



Demonstrating the Link Between Leadership Behavior and Bottom-Line Results

By Management Research Group®

Organizations frequently ask consultants and Human Resource professionals to provide tangible evidence that there is a connection between leadership development initiatives and positive organizational performance. Management Research Group® (MRG®), an international firm that specializes in assessment-based individual and organizational development, has created a process to demonstrate that just such a link exists. The study outlined in this article, conducted for an organization in the insurance industry, provides an excellent example of how the process works.

THE MRG LEADERSHIP MODEL

The study measured leadership behavior and effectiveness based on the MRG® leadership model, the Leadership Effectiveness Analysis™ (LEA). Based on over 30 years of experience, the LEA model is comprised of twenty-two specific dimensions of leadership behavior that are measured against six essential functions of the leadership role. (The complete LEA model is described at the end of this article.)

Organizations can use this model in a number of ways:

- The most common is to assess the leadership practices of individual managers on a 360-degree basis (including self, boss, peer and direct report ratings). Included in this process are measures of effectiveness, so we can not only describe the leadership behavior of their managers, but also tell an organization which of the 22 leadership attributes differentiate their most effective leaders from everyone else.
- Organizations can also use the model to look at leadership needs in the future, or in a specific role, to achieve the business results required by the organization for success.

In this study we used 360-degree feedback for individual leaders, qualitative and quantitative measures of effectiveness for each of those leaders, and a Leadership Success model developed by the top executive team.

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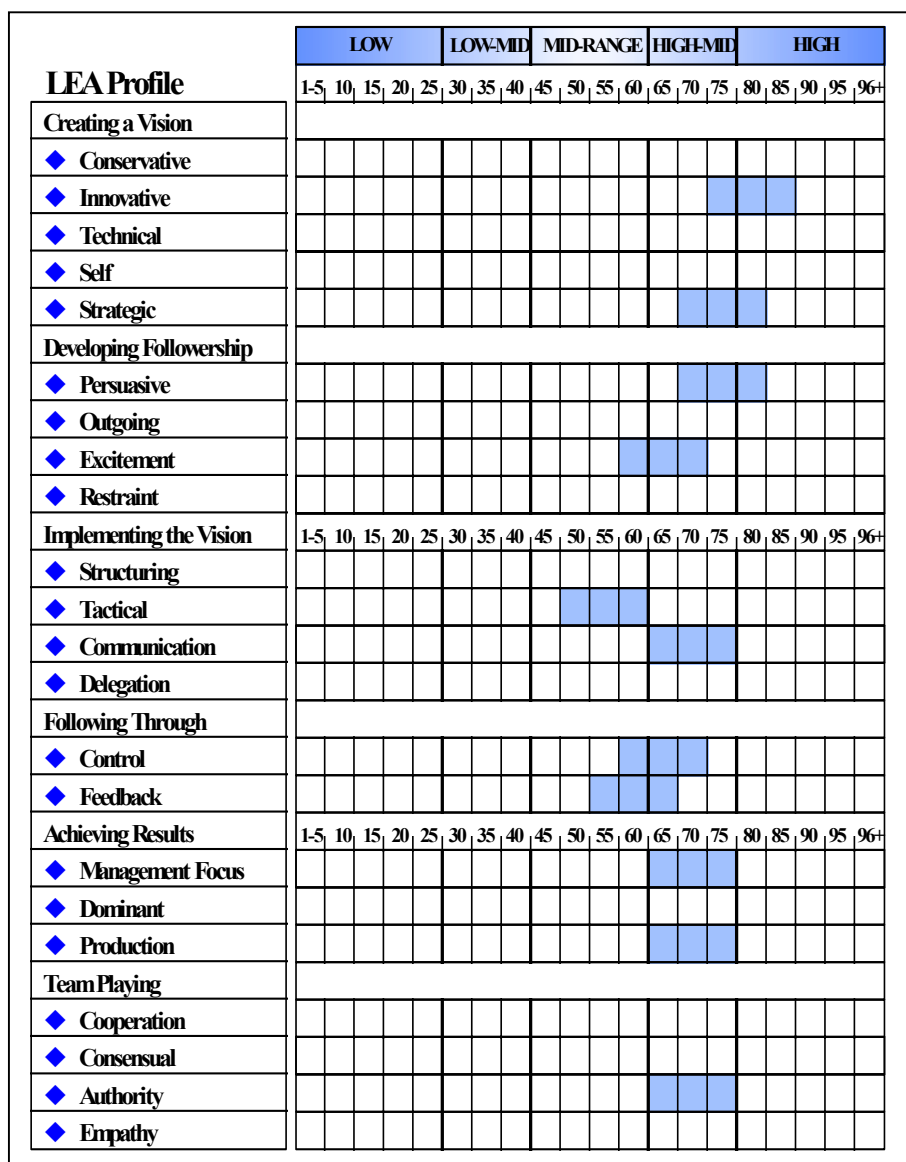
THE CURRENT STUDY

The study consisted of 4 distinct phases.

Phase I: Creating a Success Model Connecting Leadership Behavior With Strategic Business Goals

In Phase I, the top leaders of the insurance company met to discuss and agree on the leadership attributes that would be critical for success in managing the company’s district office. The executives drew on their historical perspectives of the position, as well as their sense of what will be required in the future. They selected 11 of the 22 leadership behaviors as critical to the role of district manager. The selected behaviors and ranges (as percentile ranks) are shown as shaded bars in Figure 1.

Figure 1: Success Model and Ranges

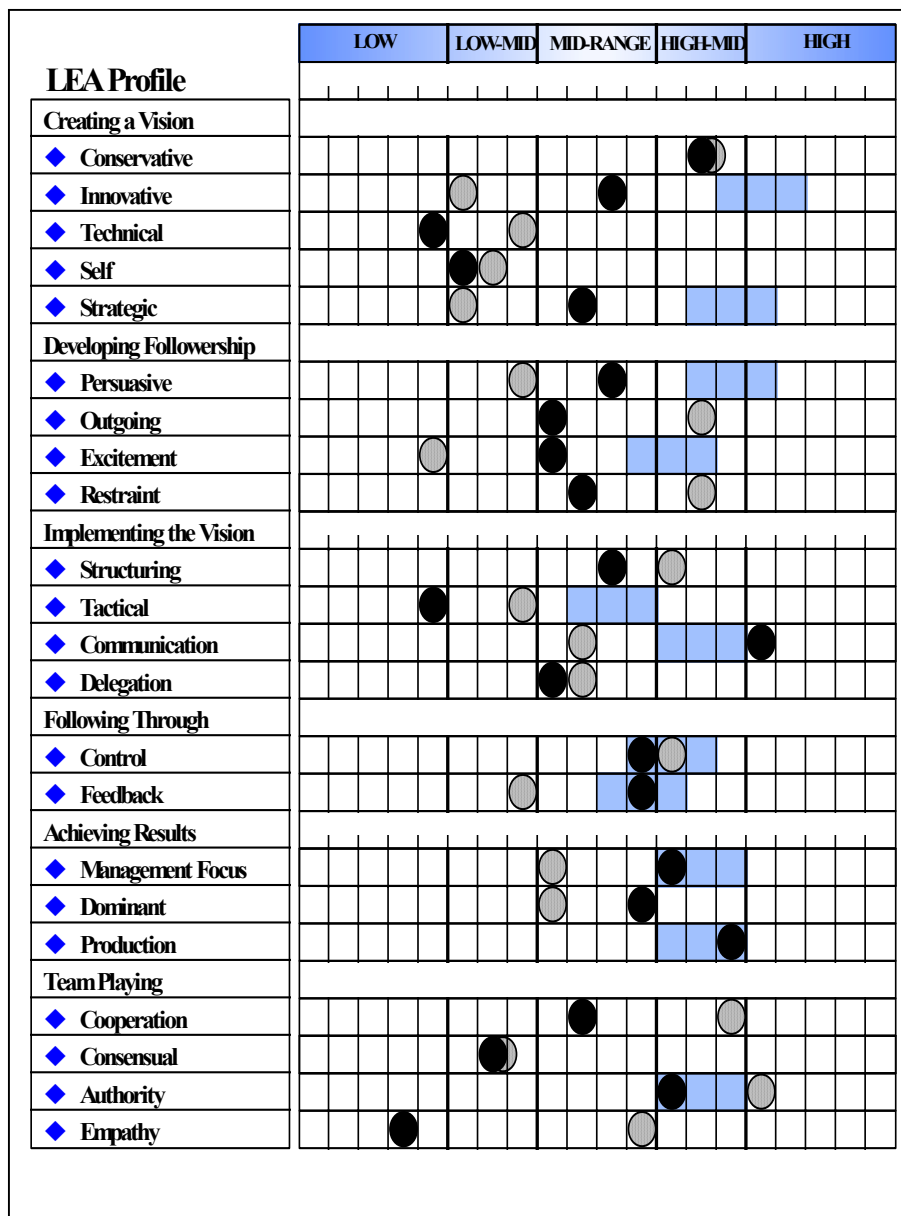


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Phase II: Assessing Individual Leadership Behavior Against the Model

In Phase II, the company's 40 district managers were assessed against the LEA model on a 360-degree basis (self, boss, peers and direct reports). This assessment was done using questionnaires designed for this purpose by MRG®. In addition to assessing each manager's behavior, the bosses, peers and direct reports also provided an assessment of the manager's effectiveness. Based on the responses to the effectiveness questions, a Composite Effectiveness Rating was calculated for each district manager. The 20 managers who received the highest ratings were then compared to the 20 managers who received the lowest ratings. This comparison allowed us to determine what the highly rated group was doing differently from their lower rated colleagues in terms of leadership behavior. Figure 2 shows the differences between the groups. The black dot represents the highly rated group; the gray dot represents the lower rated group.

Figure 2: Most Effective Managers Compared to Less Effective Managers



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When appropriate statistical measures were applied, not all the differences proved to be significant. Those listed below ultimately proved meaningful with the specific observer constituency (boss, peers, or direct reports) affected shown in parenthesis.

LEADERSHIP PRACTICES OF HIGHLY RATED MANAGERS:	
INNOVATIVE	Higher Than Less Effective Group (Self, Boss, Direct Report)
STRATEGIC	Higher Than Less Effective Group (Self, Boss, Direct Report)
PERSUASIVE	Higher Than Less Effective Group (Peer)
EXCITEMENT	Higher Than Less Effective Group (Self)
TACTICAL	Higher Than Less Effective Group (Boss, Direct Report)
COMMUNICATION	Higher Than Less Effective Group (Self, Boss, Peer)
DELEGATION	Higher Than Less Effective Group (Direct Report)
CONTROL	Higher Than Less Effective Group (Peer)
PRODUCTION	Higher Than Less Effective Group (Self, Peer, Direct Report)
AUTHORITY	<u>Lower</u> Than Less Effective Group (Self, Peer, Direct Report)
EMPATHY	<u>Lower</u> Than Less Effective Group (Self, Boss, Direct Report)

An interpretive example of the Innovative behavior, which is the first statistically significant variable, would suggest that the higher-rated leaders within this organization are more likely to approach problem solving with greater flexibility in their thought processes and an openness to exploring the new and unknown. Since this group's score is only in the 55th percentile, however, it would also suggest that they are not taking any wild chances. The mid-range Conservative and Strategic scores also act as modifiers, further suggesting that these individuals are using their past experiences as well as an ability to anticipate the future as part of their reasoning process.

Even though Innovative is currently validated as a significant differentiator between the two groups, the higher-rated group's score is still below the range that upper management suggests as the ideal. This means that, in the future, the dynamics of the market place would suggest an even greater need to challenge the status quo.

Phase III: Measuring the Gap Between Current Leadership Behavior and What Will Be Required in the Future

In Phase III of the process, a Gap Analysis was computed for each of the forty district managers. In a Gap Analysis, the boss, peer and direct report data for each individual is used to calculate the gaps between the individual's score and the ideal range for each of the Success Profile behaviors. Combining all the gap scores from the individual's boss, peer and direct report data produces a Total Gap Score for that individual. The lower the Total Gap Score, the closer the individual is perceived to be to the ideal. Conversely, the higher the Total Gap Score, the further the individual is seen to be from leadership behavior that will be critical for future success in the district manager role.

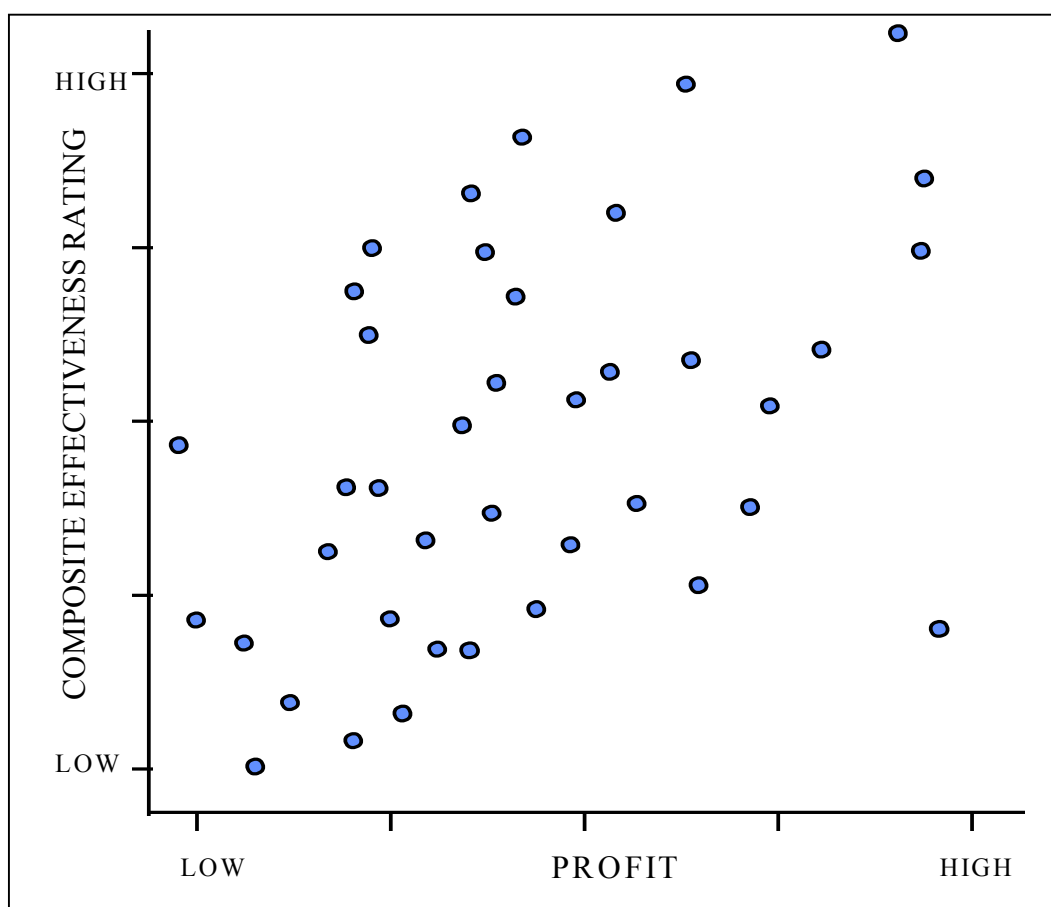
In this research study, comparing each district manager's Total Gap Score to his/her Composite Effectiveness Rating produced an additional statistical finding that was highly significant: the leaders with the highest Composite Effectiveness Ratings possessed the lowest Total Gap Scores. More specifically, four of the five district managers who received the highest Composite Effectiveness Ratings were also the managers who were most closely aligned with the Success Model established by top management. Conversely, the two

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individuals with the lowest Composite Effectiveness Ratings also had the highest Total Gap Scores, indicating the widest gap from the ideal ranges.

Phase V: Comparing Leadership Effectiveness to Objective as Well as Subjective Views of Effectiveness

Phase IV of this research study added objective and organizationally specific performance data to the analysis. These criteria included: net profit, compensation expense (amount spent on salaries), non-compensation expense (all expenses other than salaries), employee turnover rate and, finally, the management of collections over ninety days. The most important of these measures, from the perspectives of both the company and the individual district managers, is net profit. Figure 3 plots each district manager's net profit against his/her Composite Effectiveness Rating.



Although there are a few data points that are not entirely consistent, this diagram demonstrates definitively that the highest rated district managers in the company are responsible for generating the largest profit. It may seem obvious that there would be a strong correlation between perceived effectiveness and profitability. It has not always been easy, however, to define and determine the specific behaviors that result in the perception of effectiveness. The use of the LEA behavioral model of leadership helps to provide greater clarity.

The richness of the data also provides the opportunity to investigate the deviations observed in each constituency group. For example, the direct report data showed zero correlation

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between the Composite Effectiveness Rating and net profit. This would seem to indicate that the district managers' direct reports are using a different set of criteria in determining who, among their bosses, is effective. This conclusion is consistent with other research studies MRG has conducted. It would appear that direct reports do not share the same orientation toward profitability as bosses and peers. Whatever the underlying reasons for this perception, it provides a rationale for this organization to raise the importance of profitability within the minds of the direct report group.

Further analysis within this organization revealed that direct report expectations are likely to be especially well met by district managers who employ certain behaviors to a greater degree: These district managers emphasize Communication, which means clearly defining expectations. They demonstrate a strong achievement orientation, as is evident by the above-average focus on Production. Finally, their emphasis on Delegation suggests that they provide their direct reports with opportunities to take on higher levels of accountability.

CONCLUSIONS

A number of realistic conclusions may be drawn from the application of this process in this organization:

- There exists clear validity that the LEA model of leadership can assist the district management operation to definitively understand the specific behaviors which contribute most to effectiveness.
- It would strongly appear that the closer a district manager “walked the talk” of the Success Model, the more likely it was that he or she would be perceived by various constituencies as being more effective on the job.
- The implications for individual development and succession planning at the organizational level are both immediate and actionable.
- This process is capable of providing operational leaders with a clear link between behaviors that can be developed, and bottom line results.

Results of other Management Research Group® studies on leadership can be found on our website at www.mrg.com.



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MANAGEMENT RESEARCH GROUP'S LEADERSHIP EFFECTIVENESS ANALYSIS™ MODEL

Leadership Function 1: Creating a Vision

Conservative: Studying problems in light of past practices.

Innovative: Being willing to take risks and to consider new and untested approaches.

Technical: Acquiring and maintaining in-depth knowledge in the field of expertise.

Self: Emphasizing the importance of making decisions independently.

Strategic: Taking a long range, broad approach to problem solving.

Leadership Function 2: Developing Followers

Persuasive: Building commitment by convincing others.

Outgoing: Acting in an extroverted, friendly and informal manner.

Excitement: Operating with energy, intensity, and emotional expression.

Restraint: Working to control emotions and maintain an quiet and understated personal demeanor.

Leadership Function 3: Implementing the Vision

Structuring: Adopting systematic and organized approaches.

Tactical: Focusing on short-range, hands-on, practical strategies.

Communication: Stating clearly what is expected and maintaining a flow of information.

Delegation: Enlisting the talents of others and giving them autonomy to exercise their own judgment.

Leadership Function 4: Following Through

Control: Adopting an approach where nothing is taken for granted, progress is monitored, and tasks are completed on schedule.

Feedback: Letting other know in a straightforward manner how they have performed and met expectations.

Leadership Function 5: Achieving Results

Management Focus: Seeking to exert influence by being in positions of authority.

Dominant: Pushing vigorously to achieve results by being forceful, assertive and competitive.

Production: Adopting a strong orientation toward achievement and setting high standards.

Leadership Function 6: Team Playing

Cooperation: Accommodating the needs and interests of others.

Consensual: Valuing the ideas and opinions of others.

Authority: Showing loyalty to the organization and respecting those in positions of authority.

Empathy: Demonstrating active concern for people and their needs.