

Better leaders and managers mean better organisational performance

Nearly thirty years ago John Constable & Roger McCormick in their report *The Making of British Managers* (BIM/CBI: 1987) made the point that “There is widespread recognition that effective management is a key factor in economic growth. Britain’s managers lack the development, education and training opportunities of their competitors.”

This highly influential report led to the expansion of business schools in UK universities, and the widespread availability of MBAs. However, in a country the size of the UK, with some 4.5 million people having some form of management role, MBAs for a small elite were never going to be the answer. In any case “...while business failures and low productivity are blamed on poor management, management and leadership education and development are not valued as a prime ingredient of business success.” This was the finding of a report (*managers and leaders: raising our game*) from the Council for Excellence in Management and Leadership in 2002. CEML was a two year project aimed at investigating the nature of the management malaise and putting forward recommendations to resolve it. Despite doing a lot of work (the author was on one of the working parties, so has a vested interest), it is hard today to find much evidence that it had an enormous impact. This is depressing because, only the following year, Harvard Professor Michael Porter and his colleague Christian Ketels were making all the same points in reports that they prepared at the request of the then Chancellor, Gordon Brown

“...we find that the role of management cannot be separated from the overall competitiveness issues facing the country.” (*UK Competitiveness: moving to the next stage* Michael Porter & Christian Ketels, DTI Economics Paper 3: 2003) and, in a separate report (*Competitive Company Weaknesses in the UK - Potential Explanations* Porter & Ketels: 2003) Porter and Ketels identified three critical weaknesses in the UK economy that put us at a competitive disadvantage:

- Low rate of investment in capital assets and innovation
- Competing less on unique value than advanced peers
- Indications of lower use of modern management techniques

Each of these problems were explained by a variety of different causal factors; low investment they put down primarily to *management weakness*, macroeconomic and policy volatility, financial market failure (how topical!), low public investment and limited linkages between private and public research. The failure to compete on unique value they also ascribed to *management weakness*, and to a low level of company investments and few effective institutions to disseminate practical knowledge. The lower use of modern management techniques was (surprise, surprise!) also due to *management weakness*, a national competitiveness based on relatively low costs and access to European market, and low public investment. In other words, poor management was seen as a primary cause of the three major factors leading to the UK’s poor international performance.

Two specific factors that seemed to reduce managerial performance were identified as being low levels of competition (especially compared to the US) and, in family businesses, CEO posts being passed down in the family, which is most common in the UK and France, apparently (*Measuring and Explaining Management Practices Across Firms and Countries* Nick Bloom and John Van Reenen, LSE Centre for Economic Performance).

Another report¹, from April 2006, suggests that the problem is less specifically about management and more about leadership: 'It may be that the problem does not rest with management capability *per se* in the UK, but rather there is a lack of vision and strategic direction in some organisations. The ways in which the UK does less well seem to be issues of leadership rather than direct management...!'

Organisations with better trained and qualified managers perform better. The evidence for this is clear and compelling. I was part of a small group convened by the Department of Business, Innovation and Skills (BIS) in 2011 to compile *Leadership & Management in the UK - The Key to Sustainable Growth*² to bring together key examples of the substantial body of research evidence that demonstrates the tangible benefits from investing in leadership and management development. This research confirmed (yet again!) that

- * Organisations that have better trained and qualified managers also have better qualified workforces, and that their workforces are more engaged with the organisation.
- * The organisations themselves are more innovative and efficient and, as a result, perform better.

There is also evidence that high performance businesses, those that have the most modern operational systems and have the highest levels of productivity, also treat leadership and management development as a strategic imperative, with a clear alignment between the way leaders and managers are developed, the way that they work and the organisation's strategic goals.

Investing in leadership and management development alone does not guarantee better organisational performance, but it is a key part of the strategy of organisations that are successful. It enables best practice in operations, customer service, financial control and market responsiveness. Having well trained and high performing leaders and managers creates high trust organisations, which are, in turn, more efficient, with lower labour turnover and absenteeism, and better engaged employees.

Perhaps the most significant set of studies - and most worrying for UK employers - quoted by the BIS report comes from the Centre for Economic Performance at the London School of Economics³. Their international comparative research provides one of the largest and most thorough studies of the links between organisational performance and management practices in manufacturing organisations. Their research findings are unequivocal - better led and managed organisations perform better. Where a core set of widely recognised management 'best practices' is adopted, firms are more profitable and more productive, grow faster, and survive longer, in every country looked at. Furthermore, experiments to introduce these best practices in under-performing companies led to significant improvements in profitability, compared to control firms where no changes were made.

¹ Penny Tamkin, Chris Mabey and David Beech (2006) *The Comparative Capability of UK Managers* Institute for Employment Studies for the Skills for Business Network

² <http://tinyurl.com/qzan5yy>

³ The best example of their work is Nicholas Bloom, Christos Genakos, Rafaella Sadun and John Van Reenen (December 2011) *CEP Discussion Paper No 1109: Management Practices Across Firms and Countries* - <http://cep.lse.ac.uk/pubs/download/dp1109.pdf>

The BIS report quotes the conclusions of these studies to confirm that the productivity gap between the UK and major competitors (like the US, Germany, Japan and Sweden) is directly attributable to the deficit in UK management skills and practices. This is not to say that all UK businesses under-perform; there are many examples of organisations that are leaders in their fields. However, the UK is characterised (compared, say, to the US) by having a long tail of poorly managed firms. As the report comments, 'If the quality of these poorly managed firms could be lifted even up to the median, this would be a tremendous improvement'.

The evidence is unequivocal; employers that treat leadership and management development seriously, perform better than those that don't. This is not about how much is spent on development but how they go about making sure that there are clear linkages between the development of their managers, the adoption and implementation of best practice, and the organisation's strategy. Organisations that fail to put these simple principles into practice condemn themselves to being part of the 'long tail of poorly managed firms'. In an economic environment where demand is depressed and competitive pressure is high, this is unlikely to be a long-term sustainable position.

What's needed?

If the problem is as bad as is being painted, what needs to be done to overcome it? The first thing to emphasise is that it's not necessarily about more leadership and management development, but better development. Although there is plenty of research to show that leadership and management development does enable organisations to perform better, it also tends to show that it's not just about how much is done, but how many people in the organisation benefit, and how it is delivered (this latter issue is looked at in the paper *Designing Effective Leadership and Management Development Programmes* on davidpardey.com). It's important to recognise that training up a few people through extensive (and expensive) programmes is far less effective than making sure that people with leadership and management responsibilities throughout the organisation all receive at least some basic training in the role.

Furthermore, this training should be coherent, so that participants all receive common messages, even if they are adjusted for the level of the role. This is one of the reasons why multinationals often gain competitive advantage – they tend to insist on all managers being trained in the same way and that such training is a requirement for taking on a management role.

Training everyone the same doesn't mean that they receive the same training. After all, team leaders and first line managers have far less decision-making power and limited scope for changing systems. On the other hand, they have direct responsibility for people, for motivating, developing and supporting them in their day to day work, and they will only do this in ways that fit with the strategic direction of the organisation if their training encourages them to recognise and understand what that strategic direction is. Equally, senior managers need to be clear about how they expect people in direct supervisory positions to behave in order to ensure that the strategies they have developed are implemented effectively.

This is the challenge for organisations; approach leadership and management development as a strategy through which other strategies can be delivered, and invest in development that can deliver real performance in changes.

How can leadership & management development help to overcome management weaknesses?

It may seem axiomatic that any leadership and management development must be better than none, but there are characteristics of the leadership and management role that present some challenges to effective learning and development. The first of these is the fact that most people move into the role after several years doing something else; the average age of the new manager is mid to late thirties, with a wide distribution from late teens (especially in retail and hospitality) to mid-fifties. (Remember, the role encompasses people becoming warehouse team leaders to fast track graduate management trainees). Furthermore, (unpublished) research by the Institute of Leadership & Management shows that around 60% are reluctant to take up this role; they do it because it's the only way to progress their careers, not because they want to be leaders or managers.

Career change and reluctance to take up the role conspire to make it hard for people to learn; they will be influenced by having seen others manage and tend to copy what they have seen (both good and bad) and will lack motivation to learn if they don't feel very positive about the new role. For these reasons, leadership and management development needs to address the real experiences of managers and equip them with the knowledge and skills they need to address these, and help them to translate that learning into practice. It also needs to align the development of the individual with the development of the organisation, so that improvements in managerial performance can be seen to contribute to organisational objectives.

The starting point for best practice in leadership and management development (L&MD) has to be these organisational objectives. What is it that the organisation is trying to achieve, and what are leaders and managers expected to do to help achieve these goals? From this it is possible to define, at least in broad terms, the performance expectations against which actual performance can be compared. The identification of weaknesses in performance should then inform the design of the L&MD.

However, leadership and management is all about performance – training that focuses on developing knowledge alone, or on developing skills but in an artificial environment does not mean that there will be any real performance improvement. Instead learning should be designed to encourage transfer into the workplace. By building this into the development activity, it is more likely that learning will change performance, but it can be further supported by the use of action learning sets and workplace coaching or mentoring, techniques which further encourage and support transfer and performance improvement. Action learning brings the workplace to learning, using a group of learners to address workplace problems; coaching and mentoring takes the development activity to the workplace, providing support for learners close to the point of performance. For all this to work effectively there has to be a strategic approach to leadership & management development. Smarter working (ie embedding development within an overarching strategy of the organisation) reaps dividends; it's not about how much L&MD, but how it's done.

“The management and leadership development that contributes most clearly to performance is that carried out in or close to companies and organisations, and for managers and leaders who are in or entering posts.”

The Development of Management and Leadership Capability and its Contribution to Performance: The evidence, the prospects and the research need John Burgoyne, Wendy Hirsh and Sadie Williams 2004: DfES Research Report RR560

What does good leadership & management development look like?

There is no simple right answer, but (unpublished) research we did at the Institute of Leadership & Management (which we labelled *Impact*⁴) suggests that five important elements should be incorporated into any programme to enable effective learning and learning transfer. Individually, each of these elements will have a positive impact on learning and performance, but it is the collective effect which brings about the most significant changes in performance, helping good leaders become great leaders.

The five elements of the Impact approach fall into one of two broad principles - the value of *individualising learning* and of designing in strategies for enabling *learning transfer*.

Individualise learning

1. Get learners to complete valid and appropriate diagnostic tools (psychometric and performance assessment tests) before the programme starts.
2. Use the outcomes of these tests to enable learners to identify how they currently behave and the personal factors that drive their performance, and to agree realistic and achievable learning goals to change or improve their performance
3. Individualise the learning (within the particular learning context) to link what has been learnt to each person's particular characteristics and goals.

Learning transfer⁵

4. Bring the workplace into the learning environment (through the use of techniques like action learning, case studies, simulations, critical incident analysis and role plays)
5. Support the application of learning in the workplace (through the use of techniques like coaching and mentoring, action planning, project and work based assignments)

Of course, there also needs to be good quality development going on to ensure that really effective learning takes place, but our research (and subsequent experience) suggests that incorporating these elements can add significantly to the performance of those taking part.

⁴ For more detail about the Impact approach, see the paper *Designing Effective Leadership and Management Development Programmes* on davidpardey.com

⁵ There's a lot more about learning transfer in the paper *From learning to performing* on davidpardey.com