

## **Defining and measuring the value of leadership**

**by Paul Kearns**

*The original version of this article was published by the Leadership Trust in 2005 ([www.leadership.org.uk](http://www.leadership.org.uk)) in “Leadership under the microscope” (ISBN 0-9540005-2-8) for their 8<sup>th</sup> annual conference at which Paul Kearns delivered a keynote speech entitled “Real Leaders Get Real Results”*

### **Summary**

Most people recognise true leadership when they see it but ask them to articulate exactly what it is that they admire and we immediately come up against issues of perspective and definition. Even if we were able to define leadership, in commonly understood and agreed terms, would it help us to identify and develop leadership capabilities? Paul Kearns builds a case for a model of leadership definition and development that comprises three key components - value, strategy and measurement.

### **What’s the difference between a good leader and a bad one?**

Anyone given the task of dissecting leadership is at a serious disadvantage before they even start. The word itself defies any attempt at accurate or precise definition. It also comes with other complications - it is not a constant; can only really be judged within a unique, historical context; and this usually means we have to judge leadership with the benefit of hindsight. Churchill’s leadership being one of the most obvious examples. His potential only really found its outlet during the Second World War and even then he had plenty of critics and detractors. Nevertheless, we all still tend to believe we can recognise true leadership when we see it even if we realise that, as with beauty, any assessment of leadership remains firmly in the eye of the beholder. Yet the fact that there is no universal measure of leadership does not stop us trying to search out, nurture and develop leadership. The potential rewards for getting it right and the risk of getting it wrong are both just too huge to ignore.

So if we do manage to put leadership under the ‘microscope’ would even the most powerful magnification be able to identify the defining and distinguishing features and characteristics behind the leadership abilities of a John F. Kennedy or a Nelson Mandela? More worryingly, would a detailed look at their DNA only conclude that there is not much difference between the famous and the infamous? Perhaps there is only an infinitesimal, biological quirk that distinguishes them from a Hitler or a Stalin. Leaders come in all shapes, sizes and hues so do we just hope that we get the ones who share our own views? Do we ever know what value they might bring to society or can we actually do something to make that happen? Maybe this whole subject needs a really different perspective if we are to gain any fresh insights.

### **The value of leadership**

The Leadership Trust has a view that “... business performance is driven by effective leaders - those who can truly inspire their people to release their personal and collective potential”

(on Leadership Trust website, April 2005). I am quite happy with this but would like to amend it slightly to offer a variation on their theme -

*The purpose of leadership is to realise the maximum value of human potential*

This is quite a handy definition. It rules out Hitler and Stalin straight away and fits very nicely with JFK's ambition "to go to the moon and do the other things, not because they are easy but because they are hard". It is a very tough standard. Why would we want anything less from our leaders? It is also a 'societal value' view of leadership. It subscribes to the game theory concept of win-win. 'Leadership' that can only produce gains for some at the expense of others is of no interest to society as a whole. The only problem with this definition is that the key word in it, 'value', is itself notoriously difficult to define. So what exactly does value mean?

As the Leadership Trust version refers to "business performance" let us start by asking what value means in a business context. Should we look at market value as a gauge of leadership? On that measure Jack Welch would score very highly on the leadership scale because GE has a huge market value (\$382 billion in April 2005) although he earned his nickname of 'neutron Jack' because of his obsession of getting rid of people and leaving the buildings standing. He also fired the lowest performing 10% of his managers every year. Does that fit comfortably with our goal of maximising the potential of people? There is also the added complication that share prices can go down as well as up.

Bill Gates could be another candidate, not only in view of the enormous market value of Microsoft (\$272 billion) but also because of his philanthropic foundation which gives billions of dollars to good causes and his clear aim of trying to eradicate diseases such as malaria. How comfortably does this sit though with Microsoft's strategy of 'killing off' competitors to monopolise their markets or being sued by the EU for abusing their monopolistic position.

Are these really the sort of 'leaders' who we might want to be society's role models? It looks as though just putting a financial figure on value does not necessarily identify great leadership.

So what if we move into the political arena for enlightenment? Who is the better leader Thatcher or Blair (Clinton or Bush)? Who will be judged as having created the most value for society? Is the UK's National Health Service any better under one than the other, for instance? We could also make a direct comparison on their handling of war. The Falklands war resurrected Thatcher's flagging image while the Iraq war might yet prove, ultimately, to be Blair's epitaph. Both assessments, it has to be said, are based on different perspectives of the justification of wars - defence versus pre-emptive action. Both are value judgements and personal perspectives. So not much chance of an objective measurement scale there then.

One final perspective that might aid our thinking is the world of sport. What better environment to discuss leadership and human endeavour: pushing people to the absolute limit of their potential in the pursuit of excellence? So who is a better leader Alex Ferguson (manager of Manchester United football club), Arsène Wenger (Arsenal) or José Mourinho (Chelsea)? Or is that just another trick question played on us by this elusive thing we call

leadership? Are football managers just that - managers? Surely leaders have to unite people who may have interests that are not that easy to reconcile. Premiership football clubs do not seem to involve any real debate anymore about what its board, its players and its supporters value. No one seems to be too interested in footballers becoming role models of teammanship or sportsmanship. Their goal is as clear as a goal is ever going to be - to win the Premiership. The supporters of football clubs must be willing 'followers' and self-selecting. There is no sense here of the real, fundamental challenge of leadership, which is actually to try and get maximum value out of people when some of them do not really want to play ball.

It looks like every attempt to answer a leadership question results in just another more complicated question being posed. So, in a determined effort to produce a better way forward let us take a step back and begin right back at the beginning. What is the purpose of leadership and, more importantly from a practical perspective, what is the basic proposition that drives our interest in leadership development? Then we can ask how better definition and measurement might help.

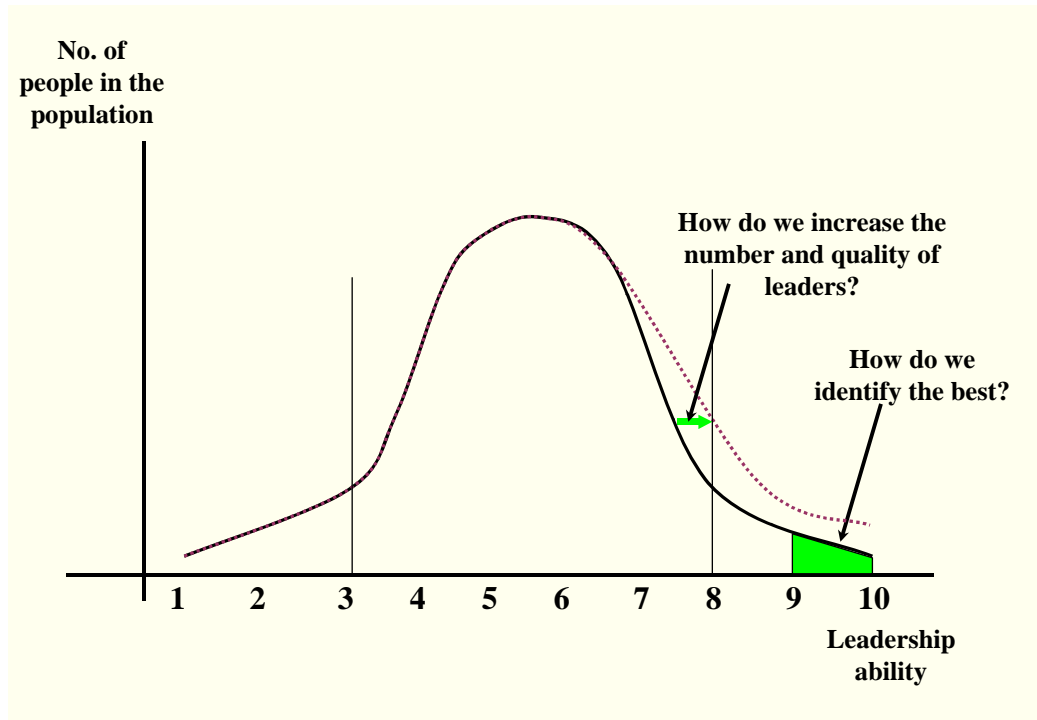
### **The leadership measurement proposition**

So why are we interested in leadership? Because if we can reproduce or replicate it society will benefit. The microscope analogy has particular relevance here. Whatever apparatus we choose must be able to bring leadership into sharp focus with clear definition. We have to be able to observe leadership and analyse it. This microscope not only has to show us how leadership works at an elemental level but also, more importantly, what makes this organism grow. How does reproduction actually take place? Only then can we hope to spot leadership potential and have any chance of cultivating and nurturing it. Is such a piece of equipment beyond our comprehension? Do we have the technology? If so, what might the main components be?

As someone who has spent the whole of his professional life working in the human resource management (HRM) arena I have always seen the role of HRM as attempting to get the right organisational configuration; with the right people; in the right role and performing at the height of their capabilities. Such an obvious and eminently sensible goal and yet one that is fraught with a multitude of issues, diversions, distractions and downright political subterfuge at every turn. This is particularly true as you move up through organisations to try and ensure the right 'leaders' are in place. The Peter principle of promoting people above their level of competence appears as prevalent today as it has ever been - we only need to consider the average tenure of a CEO, or even a Government minister, to see plenty of evidence of this principle in action.

Is this fallout just an inevitable consequence of the Machiavellian attitudes of those clawing their way to the top of the greasy pole or is the answer much more prosaic? Maybe those 'leaders' who profess to having to 'play politics' have really just been using it as a good cover story to hide the fact they were never up to the job in the first place? If so, then we can only blame the methods we use to select and develop effective leadership. After all, we seem to have arrived at a situation where the most powerful jobs in the country, including the Prime Minister, all MP's and Chief Executives, require no formal qualifications at all. No

wonder we still have a serious leadership problem and the only way out of this problem is to have a stab at measuring leadership ability both before and after the fact. Perhaps even a subjective measure of leadership, but based on a commonly agreed scale, is better than no measure at all.



**Figure 1. The leadership development proposition**

Consider the continuous line graph in Figure 1 above, which is a simple, normal distribution curve based on the theory of probability. Ask any measurement question of any people variable such as height, weight, intelligence and this theory says there will only be a very small number at the top end of the range. If this holds true for leadership ability then the challenge to society can be expressed simply as 3 options (\*): -

1. How can we, in some way, raise this level of leadership ability (shown by the dotted line shift)?
2. How do we ensure that only the best (those with 8 and above) find their way into positions of leadership so that they can make their greatest contribution?
3. What can we do to ensure that the worst candidates (anyone with less than 3) do not get into such positions?

As you are considering these questions it might be worth just reminding ourselves of a particularly irksome but, unfortunately, unalterable fact of life. We can only manage what we measure. So, while such a construct is of great interest, conceptually, there is no way of producing or managing this curve unless we can develop meaningful measures of leadership ability. We have already identified a host of issues that bedevil the subject of leadership definition, and they are all thorny, but a failure to grasp the nettle of measurement will inevitably be the biggest obstacle to progress. It might be problematic but when the only other option is for leadership to happen by chance or default what do we have to lose? Could

we not raise the probability of getting better business and political leaders simply by trying? Our recent track record is certainly nothing to be particularly proud of, especially if judged against our prime criterion of societal value.

## **Leadership, strategy and value**

If we pull together several of the strands of this article we can see that if leadership is about creating societal value we need to have a consensus view in society on what is valuable. Not everyone will perceive value in the same way but that is precisely what an effective leader would do. Let us look at the NHS from this perspective as an example.

What is the value of the NHS? Is that a philosophical question or one of hard numbers of patients treated per million £'s spent? Maybe the very fact we have trouble answering it is proof that the NHS has had little clear leadership since its original vision from people like Nye Bevan at its launch in 1948? Is its purpose to provide health? Or do IVF treatment and cosmetic surgery have an equal right to its resources, even though they may not fit the original definition of 'health' problems? The answer in reality is it depends and, in some cases, is dependent on nothing more than either where you live or how loudly you shout.

Now before this inflames any readers I am not putting a case for or against IVF on the NHS. All I am highlighting is the fact that we have no clear leadership on these issues. You can only lead if you know exactly where you are going. Without clear leadership we cannot have coherent policies and without clear policies those who work in the NHS will always be open to criticism for the way they allocate resources. Hence we will have no way of gauging the value of the extra billions of £'s being poured into the NHS and no employees in the NHS will be able to look at how they might add more value.

Leadership is about making choices. The consensus for supporting cancer treatment on the NHS is probably taken, quite rightly, as a given. IVF is a much more difficult choice because it is not a 'matter of life or death'. Every penny spent on it means a penny less spent somewhere else, where society's consensus may put a higher value. Political decisions aim to win votes. Real leadership decisions aim to maximise societal value from limited resources. These two aims do not have to be mutually exclusive. Two-a-penny politicians will always choose the votes option. True political *leaders* will aim to make both causes mutually inclusive and reinforcing.

The one step that we have missed out here though is 'strategy'. A strategy, for the sake of brevity, is a grand plan that pulls together competing demands towards a common goal. Strategy always involves very difficult choices (IVF or more cancer screening equipment?) and it is those difficult choices that only effective leaders can reconcile in the eyes of the majority of the interested parties. The opposite of strategy is knee-jerk reaction. Short-term solutions that aim to placate the most vociferous at the expense of dealing with underlying issues. NHS waiting lists are a symptom of a whole range of organisational issues. Setting targets to reduce waiting times and allocating resources to achieve that target might score 1 out of 10 in strategic terms but 10 out of 10 for the person actually waiting for the operation. These are different perspectives but only one is a gauge of leadership and that is the value added per £ spent.

Let us apply the same thinking to a very mature sector - the car industry. Market values tell us that Toyota (\$127 billion) has left its erstwhile rivals standing (Ford and GM \$22 and \$19 billion respectively, as at March 2005) and the trends are up for Toyota and down for the Americans (at the time of writing GM's credit rating is at 'junk bond' status and is in danger of filing for bankruptcy). Yet we have already questioned the validity of the macro financial picture in gauging leadership effectiveness so we need to increase the magnification and look in more detail at what is happening behind the crude numbers. In GM's case the huge burden of pension and healthcare costs are cited as one of the reasons why the company is now in such a parlous state. In other words, senior GM management must have bowed to employee pressure in the past to offer a level of benefits that their ineffective management could not deliver. In effect, they did not enable their employees to create enough value to pay themselves what they felt they deserved. Put this way it makes GM's leadership look like it deserves a score at the bottom end of the leadership ability scale.

Toyota, on the other hand, would never offer its employees anything it felt it could not deliver. It would also point out to its employees that only they, ultimately, can create the value required to pay themselves. Clear leadership that is willing to tell both sides of the story: the good news as well as the bad. But this leadership approach and the solid 'psychological contract' on which it is founded did not happen overnight. Here is a quote from one of the founders of Toyota, Eiji Toyoda, when he wrote his biography of the company on its 50<sup>th</sup> anniversary, on the subject of employee relations: -

*"Mutual trust is the basis of labour relations. Labour relations at Toyota were initially marked by doubts and disbelief, but with time differences were ironed out. The labour-management declaration we signed was simply a written statement of this rapprochement. The purpose of this document was to uphold and sustain the trust that had been built up... and to prevent backsliding by either side from this position. It also was intended as a reminder to those who came after to guard the fruits won through the sacrifices made by both sides. ...it took about 10 years for that relationship of mutual trust to take hold. The spirit of this declaration still lives on at Toyota."*

Eiji Toyoda, "Toyota - 50 Years in motion" Harper & Row 1987.

Now, if we compare this with their other erstwhile competitor Ford, does Ford have a leadership with a coherent view of employee relations? How strong a leader would Ford now need to start a change in attitudes that might take 10 years, when the markets are demanding immediate action to stem losses? Even if Ford found such leaders would they actually know what to do? Charismatic leadership can often appeal to the masses, and even shareholders, in the short term but leadership that comes without a depth of knowledge and understanding of how to get the best value out of people cannot hope to provide society with what it needs in the long term.

## **Leadership development**

Against this background we have finally arrived at the issue of actually developing leaders and this has to be an area that demands urgent attention. Very little, serious effort is made to

provide the organisational leaders of the future with the real skills and knowledge they will need to do the job effectively. Henry Mintzberg in his book “Managers not MBA’s” berates business schools for providing theory and not practice. Leadership can and should be studied but it can only be truly developed in a real time situation and context. Managers in a car company can learn all about Six Sigma and how to apply it but only leaders will ensure that everyone works together towards a common goal. Employees who see their own redundancy as an inevitable consequence of efficiency improvements will need some strong leadership to turn their natural, personal perspective from negative to positive.

Conversely, business leaders or politicians who only introduce popular policies or have to use spin to get unpopular policies accepted have already broken two of the golden rules of leadership. Popularity does not guarantee that the policies are valuable (e.g. curbing immigration could reduce value for everyone) and hiding the truth (i.e. fiddling the figures) will only ‘lead’ people in a false direction.

So where does this leave us? I am conscious that I don’t want to finish this article with more questions than answers so let me at least provide an answer to the 3 specific options I posed earlier (\*).

The answer to the first question is the simplest. Leaders need much more knowledge and understanding than they currently possess and this can be prescribed and delivered to a wider audience and in more depth and detail than currently happens. We need to spend much more time on it and also help future leaders gain a deeper understanding of, for example, the *philosophy* of kaizen (continuous improvement) and its human implications, than the mechanistic techniques associated with such thinking (e.g. Six Sigma). But this is most certainly not an argument for more MBA’s. Once the basic knowledge content of the job is evident there needs to be an honest and clear-headed assessment of actual leadership ability (e.g. coherent strategy, clear articulation of how value will be created, gaining commitment to a common cause).

The second answer is that such attributes can and should be tested and assessed in real time, and continuously over time, so that our picture of the ‘best’ is as accurate and as meaningful as it can be. The measures we use may not be perfect but the very attempt to measure leadership will, in itself, apply a discipline that should result in a higher probability that leadership will result. What gets measured gets done. But time and attention has to be built into busy operational schedules to allow this to happen. A couple of days out of the office every year on a leadership course is not the solution we should be seeking.

If my proposed answers to the first two questions provide no easy options then the answer to the third question is probably the most unpalatable of all. Leadership is only really a key issue when a long-term, value creation context is present. The NHS, law and order, foreign policy and international competitiveness are all examples of the areas that can significantly raise levels of societal value. That value will only come when everyone working in these organisations is agreed on what constitutes value and then how they can all work together to improve it.

This is a lesson that the commercial world still has to learn and re-learn. Organisational 'leaders' who ask middle managers to cut costs with no counter-balancing measure of a potential loss in service or quality will not drive behaviours that produce more value. Managers themselves have a leadership role in such circumstances. They can stand up and be prepared to be counted in telling their organisations that value is being destroyed (e.g. the local authority shutting down a library saves money but removes its service and value to the community).

Either way, it is high time that leadership and value were more closely connected in everyone's eyes. We need to make sure we can recognise the potential value that is on offer and distinguish it from meaningless targets and PR spin. If we can do that then the leaders we appoint and choose to follow will know that we can judge them accordingly and hold them to account.