of negotiation task they wanted. They could choose one that showed off their negotiation skills, although they would not learn anything new. Or they could choose one in which they might make mistakes and get confused, but they would learn

some useful negotiation skills. Almost half (47 percent) of the people who were taught the fixed mindset about negotiation skills chose the task that simply showed off their skills, but only 12 percent of those who were taught the growth mindset cared to pursue this show-offy task. This means that 88 percent of the people who learned a growth mindset wanted to dig into the task that would improve their negotiation skills.

In their next study, Kray and Haselhuhn monitored people as they engaged in negotiations. Again, half of the people were given a fixed mindset about negotiation skills and the other half were given a growth mindset. The people, two at a time, engaged in an employment negotiation. In each pair, one person was the job candidate and the other was the recruiter, and they negotiated on eight issues, including salary, vacation time, and benefits. By the end of the negotiation, those with the growth mindset were the clear winners, doing almost twice as well as those with the fixed mindset. The people who had learned the growth mindset persevered through the rough spots and stalemates to gain more favorable outcomes.

In three final studies, the researchers looked at MBA students enrolled in a course on negotiation. Here they measured the mindsets the MBA students already had, asking them how much they agreed with fixed mindset statements (“The kind of negotiator someone is is very basic and it can’t be changed very much,” “Good negotiators are born that way”) and growth mindset statements (“All people can change even their most basic negotiation qualities,” “In negotiations, experience is a great teacher”). Similar to before, they found that the more of a growth mindset the student had, the better he or she did on the negotiation task.

But does a growth mindset make people good just at getting their own way? Often negotiations require people to understand and try to serve the other person’s interests as well. Ideally, at the end of a negotiation, both parties feel their needs have been met. In a study with a more challenging negotiation task, those with a growth mindset were able to get beyond initial failures by constructing a deal that addressed *both* parties’ underlying interests. So, not only do those with a growth mindset gain more lucrative outcomes for themselves, but, more important, they also come up with more creative solutions that confer benefits all around.

Finally, a growth mindset promoted greater learning. Those MBA students who endorsed a growth mindset on the first day of the negotiation course earned higher final grades in the course weeks later. This grade was based on performance on written assignments, in class discussions, and during class presentations, and reflected a deeper comprehension of negotiation theory and practice.

CORPORATE TRAINING: ARE MANAGERS BORN OR MADE?

Millions of dollars and thousands of hours are spent each year trying to teach leaders and managers how to coach their employees and give them effective feedback. Yet much of this training is ineffective, and many leaders and managers remain poor coaches. Is that because this can't be trained? No, that's not the reason. Research sheds light on why corporate training often fails.

Studies by Peter Heslin, Don VandeWalle, and Gary Latham show that many managers do not believe in personal change. These fixed-mindset managers simply look for existing talent—they judge employees as competent or incompetent at the start and that's that. They do relatively little developmental coaching and when employees *do* improve, they may fail to take notice, remaining stuck in their initial impression. What's more (like managers at Enron), they are far less likely to seek or accept critical feedback from their employees. Why bother to coach employees if they can't change and why get feedback from them if you can't change?

Managers with a growth mindset think it's nice to have talent, but that's just the starting point. These managers are more committed to their employees' development, and to their own. They give a great deal more developmental coaching, they notice improvement in employees' performance, and they welcome critiques from their employees.

Most exciting, the growth mindset can be taught to managers. Heslin and his colleagues conducted a brief workshop based on well-established psychological principles. (By the way, with a few changes, it could just as easily be used to promote a growth mindset in teachers or coaches.) The workshop starts off with a video and a scientific article about how the brain

changes with learning. As with our “Brainology” workshop (described in chapter 8), it’s always compelling for people to understand how dynamic the brain is and how it changes with learning. The article goes on to talk about how change is possible throughout life and how people can develop their abilities at most tasks with coaching and practice. Although managers, of course, want to find the right person for a job, the exactly right person doesn’t always come along. However, training and experience can often draw out and develop the qualities required for successful performance.

The workshop then takes managers through a series of exercises in which a) they consider why it’s important to understand that people can develop their abilities, b) they think of areas in which they once had low ability but now perform well, c) they write to a struggling protégé about how his or her abilities can be developed, and d) they recall times they have seen people learn to do things they never thought these people could do. In each case, they reflect upon why and how change takes place.

After the workshop, there was a rapid change in how readily the participating managers detected improvement in employee performance, in how willing they were to coach a poor performer, and in the quantity and quality of their coaching suggestions. What’s more, these changes persisted over the six-week period in which they were followed up.

What does this mean? First, it means that our best bet is not simply to hire the most talented managers we can find and turn them loose, but to look for managers who also embody a growth mindset: a zest for teaching and learning, an openness to giving and receiving feedback, and an ability to confront and surmount obstacles.

It also means we need to train leaders, managers, and employees to believe in growth, in addition to training them in the specifics of effective communication and mentoring. Indeed, a growth mindset workshop might be a good first step in any major training program.

Finally, it means creating a growth-mindset environment in which people can thrive. This involves:

- Presenting skills as learnable

- Conveying that the organization values learning and perseverance, not just ready-made genius or talent
- Giving feedback in a way that promotes learning and future success
- Presenting managers as resources for learning

Without a belief in human development, many corporate training programs become exercises of limited value. With a belief in development, such programs give meaning to the term “human resources” and become a means of tapping enormous potential.

ARE LEADERS BORN OR MADE?

When Warren Bennis interviewed great leaders, “They all agreed leaders are made, not born, and made more by themselves than by any external means.” Bennis concurred: “I believe...that everyone, of whatever age and circumstance, is capable of self-transformation.” Not that everyone *will* become a leader. Sadly, most managers and even CEOs become bosses, not leaders. They wield power instead of transforming themselves, their workers, and their organization.

Why is this? John Zenger and Joseph Folkman point out that most people, when they first become managers, enter a period of great learning. They get lots of training and coaching, they are open to ideas, and they think long and hard about how to do their jobs. They are looking to develop. But once they’ve learned the basics, they stop trying to improve. It may seem like too much trouble, or they may not see where improvement will take them. They are content to do their jobs rather than making themselves into leaders.

Or, as Morgan McCall argues, many organizations believe in natural talent and don’t look for people with the *potential* to develop. Not only are these organizations missing out on a big pool of possible leaders, but their belief in natural talent might actually squash the very people they think are the naturals, making them into arrogant, defensive nonlearners. The lesson is: Create an organization that prizes the development of ability—and watch the leaders emerge.

ORGANIZATIONAL MINDSETS

When we talked about Lou Gerstner and Anne Mulcahy, we saw the kind of company they wanted to create—and did create. These were companies that embraced the development of all employees and not the worship of a handful of anointed “geniuses.” This raised a question.

Clearly the leader of an organization can hold a fixed or growth mindset, but can an organization as a whole have a mindset? Can it have a pervasive belief that talent is just fixed or, instead, a pervasive belief that talent can and should be developed in all employees? And, if so, what impact will this have on the organization and its employees? To find out, we studied a group of large corporations consisting of *Fortune* 500 and *Fortune* 1000 companies.

An organization might embody a fixed mindset, conveying that employees either “have it” or they don’t: We called this a “culture of genius.” Or it might embody more of a growth mindset, conveying that people can grow and improve with effort, good strategies, and good mentoring: We call this a “culture of development.”

To determine a company’s mindset, we asked a diverse sample of employees at each organization how much they agreed with statements like these: *When it comes to being successful, this company seems to believe that people have a certain amount of talent, and they can’t really do much to change it* (fixed mindset). *This company values natural intelligence and business talent more than any other characteristics* (also fixed mindset). *This company genuinely values the personal development and growth of its employees* (growth mindset).

We then compiled the responses and they revealed something important: There was a strong consensus within each company about whether the company had fixed- or growth-mindset beliefs and values. We were now ready to examine the impact of the company’s mindset—on employees’ trust in the company, on their sense of empowerment and commitment, and on the level of collaboration, innovation, and ethical behavior that was embraced in the organization.

What we found was fascinating. People who work in growth-mindset organizations have far more trust in their company and a much greater sense

of empowerment, ownership, and commitment. For example, when employees were asked to rate statements such as *“People are trustworthy in this organization,”* those in growth-mindset companies expressed far higher agreement. Right in line with this, employees in growth-mindset companies also reported that they were much more committed to their company and more willing to go the extra mile for it: *“I feel a strong sense of ownership and commitment to the future of this company.”* Those who worked in fixed-mindset companies, however, expressed greater interest in leaving their company for another.

It’s nice that employees in growth-mindset organizations feel trusting and committed, but what about agility and innovation? That’s something that organizations should and do care greatly about these days. Perhaps a company has to sacrifice some comfort and loyalty to be on the leading edge. Perhaps a belief in fixed talent motivates innovation.

It doesn’t look that way.

It’s actually the employees in the growth-mindset companies who say that their organization supports (reasonable) risk-taking, innovation, and creativity. For example, they agreed *far* more strongly with statements like this: *“This company genuinely supports risk-taking and will support me even if I fail”* and *“People are encouraged to be innovative in this company—creativity is welcomed.”*

Employees in the fixed-mindset companies not only say that their companies are less likely to support them in risk-taking and innovation, they are also far more likely to agree that their organizations are rife with cutthroat or unethical behavior: *“In this company there is a lot of cheating, taking shortcuts, and cutting corners”* or *“In this company people often hide information and keep secrets.”* It makes a lot of sense when you think about it. When organizations put the premium on natural talent, then everyone wants to be the superstar, everyone wants to shine brighter than the others, and people may be more likely to cheat or cut corners to do so. Teamwork can take a nosedive.

So, employees in growth-mindset companies have more positive views of their organizations, but is that admiration reciprocated? Yes, it is. Supervisors in growth-mindset companies had significantly more positive views of their employees—and on dimensions companies should care

about. Supervisors in growth-mindset companies rated their employees as more collaborative and more committed to learning and growing. And as more innovative. And as having far greater management potential. These are all things that make a company more agile and more likely to stay in the vanguard.

I love this last finding: Supervisors in growth-mindset companies saw their team members as having far greater management potential than did supervisors in fixed-mindset companies. They saw future leaders in the making. I love the irony. The fixed-mindset companies presumably searched for the talent, hired the talent, and rewarded the talent—but now they were looking around and saying, “Where’s the talent?” The talent wasn’t flourishing.

Our findings tell us that it’s possible to weave a fixed or growth mindset into the very fabric of an organization to create a culture of genius or a culture of development. Everybody knows that the business models of the past are no longer valid and that modern companies must constantly reinvent themselves to stay alive. Which companies do you think have a better chance of thriving in today’s world?

Grow Your Mindset

- Are you in a fixed-mindset or growth-mindset workplace? Do you feel people are just judging you or are they helping you develop? Maybe you could try making it a more growth-mindset place, starting with yourself. Are there ways you could be less defensive about your mistakes? Could you profit more from the feedback you get? Are there ways you can create more learning experiences for yourself?
- How do *you* act toward others in your workplace? Are you a fixed-mindset boss, focused on your power more than on your employees’ well-being? Do you ever reaffirm your status by demeaning others? Do you ever

try to hold back high-performing employees because they threaten you?

Consider ways to help your employees develop on the job: Apprenticeships? Workshops? Coaching sessions? Think about how you can start seeing and treating your employees as your collaborators, as a team. Make a list of strategies and try them out. Do this even if you already think of yourself as a growth-mindset boss. Well-placed support and growth-promoting feedback never hurt.

- If you run a company, look at it from a mindset perspective. Does it need you to do a Lou Gerstner on it? Think seriously about how to root out elitism and create a culture of self-examination, open communication, and teamwork. Read Gerstner's excellent book *Who Says Elephants Can't Dance?* to see how it's done.
- Is your workplace set up to promote groupthink? If so, the whole decision-making process is in trouble. Create ways to foster alternative views and constructive criticism. Assign people to play the devil's advocate, taking opposing viewpoints so you can see the holes in your position. Get people to wage debates that argue different sides of the issue. Have an anonymous suggestion box that employees must contribute to as part of the decision-making process. Remember, people can be independent thinkers and team players at the same time. Help them fill both roles.