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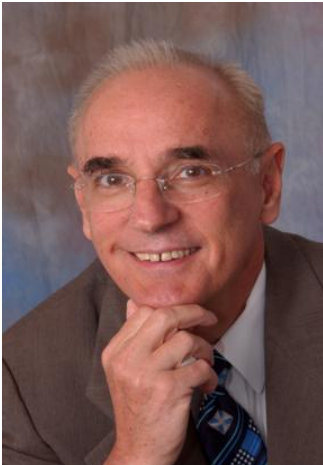
Perth Blog

Select Leaders Based on Business Acumen and Business Impact!

Isn't that what companies really want?

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The science of leader selection has come a long way since we at the Perth Leadership institute first started conducting our research into behavior and business acumen. When we first started our research in 2002, there was no work going on into the subject of business acumen. When we first started talking about it to leadership people and HR types, there wasn't even a word for it. Now it's a topic in many – but not most – conferences on leadership and executive selection.

So What is Neuroeconomics Anyway?

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> *November 16-17, 2014*
>
> *Syllabus here*

Part of this has been driven by the new awareness of the disciplines of behavioral economics and behavioral finance. It's hard to believe that the first Nobel Prize was only awarded in 2002, to Daniel Kahneman. That's the year we first started our research into business acumen.

So it's understandable that the vast majority of people hadn't heard about them when we first talked to them about our pioneering work. Now many people readily understand the relationship between business acumen and behavioral finance. But still not all.

There are now new disciplines of neuroscience and even neuroeconomics. All of these new disciplines are being fuelled by a slew of popular books, notably by Malcolm Gladwell, but also by others such as Richard Thaler's "Nudge" and Nassim Taleb's book "The Black Swan".

So now there's an ever-growing realization that most decision-making is driven by unconscious, semi-rational or even irrational factors. In the trade these are called "cognitive biases". Unless we understand these biases it's difficult if not impossible to understand and predict the actions of most leaders and especially their financial and business impacts.

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How Not to Predict a Recession

This was brought home to most of the world in a huge jolt in 2008 and after with the great recession. That momentous economic event was not predicted by august institutions such as the US Federal Reserve, the IMF, the World Bank and so on or by leading economists at the great schools of economics such as Harvard, MIT and Chicago or even by the private sector economic leaders such as banks and other financial institutions.

Lehman Brothers famously not only missed it, it went bankrupt because of it. Plus a slew of other so-called mighty institutions. Even Nobel Prize winners didn't predict it.

It thus became apparent that there was – and still is – something truly basic about economic and financial behaviors that we mostly didn't understand. Only now is it becoming clear that the many cognitive biases that impact all of us are probably to blame.

So now the race is on to be able to analyze these factors and use them for prediction. In the case of my own company, we have been in the forefront of this work to develop new types of psychometric assessments that do just this.

What Traditional Leadership Assessments Miss

> *"…Are they likely to run a profitable organization?.... How can they improve their business impact in the areas they are weak in?… What will be their impact on a company's valuation if they are at a senior level?"*

So what would we want to know about our leaders that we don't get now from existing leadership assessments – by which I mean mainly personality and competency assessments?

There are two sets of issues:

1.   What is the financial impact of a leader, and how is this related to their business acumen, their innate financial behaviors and their unconscious cognitive biases? How aligned will they be with the financial mission of their team, organization and company? Are they likely to run a profitable organization? What will be their impact on a company's valuation if they are at a senior level?

2.   What is their business impact? What areas will they be strong in (e.g. sales, development. operations, etc.). and what will be their weaknesses? How can they improve their business impact in the areas they are weak in? How much can they improve in these areas?

Wouldn't We Want to Know a Leader's Financial Impact?

As to the first set of issues, namely financial impact, we have developed a totally new type of psychometric assessment. It is called the Financial Outcome Assessment. You can read more about it here. It does the following:

1.   Identifies and measures your Financial Signature®, that is, your behavioral propensity to increase capital.
2.   Predicts your impact on gross margin relative to your industry
3.   Predicts your impact on expenses, again relative to your industry

> *"…Predicts your impact on gross margin relative to your industry…..   Predicts your impact on expenses, again relative to your industry… does all this for both individuals and teams…"*

4.   Shows how your behavior leads to these impacts
5.   Shows you some of the things you need to do to improve your Financial Signature®
6.   Shows you what you need to do to become better aligned with the Financial Mission™ of your company and team.
7.   Shows how you unconsciously change the way you act financially due to the influence of peers, colleagues and your team, compared to your innate financial behaviors.
8.   Shows you how to use this information to improve your career.
9.   It does all this for both individuals and teams, including teams at both relatively junior and senior levels, including C-levels.

Not to Mention Their Business Impact?

As to the second set so issues, business impact, we have developed an assessment called the Executive Outcome Assessment™, or EXOA. It is based on a model called the Leadership Cockpit®. You can read more about this particular one here. This does the following:

1.   Identifies and measures your Leadership Outcome Type™, that is which one of 16 types of outcome that will result due to your leadership behaviors
2.   Shows you what business areas you will be strong in and which areas you have vulnerabilities
3.   Shows you the business impact of both these strengths and vulnerabilities

4.   Shows you the cognitive biases underlying these impacts

5.   Shows you how to change your Leadership Outcome Type™ and how to match it to your company or desired career path and goals.

6.   It does all this for both individuals and teams, including teams at both relatively junior and senior levels, including C-levels.

Now we are not trying to say that the traditional leadership assessments are not useful. They clearly are. But as you can also see, they don't do what the FOA and the EXOA do. That's because they were not designed to do these things and they are not based on a model that links directly to the financial and business outcomes.

That's quite different from our assessments. In fact our assessments can even be used to predict the actual income statement that will result from a leader's behaviors. It's called FinSim™ and you can read more about it here.

Are You Updating Your Leadership Assessment Approaches?

Here's the message of this newsletter. Times change. They have changed in technology in innumerable ways. This has led to momentous changes in our world which are still occurring.

> *"…It doesn't matter where you are in an organization, or what role you fill, these trends are impacting the way you will be assessed in the future …"*

The recent recession showed us that things are also changing in economics and finance and the way we understand behavior and its determinants. This has led to another momentous change, the development of behavioral economics and finance. These fundamentally affect the way we view the behavior of people in regards to economics and finance and the determinants of their behavior, which are often irrational.

In turn this is impacting leadership assessment. Our assessments are just another reflection of that trend of change in economics, finance and behavior.

It doesn't matter where you are in an organization, or what role you fill, these trends are impacting the way you will be assessed in the future. If you are ahead of the curve your can use this knowledge to improve your own leadership outcomes, your career trajectory and the performance of your own organization.

But many companies are still way behind. Some of this knowledge has not yet permeated to the HR departments of many companies, or, for that matter, to their leaders. Leadership development companies are still mostly struggling to catch up in this area, that is, if they are even trying, which in many cases, they are not. Nor has it impacted executive search firms, most of which are still using outdated approaches to executive assessment and selection.

If you have anything to do with management and leadership selection and training and development, you need to start updating your knowledge now. Times are a-changing.

Recommendations

1.   *Do an online course in neuroscience, behavioral economics and finance to start to catch up with developments in these areas.*

2.   *Review your assessments portfolio to see where it needs to incorporate business acumen assessment and selection based on business impact*

3.   *Start doing business acumen leadership training courses for your upcoming – and existing – leaders*

For more information on the Perth Leadership Institute and Perth upcoming events, please visit our website

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