Winning Leadership Practices

A Process for Achieving Sustainable High Performance

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1. Introduction

Many organizations intuitively accept the assumption that the quality of their leaders somehow affects their bottom line. The why, what, and how questions beg for better answers. The same otherwise competent executives who spend billions collecting, analyzing, and acting on market place data seldom invest the same level of attention to selecting leaders although it is known that leadership practices affect market place performance.

Increasing numbers of organizations measure employee satisfaction and motivation as well as other non-financial performance indicators believed to affect profitability. These measures give managers a glimpse of how well the organization is performing long before the financial results are known. These measures also provide information about how the organization can more effectively achieve its long term strategic goals.

Research indicates that few organizations achieve the benefits of tracking these non-financial performance indicators. Two of the major reasons for this are that organizations adopt boilerplate versions of non-financial performance measurement frameworks, or they fail to validate the cause and effect relationship between their non-financial performance measures and objective indicators of organizational success like stock price, return on capital expenditures, and so on. The outcome of this failure is that financial and non-financial performance measures diverge and organizations incur significant opportunity costs without realizing any of the benefits. How can this apparent incongruity be explained?

There seem to be three common reasons that almost always undermine an organization’s attempt to build effective and sustainable leadership practices.

First, many organizations are impossibly generic in defining what ‘leadership’ means in their specific context. They do not define in specific behavioral terms what superior leaders do, think, or say. As a result, they have a difficult time measuring leadership effectiveness or even agreeing when it does or does not exist.

Second, they have no map or model to use in determining how leadership affects the behaviors of employees and/or customers. In the absence of such a map, they do not see a meaningful way to use their influence to affect outcomes or to influence the complex relationships among the parts of the system that do impact business performance.

Third, many organizations do not discover and adopt a research based set of leadership practices. Leadership practices that affect work unit performance exist that can be identified, tested, and refined and these practices can be to the organization’s approach to finding, growing, and rewarding superior leaders. Most often leadership development is no more than an opinion poll of the organization’s most elite managers. Their unique views as to what constitutes superior leadership may not be the most effective or valid.
As a result, the organization has no way of objectively and validly linking their measures of leadership success to the organizational strategy.

While common, these mistakes are not inevitable. Much is known about how to avoid or eliminate the vagueness, randomness, and fickleness that plagues so many organizations. The selection and development of leaders can be more effective. The following paper focuses on the selection and development of leaders who can achieve results through others. First we look at how the concept of competency relates to leadership practice. Next, the results produced by a longitudinal research are summarized. This research showed a cause and effect relationship between leadership competency, employee attitudes, and business results and served to confirm and refine a model of sustainable high performance. The paper concludes with how the ideas discussed in this paper can be incorporated into a leadership selection and development process.

2. The Competencies of Leadership

Leadership practice affects the organization’s bottom line. What dimensions of leadership practice define effectiveness? We will define leadership practice as the overall competence of a manager/supervisor at achieving superior performance through others. In other words, effective leaders achieve superior results through others. McClelland, et al (1960) provides one of the best definitions of competence:

A competency is an underlying characteristic of an individual that is casually related to criterion-referenced superior performance in a given job or situation.

The italicized terms give specific meaning to this definition. Three are especially important. The concept of underlying indicates that a competency is an enduring part of personality that is related to behavior in a wide variety of situations and tasks. The concept of casually related means that the competency causes or predicts both behavior and performance as indicated by some criterion, such as achieving sustained growth over a five year period, superior work group performance over a three year period, organizing multiple entities to attain a specific vision, and so on.

Competencies are multidimensional as illustrated in the figure below. This figure depicts the five dimensions of a competency. It also illustrates that the actions of superior leaders are based on deep seated motives or core values (the things a person consistently wants and thinks about) and traits (characteristic and typical responses to situations or information), concepts (a person’s values, attitudes and self-image) as well as their knowledge and skills (the information a person has in specific content areas and the ability to perform a given physical or mental task in that area).

Motives and traits are self-starting master competencies while self-concepts are considered to be respondent or reactive motives. For example, a person who is told he or she is in a leadership
test might try hard and even succeed at exhibiting leadership in response to the demands of the ‘test situation’ but if this person does not intrinsically think about being a leader, she or he will likely fail in the long run in an actual leadership role. Ironically, such superficial assessments are often used by organizations to select leaders.

Figure 1: Levels of Competencies

Relative to impact on performance, knowledge and skill competencies are visible and relatively surface characteristics. They can be ‘easily’ developed through training; however, they make only a minor contribution to superior performance (they are the threshold competencies). Trait and motive competencies remain hidden. These deeper competencies and are not easily developed through training; however their impact on performance is large (these are differentiating competencies). Self-concept competencies lie somewhere in the middle and can be changed, albeit, with great difficulty. Often changing self-concept competencies requires professional help. That is why, in the long run, it is more cost effective to select good leaders and develop them.

3. An Applied Research Story

What competencies drive effective leadership and how do they influence performance? The answer to this question is possible only when the cause and effect relationships described in such models are validated. A theory becomes useful only when successfully applied. In the case of winning leadership practices, the theory, when applied, must lead to improved performance. The
confidence that comes from knowing that management interventions will produce predictable and beneficial effects on performance is worth its weight in gold. Wasteful investments can be stopped and redirected to growth investments, lost opportunities costs associated with investment in ineffectual change du jour programs can be replaced with investment in a critical few innovations that yield high returns.

Leadership development provides a case in point. Develop leaders who can engage others to get things done. Begin by selecting leaders who have the capacity to create the conditions that of superior performance. In spite of Swiftian logic, most horses can’t climb trees. Finding the few who can takes good research, research that should take place before any meaningful learning and development activities take place.

To answer to the question "What competencies drive effective leadership and how do they influence performance?" the authors, over a 25 year period, have conducted 100’s of interview with customers, managers, and leaders in many different contexts. The authors also conducted numerous correlational and predictive studies relating to the question of leadership and organizational performance.

The first step in this process was the development of a leadership competency model. The model defined leadership effectiveness in terms of 94 distinct behavioral indicators of competence discovered through analysis of the interview and survey data referenced earlier. Subsequently, a large sample of leaders was rated on these behaviors and the data were reduced through factor analysis. The scales resulting from this factor analysis were then correlated with independent measures of leadership effectiveness. Employee ratings of their manager were positively and significantly correlated with these independent measures of leadership effectiveness.

The resulting correlations, though modest, were promising enough to continue this line of research. The goal of subsequent research was to determine if there were a vital few leadership behaviors that contributed to the observed variations in employee attitudes and subsequently to variations in work unit performance. To do this, leadership effectiveness and employee attitudes about their leaders and the organization were measured at the work unit level and these results were used as predictors of work unit performance (using a two stage least squares regression procedure or structural equation modeling techniques). These analyses revealed that a small set of leadership practices elicited favorable employee attitudes about their work and their organizations and that the favorable attitudes resulting from these practices were correlated with work unit performance.

These data showed that the most successful leaders (as defined by achieving sustainable work unit performance) were those that were most successful at creating a ‘just’ or fair work place (Kim and Mauborgne, 2000). This model posits a positive correlation between the perceived level of distributive justice, voluntary effort, and organizational performance. In terms of the model, a just
work place is one that is high in vision clarity, role clarity, performance expectation clarity, information clarity, and empowerment. More specifically, our research showed that leaders consistently rated very favorably in terms of the following behaviors consistently achieved and sustained superior work unit results:

- Clear strategy and effective deployment of strategy
- A congruence between values and action
- Clarity with respect to expectations, performance standards, and information
- Empowerment
- A customers focus and on providing them quality products and services

Once these critically important behaviors had been identified, validated, and refined, the organization incorporated both financial and non-financial measures into its accountability system as a means of improving organizational performance. Over a 33 month period, the company, which began this period below average in terms of return on capital expenditures moved to number two in their 15 member competitive industry group. They were awarded a prestigious national award for the integrated accountability system they deployed and leadership selection, development, and rewarding became a key strategic priority.

It took time, constancy of purpose and effective applied research within the context of a well-defined model to test and refine the leadership practices model. Management now works on improving lead indicators of performance with greater precision and control and no longer rely on just lag indicators of organizational performance.

4. A Model of Sustainable High Performance

This research illustrated sound procedure with respect to creating valid non-financial performance measures. This research also suggested that there are just a handful of leadership competencies that drive voluntary motivated effort and that high levels of voluntary motivated effort lead to improved performance at the work unit level. In fact, a model to explain these cause-and-effect relationships has evolved from numerous independent research projects (see Wiley, 1996). It is illustrated in Figure 2. The model is based on the assumption that all healthy systems can be characterized by (see Capra, 2002 and Mink, et. al. 1994 for more detailed discussion of this model):

- A shared sense of purpose or high levels of unity around shared values and goals.
- Internal relationships that enable cooperation performance excellence.
- External responsiveness or the capacity to learn and adapt to an ever changing environment.

The important conclusions from this body of research are:
There is a cause and effect relation between executive decision-making (the unity dimension), the leadership practices which evolve from these decisions (the internal relationships dimension), employee attitudes and performance (the external responsiveness dimension), and customers’ loyalty and business performance (the outcome dimension).

A leadership value system, easily observed by employees, that is unified, creates fairness, and emphasizes quality and learning is fundamental to this linkage. When it is observed employees work harder and more competently for the organization.

Specific practices that derive from this value system and that enhance employee effort and productivity include providing employees with the resources, information, learning opportunities, feedback, empowerment, and involvement in those decisions that affect their work.

The factors that drive employee loyalty and effort are positively linked to customer loyalty and satisfaction and are correlated with market share and profits.

It does not seem possible to obtain sustained continuous improvement in an organization’s overall financial and market performance by focusing directly on reducing costs, reorganizing, improving operations, and so on.

Figure 2 – Leadership and Organizational Performance
To create sustainable high performance, executive must create a climate that is perceived to be fair and just employees. They judge this climate based on the clarity of expectations for performance, the degree of valid information sharing, and the depth of empowerment or engagement in the day to day decisions that effect their work lives. It should be noted that a leader who does not intrinsically value these characteristics of climate will not be able to create them because fairness is a deep seated motive competency. When these conditions are present, superior leaders work units will out perform those that do not value climate as described.

5. **Using What Has Been Learned**

Building a leadership development system that consistently generates the right leaders at the right time should be the number one priority for every board of directors and CEO. Through development of such a system sustainable competitive advantage will be gained. This task should be approached with the same vigor and discipline as is so often found in researching the determinants of customer loyalty and by doing so you can exceed your own performance expectations. It should not be viewed with the random and fickle attention so often observed but with the utmost respect and careful study.

According to Ittner and Larcker (2003), a root cause of the tendency to approach validating the cause and effect model of leadership is the failure to identify which specific practices have the most powerful effect on the long term performance of a given organization. The root of the solution is therefore to base decisions on a carefully executed series of linkage studies. In the research described above, a series of logical steps were taken:

- **Step 1** – A model of leadership practice and work unit performance was developed.
- **Step 2** – Data were collected that related to the assertions made by the model.
- **Step 3** – The model was validated using highly available statistical tools such as regression analysis or structural equation modeling and then was refined gradually over several iterations.
- **Step 4** – The relationship between the model and performance metrics was tracked over time.
- **Step 5** – An integrated accountability process was designed and deployed that enabled the organization to base its actions relative to incentive payments, promotions, etc., on both non-financial and financial/operation performance metrics.

The research is abundant and the message is clear: effective leaders create the winning performance that attracts and retains customers and ultimately leads to success. Remember to start at the beginning, a very good place to start.
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