"Identifying & Building Leadership Capability"

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White Paper

About the Author

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Introduction

The origin of this white paper stems largely from my own nagging concerns about the methods my colleagues and I have used in the past to assess and develop leaders in organisations. Feedback from managers and stakeholders indicate they were satisfied with the insights and results gained, however, my frustration remained that, somehow, we were falling short in assessing and subsequently equipping managers to be genuine leaders. It seems the nature of the challenges leaders face are becoming increasingly complex. However, the methods we apply to developing their skills have stayed the same. Managers are regularly thrust into leadership roles into which they don't have the necessary skills and behaviors to cope. With the aim of getting as many different perspectives as possible, we have compared the literature and the vast amount of data available on organisational development and leadership. This whitepaper outlines research undertaken to identify the common *capabilities* (defined as a combination of attributes and traits that lead to sustainable behaviour) for executive roles. We attempt to show how taking a capabilities approach and considering the pragmatic realities of organisational requirements, provides a logical and practical framework for the identification, selection and development of leaders.

Leadership Literature

Research into the development of leadership not only goes back centuries but is littered with a multitude of definitions, frameworks and philosophies reflecting a diverse range of views.

Different philosophies such as situational theory (circumstances dictate which person will be a leader as much as the individual's traits) and trait theory (the individual capability of the leader) have been among the most common frameworks for understanding leadership. In the organisations we work with, we recognise a link between the unique characteristics, attributes and capabilities of individual candidates and the specific role requirements (which we consider the situational circumstances the candidate has to work within).

However, we wanted to answer a different question to help establish if there are certain characteristics that <u>all</u> leaders have in common, regardless of the role and industry. Our question then became twofold. Firstly, what are the common capability requirements a leader needs to have? And secondly, how are these different from the transformational requirements for specialist executive and managerial roles?

If there *are* common requirements then it seems only necessary for them to be identified for potential external candidates and subsequently nurtured in potential future leaders to build up the leadership bench-strength of an organisation.

Early Research

Early research into understanding the individual characteristics of leaders suggests that effective leaders have common characteristics that are typically aligned to high cognitive reasoning ability and broad personality traits such as, extroversion, conscientiousness, openness to experience, and general self-efficacy (the capacity to judge one's own competence to complete tasks and reach goals). Research relating to transitioning into executive roles suggests a range of capabilities that improve the chances of a successful transition. Although different studies emphasise different capabilities, a consolidated picture emerges that incorporates: strategic thinking skills; personality traits (especially extraversion and conscientiousness); interpersonal skills; transformational leadership behaviours; psychological capital business acumen; and organisational support as important factors influencing a successful transition into executive leadership roles. Being high in work centrality facilitates this transition (Ng et al., 2005; Judge et al., 1995). Spreitzer et al. (1997) argue that sensitivity to cultural differences, business acumen and interpersonal skills, are needed

while Russell (2001) adds customer interaction and product planning skills to this list of capabilities.

Developing capabilities necessary for the successful transition into leadership requires developing the ability to: influence outside of their knowledge base; deal with conflict; use their competitive drive to 'win' in business terms; think longer term and strategically; motivate staff and deal with issues of equity and development; set clear unambiguous goals and facilitate goal achievement with others; share information more readily; and take an interest in the challenges and initiatives of peers cross functionally (Russell, 2001; Spreitzer *et al.*, 1997). In a large survey of leaders (N=800) the Corporate Leadership Council (2001) found that the top five characteristics most important for effective leadership were: "honesty and integrity"; "clearly communicating expectations"; "recognising and rewarding achievement"; "adapting to changing circumstances"; and "inspiring others". Leaders also rated the most effective strategies for improving executive capabilities as "implement and calibrate an executive coaching program", "leadership development plans", "provide the right kind of feedback", and "train leaders in people management" (p.61b). However an awareness of the need to develop their own capabilities was not clear in leaders' responses. When asked about the least important leadership characteristics, leaders rated "being committed to your personal development" above other characteristics.

In their qualitative exploration of the abilities of CEO candidates, Kaplan, Klebanov and Sorensen (2008) found that leadership characteristics fell into two categories: one of general ability and the other of bi-polar dimensions of interpersonal and team-related skills (descriptive of team work, respect for others and agreeableness) versus execution-related skills (descriptive of organisation and analytic skills). They also found that organisations were more likely to invest in CEOs with both categories of abilities though success in the executive role was more strongly related to execution skills rather than team-related skills. Empirical evidence on traits for effective leadership is inconclusive mainly because research designs focus on different characteristics (Northouse, 2009). It is unsurprising that leaders themselves are conflicted about the requirements for 'leadership making'.

Avolio, Walumbwa and Weber (2009) suggest that the future of leadership development will be in refining how we define the content of leadership so that we can better understand how to develop it. "The field of leadership has done surprisingly little to focus its energies on what contributes to or detracts from genuine leadership development" (p. 442). They also suggest that more attention should be paid to

'strategic leadership'. Strategic leaders define the vision and moral purpose (of an organisation), translating it into action. Strategic Leadership is a means of building the direction and the capacity for the organisation to achieve the directional shift or change. This translation requires a proactive transformational mind-set which strives for something better, rather than the maintenance approach of transactional leadership." (Davies & Davies, 2010). Carmeli, Gelbard, Gefen (2010) argue that strategic leadership (or innovation leadership) involves encouraging individual initiative, creating a working environment where quality relationships are valued, fostering trust as well as promoting the capacity to learn, change and adapt in high-velocity environments.

Strategic leadership is more than strategic planning. It involves vision and direction setting and having a broad organisational perspective. It involves planning into the future and working backwards through policy to achieve these goals. This means that the strategic leader needs to apply focused action and considered decisions that position organisation to best advantage to maximise goal attainment. In order to do this, the strategic leader needs to collaborate with multiple stakeholders and put in place strategies to respond rapidly to solve complex problems that require new ways of thinking and understanding of rapidly changing knowledge. (Quong and Walker, 2010).

Given the range of perspectives in defining leadership abilities and success in the leadership role, it becomes vital that these models are rigorously tested and evaluated to ensure the efficacy of the coaching approach used in leadership development.

Whilst a trait-based model is a useful broad framework for understanding leadership effectiveness, in my view, it is not specific enough. Nor does it take into account individual circumstances and contextual differences within dynamic systems. Criticism of trait-based models posit that there are many examples of successful leaders who don't have all of the stated attributes, yet are still able to achieve organisational goals and imperatives. This suggests that context is as is an equally influential factor as the individual characteristics of the leader. So what does this combination of traits and context tell us? And what is the missing link in understanding leadership effectiveness?

In order to investigate this further, OPIC Leadership undertook the assessment of candidates for Principal and Partner roles for two leading consulting firms, Ernst & Young® and KPMG® from 1996. The data collected from these 1200 assessments, allowed an understanding of the unique capabilities required for the successful transition into leadership. The Board was most concerned with understanding the medical and psychological

readiness for candidates to move into these more senior roles.

What became clear in the review process was how "being of sound mind and body" did not guarantee the candidate's readiness and suitability to take on the requirements of senior roles. On closer examination of existing candidates and the contexts in which they operated, it became apparent there were significant differences between roles requiring technical expertise versus roles requiring a focus on internal and external stakeholders to enable the organisation to grow.

Interviews with existing partners shed further light on the issue and formed the basis of a theoretical framework. It suggested that the distinguishing challenges of senior roles, in particular Partner roles, were as follows:

1. **Business development** - focus on building new business, maintaining client contact and being competitively driven to win.
2. **Broad based influencing** - integrating with fellow stakeholders such as business partners to be able to collaborate, share resources, resolve conflicts and deal with issues outside of purely professional expertise.
3. **Strategic orientation** - set a strategic direction within the organisation, adapt to external/internal changes and to deal with the need to improve existing processes and plan for the future.

4. **People leadership** - lead people, including the ability to manage performance, manage budgets, and develop staff to get buy-in to a broader strategic vision.
5. **Results orientation** - achieve results whether that be via driving outcomes, mitigating for risks or working in a structured, methodical and organised manner.
6. **Resilience/Potential** - deal with conflict and manage higher levels of work-based stress, included the ability to adapt to the external environment.

This initial model has been validated over time and forms the basis of an Executive Capabilities Framework™ (ECF™) that distinguishes between a candidate's technical abilities (including professional expertise) and their ability to execute the leadership or executive challenges of a senior role. It takes both traits and organisational/role context into account.

The ECF™ ultimately focusses on predicting a candidate's ability to deal with those aspects that really count in senior roles: competitive, commercial and business development requirements; the ability to influence and get buy-in; the capacity to adapt to change and set a strategic direction (including challenging existing ways of thinking); the capability to lead people and to take people on a strategic journey; proficiency to achieve results either through driving outcomes or planning and execution; the ability to deal with stress and

conflict; and the ability to adapt to change. These core "capabilities" became the central focus for development and external selection of Principals and Partners.

External panels could now focus on candidates' demonstrated professional expertise or track record and rely on the ECF™ to fill in the gaps. Whilst there were some unique requirements within particular organisations, the need to build business, influence, lead people, think strategically and achieve results were common across all senior roles.

The Current Process

Over time, the model has been reviewed based on an understanding of what executive capabilities look like in the current social and economic environment. The key strength of the current ECF™ is that it conceptualises leadership as an *outcome* of the application of particular executive capabilities rather than simply focussing on leadership as a set of traits or chartacteristics that leaders either have or do not have.

The Current Executive Capabilities Framework

Years of data collection and examination of trait combinations that enable leadership behaviours provides enormous insight into leadership effectiveness. However, it is the combination of personality traits and contextually relevant 360° data that provides the capacity to behaviourally

validate traits. This is one of the key strenghts of ECF™ and allows a critical re-examination of the key constructs and patterns in behaviour that leads to high performance in leaders.

To examine the ECF™ in the context of behavioural evidence across multiple industries ad organisational environments, a review of 456 responses across 39 leadership candidates from multiple industry and organisational settings was undertaken.

The results of the analysis support the initial ECF™ and reveal five clear capabilities that distinguish executive requirements from more expert knowledge-based roles.

1. People Leadership

The capability to manage performance, develop staff, give feedback and deal effectively with both conflict and stress. It also relates to the capacity to communicate broadly, and is a key predictor of the capacity to make successful transitions into executive roles.

2. Driving Results (Results Orientation)

The capability to focus on and drive improvements, drive innovation, and communicate new initiatives. Driving Results appears to be a hybrid of the original business development and strategic orientation scales. In modern leadership it shows a need to focus strategically on opportunities and drive them accordingly.

3. Business Development/Business Partnering

The capability to identify new business opportunities and balance these with client relationships. This data appears to originate from professional services and broader product sales focused organisations. However, a key characteristic of all executive roles is the ability to deal with a competitive environment and the capacity to drive business results accordingly.

4. Strategic Commercial Orientation

The capability to apply a pragmatic commercial focus to the strategic opportunities within an organisation, including understanding the "bigger picture" and linking this to strategic market opportunities with a commercial focus. The emergence therefore of an ability to think strategically and commercially has been clearly identified as a distinguishing factor for effective leaders.

5. Strategic or Broad Based Influencing

The capability to manage relationships, network with stakeholders, deal with conflict and maintain an awareness of one's impact on others. The influencing construct continues to be one of the key differentiators for people seeking to make a transition into leadership roles.

Implications

Whilst a larger data sample will validate the results to a higher level of certainty, there are clear trends which have become evident. There is a requirement in leadership roles to be able to:

- Lead people more effectively.
- Drive results competitively, including an ability to communicate these and plan effectively.
- Develop business opportunities, incorporating a competitive drive to identify and pursue business targets and an ability to deal with some of the strategic challenges of the role.
- Link the pragmatic commercial requirements of the role to broader strategic opportunities.
- Influence broadly, including managing a broad range of networks and stakeholders and to use these to achieve outcomes.

The results imply that the identification and development of leaders is possible via an understanding of a capabilities based model that incorporates the use of personality tests and 360° data to better understand leadership behaviour.

The most important implication is that it is not one overarching trait, but rather the apllication of a combination of traits that leads to effective leadership behaviour. We refer to this combination of traits as Executive Capabilities and they underpin the proprietary OPIC Executive Capabilities Framework™ (ECF™).

The ECF™ allows us to not only predict successful leaders but also identify the specific development requirements of aspiring leaders os that in early intervention in their development is possible. Given that some executive capabilities require a fundamental transformation from technical or professional skills, early identification allows aspiring leaders to align core drivers and capabilities to their development and coaching plans.

In summary, the review of the Executive Capabilites Framework™ (ECF™) substantiates the established view of OPIC Leadership that a focus on Executive Capabilities rather than traits, is crucial to the development of leadership capability and that a distinct combination of traits leads to sustainable behaviour and subsequent high performance in executive roles.

The review identifies five core Executive Capabilities that lead to the most favourable leadership behaviours:

- People Leadership
- Driving Results
- Business Development/Business Partnering
- Strategic Commercial Orientation
- Strategic/Broad Based Influencing.

Consistent application of these capabilities forms the highest likelihood of performance in executive or leadership roles.

Conclusion

The concept of Executive Capabilities have proven to be highly useful, allowing the prediction of future behaviour through understanding the distinct combination of traits that lead to a smooth transition into, and effectiveness in, executive roles.

Taking a more practical and pragmatic view of Executive Capabilities allows aspiring leaders to better understand their potential to complete the transition to executive roles and provides greater accuracy and utility in selecting candidates for executive positions.

Whilst further research will help understand these outcomes in greater detail, it remains clear that the Executive Capabilities Framework™ provides a more pragmatic and measureable way of understanding and developing leadership effectiveness than purely trait based models.

In a nutshell, the Executive Capabilities Framework™ offers a robust, evidenced-based solution for organisations looking to identify, recruit, develop and create succession plans for leaders.

About OPIC

For over 15 years OPIC's services have assisted businesses of all sizes, throughout Australia and globally, to achieve results that include; improved productivity, increased commitment, superior performance, and the development of organisational and individual capability.

OPIC achieves this by assisting organisations to manage their most important asset – their people. Developing people and organisational capabilities that drive sustainable performance is the essence of our business. OPIC recognises this as the greatest challenge for organisations today and our solution is summarised in three words; Insight, Commitment, Performance. Gaining Insight into your people's capabilities and potential, and maintaining their Commitment through development, leads to organisational Performance.

OPIC offers a range of leading-edge solutions combining specialist skills and knowledge in organisational psychology and business consulting. Our solutions are designed to make a sustained impact on employee commitment and performance, by assisting organisations in selecting the right people, keeping them committed and ultimately making them better.

OPIC Insight Capability Performance

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