LEADERSHIP

Warren Bennis

CELEBRATING 25 years OF EXCELLENCE

Excellence

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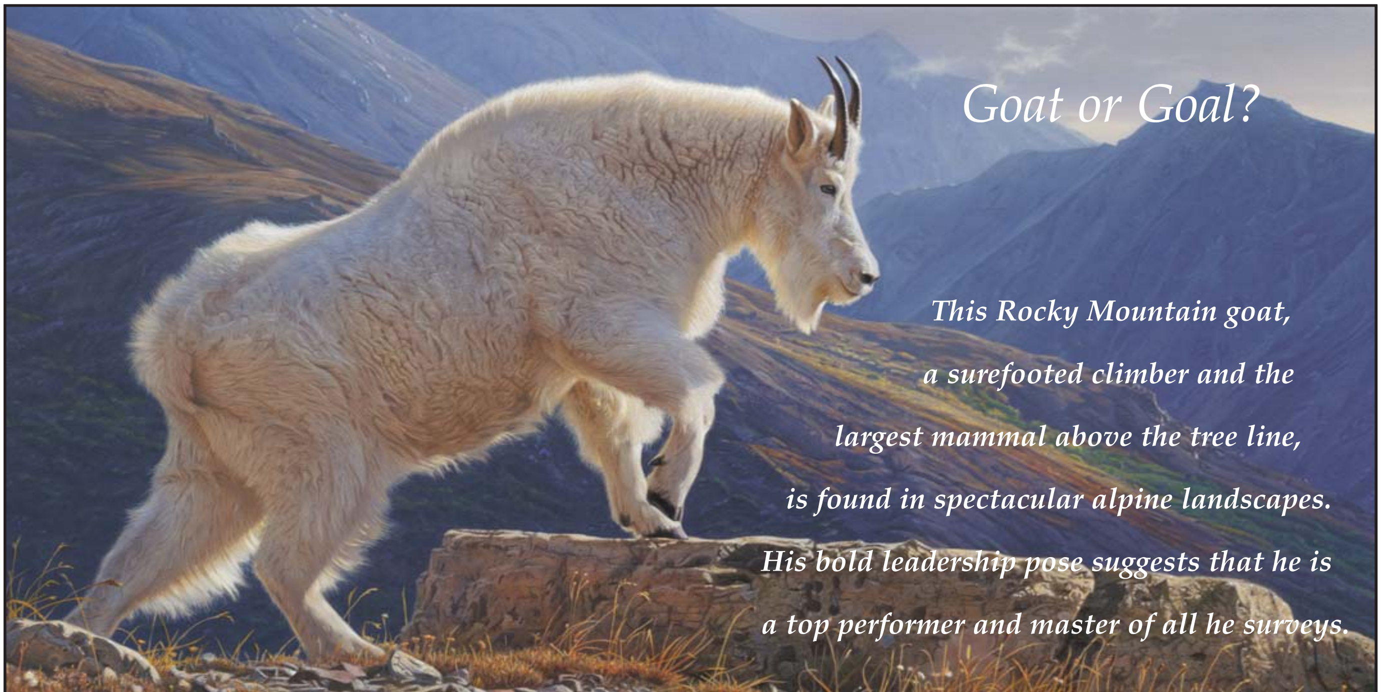

Assessing Leaders

All for one or one for all?

by E. Ted Prince

TRADITIONAL LEADERSHIP assessments are based on the notion that certain leadership traits or qualities (like conscientiousness, patience, thinking style, empathy, interpersonal skills) confer upon the individual the ability to achieve high performance in leadership positions, relatively independent of the purpose or goal of the position. We assume that if people possess these qualities in high measure, they'll be good or great leaders.

Typically leaders are rated on their effectiveness in their judgment of people and their ability to inspire people, collaborate, and communicate well. These criteria are usually based on the perception of the raters of the competencies and personality of the leaders, not on the *objective outcomes* of their leadership in measures like *profitability* and *valuation* relative to competitors.

In recent years, I've pioneered the *behavioral outcome approach* (BOA). It posits that we can only define *good leaders* based on *the outcomes* of their leadership. If the purpose of the position is *quality*, then the correct measure is few defects and high customer satisfaction. If it is *financial*, then the metric is profitability or valuation. We can't say that a person is a *good leader* if the outcome is not what the organization wanted—no matter how highly he is rated by his people or how well-liked or popular he might be. With the outcome approach, ratings of leaders by colleagues are not useful or relevant since they don't measure the outcomes being pursued. Leadership *qualities* are much less important than *outcomes*. In the ratings-based approach, qualities are a sufficient condition of effective leadership. In the BOA, success in quantitative outcome indicators is a condition for effective leadership.

Who Rates the Data Later?

Outcome indicators are not new. *The Balanced Scorecard* (BSC) approach has been used to measure their success in achieving goals. The BSC model uses a battery of indicators across financial, quality and human issues to measure success. However, the BSC can only show the indicators you need to score well on to be deemed effective—it does not show you what behaviors you need to act on to improve on these indicators. The BSC has outcome measures but lacks a behavioral basis for improvement.

This gap is addressed by the behavioral disciplines of behavioral economics and behavioral finance. These disciplines show how behaviors need to change to improve quantitative measures of leadership from a financial and valuation perspective. However, these disciplines possess no formal model that directly links behaviors with financial outcomes when confronted with the cases of specific individuals, teams or companies.

Our model and assessments measure the behaviors at the specific individual, team and company levels—linking these behaviors and their financial outcomes in a precise quantitative manner that translates directly to *financial terms* on an income statement.

What Does the Stock Buyer Want?

The BSC model has another flaw—it does not rank the quantitative indicators that it employs. So the model can show that a company is doing well in product development, R&D, quality and training, but it does not show any rank of importance of these measures.

If a company is doing well on all its measures except for *profitability* and *valuation*, the model tells you that the company is doing well. Yet 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 that it can't 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 shows the behaviors at the individual, team and company levels that need to be changed or modified for the company to be more competitive, to generate more capital and to increase its valuation relative to its competitors.

Intelligent About Leadership

The *ratings approach* to leadership effectiveness is different to the BOA. One stresses *qualities*, the other stresses *outcomes*. If you subscribe to the ratings approach, the leader involved must have the qualities of a leader relatively independent of the situation. If you subscribe to the BOA, the situation matters. The BOA is based on direct and formal linkages between functions (sales, quality) and environment (stage of evolution of the company, the market, and the type of market) and the *specific behavioral attributes* of a leader.

This is like the debate about the meaning of intelligence. The old approach was that human intelligence is a general quality (G) that is more effective the higher its value, no matter what the other behavioral attributes of the individual, situation or environment. The new approach suggests that while there might be a general intelligence, it is very limited in terms of its real-world effectiveness. In this new 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 lacks high G.

This theory of intelligence states that, whereas G might be important in an academic or scientific job, in the real world, these forms of intelligence are more powerful in predicting leadership effectiveness and performance. When we look at *outcome*, we need to look at the *types of intelligence* possessed by the individual that achieve *specific outcomes*.

Many forms of *effective* and *high-performing* leadership behaviors are linked with different outcomes. I subscribe to the *BOA*—if you are looking for leaders who will deliver the best outcomes. You can improve your LD and selection programs based on this approach supported by *innovative online behavioral assessments* linked directly to *financial and valuation outcomes*. If you use assessments based on a *qualities approach*, add *BOAs* to improve your ability to predict who will be the best leaders for your purposes. If you are using *Balanced Scorecard* approaches, add *BOAs* to improve performance. **LE**

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ACTION: Assess your leaders on outcomes.