
Preface

The ideas and approaches that shaped *The Conductive Organization: Building Beyond Sustainability* evolved during a 10-year relationship between two practitioners leading markedly different types of organizations. Hubert Saint-Onge was Executive Vice President, Strategic Capabilities at Clarica Life Insurance Company (Clarica), a large organization from the financial services sector, and Charles Armstrong was, and continues to be, President, S.A. Armstrong Limited (Armstrong), a medium-sized corporation from the engineering and manufacturing sector. Despite their different sector foci, in recent years both these practitioners have grappled with the same problem—how best to configure, and lead, organizations to enable high and sustainable performance in the knowledge era. *The Conductive Organization* describes the solutions they crafted and applied within their organizations.

Intellectual Capital

When the authors first met in 1994, Hubert was head of The Leadership Center, and a vice-president, for the Canadian Imperial Bank of Commerce (CIBC), one of Canada's leading financial institutions. He was already a respected pioneering thinker in the then newly emerging discipline of intellectual capital management. Hubert was developing this field with other pioneers such as Leif Edvinsson, then of Skandia, a Swedish insurance company, and Karl-Erik

Sveiby, which had led to the articulation of a new intellectual capital model (customer, structural, and human capital components) that collectively delivered an organization's financial capital. This model would evolve into the Knowledge Capital Model, which is a key element in this book.

Saint-Onge et al.'s thinking and approaches attracted considerable interest worldwide, from conference organizers and the business press alike, most notably from *Fortune Magazine*. An article on intellectual capital, written by *Fortune* editor Thomas Stewart (now himself a respected thinker in the field and editor of the *Harvard Business Review*) first brought Hubert to the attention of Charles and prompted their first meeting. At this meeting at CIBC's Leadership Centre, they discovered congruence of thinking around the challenges ahead for organizations and an equal appetite for exploring new approaches to leadership and management.

Armstrong Challenges

At the time of their 1994 meeting, Charles was five years into his tenure as President of Armstrong, the then 61-year-old, third-generation, family-owned organization that he leads with his brother James.

With successful operations in the UK, USA, Europe, the Middle East, and Canada, there was a good amount of activity in the business in terms of structure and customer position. The brothers had rationalized the factories into centers of excellence, focused factories, and commenced much greater interdependence between the organizations than had previously existed. However, the brothers realized that Armstrong's capabilities had to be leveraged in new ways if the organization was to compete and succeed in the following years. Central to this approach would be establishing a self-initiated management team, a significant challenge in an entrepreneurial organization where the leadership had been held in three or four people and all decisions were upward directed.

Soon after the authors first met, they jointly attended a meeting in Santa Cruz, California where a group of like-minded practitioners were discussing intellectual capital and its implications in business. While there, Charles described the work under way in his organization to rearticulate its purpose and values and recognized from the response of the other attendees the potential power this work held for Armstrong. Rearticulating purpose and values was a critical component of the work at other organizations and would soon be so at Clarica.

It also became evident from this meeting and subsequent conversations that existing leadership models did not support meaningful and trusted delegation in organizations, but constricted their capacity to grow. Moreover, it was becoming painfully evident that the financial accounting systems were inadequate in accounting for the building of capability and intangibles of the business.

Business Value

In 1995, while on a plane to Montreal with Armstrong's cost accountant John Murtaugh, Charles laid out Hubert's elements of intellectual capital in a Venn diagram and began looking at the elements, but more importantly how they overlapped. This resultant was a practitioner's breakthrough. Charles realized that the interaction of the customer, structural, and human capital elements was where value is created. This realization gave structure to the ideas Hubert and Charles had first discussed a year earlier. Moreover, it directed efforts to study and understand the flows between the knowledge capital elements and the stocks of intellectual capital created.

Know Inc.

In 1997, Charles launched an organization called Know Inc. whose purpose was to create a network of thought leaders in the area of intellectual capital and provide them with a collaborative environment in which they could begin to structuralize their work, thereby

making it accessible to more organizations and more people. Through the resulting toolkits, the works of practitioners such as Karl-Erik Sveiby, Valdis Krebs, and Verna Allee were made available for organizations to use on their intranets. Know Inc. also developed software to help corporations better manage their intangible assets. This ongoing collaboration between Charles and Hubert gave structure to the evolution of their thinking.

Clarica Challenges

In 1997, Hubert accepted the position of Executive Vice President, Strategic Capabilities for what was then Mutual Life of Canada. Mutual Life had a long, respected, and successful history, having provided investment and insurance solutions to Canadians since 1870. However, by the mid 1990s its leadership team had agreed that, given the speed of change and increasing competition, to further develop the organization required demutualization and the conversion to a shareholder-owned company, which it would achieve by 1999. If this wasn't enough of a change challenge, the organization was also in the throes of acquiring the Canadian operations of the insurer MetLife—an acquisition that would double Mutual's size. At the same time, becoming a stock company led to the renaming of the organization Clarica Life Insurance Company. "Clarica" was more than just a "name"; it was purposefully chosen to mean *clarity through dialogue*, which would represent the brand promise that would connect Clarica with its customers. Building this brand would become another change imperative.

Clarica Profile

With offices across Canada, Clarica served more than 3 million customers in Canada and almost a quarter of a million customers in the USA through 8,000 agents, staff, financial planners, and group representatives. Headquartered in Waterloo, Ontario (about 75 miles south west of Toronto), Clarica, provided a full range of

wealth management products in addition to individual retail and group insurance. It was been named one of the top 20 knowledge management organizations worldwide.

The following quick facts help situate Clarica in the financial services industry at the time:

- Canada's first and oldest mutual insurance company.
- Insures one in ten Canadians.
- First in retail life insurance in force in the Canadian market.
- Second in Canadian market share of retail insurance (based on income from premiums).
- Largest provider of corporate loans among life-insurance-based financial institutions.
- First Canadian-based mutual life insurance company to demutualize.
- IPO of \$680 million was the second largest ever on the Toronto Stock Exchange.

In May 2002, Clarica became part of Sun Life Financial and the center of Canadian operations for both organizations. At the time of the merger, Clarica's shares were trading at almost treble the price at their initial public offering, and its brand had been valued in excess of \$750 million. Hubert left the company at that time, and so the work in this book is usually referred to in the past tense to reflect the point in time when Hubert was working at Clarica.

Armstrong Profile

Headquartered in Toronto, Armstrong was incorporated in 1934 under the leadership of its founder Samuel Allan Armstrong and remains a privately owned company. With over 600 employees worldwide, operating six manufacturing plants on two continents, it's globally recognized as a leader and innovator in design, engineering, and manufacturing within the fluid flow equipment industry. Its products are internationally recognized for design efficiency,

long service life, and operating economy. Products include: commercial pumps, residential and light commercial hydronics, and fire pumps. These products are used in residential, commercial, and industrial installations in some of the world's premier facilities.

In 2002, and again in 2003, Armstrong was named as one of Canada's 50 Best Managed Companies. More than anything this is testament to the progress the corporation has made toward becoming a more highly conductive organization.

The Collaboration Continues

The collaboration between Hubert and Charles further evolved in 2002 when Hubert accepted an invitation to join Armstrong's management board as Executive Vice-President, Strategic Capabilities, with the responsibility for enhancing Armstrong's organizational capabilities and leveraging its e-business platform. Hubert had been involved in Armstrong's strategy session groups since 1998.

Hubert also assumed the role of Co-Chairman at KonvergeandKnow, of which Charles is the founder and chairman. Headquartered in Toronto, KonvergeandKnow develops fully integrated knowledge strategies based on optimized business processes and custom technology solutions. It's the result of a merger between two highly innovative, successful, and complementary companies, one specializing in custom business and technology solutions (Konverge Digital Solutions), the other in knowledge strategy and e-learning platforms (Know Inc).

This book captures the first decade of Hubert's and Charles's relationship, the start of a journey toward building a highly conductive organization.