CONSCIOUS LEADERSHIP

An Imperative in an Uncertain and Complex World

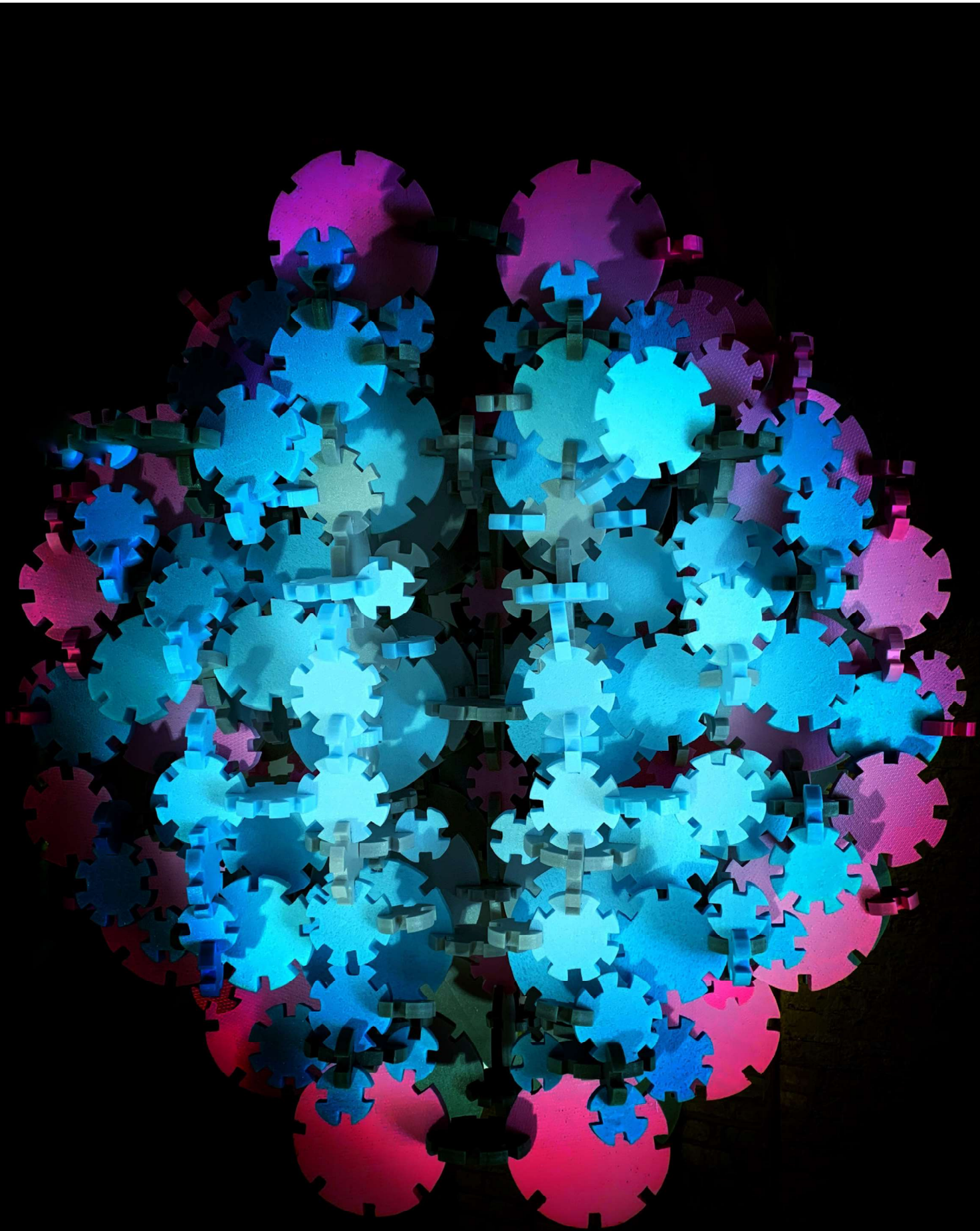
By **Sebastian Ross | IESE Business School**

CONSCIOUS LEADERSHIP - A PANACEA?

Is there one solution for humanity's problem? I believe there is. It would be conscious leadership. The world's most pressing challenges are almost exclusively the result of unconscious leadership. Climate change, inequality, refugees, hunger, pollution, chronic illnesses, addictions - you name it. All these issues result from leaders not being aware (or choosing to ignore) of the true consequences of their decisions. And this is especially true for private businesses. Many of the abovementioned challenges are created by greedy investors (or the leaders they put in place) doing everything to maximize their financial returns while ignoring the impact of their actions on other stakeholders and the planet.

Yet, if you think of it, you can't really blame them. We all make decisions from the level of consciousness we have at that point. And that often doesn't allow us to see the actual consequences of our actions - in business and our personal lives. We oversimplify. Without being aware, we make decisions based on radically simplified mental models. The complexity of our mental models doesn't match the complexity of our social and natural systems. Through the lens of these primitive models, our decisions seem correct, rational, appropriate, even thoughtful, fair, and ethical. Yet, if we could lift ourselves and look at our decisions from a higher plane, our actions' indirect and long-term implications would become evident, and we would often come to different conclusions.

So how can we become more conscious leaders? What can we do to see the world in all its complexity and take decisions for the long term that allow everybody to win? The answer is leadership development. But not in the way we have done it traditionally.



THE HORIZONTAL AND VERTICAL DIMENSION OF LEADERSHIP

Leaders learn vast amounts of "stuff" - almost every day. Learning new stuff is what I call learning (or horizontal development). It refers to acquiring new skills, methods, facts, and ways of organizing knowledge in our brains. It is about what we think. Yet, how we think is just as important. Changing how we think is what we call (vertical) development.

When someone is learning, she processes inputs through an existing mental model. When a person is developing, it is the mental model that changes. The person fundamentally changes how she perceives and interprets reality. Becoming a leader is more than filling the mind with additional content. We also need to grow the mind itself, i.e., expand the container.

Standard leadership development programs facilitate mainly horizontal development. Leaders get sent to training courses to acquire competencies like goal setting, performance management, selecting talent, coaching, change management, etc. And this is necessary. Competencies matter. Executives will not be effective if they don't know how to set goals or select talent.

Yet, we also know that this approach doesn't generate the desired results. Most programs produce little or no behavior changes, hence the grim satisfaction of corporate leaders with their development programs. "There is overwhelming evidence that the plethora of services, books, articles, seminars, conferences, and TED-like talks purporting to have the answers—a global industry estimated to be worth around than $50 billion —are delivering disappointing results", writes McKinsey in a paper from 2017.

Most leaders know what is required of them. They have heard it many times. Many even have the honest desire to become such a leader, to act like one of those admirable role models that bosses, coaches, and trainers hold up in front of them. But they can´t. They might "fake" the right behaviors here and there but quickly, especially under stress, revert to their old patterns. No amount of "content" in books, seminars, and courses will change that. Again, the underlying issue is that their mental models do not (yet) allow them to apply their skills and knowledge optimally. The complexity of these mental models does not match the complexity of the reality they face.

Horizontal development asks the question, "What skills and knowledge should our leaders possess?" Vertical development asks the equally important question, "From what level of consciousness can they apply these competencies?"

GROWING OUR CONSCIOUSNESS - THE PROCESS OF VERTICAL LEADERSHIP

The fact that adults continue to develop psychologically is everything but new. Most wisdom traditions recognize the phenomenon and help their people become mature and productive members of society. However, the modern world has ignored this knowledge, and even serious scientists believed until only 40 years ago that adults are stuck with their "factory settings" and don't develop psychologically in any significant manner. Thankfully, this view has changed, and it is now widely accepted

that adults continue their psychological development beyond their twenties. But different from children, who move rapidly through the stages, an adult's development does not happen automatically; its pace is much slower and can even stop entirely.

We humans interpret everything that happens to us through our mental models. We use mental models to simplify the unfathomably complex reality and find logic in life's events. They are our personal theories that explain the world to us. Harvard psychologist Robert Keagan calls this process "meaning-making."

Simplifying, we can equate vertical development with evolving these mental models. Vertical development makes our mental models wider, more inclusive, and more granular. Mental models are maps of sort, maps that allow us to navigate the world.

But, as the philosopher Alford Korzybski said, "A map is not the territory." Mental models are incomplete maps of the reality that surrounds us. When we extract meaning from our experience and convert it into mental models, we inevitably lose fidelity. We focus on specific aspects of an experience (while ignoring others), we interpret that data, and then conceptualize it as a general yet incomplete theory that we are often not even aware of.

Becoming a more conscious and thus better leader, to a large extent, consists of improving these maps. The fidelity of our maps determines the effectiveness of our leadership. The more realistic the map is, the better our decisions become. "Research across many fields has shown that what sets superior performers apart is the quality and quantity of their mental maps. Over time, top performers develop highly complex and sophisticated maps of the situations they might face in their fields. These maps allow them to process large amounts of information quickly (despite the overload) and make faster, more accurate decisions in a given situation", writes vertical leadership expert Nick Petrie in a white paper about leadership in Silicon Valley's elite tech companies.



FIVE STAGES OF VERTICAL DEVELOPMENT

Vertical development follows a sequence of distinct stages. Since the 60s, prominent psychologists like Loevinger, Cook-Greuter, Torbert, Beck, Wilber, Kegan, and others have analyzed this trajectory towards higher consciousness and developed different models. Most of these models describe the levels of adult development in three main stages (pre-conventional, conventional, post-conventional thinking) but then refine within that spectrum resulting in between 5 and 12 stages. All models concur in the following four characteristics of the adult development process:

Fundamental: Past adolescence, adults continue to change structurally. Vertical development represents significant, sometimes "Copernican" changes in how we see and understand the world. Personal crises (health issues, death of a loved one, divorce, lay-offs, etc.) often trigger important changes in our mental models.

Sequential: Growth occurs in a logical sequence of stages of expanding world views from birth to adulthood. This development is one-directional, and one reaches later stages only by journeying through the earlier stages.

Hierarchical: Each stage transcends but includes the previous ones. That is, the earlier perspectives remain part of one's current experience and knowledge (just as when a child learns to run, it still can crawl and walk). Once a stage has been traversed, it remains a part of the individual's response repertoire (think of nested Russian dolls).

Irreversible: Progress along the development vector is irreversible. One cannot unlearn or undo one´s maturity or consciousness. Once you have seen the wider terrain from the summit, you will always see it this way.

While the different researchers of adult development offer quite similar stage maps, the granularity of the models and the terminology varies. In the words of the adult development scholar Susanne Cook-Greuter, "all researchers study the same 'sausage,' they just decide to cut it into more or less pieces."

Let's briefly review the stage framework developed by Robert Kegan at Harvard. Kegan identified five distinct development stages in his research. We will start with stage 2 as stage 1 (the "Impulsive Mind") only refers to childhood and is thus not relevant in a business context.

Stage 2: Egocentric Mind ("The tyrant")

When we see the world through an egocentric mind, we derive our identity primarily from our own needs. We are our needs. We have difficulties in noticing the sometimes competing needs of others. Our interactions with others are mainly transactional. Adults in this stage have little self-awareness and cannot articulate and reflect well about their thoughts and actions. They are also not motivated by abstract "higher" values like fairness or integrity because they do not yet see that the benefit of others can be more important than their own success. Only four to five percent of leaders operate at this stage. They tend to be autocratic and controlling, often even dictatorial and oppressive.

Stage 3: Reactive Mind

("The competent manager")

When we operate with a Reactive mind, we derive our identity from the social groups we belong to, be it our families, the colleagues we work with, or our spiritual community. At this stage, we have learned to internalize the perspectives of others and thereby value relationships for more than just our self-interest. We learn societal rules and play by them to meet expectations. It allows us to find a partner, have families, build a career, find a good job, and establish ourselves as a valuable member of society. However, in some way, we live somebody else's life.

At the Reactive stage, our identity and self-worth are created from the outside-in. They are determined by how others see us. Our social environment informs us about who we are and how we need to behave to be useful, valuable, and accepted. The reliance on others is so strong that we struggle to generate answers and ideas for ourselves. We don't know what we stand for. A leader's behavior at this stage is often habitual and, therefore, reactive. We react to outside events based on unconscious inner assumptions about the expectations of other people that we want to fulfill.

Leaders at this level can be perceived as "competent" managers who care about their people and treat them fairly. But they tend to function like benevolent patriarchs or matriarchs and don't involve their people in important decisions. They know what's best for everybody. 50-60 percent of all leaders operate from this stage.

Stage 4: Creative Mind

("The visionary leader")

When we reach the stage of the Creative mind, we can recognize and understand our standards and values. We have our own internal set of rules which we use to make decisions. We become a more authentic version of ourselves and begin to ask questions like: Who am I? What do I want? What do I care most about? What do I stand for?

The answers to these questions allow us to become "visionary leaders" and convince others to join our vision. Instead of just reacting to outside stimuli, we creatively shape our context. We seek to first understand the opinions of others, to then decide what to incorporate into our own thinking. We are respectful and successfully integrated into our social groups (work, friends, community) but, if necessary, stand our ground and challenge their norms.

The Creative stage is the implicit "target stage" in Western cultures. Our educational systems are geared towards producing rational, competent, and independent adults. Democracy relies on citizens who think independently and make informed decisions. Societies, in general, value independent adults pursuing their interests within the given norms. Most successful leaders you know or have heard of will likely operate from the Creative stage. 35 to 45 percent of all leaders reach this stage.

Stage 5: Integral Mind

("The servant leader")

Operating from an Integral mind enables us to transcend our own vision, beliefs, and values and see them as just one partial system of meaning-making that competes with many others. The integral leader uses these multiple perspectives to co-create with others a broader vision for the welfare of her organization and then architect its future. Integral leaders are extremely open to ideas of others and can integrate them easily into their vision. These leaders typically stop aspiring to a concrete personal or organizational purpose and put themselves at the service of whatever the "system" they operate in needs at any given moment. Even their notion of competition changes. They see industry rivals as allies in pursuit of a joint mission and not as competitors.

Their leadership is highly participative. Integral leaders understand themselves as selfless servants or stewards. Social responsibility, sustainability, and long-term orientation become salient values. Whereas a Creative leader tries to figure out "her" answers, an Integral leader is attentive to what is trying to happen and understands herself and her organization as a vehicle of higher forces. They make ample use of their intuition in this process.

From a societal perspective, integral leaders are the ideal leaders because they optimize for the entire system, i.e., not for themselves or a particular group of stakeholders. They are also the only ones who can cope with the complexity inherent in such system-wide missions.

Unfortunately, integral leaders represent less than one percent of the total adult population. What's worse is that these few wise women and men among us often find private businesses an inadequate context for their work. Their purpose and life objectives do not align with the partisan interests of particular stakeholder groups, especially shareholders trying to maximize their profits. This cohort prefers to solve their lives for other variables like personal fulfillment, service to others, legacy, and transcendence. This represents a significant dilemma since private businesses need more than ever conscious leaders who can cope with the speed of change, growing complexity, and the often conflicting demands of different stakeholders.

Companies that practice Conscious Capitalism or similar philosophies have an advantage in this respect. Leaders in such organizations are expected to adopt a system-wide perspective and represent the interests of all stakeholders. This, in turn, is more compatible with the world view of Integral leaders and the reason these companies can attract and retain them more easily. Founding and owning a company (i.e., keeping out VCs, PE firms, and other mainly financially driven investors) is another way how Integral leaders can live their values in the business world.

As aspirational as the Integral leader might already sound for most of us, adult development does not stop at that stage. Kegan and others describe even higher levels of consciousness. At that point, leaders overcome the perception of separation and experience the world more and more as one. Leaders at that stage (often called the "Unity" stage) tend to act with universal compassion and from the point of love

for all sentient beings. Living examples of such leaders are hard to find. Historical figures like Jesus of Nazareth and Buddha Siddhartha, possibly also the somewhat more worldly heroes of recent history like Gandhi, Mandela, Martin Luther King, or Mother Theresa, would fall into this category.

ASSESSING ONE'S DEVELOPMENT STAGE

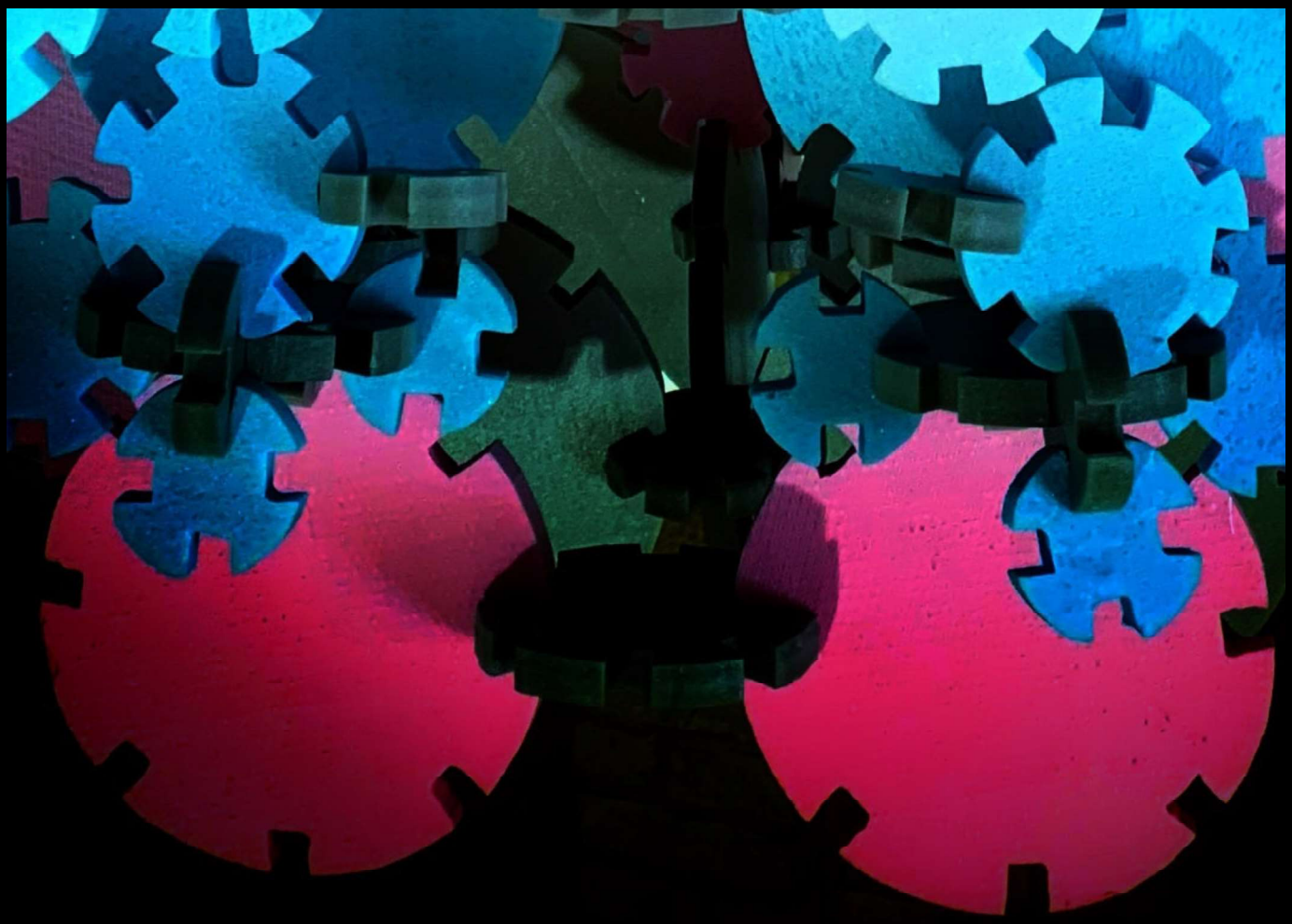
Is there a way to objectively assess the development stage a leader currently operates from? Yes, the development stage and corresponding development needs can be measured with tools like the Sentence Completion Test, or Subject-Object Interviews. Sophisticated leadership assessment tools like the Leadership Circle Profile can also indicate a person's stage. Such "vertical" assessment tools have been available for decades and provide some powerful insights into questions like:

1. **From what stage do I currently operate? What are the defining characteristics and worldviews of this stage?**
2. **How do the characteristic thinking patterns of this stage help and hinder my effectiveness as a leader? What does that tell me about my leadership style, my work in teams, the way I communicate?**
3. **What does the next stage look like? How can I level up to a more complex form of thinking?**

> *"Stage assessments can be life-changing events that shake people at their foundations. Learning about adult development through such a tool can fundamentally change your perspective on life.*

"No pain, no gain," goes the saying. Vertical growth comes from friction or so-called heat experiences, i.e., an important event or information that challenges our mental model.

– Sebastian Ross



HOW TO PROVOKE VERTICAL DEVELOPMENT

Any event in our lives either confirms or contradicts our mental models. In the latter case, we perceive friction and classify the event as a problem, a challenge, or a dilemma. When we face such a moment, we can take one of two approaches: reject or adapt.

When we reject, we avoid the uncomfortable dissonance of conflicting ideas and shift back to the reassuring simplicity of an earlier worldview. We oversimplify, project, or rationalize to find inner coherence again. Or we ignore the problem altogether. Seemingly, we have chosen comfort over challenge. However, what appears as comfort is often only a managed level of anxiety with no end date in sight. Life will not seize to present us with similar disorienting challenges. Only courageous development work can break these cycles. (Think of the person who hops from job to job, complaining bitterly about the terrible bosses she finds everywhere she goes.)

The second option is to adapt. Adaption means we evolve our mental model to harmonize it with the new information. The adoption of a broader mental model can be looked at as a three-step process: Friction, reflection, and integration.

FRICTION

No pain, no gain," goes the saying. Vertical growth comes from friction or so-called heat experiences, i.e., an important event or information that challenges our mental model. For an event to produce the necessary friction, it needs to have three qualities:

(1) First, the outcome needs to matter. To grow vertically from an event, something relevant needs to be at stake. Major life events like illness, death, divorce, change of country, new professional responsibilities, conflicts with superiors, job loss, bankruptcy, etc., are great platforms for vertical growth. The hardest challenges - if they don't break us - make us mature the most.

(2) Being in the heat also means feeling lost, lacking orientation. Things seem messy and complicated. We don't have a precise analysis of the problem, let alone a solution. Our theories stop working. Often it is the opinion of otherwise reasonable colleagues, friends, or family members that upsets us. They unaccountably hold views totally opposed to our own.

(3) Growth moments are emotionally taxing. We feel uncomfortable, torn, incoherent, incomplete, and even inauthentic because we don't know what we stand for. We are questioning our old way but are not yet settled in the new way of thinking. Something deep and meaningful, something that gave us security and clarity, is challenged.

REFLECTION

Yet pain alone does not generate growth. We need time for reflection to give meaning to what we experience. Pain + Reflection = Progress, is one of the principles that helped Ray Dalio and his company Bridgewater become the largest hedge fund in the world. "If you tense-up, stop thinking, and feel sorry for yourself, growth will not happen. What is needed is a calm mind that reflects about the experience that is causing you pain," explains Dalio in his book Principles. Only reflection allows us to identify the facts, interpret the situation, and construct new meaning. If we don't reflect on our experiences, we have the pain but no progress.

INTEGRATION

The last step is to convert insights and intentions into habits. The development cycle is not complete until we show up differently. Integration means manifesting new behaviors consistently in your daily activities. In a way, you need to behave your way into the new thinking. That doesn't necessarily mean discarding old behavior but complementing it. Having more options. We move from "that's how I am" to "that's one side of me, but there is also another side of me." I can be honest and direct, but I can also be soft and empathetic, for example. A supportive environment helps a great deal with the adoption of new behaviors. We need people who listen empathetically, ask respectful but incisive questions, and hold us accountable for our commitments to change.

Leadership development is not a science. There is no standard formula. It is not a logical process; it is one that needs to be experienced, and even that experience cannot be rushed. Also, every organization has different needs and objectives. You need to combine a variety of interventions that individually would be ineffective but jointly have an impact. Assessments, feedback, group work and group coaching, real work challenges, reflective exercises, mindfulness, mentoring, and coaching are elements that should be part of any program. Only a diverse mix of such interventions distributed over long periods (years, not months) can create the necessary space for sufficient friction, reflection, and integration to happen. While every program requires some formal learning (e.g., one needs to learn about development stages), one cannot develop from reading books. 80 to 90 percent of development needs to happen in real life, on-the-job with real stakeholders, and real-life challenges.

CONSCIOUS LEADERS ARE GOOD FOR BUSINESS

It is easy to see that more conscious leaders take holistically better decisions. But do more developed leaders also produce better business results?

The answer is yes. People's stage of development determines what they notice and, therefore, what they can articulate, influence, and change. They have more sophisticated mental models and thus perform better, especially in complex environments. More research is needed, but a range of studies confirms that leaders operating from later stages are better leaders and have better business results than leaders at earlier stages. Bill Torbert, in a paper from 2017, comes to this conclusion after summarizing 50 years of investigations in the field. Bob Anderson and Bill Adams, in their book Mastering Leadership, quote impressive research with the same findings.

Warren Buffet is a splendid example to underpin the connection between development stage and business results. His life is a vivid illustration of what the path to conscious leadership can look like. In fact, the famous investor became the subject of a doctoral study and a "developmental biography" written by Edward J. Kelly. The researcher describes how Buffet's mental models have evolved during his adult life and how this has been decisive for his success. While Kelly acknowledges Buffet's outstanding skills and knowledge in the field of investing and business, this alone would not have made him the greatest investor of our times. His highly evolved thinking capacity (e.g., system thinking, emotional maturity, ability to deal with uncertainty and ambiguity, etc.) was crucial for his unique life achievements.

The more recent history of Microsoft offers equally impressive, real-life evidence for the benefits of vertical development. Microsoft was in a coma-like state during the first decade of this century. Under the reign of Steven Balmer, the company missed the boat on the Internet and the Cloud revolution, and its market capitalization remained flat between 2000 and 2014.

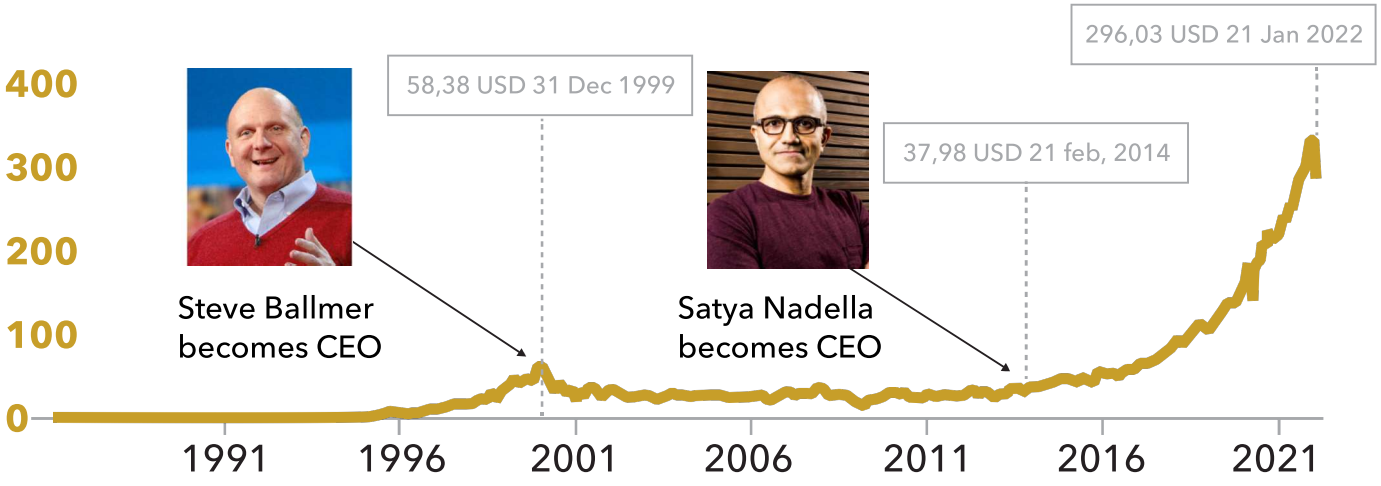
But then in February 2014, Satya Nadella took over as CEO. The first thing he did was embark on a mission to revamp Microsoft's culture and leadership. In his book, Hit Refresh, Nadella explains that his no. 1 priority was not to change what the then 128.000 Microsoft employees do but how they think. He set out to change mindsets. More specifically, Nadella transformed thousands of fixed mindsets into growth mindsets. (His inspiration came from Carol Dweck's popular book "Mindset – Changing the Way You Think to Fulfill Your Potential.")

People with a growth mindset assume that their capacities are not fixed but can be developed. Nadella wanted his people to become curious, hungry, and innovative again. A shift in mental models he called: "From Know-It-Alls to Learn-It-Alls."

Nadella´s approach was extraordinarily successful. Under his leadership, Microsoft's market capitalization has grown from USD 315 billion in February 2014 to approx. USD 2.3 trillion today. Many factors played into the resurrection of the tech giant. Broad-scale evolution of mental models, i.e., vertical development, was one of them. It will be interesting to see if Nadella can again work his magic with the acquisition of the video game company Activision - at USD 69 billion, Microsoft's biggest purchase ever. Activision is known for its toxic culture. Nadella will have his hands full, instilling more consciousness in his 10,000 new teammates and leaders.



MICROSOFT'S COMEBACK UNDER SATYA NADELLA





CONSCIOUS HUMANS ARE BETTER LEADERS

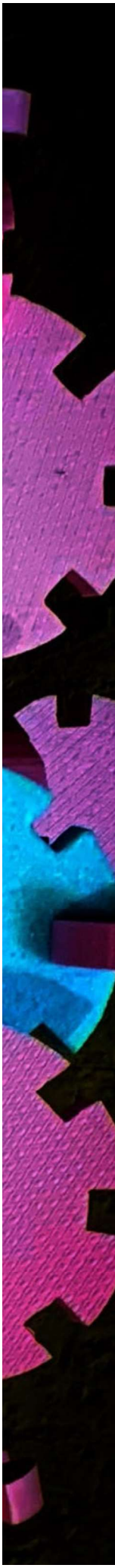
Becoming a conscious leader is difficult but also natural. "The process of developing extraordinary leadership is the same as becoming an extraordinary human being," writes Warren Bennis. This is what makes adult development theory so relevant for understanding leadership. Researchers like Kegan, Torbert, Cook-Greuter, and others have studied for decades what it takes to become a mature adult. They have shown us the way. If we want extraordinary leaders, we have to foster and accelerate the natural growth process of adults in our companies. That's not a small feat. But it can be done and must be done. We won't overcome the immense challenges humanity faces without more conscious leaders.



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"My personal mission is to "Help people flourish in life through work". In this pursuit, I study theories, methodologies, systems, and tools that allow companies to scale fast while creating healthy cultures with thriving employees and achieving meaningful social impact and financial success."




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