

WHAT PRICE LEADERSHIP?

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EXECUTIVE SUMMARY

Many people, in all sorts of organisations, bemoan the lack of real leaders they have. While not everyone is naturally predisposed to leadership, a more practical reason for the prevalence of managers over leaders is simply that organisations get the leadership they deserve. They get what they recruit, select, train, develop, incentivise and promote. The development of values, culture and leadership are long-term commitments where the specific investment and return are not always easily correlated. That sort of commitment does not align well with a focus on short-term targets and quick returns.

In this paper, the authors break leadership out as one of the key competencies required of a senior executive and look at 3 short examples to make the case for investment in values and leadership – the military, Netflix and academic research. The last example synthesises the research of a number of other authors in directly connecting strength of leadership to company valuation.

Like most things worth achieving in life, a strong culture and the development of inspirational leaders are not quick and easy wins. Overnight success rarely actually happens overnight. But for those prepared to commit to the long game, the benefits are worth having.

INTRODUCTION

Some years ago, one of the authors was with a partner at a well-known management consultancy and he was talking about how the organisation required leaders but invariably ended up with managers. Since that conversation, we have come up against many variations on this theme. The issue appears simple, but that is not to say easy to fix. Why do you get managers, not leaders? Well, you get what you recruit, select, train, develop, incentivise and promote. The crux of it is that you will get what you reward, both implicitly and explicitly through all the actions in the preceding list.

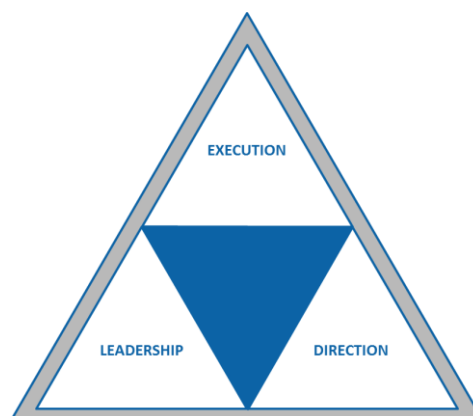
The challenge in addressing the manager vs leadership issue requires senior executives to take a long-term perspective on what is good for organisation. Managers will solve today's problems and do their best to hit the next quarterly earnings target. Leaders will take the difficult decisions to do what is required to build a successful resilient organisation – doing what is right, as opposed to just doing the right thing.

Of course, the reality is that organisations need both managers and leaders, ideally both embodied in some of the same people. The problem arises when a choice has to be made between prioritising managerial or leadership skills.

SOPHIE'S CHOICE

In the film, *Sophie's Choice*, Meryl Streep plays a mother forced to choose between her children. While organisations are never asked to make quite such high-consequence decisions, if you had to make a mutually exclusive choice between manager and leader, which one would you have? What gets people promoted?

Consider the simple model below describing the high-performance organisation:



The military sum up the competencies required by officers, or within the organization more generally, as command, management and leadership. The relative weighting changes with role and responsibility, but all three need to be present to some extent. In *The Art of Action*, Stephen Bungay adapts that model for the commercial world and replaces command with direction. We prefer direction, leadership and execution, and, in contrast to both of the preceding sources, we present them as a hierarchy above.

- Direction is the ability to set and articulate clear direction, to provide vision, or more accurately 'intent'. This might be referred to as doing the right thing. This is predominantly an intellectual activity predicated on critical and creative thinking, and communication skills, and becomes more relevant in more senior roles.
- Leadership is the ability to bring others with you on the journey, such that they *choose* to follow of their own free will (otherwise it becomes an issue of seniority, not leadership). This is predominantly a moral and emotional activity based on one's **values and behaviours** and is valid at all levels within an organization.

- Execution is the ability to deliver results and get things done – what might be referred to as doing things right. This is a physical activity – something happens as a result; it is a function of people, clarity in task and roles, planning, management of time and resources, and learning for continual improvement.

The model is presented like it is, as a triangle, in order to reflect a structure or hierarchy between the competencies and the fact that Direction and Leadership are key enablers of Execution. Execution is the thing which gets measured – the delivery of results, which is itself a function of both behavioural and process issues. Direction is a pre-requisite, to provide clarity in priorities and intent; it is essentially a ‘push’ factor, pointing people in the right direction or applying the Execution to the right problem. Leadership, on the other hand, is a ‘pull’ factor, bringing others with you; it is, in some ways, the icing on the cake.

THE CASE FOR THE VALUES-BASED APPROACH

Ask yourself, what gets you promoted. We would argue unequivocally, Execution. We all want to work for great values-based leaders, but your boss wants results – people who make his or her life easier. At more senior levels, Direction assumes increasing importance, but the measure of success is still delivery. And so that is what gets prioritised. Leadership development and focusing on values is an intellectual leap of faith – a long-term commitment with benefits which are difficult to directly correlate with the investment of time, effort and money. It is viewed as a discretionary spend and can be a difficult sell internally, even more so when faced with uncertainty and pressure on expenditure. Brexit will undoubtedly bring pressure on costs in big organisations, however, the irony is that it is in these times that you need leaders, not just managers.

Case #1 The Military

Both the authors previously served in the military, Justin in the RAF as a fighter pilot, and Amy in the Army, first in engineering and then in support of specialist operations. Both joined specifically for the challenges offered by the functional jobs that they had been selected for. However, in both cases, selection processes are held over several days and include only a small element of functional skill tests. The vast majority of the selection is focused on leadership potential, assessed through a series of psychometric and practical tasks together with interviews.

Then your first 6 months is devoted to officer training. At the time, it’s a ‘hoop you have to jump through’, fitness, drill, carrying pine poles, academic education etc. It’s only in hindsight that we rationalise this experience a little differently – a 6-month deep immersion in organisational values, teamwork, leadership and followership. Only if you pass that, what is essentially a course in values and behaviours, does the organisation bother to teach you some functional skills. Officer first, pilot second...

Case #2 The High-Growth Tech Company

Even within San Francisco’s community of high-growth tech start-ups and self-made billionaires, Netflix is one of the standout success stories. However, its success is not just underpinned by a clever idea, timing, deep funding pockets and disruptive technology. It is also fuelled by its HR policy – see references.

Even Netflix might not have the luxury of 6 months’ training in values and behaviours, but its recruitment and promotion policies are based on a combination of performance AND values and behaviours. And not just paying lip service to the latter. Some highlights include:

- Values are what we value – 9 clearly articulated values which permeate every aspect of the operation
- Unashamed focus on A-player performance (but with the right attitude!):
 - Sustained B-level performance, despite ‘A for effort’, generates a generous severance package, with respect

- No brilliant jerks – the cost to effective teamwork is too high
- Expenses policy – act in Netflix's best interests
- Leave policy – there isn't one
- Highly decentralised execution to drive flexibility and agility – high degrees of trust, autonomy and responsibility
- Employees at all levels are encouraged and expected to act like leaders

The glue joining all of the above is 'the right people' – people whose values and behaviours are aligned with the company's and have the self-discipline and integrity to deserve trust and responsibility. Just like in the military, functional skills need to be best-in-class, but it's a binary test; you're good enough or you're not. The point of difference is values and behaviours.

Put those 'right people' into 'the right culture' and you get an organisational performance outcome which leaves competitors standing.

Case #3 The Financial Argument

There is compelling evidence of the correlation between leadership, culture financial performance and increased valuation. Investors and buyers have realised this fact; conducting due diligence on the leadership of a company is increasingly important when conducting valuations or making investment or acquisition decisions. A summary of evidence is below, with further detail in the references.

Effective senior leadership teams generate better lasting financial and operational performance

1. A BCG analysis (Bhalla et al, 2011) of high-performing organisations found that '*an aligned leadership effective deep within the organisation*' was a common characteristic of the organisations which generated '*lasting performance gains and a competitive edge*'. As an example, the Royal Bank of Canada implemented a change programme focused on leadership behaviours, accountability and taking an enterprise-wide, long-term view. During the next 3 years share price doubled, far outstripping its competitors, which the CEO attributed to the culture change at the top.
2. Herb et al (2001) from McKinsey concluded that '*the prize for building effective top teams is clear: they develop better strategies, perform more consistently, and increase the confidence of stakeholders.*'
3. A study published in the Harvard Business Review (Mankins, 2004) looked at successful organisations that had outperformed their competitors in the market and found in all cases that it was the processes and behaviours of the senior team which was the key to their success.
4. Analysis published by Forbes (Bersin, 2012) found that the effectiveness of leadership across the company, a focus on leadership development and succession planning were the common links to enduring business performance.

Investors and buyers take senior leadership effectiveness into account when deciding whether to invest in or acquire a company. In fact, leadership commands a premium on the value of a company

1. A global study of over 400 investment analysts conducted by Deloitte (Canwell, 2012) found that they judged senior leadership team effectiveness as second most important only to financial performance, when assessing the success of a company. The research also highlighted that effectiveness of senior teams was a particularly relevant factor to analysts when looking at Financial Services, and also when looking at smaller companies. In fact, it was suggested that effective leadership could lead to a premium of 15.7% on the value of a company, and that the opposite had even more impact – ineffective leadership was linked to a 19.8% discount.

2. Hardin and Rouse of Bain (Harding, 2013) found that investors and buyers are increasingly conducting 'human due diligence' on prospective acquisitions. They concluded that the success or failure of a deal is largely down to people-related factors: culture, roles, style of management and decision-making capabilities were all cited as highly relevant. Their M&A advisors therefore recommend that parent companies take increasing interest in researching these elements of a company prior to acquisition; their assessment can affect the price they're willing to pay, and even their decision to go ahead with the deal or not.

CONCLUSION

We have made an argument that leadership is not about seniority but about values and behaviours. Investment in the development of cultural and value-based issues can seem like an open-ended commitment and we accept that it is difficult if not impossible to provide a watertight correlation between investment and return. However, the inductive and anecdotal arguments are overwhelming.

One would struggle to find more performance-based organisations than the operational arms of the military, or a better commercial example than Netflix. In different ways, both place a premium on culture and values over skills – A-player skills are the entry card. And whilst the evidence of that approach is difficult to put a financial figure on, academic studies by the top consultancies provide strong evidence that companies that focus on cultural issues achieve higher valuations.

What price leadership?

About the Authors

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