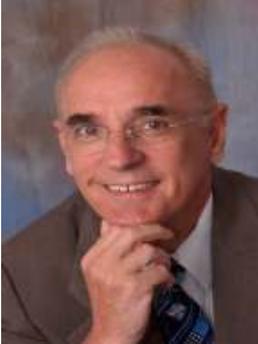




Is Leadership a Quality or an Outcome?



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All for One or One for All?

Traditional leadership assessments are based on the notion that there are particular leadership traits – qualities – that confer upon the individual the ability to achieve high performance in a leadership position, relatively independent of the purpose or goal of the position. These qualities include traits such as conscientiousness, patience, thinking style, interpersonal skills, empathy and so on. The assumption has been that if a leader possesses each of these qualities in high measure, then they will be a good or even a great leader.

Associated with this approach has been how leaders have been evaluated. Typically they have been rated on the basis of their “leadership effectiveness” in the judgment of (usually) their subordinates and peers. Ratings usually include criteria such as ability to inspire people, ability to collaborate well, ability to communicate well and so on.

But in evaluating leadership effectiveness in the ratings approach, these measures almost never rate these leaders on objective criteria such as profitability and valuation relative to competitors. This is because these criteria are usually based on the perception of the raters of the competencies and personality of these leaders, not on the objective outcomes of their leadership measured in a quantitative manner.

What's the Bottom Line?

But in the past few years a new approach has emerged, the leadership outcome approach. We have been pioneers in this area. The outcome approach posits that one can only define a good leader based on the outcome of that person's leadership. If the purpose of the position is quality, then the correct measurement is a metric such as relative defects and customer satisfaction. If it is financial then the metric is profitability or valuation.

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Under this approach, it does no good to say that a person is a good leader if the outcome is not what the organization wanted. If the outcome is valuation, then if the valuation of the organization is below that of its competitors, the leader has been a bad one, no matter how highly he is rated as a leader by his subordinates or how well-liked or popular he might be.

In other words, with the outcome approach, ratings of leaders by colleagues and subordinates are not useful or even very relevant since they do not directly measure the outcomes being pursued by the organization. Leadership qualities, while not unimportant, are much less important than outcomes.

In the ratings-based approach, qualities are a necessary and sufficient condition of effective leadership. In the outcome-based approach, success on ratings is a necessary but not sufficient condition for effective leadership. For the outcome approach, success according to quantitative outcome indicators is a necessary condition for effective leadership.

Who Rates the Data Later?

Outcome indicators in themselves are not new. The Balanced Scorecard (BSC) approach has long been used by many companies as a way of measuring their success in achieving their goals.

The BSC model uses a battery of indicators across financial, quality and human issues to measure success. However there has been a fundamental problem with BSC. That is, it can show the indicators you need to score well on to be deemed effective in your organizational strategy. But the BSC approach it does not show you what behaviors you need to act on in order to achieve improvements on these indicators.

This contrasts sharply with the ratings-based leadership effectiveness approach. Here the model is strong on behavioral underpinnings, but it lacks the basis to measure success from an outcome perspective. The BSC possesses these outcome measures in profusion but it lacks a behavioral basis for improvement.

“...For the outcome approach, success according to quantitative outcome indicators is a necessary condition for effective leadership....”

However this gap is now being addressed by the new behavioral disciplines of behavioral economics and behavioral finance. These disciplines show in general how behaviors need to change in order for there to be improvement in quantitative measures of leadership from a financial and valuation perspective.

Let's Get Specific

However these disciplines (of behavioral economics and behavioral finance) only achieve this in the general case. That is because they possess no formal model which directly links behaviors with financial outcomes when confronted with the cases of specific individuals, specific teams or specific companies.

Our work has resulted in a model and assessments which measure the behaviors at the individual, team and company levels in specific cases. These show the link between these behaviors and their financial outcomes in a precise quantitative manner that can be translated directly into financial terms on an income statement of a company.

What Does the Stock Buyer Want?

The BSC model has another inherent flaw. That is, that it does not possess any hierarchy of importance of the quantitative indicators that it employs. So the model can, for example, show that a company is doing well in areas such as product development, R&D, quality and training. But it does not show any hierarchy of importance of these measures.

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So in the case that a company is doing well on all its many measures, except for profitability and valuation, the overall model still tells you that the company is doing pretty well. Yet for a company that competes with

other companies in the marketplace, this is irrelevant if its profitability and valuation falls so much relative to its competitors that it either goes out of business or stays in business consuming so much capital so that it cannot invest in the future or even survive short-term.

This flaw in the BSC approach is also resolved with the behavioral finance approach which stresses the need to maximize valuation if a company is competing with other companies. In fact our model specifically shows the behaviors at the individual, team and company levels that need to be changed or modified in order for the company to be more competitive, to generate more capital than its competitors and to increase its valuation relative to its competitors.

Getting Intelligent About Leadership

So the ratings approach to leadership effectiveness is very different to the outcome approach. One stresses qualities, the other stresses outcomes.

If you subscribe to the ratings approach, the implication is that the leader involved has the qualities of a leader relatively independent of the situation he is in. If you subscribe to the outcome approach, the implication is the situation matters a lot.

This is because the behavioral outcomes approach is based on direct and formal linkages between organizations functions (e.g. sales, quality) and organizational environment (e.g. stage of evolution of the company, the market, and the type of market) and the specific and particular behavioral attributes of a leader.

This can be thought of as being akin to the long-running but largely resolved debate about the meaning of intelligence. The traditional approach was that human intelligence is a generalized quality (referred to as G by the psychology literati) that is more effective the higher its value, no matter what the other behavioral attributes of the individual or the situation or environment he is in.

“...this is starting to take on the dimensions of a “qualities versus outcomes” issue....”

There is now a newer and generally accepted approach to intelligence which supersedes the G theory. That is, while there might indeed be a somewhat generalized type of intelligence, it is very limited in practice in terms of its real-world effectiveness.

In fact in this newer theory of intelligence there are many other types of intelligence that are not measured by G such as musical, kinesthetic, and aesthetic intelligence. These lead to high performance and effectiveness in situations where these types of intelligence are important, even where the individual does not possess high G.

The newest theory of intelligence states that, whereas G might be important in an academic or scientific job, in the real world, these other forms of intelligence are vastly more important and powerful in terms of predicting leadership effectiveness and real-world performance. In other words, when we look at outcome, we have to look at the specific types of intelligence possessed by the individual that are particularly important in the achievement of specific types of outcomes.

With the emergence of the behavioral disciplines and their application to leadership prediction, it is inevitable that they are being compared to the traditional leadership approaches. In my view, this is starting to take on the dimensions of a “qualities versus outcomes” issue. And this emerging debate is starting look very similar to the now fairly-well resolved debate concerning whether there us just one measure of intelligence, or many.

The leadership debate is starting to resemble the evolution of the intelligence debate. The emerging evidence about leadership is coming from not only from the behavioral disciplines but also from neuroscience and the burgeoning field of brain MRI studies.

Another Meaning of Diversity in Leadership....

This evidence is starting to strongly favor the idea that there are many forms of effective and high-performing leadership behaviors which are linked with very different types of outcomes. This evidence strongly suggests that the idea of a generalized quality of leadership is starting to look idealistic or even quaint, depending on your own personal viewpoint.

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Of course as a pioneer in this field we obviously subscribe to the behavioral outcome approach. In fact this is one that has long been practiced by corporations and search companies who are looking for leaders who will result in the best outcome for them and their clients.

But until now these informal approaches by corporations, recruiters and headhunters have not really had a formal epistemological basis. The new behavioral outcome approach does just that.

This approach and our own research and programs allows companies to improve their own leadership-development and selection programs based on a formal behavioral outcome approach supported by innovative online behavioral assessments linked directly to financial and valuation outcomes.

Recommendations

- If you are using leadership assessments based on a "qualities" approach, add behavioral outcome assessments to improve your ability to predict who will be the best leaders for your own particular purposes and to improve your own leadership development efforts.
- If you are using Balanced Scorecard approaches, add behavioral outcome assessments to provide you with a behavioral approach to improving company performance

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