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# LEADERSHIP JUDGMENT AT THE FRONT LINE

*by Noel M. Tichy and Chris DeRose*

**W**hen Peter Drucker presciently introduced the world to the concept of knowledge workers, he urged managers to treat knowledge workers as assets rather than as costs. Drucker's line of thinking has been popularized to the point where it can be found in an enormous volume of corporate reports and management writing. Despite the increased attention, organizations still struggle with a fundamental question that Drucker posed: "What is needed to increase [knowledge workers'] productivity and to convert their increased productivity into performance capacity for the organization?"

When most people picture knowledge workers, they think of engineers, scientists, computer programmers, or other highly trained professionals. The importance of knowledge workers such as these cannot be disputed, but we are now witnessing the emergence of a new breed of knowledge workers. Intuit, based in Mountain View, California, produces Turbo Tax, Quicken,

QuickBooks, and other software for both small enterprises and individual consumers. Computer scientists and other knowledge workers play a vital role in developing its products. However, Intuit also relies heavily on specialists to support its customers. These knowledge workers don't necessarily hail from top universities or write complex computer code. They are frontline leaders and agents working in call centers, often paid an hourly rate. Intuit has learned that these call service agents can have a critical impact on customers and sales by both identifying customer needs and solving after-sales problems.

At Intuit, frontline leaders take responsibility for sharing best practices and creating new knowledge about customer needs. For example, one frontline manager developed a process in which customer service agents now meet several times a week to discuss common customer problems and role-play responses. By doing so, they not only share knowledge but also creatively come up with newer and more innovative ideas to enhance

the customer experience. As a result, the customer satisfaction measure has increased by nearly 40 percent.

Best Buy, the leading North American consumer electronics retailer with more than 700 stores, offers another example. A frontline associate in one of Best Buy's California stores knew that the area surrounding his store had a large number of real estate agents. After several failures to sell digital cameras to real estate agents, the associate researched their needs. Having been trained to diagnose customer problems and empowered to create his own solutions, he realized that real estate agents needed to take pictures and then e-mail or print on the spot, often from their cars. He assembled a bundle of products and software that would enable an agent to snap a digital photo, produce the photo with a mobile printer that fit easily in any backseat, or e-mail the picture from a laptop or PDA. After the product became a hot seller in the area, one of the agents invited the Best Buy associate to make a presentation to the real estate agents at a monthly meeting at the local Chamber of Commerce. The associate's innovation resulted in thousands of dollars of incremental sales and a group of new customers who continued to shop at Best Buy.

## Creating a Framework for Judgment Calls

Organizations such as Best Buy and Intuit are discovering knowledge workers in places where many companies rarely look: hourly frontline associates. Best Buy and Intuit demonstrate the impact that frontline associates have when they exercise good judgment and come up with innovative solutions to customer opportunities. The specific solutions these frontline leaders provided to their customers could not be anticipated in advance. Instead, the people on the spot had to be adaptive, weigh their options, and figure out how to please their customers. As companies strive to differentiate themselves with consumers inundated by commercial appeals, more and more are realizing that knowledge is created at the customer interface, not at headquarters or in isolated development groups. This requires the full engagement and intellect of frontline associates. It can only happen with top-down support, a clearly articu-

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*Best Buy and Intuit are  
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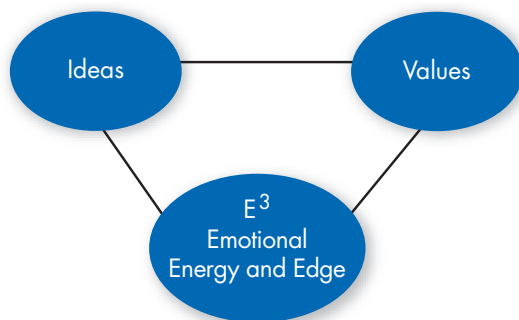
lated strategy with strong enablers at all levels of the organization, and intensive training and development of frontline leaders and their associates.

In their bid to create a differentiated customer experience, Best Buy and Intuit are realizing that the key to answering Drucker's question lies in enabling these knowledge workers at the front lines to make good judgment calls. We are collaborating with these companies in developing frontline leadership capacity for customer-centric knowledge creation. The process starts with the CEO and senior leaders setting clear direction for the organization and defining the role and scope of contribution expected of frontline leaders. The senior leadership is ultimately responsible for setting the strategy, reinforcing desired values, energizing the organization, and making tough calls on resource allocation and staffing. In short, the senior leaders are responsible for developing a "teachable point of view," which is taught throughout their organizations (see sidebar, "A Teachable Point of View"). Our work at both Intuit and Best Buy started with helping the senior teams develop a teachable point of view.

At Best Buy, hundreds of stories now circulate that show frontline employees dynamically creating customer solutions. Innovative approaches to problems as diverse as ethnic marketing programs, tailored product displays, and new product introductions have been identified and implemented directly by frontline associates.

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## A TEACHABLE POINT OF VIEW



Great companies are built on central ideas. By passing the ideas to others and teaching others how to develop good ideas, leaders create organizations that are fine-tuned to deliver success.

### Values

Winning leaders articulate values explicitly and shape values that support business ideas.

### Energy

Winning leaders are motivated and they motivate others about change and transition. Leaders energize others when they personally interact with them.

### Edge

Leadership is about making tough yes-no decisions. Winning leaders face reality, and they make decisions about people, products, businesses, customers, and suppliers.

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This could happen only because Brad Anderson, Best Buy's CEO, defined the organization's strategy around Customer Centricity, a concept we helped Best Buy's leadership team frame in partnership with Larry Selden from Columbia University. In Brad's judgment, the strategy that had made Best Buy the leading consumer electronics seller in North America and a top-performing stock would not sustain the company's success. Best Buy had focused on mass market retail efficiency and solid merchandising. This was an inherently product- and process-focused strategy that would not differentiate Best Buy against competitors such as Wal-Mart, Dell, and Amazon that were aggressively targeting consumer electronics.

Brad created a burning platform for his top 160 leaders at an off-site in 2002 when he showed a distressing video of actual customers leaving Best Buy stores angry and upset, telling the interviewers of their plans to spend their money at competitors because Best Buy had failed to meet their needs. The transformation Brad called for required focusing the company on creating local, tailored solutions for customers. This was a strategy that would work only if frontline associates understood customer problems and had the tools, autonomy, and creativity to solve customer needs. As Brad challenged his team, "None of this happens if we don't have the right culture and the right people with the right training and values to solve customer problems."

## Overcoming Technical, Political, and Cultural Challenges

The CEO, as in Best Buy's case, can create the conditions for enabling frontline leaders to fully implement a customer-centered strategy. After more than two years of hard work, this remains an awesome challenge for the company. It has required a massive revolution because Best Buy was historically built on strong centralization, with employees at the company's Minnesota headquarters setting strategy and passing down direction for the troops to follow. Today, the "troops" are expected to act as local field generals, generating solutions and new knowledge. Best Buy continues to invert the organizational pyramid, empowering employees to demand support from headquarters from once-centralized functions such as merchandising, information systems, and training.

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*Best Buy continues  
to invert the  
organizational pyramid.*

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It has been easiest for Best Buy to identify and work on the technical issues in making this transformation. The company is providing each store with a local profit-and-loss statement, good customer data, and performance management tools. Similarly, the career paths, compensation systems, merchandising programs, and numerous other facets of the business have had to be entirely rethought.

Such technical fixes are a vital first step, but political considerations are usually far more difficult to manage. Placing increased trust with frontline associates is an unnatural act for many ambitious, highly educated executives. Some executives see increased accountability and autonomy at the front lines as potentially reducing their own influence and authority. In many cases, this also creates a profound power shift away from centralized groups. At Best Buy, the merchant team responsible for buying products and setting prices was accustomed to setting policy with the stores. Similarly, the visual merchandising group had long set standardized controls severely limiting the extent to which local employees could change the look and feel of their stores. Ultimately, Best Buy's 700-plus stores will be able to tailor their merchandise selection. They already have much more latitude and local expertise in creating end-caps (the displays at the end of the aisles that drive a high percentage of sales) and product displays.

Political leadership will be essential in determining Best Buy's long-term success with its Customer Centricity strategy: not all leaders at headquarters will have the skills to work in the new organization and some will lack the desire to share power with frontline associates. It will require Brad Anderson's personal involvement and the resolve of Best Buy's management team to upend its traditional business approach. Those in power are likely to have vested interests and will test the senior team's determination. In some cases, executives who disliked the new approach and what they perceived to be their diminished stature have already left the company.

David Novak, CEO of YUM Brands, also confronted the challenge of creating political alignment across his organization of more than 700,000 employees. Instead of offering customers just one choice in a restaurant, Yum wanted to combine two or more of its brands—Pizza Hut, Taco Bell, Long John Silver's, A&W, and

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*A disconnect between  
senior leadership rhetoric  
and frontline reality  
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to be skeptical.*

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KFC—under the same roof. If mom wanted chicken, she could have it while the kids ate tacos. As Novak was testing the idea with his franchise leaders, he got a rude awakening from one of his largest operators. The franchise's requests for information, Novak learned, were being passed from person to person with long delays and little follow-through from Yum's corporate office. Novak had been working hard to create a front line-focused culture and avoid arrogance in the executive ranks. He ultimately built a new operations team that was more focused on frontline requests and the company successfully deployed the multi-branding strategy. What Novak saw firsthand, however, was the sort of disconnect between senior leadership rhetoric and frontline reality that trains many frontline leaders to be skeptical of corporate and less caring about their customers.

By standing firm on implementing the technical and political changes required to enable frontline leaders, as Brad Anderson and David Novak did, senior leaders make it much more likely that a lasting cultural change will occur.

## **Virtuous Teaching Cycles**

Creating an environment that encourages teaching and learning is central to developing frontline leaders. As with the teachable point of view, the process must start at the top of the organization. Senior leaders must routinely bypass the chain of command to have direct

## Virtuous Teaching Cycle

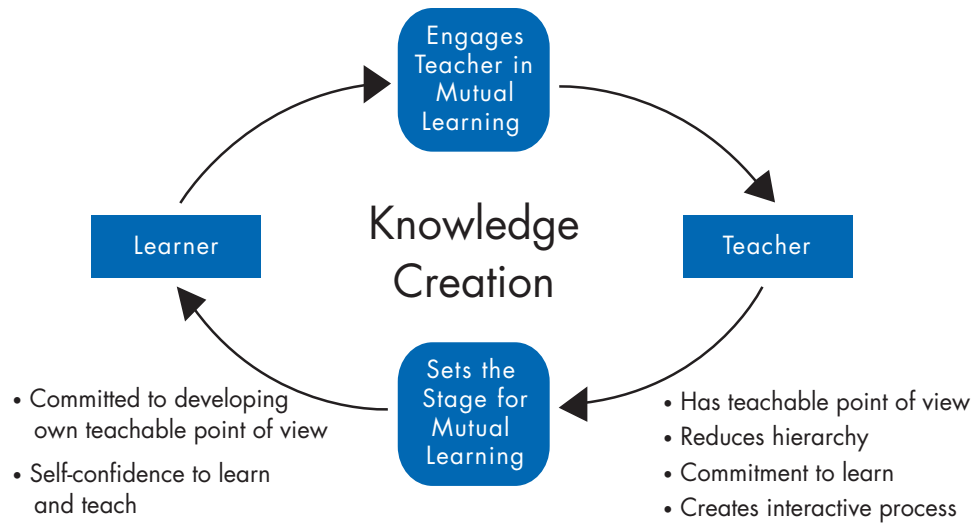


FIGURE 1. VIRTUOUS TEACHING CYCLE.

dialogues with frontline employees. These are opportunities for senior leaders to create virtuous teaching cycles (VTCs). In a VTC, the teacher is also a learner and the learner becomes a teacher. Best Buy store managers run morning “chalk talk” sessions in which they both teach and learn from the associates. In many Best Buy stores 20 to 30 associates are paid an extra hour a day to come in early and review the prior day’s P&L and customer segment performance and to share ideas for improving performance in the future. These are highly interactive virtuous teaching cycles with everyone generating new knowledge to improve performance (see Figure 1).

The VTC is a stark contrast to top-down traditional models of cascading the strategy down the organizational hierarchy. If knowledge is created at the customer interface, the old approach not only creates more alienated associates, it also destroys knowledge and blocks the generation of new customer interface knowledge. This establishes what we call a vicious teaching cycle, creating negative emotional energy, inhibiting knowledge sharing, and causing cynicism in frontline employees.

The need for VTCs extends well beyond the top of the organization. As Intuit and Best Buy have discovered, it can be even more important for the managers who lead frontline associates to create VTCs. As these managers

develop the judgment capability of their associates, they must foster an environment that encourages sensible risk taking. Rather than practice command-and-control leadership in which they tell their associates what to do, they must instead encourage employees to come up with their own ideas based on customer insight. This needs to be genuine, not a paternalistic approach. When an employee brings an idea to a manager, the manager can no longer dismiss it by saying, “We’ve tried that already” or “I just don’t think that will work.” Instead, they must coach the individual by testing the thought process. They must ask whether the idea is based on sound customer insight, good business

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*Top-down strategy  
blocks the generation  
of new customer  
interface knowledge.*

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## HOW TO GET STARTED: STEPS IN BUILDING JUDGMENT CAPACITY AT THE CUSTOMER INTERFACE

**Step 1:** CEO and top team: This typically takes a three-day workshop to help the team articulate and align around a new teachable point of view for the future success of the organization.

**Step 2:** Cascade teach to everyone: The top team then becomes the direct teachers for the next level. At Best Buy 160 officers ran their several-day workshops, involving thousands of employees in transforming the business. At Intuit, the top 200 leaders followed a similar process.

**Step 3:** Transform the headquarters and infrastructure: The transformation to support frontline leadership cannot happen without radical change of the traditional mind-set and infrastructure. At Best Buy prior success had been built on headquarters' command-and-control approach with standard operating procedures. Knowledge was assumed to be created at headquarters and then parceled out in directives to the thousands of associates in the stores. Best Buy's new approach has required turning that paradigm on its head, supporting the store managers and frontline associates as they generate customer-centric knowledge in the stores. Transformations of this scale often require removing executives who cannot lead the change by redesigning the information, financial, and human resource systems.

**Step 4:** Develop frontline leadership capacity to teach and lead virtuous teaching cycles.

Typically, a huge investment is needed in teaching and learning at the front line. Development workshops are usually required to prepare frontline leaders to be teachers and learners, as well as to improve their customer knowledge and business acumen. New mechanisms for teaching and learning such as Best Buy's "chalk talks" are also needed. As Best Buy and Intuit demonstrate, the payoff for these investments is ongoing, given that the front line is where value is created for the customer.

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understanding, and if the employee has a rigorous approach for testing the idea.

In short, Best Buy is teaching its frontline associates how to be knowledge workers. The company has trained tens of thousands of people to apply a version of the scientific method as they attempt to innovate on a local level. Associates are expected to formulate a hypothesis about the financial and customer impacts of their innovation, create a time-bound test, and then measure to verify the results. Using this methodology, an employee suggested offering gift cards to kids under 18 who are having birthdays or who get all A's on their report cards. Figuring that parents will want to reward the kids on this special day, giving them a \$5 gift card will be enough to lure the whole family into a Best Buy store. This simple idea—which started with frontline employees—has had a massive return. Entering the store with a \$5 gift card awarded for an excellent report card, a typical family spends \$60 during a visit. Those who come in for a birthday use the gift card to kick-start average purchases of \$160.

## Teaching Frontline Managers to Teach

What distinguishes Best Buy and Intuit is the enormous investment each company has made in teaching frontline managers how to coach and teach their associates. At Best Buy, thousands of employees have participated in workshops teaching everything from financial basics to customer segmentation approaches to frontline leadership.

Intuit has required its call center managers to become teachers. We launched the process with a rigorous three-day session designed to prepare frontline managers to be more effective teachers of frontline agents. Following the workshop, each frontline manager conducted another disciplined, highly interactive workshop for groups of frontline leaders. No consultants or staff personnel were allowed to teach. At the end of the three days the frontline leaders had new concepts and tools for enhancing the effectiveness of their call center agents. The frontline leaders identified how they could better structure their work to deliver the business strategy, eliminate unnecessary activities, and reshape goal

setting and performance management. The frontline leaders also engaged the agents to provide input on company-wide initiatives to streamline operational processes. As knowledge creation increasingly moves to the front lines, Intuit recognizes that its managers must be more skilled than ever in leadership fundamentals.

## The Frontline Challenge

Best Buy and Intuit demonstrate how knowledge creation is increasingly moving to the front lines in many organizations. When most people picture knowledge workers, they think of engineers, scientists, or service professionals, not hourly salespeople or call center

agents. However, as companies increasingly attempt to differentiate themselves through their service, many are recognizing that the best strategy is creating judgment capability at the front lines.

The paradox of shifting power to the frontlines is that it requires senior leaders to use their authority to overcome the technical, political, and cultural barriers that often stand in the way. Companies must actively invest in creating the support systems that enable frontline leaders to make good judgment calls. When they do, they realize that frontline leaders are those most skilled in making local decisions to simultaneously delight customers and protect the bottom line.



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