

MIT

Leadership Center

Making a Difference by Making Sense

The head of a multinational bank faces a loss of investor confidence in the wake of worldwide real estate devaluation.

The board of a public company must redefine itself in the wake of SEC censure and a new environment of greater supervision.

Project leaders at a global energy corporation know their industry metrics look good but have nagging doubts that upstart suppliers could be eating their lunch.

These leaders share a common challenge—the need to quickly assess a constantly changing environment and to continually readjust as they take in new information and impressions. How can they make sense of a world where feedback is unclear and inconsistent? Where the “correct” answer is not obvious? Where they must understand and change their environment simultaneously?

This important leadership challenge is called **sensemaking**: discovering new terrain as you invent it. Successful sensemaking distinguishes the most effective leaders, whether they are corporate executives, community activists, or former Citigroup chairman John Reed. And when these and other leaders joined sensemaking requires subtlety, patience, analysis – and action.

Why Do Leaders Need Sensemaking?

In an age of uncertainty and change, leaders need to look outside their organizations. By making sense of their environment—that is, sensemaking—they can find and blaze new trails.

Researchers at the MIT Leadership Center have identified sensemaking as one of the four core capabilities of effective leaders. As the Distributed Leadership Model indicates, leaders succeed by combining sensemaking with visioning, relating, and inventing.¹

As a leadership capability, sensemaking closely resembles map making. At the MIT Leadership Center dialogue on sensemaking, academics and practitioners spoke of places, observations, and directions, of “where we are,” “where and why we are going,” and “what we should look for as we go.”

Like cartographers, sensemakers create consequences with their maps. The way they understand and then describe an environment has ramifications, because this understanding guides future action. In the process of mapping new terrain, they create it.

Sensemakers’ insights can enable organizations to move from good today toward great tomorrow. Sensemaking can foster better decisions in fluid environments. And it can enable everyone in an organization to understand a situation and drive toward the same goal.

Sensemaking in Action: Five Key Tasks

Fundamentally, sensemaking is common sense. Sensemakers take time to understand the situation as it is before they envision what it could be.

Sensemaking consists of five major tasks: **observe, question, act, reassess, and communicate**. Leaders engage in these tasks simultaneously, as each element of sensemaking informs the others.

Observe

Sensemakers ask, “What’s the story?” They pay close attention to their environment and look for hints of change. Because the world does not evolve in linear fashion, sensemakers look for strategic inflection points.

For example, in 2003, a strategic business unit of a global energy company was measuring well against industry benchmarks. Then, a joint venture manager in Taiwan commented to the head of project development and delivery that the local people were putting up better plants more cheaply. Although the manager had no data, he did ride by the local plants every morning.

Sensemaking is thinking while acting and creating change while seeking signs of change.

The project development leader says, “We had industry benchmarks that said we were doing well. It’s easy to write off anecdotal information like this.”

But the managers were learning about sensemaking at MIT, so they decided to dig deeper into the efficiency measures. Why didn’t the data match the observer’s on-the-ground gauge of success? The corporation embarked on sensemaking, looking at every aspect of the company’s and its competitors’ processes.

Similarly, the ministers who later formed the core of Boston’s Ten Point Coalition started out as explorers. Responding to a surge of violence in the early 1990s, the ministers didn’t present themselves as experts. They were in the same boat with everyone else. Their message was, “Together, let’s try to figure this out.”

Question

Like the ministers, sensemakers ask for help. They are open about problems and gain perspective from outside advisors.

Under pressure, people often fall back on their habitual ways of responding. But times of crisis frequently require innovative solutions. That’s why sensemakers must resist snap judgments. When they see similarities to a past

situation, they need to step back and think about how the new situation may be different.

As part of their sensemaking, the energy corporation managers listened carefully. They were alert to information that did not match up with their worldview. They continuously sought new information and perspectives. They embraced uncertainty.

John Reed, then chairman of Citigroup, questioned experts within and outside his industry as he grappled with Citicorp’s shaky position in fall 1990. At the time, Citicorp was expecting to take a real estate write-off of \$2.5 billion to \$3 billion. The chairman of the Federal Reserve Bank of New York intervened to say the write-off should be twice as large.

Reed met with management, the board, investors, and executives in other industries who had led cost-cutting initiatives. At every point, he asked, “What am I missing here?”

Act

Sensemakers use early observations to shape decisions. They look for new ways to lay out alternatives and a better way to understand choices. Then, they take action and see what happens. They are like explorers, dropping a pebble into a pond to gauge its depth.

So sensemakers are improvisers. In Boston in the late 1980s, the homicide rate was spiraling upward. Young people were killing over trivial things—a gold chain or a perceived slight. The Rev. Jeffrey L. Brown, pastor of Union Baptist Church in Cambridge, Massachusetts, spoke against violence and started programs for young people. “I even tried to preach a rap sermon,” he says. “I was trying to reach young people but it wasn’t working.”

Struggling to make sense of the phenomenon of urban violence, Rev. Brown started to walk the streets of his neighborhood at night. This simple act—taking a walk in the dark—had repercussions far beyond what anyone could have imagined.

Brown met ministers who were experiencing similar problems in their neighborhoods. Brown and three other

pastors started walking together, experiencing the neighborhoods collectively, and coming together and talking about it. Rev. Brown and his colleagues went to the streets not because they thought they had the answer, but because they were looking to make sense of what was going on.

Their walks proved to be a catalyst for change. Brown and his colleagues eventually forged ties with judges, probation officers and police officers, with young people, with other ministers, with city and community agencies, with the private sector and with the City of Boston.

Reassess

Sensemaking is grounded in an appreciation of what is. Therefore, every conclusion is open to question. Sensemakers realize that yesterday's choices may not work today. A static model does not work in a dynamic world. Sensemakers have the courage to let go of prior assumptions.

Via sensemaking, leaders develop a persuasive story and align their organization to achieve effectiveness.

Citicorp's Reed initially argued vigorously against the Fed's position. Then, after listening to the Fed chairman and rethinking his position, Reed decided the banking regulator was correct. Citicorp needed to double its reserve for real estate losses. Eventually, Citigroup wrote off \$5 billion, as the regulator had predicted.

Throughout the real estate crisis, Citicorp's situation was in flux. Real estate valuations, investors' requirements, regulators' position, and the board's perspective, and the management team, organization structure: all were changing and needed to be continually reassessed.

That's why sensemakers never stop. The environment is always changing, so there is no final answer. Sensemakers continually review and update. Because experience informs action, sensemakers change their plans even as they roll them out.

When the energy corporation reexamined its project management benchmarks, it completely changed its view of who its competitors are. "It's not Exxon and Dow," one executive says. "It's the independent Chinese producer making \$100,000 per year in profit when we're trying to get 25% internal rate of return. When we changed our benchmarks, we said, 'Wow, we're way behind our real competitors.'"

In response to this radical new information, the company created a new strategy, to operate globally and execute locally. In the past, it hired Western contractors for projects. Now the Western contractor is a management partner, a Chinese design institute executes the engineering, and a Chinese firm handles construction. Today the company partners with firms that in the past were competitors.

The strategy is paying off. One new project in China, planned using this new strategy, is expected to cost about \$350 million, \$75 million less than under the old strategy. "That has a huge effect on required IRR," one manager says.

Communicate

Sensemakers are storytellers, and to tell stories they must simplify. Sensemakers help others understand complex situations, enabling the others to act.

In the Citicorp crisis, for example, the investment community was urging a sale of assets. Management saw a different route. Within five weeks, Citigroup's top

Sensemaking as Collaboration

Leaders impose direction and invite new information via five communication parameters:²

1. **Situation:** Here's what I think we face.
2. **Task:** Here's what I think we should do.
3. **Intent:** Here's why I think we should do that.
4. **Concern:** Here's what we should keep our eyes on since, if that changes, we're in a new ballgame.
5. **Calibrate:** Now talk to me.

management created a plan to almost double operating profits.

But Citigroup's board questioned this approach. Was this bold plan possible? Reed simplified the problem, framing the crisis with three simple questions to the board:

- Do you understand the nature of the problem?
- Do you think our plan is adequate to deal with the problem?
- Do you think we can pull it off?

By communicating the key questions, Reed helped the board to focus on the weak link: obstacles to implementing the plan. In this case, simplifying helped the board and Reed identify a need to restructure. Three years later, after a major restructuring, Citigroup met its ambitious new targets for operating income.

Similarly, the Boston ministers developed a 10-point plan in collaboration with young people. This concrete, explicit, simple list became part of the solution. Between 1990 and 1998, the juvenile homicide rate in Boston dropped 79 percent.

Acting Your Way into Thinking

Sensemaking means acting in order to think. Sensemaking (where we are) spawns visioning (where we could be). By understanding their environment, the leaders described here learned how to compete, survive, and change.

Indeed, the leaders learned as they moved forward. They tapped external inputs for a new perspective. They sought new data. They challenged assumptions. They accepted the risk of taking action. They continually reassessed their situation. And they relentlessly communicated what they knew and thought to others who had the ability to help them, using specific language to show how they thought.

Throughout, they just wanted to make sense of what was going on.

Notes

¹ The distributed leadership model was created by MIT Sloan faculty members Deborah Ancona, Wanda Orlikowski, Peter Senge and Tom Malone.

² Weick, K. 1995. *Sensemaking in Organizations*. Thousand Oaks: Sage Publications.

About the MIT Leadership Center

The MIT Leadership Center is dedicated to advancing the extraordinary knowledge, perspectives and experiences that enable leaders to transform their passion into action. The Center's world-class researchers and practitioners create cutting-edge theory and research, pragmatic tools for action, innovative education, and dialogues and networks that connect diverse individuals, organizations, and communities across the globe. Poised at the dynamic nexus of technology and business, the Center develops leaders who improve the world.

Contact:

MIT Leadership Center
30 Wadsworth Street
Cambridge, MA 02142

Telephone: 617.253.6222
Facsimile: 617.253.6765
<http://mitleadership.mit.edu>

Deborah Ancona, Faculty Director
Mary Schaefer, Executive Director



**Massachusetts
Institute of
Technology**