



Getting the true measure of leadership

Redefining leadership for the 21st century

Effective corporate leadership is crucial and much discussed yet everywhere it seems to be in crisis. **Mario Vaupel** suggests an alternative approach.

Leadership in organisations, especially in companies, has become a very popular topic in the world of academics and business writers in the last few decades. A growing stream of publications about the do's and don'ts of leadership offers advice for leaders in conducting everyday tasks in modern organisations.

And several magic formulas for great leadership profess to deliver the ultimate answer of how to guide organisations to long-lasting success.

Additionally, business schools and training providers offer a broad set of learning processes and tools that should help one to become a (better) leader.

Looking at this professionalised world of teaching, writing and speaking about leadership, high expectations of leadership performance seem to be reasonable. Systematically educated and advised leaders should be able to steer their companies through turbulent markets.

The practice of leadership performance in the recent decades tells us a different story.

Looking at the yardsticks of leadership performance – how successful leaders secure adaptability of companies to market developments and customer expectations, manage productivity and innovation, and foster employees' commitment to and public acceptance of the corporate world – there are clear signals of a crisis.

Regarding the first yardstick, the shrinking average lifetime of listed companies in the different stock indices in past decades exposes leaders' difficulties in managing companies' adaptability to the market.

This vanishing of corporate sustainability has been driven mainly by systematic leadership problems in the second performance area, the management of productivity and innovation.

Determined by the unintended and misleading consequences of the shareholder value approach, top managers around the world are forced to concentrate on short-term financial optimisation and therefore spend too little management attention and other resources on critical corporate performance drivers.

Focusing on the short-term financial effects they often reduce staff and investments in innovation. This type of leadership culture systematically damages the productivity drivers of knowledge-driven organisations (the third yardstick), which are people, knowledge, quality and time.

Taking this current reality of organisational leadership performance into account, we have to change some basic patterns in the two worlds – the world of academics and business writing and the world of management – to make leadership a more effective force for companies.

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The Leadership Asset Approach: five necessary steps to reshape corporate leadership

The challenge of increasing the effectiveness of leadership can only be met by a paradigm shift. Some basic patterns in our leadership concepts and the practice of leadership have to change.

The management approaches and practices that foster a short-term view and excessive financial speculations have caused the management disasters of the so-called New Economy in the first years of the new millennium and a second economic disaster that has become apparent since 2008.

This systematic mis-leading of companies, which is characterised by short-term orientation, a mainly financial instead of market, innovation and customer view, and some fundamental mistakes in defining personal, strategic and operational leadership requirements, has to be overcome.

To achieve this, the Leadership Asset Approach (LAA) offers a framework to reshape corporate leadership. Five necessary steps, which can be read as the basic concepts of the more holistic LAA approach, give an initial idea of what leaders have to consider and work on when they try to reshape their thinking and actions to achieve a more sustainable economic success.

1. Reshape the time frame

Since the 1980s, the increasingly popular and widely accepted shareholder value approach has justified the needs of top managers to reduce the complexity of multiple stakeholder expectations and turbulent market developments. The approach delivers the legitimacy to focus – more or less – on the interests of the shareholders; that is, to raise the return on equity.

This management model, which provides corporate leaders with reasons and legitimacy to focus on financial questions, has been an important driver for leadership and corporate failures in the last 20 years. The focus on the interests of shareholders has been pushing corporate leaders in the market economy towards an inevitably accelerating competition for higher returns on equity. The concentration on competition towards always higher returns has disastrous consequences – as we can observe at the end of the first decade of the new millennium – for the stakeholders of the companies and the companies themselves.

Especially critical is the effect of this popular management approach on the time dimension. Competition towards short-term financial optimisation determines the time frame for other leadership activities. But most real business development activities do not correspond with this short-range perspective. Leaders must reshape their time frame and turn the focus of their management practices towards the LAA, that is:

1. secure the liquidity and productivity of the company
2. establish a realistic and ongoing assessment of the costs of staying competitive and communicate these necessary investments to stakeholders

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3. have a deep understanding of how business is determined outside-in

2. Reshape the market view

The next necessary step to increase leadership performance after readjustment of the time frame should be the reinforcement of the above-mentioned outside-in view.

Generally, this challenge requires more top management attention than has been the standard in the last few decades. Specifically, there must be enough management attention for three dynamic and interrelated dimensions that determine the business landscape: socio-technical developments, changing markets and customer behaviour.

These market determinants are always relevant but especially critical in turbulent markets. Under these specific market conditions, the probability of changing strategies too late or choosing the wrong strategy altogether is high. Therefore, it is not sufficient for effective leadership to know a little about market trends on the “buzzword level”. Today, leaders need a serious understanding of how the three sustainable change drivers (SCDs[®]) – demographics, social relationships and socio-technical interdependencies – determine the business landscape.

Leaders should identify market developments – which are always determined in their direction, speed and reach by the SCDs – that will change relevant market patterns and customer behaviour.

By understanding the SCDs-driven business patterns and customer behaviour, leaders avoid organisational and cultural lock-in and establish instead an outside-in view for a market-driven company. Only with this more systematic approach to leading the business outside-in will turbulent markets offer more opportunities than unexpected threats and breakdowns.

3. Reshape the view of leaders' performance

Reshaping the view of leaders in order to foster leadership performance has to overcome one well-established paradox and three classic hurdles.

The paradox reads as follows: the performance of individual leaders matters but the myths about leadership personality (for example, “the great man myth”) are a scientific and practical nightmare.

The three classic hurdles are: to define success-critical leadership requirements; to determine a valid way of evaluating these leadership requirements; and to specify how leadership performance could be improved.

The LAA way to overcome the paradox and hurdles requires a change in basic assumptions and methodologies.

We should give up attempts to explain leadership performance as a product of one or a few attributes, traits, competencies, motives, values, skills or characteristics. In the last two thousand years a lot of time and money have been invested in order to explain the performance of leaders in that way – but all these attempts have failed.

The statistical coherence between isolated traits and leadership success is weak. Furthermore, empirical research has revealed the basic insight that leadership success can only be explained by a complex mixture of variables.

Regarding these lessons from leadership research, we have to look for a different perspective to explain, evaluate and develop leadership performance. Instead of looking through “psychological glasses” we should look first through “market glasses” to define leadership requirements.

Starting with an analysis of the sustainable change drivers and the related market developments, seven performance-relevant mindsets (pattern of feeling and thinking) can be deduced.

These seven mindsets (reflective, analytical, objective-oriented, innovative, network-oriented, worldly and action-oriented) are the individual drivers of leadership performance.

The mindsets determine how and which leadership activities use organisational resources to exploit market potentials for achieving business results. Only along with the leadership activities do the mindsets become observable and relevant.

Thereby the question of how to define, evaluate and develop leadership performance can be answered: the leadership activities are the relevant indicators for the measurement of leadership performance. Using leadership activities as indicators for the performance-relevant mindsets, we can evaluate the degree to which leaders represent these mindsets and – on this basis – design learning processes to improve individual leadership performance.

4. Reshape strategic leadership

Since the foundation of the first academic schools of strategic management/strategic leadership from the 1930s to the 1950s, the terms, methodologies and theories have been diversified. Henry Mintzberg has currently identified 10 different strategy schools. But, walking through the jungle of strategic management, a few fundamentals and strategic activities are increasingly relevant for strategic leadership in a turbulent market environment. These fundamentals and activities have been transferred to the LAA working logic. Following this working logic, the seven performance-relevant mindsets mentioned above should be present and leaders should invest sufficient management capacities in four areas of activity:

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1. The dynamic hedging of the corporate adaptability to market changes as the main challenge of strategic leadership
2. The preparation for the first by transferring the results of the above-mentioned professionalised analysis of emerging developments to activities of strategic alignment and resource allocation. With alignment activities, leaders give a clear orientation and bundle the corporate resources of all performance areas to achieve the strategic objectives. With allocation activities, they decide what corporate resources to use, or not further use, and how to secure the stabilisation, expansion or optimisation of the needed resources.
3. The sensitive and “down to earth” challenge of mixing strategic planning with the flexibility to accept and learn from emerging strategies
4. The profound assessment of whether the organisation will be ready and enabled to transform the strategic activities with sufficient operational performance into business results within the calculated budget and time

5. Reshape operational leadership

The Gallup Engagement Index has documented over the last eight years that the commitment of 70% to 90% of the workforce in industrialised countries is low.

Other Gallup studies, conducted over the last 25 years with more than a million employees, revealed that the immediate leader rather than the policies or procedures of the overall company influence employees' commitment and productivity.

Finally and unfortunately, the Proudfoot productivity studies tell us that one key weakness in generating productivity worldwide is operational leadership.

Combining the results of these studies, we can draw the conclusion that we have to improve immediate or operational leadership to increase employees' commitment and productivity. But what is going wrong with operational leadership today?

In her empirical study *Becoming a Manager*, Linda A Hill discovered that two-thirds of the graduates surveyed used their MBA skills marginally or not at all in their first management assignments. The young managers Hill interviewed told her that management has more to do with negotiating interdependencies than with the skills they learned during their studies. This contrast between what is learned in formal education and what is needed in practice is apparent in higher positions too.

The LAA postulates a shift in the education and practice of operational leadership.

First, we simply have to apply what we know. The majority of definitions of leadership from the 1950s to the present tell us that “goal-oriented influence of behaviour” is the essential characteristic of effective leadership. Taking this insight seriously, we should accept that operational leadership is mainly a communication challenge.

Therefore the LAA delivers an additional framework with which we can reshape operational leadership performance. This framework is closely related to the seven performance relevant mindsets that have been discussed as the drivers of market-oriented leadership performance.

Whether operational leadership is effective and up-to-date depends on the performance of the most important activities linked to each mindset. Most of these activities (for example involving people, giving orientation and delegating tasks) correspond with the communication challenge of operational leadership. With this communication focus of operational leadership (complemented by, for example, analytic and planning activities) the LAA could help to overcome the commitment-productivity trap of the current paradigm of operational leadership.

These five steps – which outline some basic concepts of the Leadership Asset Approach – should be considered when intending to minimise the gap between the promising world of popular writing about leadership and the challenging reality of organisational practice. **gf**



ABOUT THE AUTHOR

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