By Sir Andrew Likierman, Dean of London Business School

Successful leadership – *how would you know?*

Boardrooms and business school classrooms are equally preoccupied with leadership, and success is often assumed to be about profit or Total Shareholder Return. It's neither. Increased profits or share price can have more to do with good luck than good leadership. Objectives can be set low so they are easily beaten. And leadership is just as important in bad times as when things are going well. For leaders wanting to measure their own success, for those who appoint leaders to know what they are aiming at and for outsiders assessing the quality of leadership, Andrew Likierman shows how to do it.

Was Julius Caesar a successful leader? What about Genghis Khan? Or Simon Bolivar? Or Napoleon? Because we tend to think of these as military leaders, the answers look pretty straightforward. Each achieved major military successes. But then Napoleon was ultimately defeated – does that make him a failure? After all, he won a lot of battles before Waterloo and his sweeping political and legal reforms have been the basis of the French administrative life for nearly 200 years.

Napoleon

Now let's move to the politicians. How do you feel about describing Bill Clinton as a successful leader? George W Bush? Tony Blair? Vladimir Putin? Altogether more difficult ground here. Some of you will have already decided. Those of you who have not made up your minds could argue that it is too early to say. The historic verdict on George W Bush and Tony Blair will probably depend on what happens to Iraq over the next 20 years. Those better-informed about Russia than I am can make up their own minds about Mr Putin.

Moving next to business territory, with a few exceptions – say Bill Gates, Herb Kelleher (Southwest Airlines) and Jack Welch – leaders generally have to be dead to be agreed to be successful. No problems with Henry Ford and Alfred P Sloan then. But with current CEOs, successful leadership is work in progress. Judgements are particularly hazardous in mid-flight - Bear Stearns and Northern Rock were hailed as run by highly successful leaders before the credit crunch.

For those who want to check on their own leadership success, for those who appoint leaders and for outsiders (including analysts and competitors) assessing the quality of leadership, checklists of traits are not enough. Nor are comparisons with Jack Welch, Bill Gates or even Genghis Khan. What's needed is to know what the problems of measuring success are and how to overcome them. Read on.

Setting up the basis

A number of preliminary steps are necessary to make sure that measurement is going to be robust.

Preliminary step 1. Agree what we're measuring. Do you, like Warren Bennis feel that leadership is "hard to define, but you know the quality when you see it". The trouble is that, if you do, there's a danger of talking at cross-purposes about what makes leadership successful.

The danger is illustrated by looking at the huge variety of ways of defining leadership. Stuart Crainer identified 9 strands in leadership theories: the Great Man, trait, power and influence, behaviourist, situational, contingency, transactional, attribution and transformational. Leading authorities provide a variety of approaches. My London Business School colleagues Rob Goffee and Gareth Jones have emphasised authenticity and skill, Jim Collins suggests humility is critical, Abraham Zaleznik has the focus on personality, John Adair on the working of the team and on meeting the needs of the individual, James MacGregor Burns on the transformational qualities of charismatic leaders, and John Kotter on establishing direction, aligning people, motivating and inspiring.

So getting an agreed definition is an essential starting-point point in measuring success, because it avoids problems later. But note that this is the beginning, not the end of the story. Just being a leader is not the same as being successful, any more than getting into the driving seat makes one a good driver.

Preliminary step 2. Focus on outcomes, not inputs. Because much of the literature on leadership focuses on the attributes or qualities a person needs to become a successful leader, it's usually assumed that exhibiting those qualities or attributes will be translated into success.

But success can't be about having skills (strategic, operating etc) or personal qualities (drive, inspirational, openness etc). A leader can tick off all the lists and still not succeed, since the skills and personal qualities may be necessary, but are not sufficient conditions of success. Success is about results, not characteristics. It's no use defining yourself as a successful leader because you have charisma if the shareholders see you leading charismatically in the wrong direction. The high turnover of CEOs is testimony to how much success is seen as being about results, not style or characteristics. Bob Ayling, CEO of British Airways and Clive Thompson, CEO of Rentokil were two high high-profile British CEOs previously held up as model managers but who were ousted because they failed to deliver. That's true even of founders, as with the Anita and Gordon Roddick at Body Shop.

Preliminary step 3. Make sure the data is as robust as possible. It's one of the big practical issues of performance measurement. Just how robust is the data being used? Say you wanted to compare yourself as a leader to others. The others – especially competitors – might not be ready to reveal as much as you'd like, particularly those plans that they made and hadn't come off. So it could be very difficult to get as much data for others as you have for yourself. Realism is necessary here and a judgement will have to be made on the information available.

Leaders are not always the best judges of their own success. Many are better at rationalising their mistakes than admitting to failure, which is why leaders' judgements about themselves are usually taken with a pinch of salt.

For outsiders, there's another, more sensitive aspect to the integrity of the data. As Stalin cynically noted "It's not how people vote that counts, it's who counts the votes".

Leaders generally have a big influence in the way data is collected and presented, not just because the PR function reports to them but because there's an understandable hesitancy to question what a leader is saying, especially an apparently successful one. Only at a time of crisis does the issue of whether what's being reported is right come under serious scrutiny, as with Jeff Skilling at Enron or the dominant Tanzi family at Parmalat. Any claims of success which can't be independently verified need to be treated with caution, not taken at face value.

Leadership is not just about those at the top

MEASURINGTHE RESULTS

Having sorted out the preliminary steps above, it's much easier to tackle the challenges of measuring.

Step 1. Set up the framework.

a. Agree objectives. Once there's a definition of leadership, more precise objectives need to be sorted out. Is the job to transform the organisation, or to make one that is already doing pretty well operate leaner, meaner and faster? In the jargon, is it transformational or transactional? Is it about team-building or bringing on future leaders? Successful leaders could be one or the other, great leaders are going to be both.

In larger organisations, setting objectives should be part of the formal annual appraisal process. In smaller ones, the process may be less formal, but it's still important to make them clear and if possible put them in writing. For those who are looking to appoint leaders to run an organisation, defining objectives is crucial in making informed choices about the kind of person they want.

But the outcomes of a transactional leader, such as greater efficiency of operations, better morale or a better talent management programme are more difficult to track, particularly for those outside the organisation, than transformational leaders pursuing an acquisition or diversification strategy. For example it's easy to identify the leadership impact of Lakashmi Mittal or Rupert Murdoch. It's not too difficult to identify the leadership success of Anders Moberg in taking over from Cees van der Hoeven to clean up the Dutch supermarket giant Ahold, or Dieter Zetchke coming in at Daimler after Jurgen Schremmp to get the company back on track after the failure of the Chrysler merger.

More problematic is the assessment of the leadership of the "Hidden Champions" - world-class German Mittelstand (medium sized) companies identified by Herbert Simon. Their leaders are rarely well-known, not only because the companies are unquoted but because they are often led by transactional leaders, whose steady efforts to maintain the companies are less public than for those CEOs whose changes are more easily meas-

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urable. So objectives for transactional leaders need to be framed in terms of identifiable sub-tasks to trace the leadership element in meeting objectives.

b. Find the right comparisons. A successful leader is successful in comparative, not absolute terms, and the starting point has to be against objectives. These will have to be set out beforehand (making them up afterwards is definitely not acceptable), may need to be changed over time to respond to changing circumstances and not all need to be fulfilled. But the degree to which a leader meets his or her stated objectives will be a key factor in judging success. John Browne's ambition to take BP into the league of world oil majors was realised through a series of huge takeovers. It was one of the reasons why he was judged to be such a successful leader in the early years of the 21st century. On the other hand, failure to achieve his objectives is just one of the grounds on which Hitler can be judged to be an unsuccessful leader.

But meeting objectives is not enough, any more than is defining leadership. The level at which objectives are set is a function of many factors, one of which is often a desire to meet them by aiming low, so comparisons also have to be against a relevant peer group. The share price may be tanking, but if it's tanking less than the others (some of whom are going bust), this may well be a signal of successful leadership. Similarly if the share price is going up significantly less fast than competitors, it may be that poor leadership is seen as a factor by the markets.

c. Assess handling of opportunities. As well as comparisons with objectives and a relevant peer group, a third comparison is with what might have been, including whether possible opportunities have been taken or foregone. One of the things that differentiates a good manager from a good leader is that the former is more focused on existing plans and objectives, the latter on additional opportunities as well as current plans. These opportunities are not easy to measure. The counterfactual (what might have been) and opportunities missed may take a long time to become clear. Arnold Weinstock was lauded as a great industrial leader to the end of his tenure as CEO of (the British) General Electric Company. But with the benefit of hindsight, it is clear that in his last years he failed to take crucial opportunities.

Grasping opportunities cannot be on the basis of a plan, so an internal comparison isn't relevant. What's needed is a basis of comparison with others in the sector or the industry, using judgement to see how others have taken the opportunities offered or not taken up. One example is Jorma Ollila, who led Nokia from being a local Finnish company to one that took on the long-established competition, including such industry giants as Ericcson and Motorola. Another is Ingvar Kamprad, the founder of the phenomenon that is IKEA.

Step 2. Use judgement to interpret. Comparisons with stated objectives, a relevant peer group and with opportunities are rarely straightforward. The world's major banks or utilities, for example, have very different regulatory environments. They, and engineering and pharmaceutical giants operate in many different kinds of markets and provide a different mix of products. So deciding who is a successful leader in banking, or any other industry, will always be a matter of judgement. This is one reason why those arguments about "Who is the best CEO (or general, Prime Minister or President) of the 20th century (or all time)?" are so unsatisfactory.

Another key element in interpretation is the effect of lags. When someone who is seen as a successful leader steps down, it is usually to the accompaniment of toasts to their achievements and statements of undying conviction that they can never replaced. Within weeks, however, doubts often set in and questions are raised. Was that acquisition really so successful? Did we really need to go into that market? In part this is about adjustment to the new regime, but the more fundamental questions usually relate to the lagged effects of actions taken during, or even before, the leader's years in office.

The effects of lags are evident in recent credit crunch victims, whose problems can be seen to be rooted in decisions about exposure to financial instruments taken many years before, as with AIG's decision to hire a group of derivatives specialists from Drexel Burnham Lambert. Conclusions are all very well in retrospect, but judgement is necessary on the effect of such lags before the consequences become clear. Is an expensive hedge on oil prices to the end of 2009 at $100 a stroke of genius or a costly error?

Few leaders escape the effects of lags unscathed, even the managerially saintly Jack Welch. He, rather than his successor Jeff Immelt, has increasingly been criticised for the poor performance of the GE share price since he left. The company, it has been argued, should have been left in a better position to continue to grow. The effect of lags is probably the toughest of all the challenges in measuring the success of someone currently leading an organisation. This is why rushing to judgement on today's CEOs is such a hazardous business and recognising this as a problem is essential in measuring success.

Finally, care is needed to separate having the good fortune to be in the right place at the right time from successful leadership, just as we need to separate failure from being in the wrong place at the wrong time. "A rising tide lifts every boat". As always, Shakespeare has been there first. Successful leaders are not linked automatically to profits, or indeed to Total Shareholder Return, cash generation or economic profit. Successful leaders in the property industry need to lead through the regular cyclical downturns in the industry, not just when all property prices are rising. The trouble is that a halo effect surrounds company success and judgement is needed to make sure that it is separated from leadership.

Step 3. As far as possible, reconcile the needs of different stakeholders. You probably wouldn't describe someone as a successful leader if they'd just fired you. Or join in acclaiming the CEO as a great leader if you knew that increases in profits were being gained by exploiting child labour in Bangladesh. There's not necessarily going to be unanimity about what successful leadership means to every stakeholder and even if the objectives are set out clearly, success won't mean the same to everyone. Your extra profit could be my redundancy. Or it could be everyone else's excessive carbon footprint.

So it's possible that the views of different stakeholders won't be reconcilable, any more than the views of some trades union leaders or some environmental campaigners are reconcilable with the actions of some managements. If that's so, the measurement of success has to recognise a multiplicity of views. This also applies to outside comment. In public opinion polls, Richard Branson is regarded as a highly successful business leader, but readers of Tom Bower's biography of Richard Branson are treated to a scathing analysis of the man and his – according to Bower – lack of achievement. As an outside comment, the book can be taken as fiercely unbiased and independent or an outrageously partial hatchet-job. But unless Virgin goes bust, it's unlikely there will be a single view of his success.

Conclusion

Successful leadership isn't what leaders do or who they are. It isn't just what the organisations they lead manage to achieve, which may be down to very many other factors. Successful leadership is about a successful outcome against stated objectives combined with comparisons against a relevant peer group and the way in which opportunities are handled.

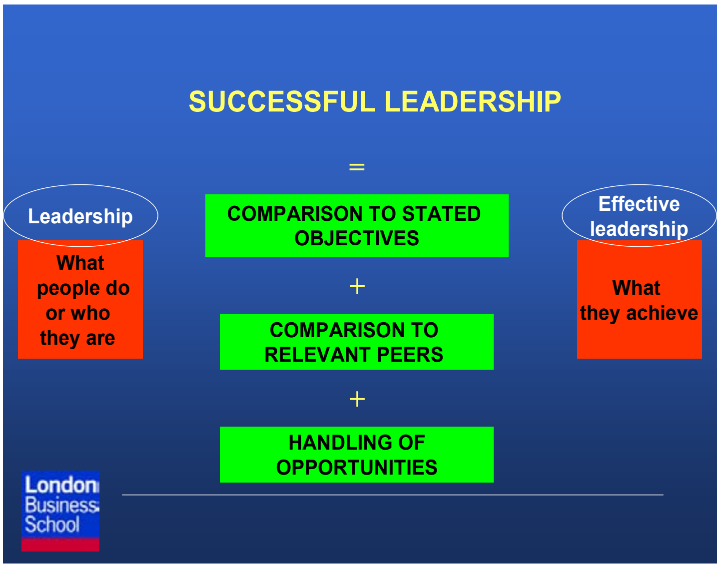
It's also important to remember that leadership is not just about those at the top. The examples given in this article are mainly well-known CEOs to illustrate the points. But it's important to measure leadership at any level.

For those who want the measure their own success as leader, the essentials are

- Make sure you set out your objectives (in terms of outcomes, not inputs) so that others know what they are, particularly those who will be assessing your performance.
- Find relevant comparators
- An awareness of how opportunities are handled – both those taken and those missed
- In interpreting the information, recognise the measurement problems and take steps to mitigate them. If you are a transactional leader, make sure you have definable objectives. If lags are a problem, establish milestones.
- Recognise that the result is a matter of judgement and, if you don't trust your own, ask someone independent to do it for you

Those who want to measure leadership in others or choose someone for their leadership qualities, the same essential elements are required. The element of judgement for those outside the organisation will obviously be far greater, since the objectives and information on handling opportunities (including all those bad deals turned sown) will probably not be known. By contrast, someone inside the organisation measuring the leadership of a colleague (as when a Chairman is assessing the CEO's performance), the relevant comparators and the basis for making judgements should be agreed.

In measuring your own leadership or that of colleagues, it's not really the conclusions that matter as much as the benefit of having to define objectives, find comparators and awareness of the importance of handling of opportunities. It's also about finding that goldmine, the candid friend. For outsiders, it's about turning a vague impression into an informed judgement. Successful leadership is an elusive quality. It's worth a better class of measurement. ▲



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