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Leadership excellence

Learning from an exploratory study on leadership systems in large multinationals

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Abstract

Purpose – From an exploratory study of 37 large multinationals, this paper aims to report key findings, derive learnings for the design of corporate leadership systems and identify future research issues for a better understanding of individual leadership in corporate leadership systems.

Design/methodology/approach – The study reported builds on ten years of ongoing research on the nature of leadership, leadership communication, and institutional support structures in large multinationals. As such, it is part of ongoing longitudinal leadership research, following a hermeneutic approach.

Findings – From a qualitative as well as quantitative perspective the paper reviews the implementation and usage of corporate leadership instruments and discusses current practices of large corporations trying to select, support, measure, motivate and develop very large numbers of leaders around the world. A conceptual leadership system is presented as a basic frame of reference.

Research limitations/implications – The exploratory research approach has its strength in framing the field of corporate leadership systems. Further in-depth research is needed on the nature of each the four key fields of the conceptual framework described.

Practical implications – Those who are responsible to design and revise corporate leadership systems will find a valuable frame of reference and selected benchmark data as a basis for the assessment and further development of the corporate leadership landscape.

Originality/value – This paper presents original findings in a highly relevant, but under-researched field of corporate leadership practice.

Keywords Leadership, Performance measures, Incentive schemes, Management training, Strategic change, Germany

Paper type Research paper

1. Introduction

Leaders like Jack Welch, Frederick Taylor or Rudolf Giuliani are admired for their abilities to form a company, to change the paradigm of an industry or to cope with a deep crisis in an excellent manner. No wonder that research on leadership mainly focuses on capabilities, performance and behaviours of outstanding leaders. Popular management literature asks and tries to answer how to be as successful as these “great

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men". The leaders themselves contribute to the topic by publishing books about their success stories (e.g. Iacocca and Novak, 1986; Welch and Byrne, 2001; Giuliani and Kurson, 2002). It has been discussed at length whether, or to which degree these capabilities are a birth-given gift or how one can become a leader (e.g. Malik, 2001). The topic itself – leadership – is an issue for diversified debate. In his standard reference, *Führen und geführt werden*, Neuberger (1990) avoids a definition of leadership by stating that leadership cannot be defined as an aggregation of other definitions found in the literature. He stresses that it is far more important to describe the perspective and the environment in which leadership is seen and discussed.

In leadership research and especially the academic debate about potential substitutes for leadership there exist two general approaches: the personal approach that can briefly be described as "leadership through interaction" and the structural approach that can be characterized as "leadership through systems". These two concepts mark the ends of a continuum (for an overview see Bleicher and Meyer, 1976; Wunderer and Grunwald, 1980; Neuberger, 1990; Bass, 1990; Kanji and Moura e Sá, 2001; Daft, 2002; Yukl, 2002). In their extreme specifications, direct leadership through the interaction with employees just fills the gaps of structural leadership. Advocates of charismatic leadership on the other hand recall that personal, direct and leadership by interaction is the only way to influence and motivate people (e.g. Strange and Mumford, 2002). This is why Wunderer and Grunwald (1980, p. 62) define leadership as a goal-oriented and social impact to fulfil common tasks in a structured work environment. Wunderer (1995, p. 120) identifies a clear lack of research and a lack of practice in structural leadership. Similarly, Conger (1998) and Lowe and Gardner (2000) emphasize a clear need for research on leadership systems.

The TUM leadership study (Reichwald *et al.*, 2003) reported in this paper explores leadership systems in large multinationals. It tries to combine the personal perspective of "leadership as interaction between people" and the structural perspective of "leadership through systems" in a balanced approach.

Our understanding of leadership sees leadership excellence as a well-balanced interaction of consolidation and fluidity of leadership and management structures in the process of strategic, structural and cultural change. It therefore looks at leadership systems and their integration in the context of the three influential factors: strategy, structure and culture.

2. About the research

The study's conclusions are derived from two interrelated research streams carried out at the TUM Business School, Munich, Germany. First is a ten year long research cooperation between Peter Pribilla, member of the Corporate Executive Committee of Siemens AG and Ralf Reichwald, dean of the TUM Business School, on the nature of leadership and leadership communication as well as their institutional support structures in large multinationals. It sheds light on the applications and implications of tools, instruments and mechanisms in selected fields, like the identification of leadership talents, their assignment to specific leadership tasks, the variety of approaches of measuring leadership results, as well as the processes and structures of leadership development. It represents an ongoing longitudinal research approach on leadership, following a hermeneutic approach that aims at generating stepwise a better understanding of earlier pre-understanding. A special focus was set on the impact of

new information and communication media on the daily work of leaders and their followers.

Second is a focused two-year long exploratory investigation into leadership systems in 37 large multinationals in Germany, Great Britain, The Netherlands and the USA. Between October 2001 and September 2003 more than 110 executives of the company panel were included into the investigation. The empirical basis of the study consists of in-depth interviews, confidential corporate documents as well as published information on the leadership systems of the involved corporations. The company panel covers a broad range of industries, like automobile (e.g. BMW, DaimlerChrysler), IT, electronics and software (e.g. Cisco Systems, HP, IBM, Philips, SAP), energy (e.g. Chevron Texaco, E.On), risk, insurance and financial services (e.g. Allianz, Deutsche Bank, JP Morgan Chase, Liberty Mutual, Marsh, Munich Re), systems and solutions (e.g. BAE Systems, Siemens) or travel and tourism (e.g. Lufthansa, TUI).

The focus was on the instruments, concepts and strategies to develop corporate leadership capital. All companies in the research panel had already designed and implemented a broad range of tools and processes to support the “management of their leaders”. The Bauhaus leitmotif “Less is more!”, however, emerged as a promising design practice for the overall architecture and effective implementation of corporate leadership systems.

Starting from slightly different conceptual pre-understandings, the authors and selected corporate partners from a nucleus of seven companies jointly developed the design of a conceptual leadership framework and the collaborative research process. One of the major challenges of the study was to get access to the interview partners. Easterby-Smith *et al.* (2002) describe that access to the top management is one of the issues that makes management research unique. In order to gather high-quality information and practices in action, the team intended to interview experts and leaders who are responsible for designing and implementing leadership systems in their companies, but also leaders who have to lead and live within them. Therefore about 50 per cent of our interview partners were top-level executives with overall responsibility for the company’s leadership approach. The other half were top-executives from the companies’ business units and regions who have to lead and to manage leaders within these systems and frameworks.

Building on the support of our network, we were able to have interviews with board members of the seven companies forming the nucleus of our study. All seven companies are multinationals and have a reputation for excellence in leadership. On purpose the study focused on large (mostly super-large) multinationals as they can be expected to have more experience with leadership systems due to the large number of leaders (often more than 20,000). Based upon the support of these companies and later on other interview partners, the support of advisors and due to our desk research we were able to get access to another 33 multinationals that are seen as especially “interesting” with regard to their leadership systems. Most had an exceptional good reputation for the quality of their leadership or leadership system. However, in order to learn from failure as well, two companies were deliberately chosen, even though their leadership had already proven (and was openly admitted) to be disastrous and which went bankrupt immediately before the interviews. At each interview or workshop we asked our partners to name other companies with outstanding leadership systems and, if possible, to bridge the contact to top executives with overall responsibility for the

company's leadership approach. These formed the basis for the selection of our company panel. In 37 out of the 40 companies included, we finally could get enough data for a sound evaluation. As an average, each company included in the study employed 86,000 people. In sum, the study covers a company panel with more than 3.2 million employees.

For the interviews, the research team used semi-structured interview guidelines. In general, three out of the four researchers of our team participated in each interview. Interviews were not recorded, but carefully documented and the interview protocols were fed back to the company representatives. Building on the protocols, the offered confidential documents and public information such as the annual report or information on the websites of the companies, we then compiled detailed internal leadership system profiles with about 20 to 25 pages per company. In addition, we discussed our research with an expert panel of 16 researchers and practitioners with a strong background in leadership research and practice. These experts supported the study by giving feedback in workshops, by developing evaluation criteria and by asking a lot of critical questions that helped us to rethink our early ideas and concepts and prevented us from either trying to find over-simplistic answers or getting lost in hyper-complexity. Their feedback was of foremost importance for our work. All shortcomings of our study, however, are solely our responsibility.

3. The TUM leadership framework

Not all of a company's leaders can be "great men" like Jack Welch or Lee Iacocca. Especially large and multinational corporations have a large number of leaders on all levels. They usually have a broad range of practices, tools, instruments and systems in place to "manage" these leaders and to support them in their daily work. As more and more companies see human capital as one of their biggest assets and leadership capital as a core source for strategic competitive advantage (Bartlett and Ghoshal, 1990), they try to establish value systems and leadership frameworks as a basic backbone for managing this valuable asset. Personnel management, controlling, corporate communication, strategic management or knowledge management offer a variety of practices and tools that are seen as helpful in this endeavour and are used as basic building blocks for the overall management of corporate leaders.

These tools, instruments and concepts and their interplay are at the heart of the study reported. Based on interviews with cooperation partners from the nucleus of seven core companies in the study, with further inputs from workshops with experts from research and practice, and a survey of current organization, communication and leadership research, four main areas of prominent interest for the corporate build-up of leadership capital have been identified (see also Reichwald *et al.*, 2003):

- (1) the daily leadership interaction (leadership as a day-to-day interactive process);
- (2) the evaluation of leadership talent and performance ("leadership metrics");
- (3) the creation of incentives for improved leadership (leadership deployment); and
- (4) the facilitation of selecting and developing leadership talent (selection of leaders and leadership development).

Leadership as a day-to-day interactive process

This field involves all the tools, instruments and practices supporting leaders in their day-to-day activities. Foremost it involves tools supporting the communication and interaction of leaders with their staff. Leadership primarily results from the interaction with people, but tools can and have to support the leadership process. There are tools, that help in decreasing stress-factors like time pressure, fragmentation of work or over-direction, there are instruments, which support leaders to expatiate time for central leadership tasks such as the interaction in order to build up a leadership culture and there are instruments, supporting the process of uncovering and strengthen leadership excellence in the day-to-day interactive process. In addition, there are also more standardized practices that are not in daily use but also seen as directly supporting the ongoing leadership process such as target setting or staff-dialogues.

All these tools and practices have in common that they aim at improving corporate leadership capital, which means increasing and expanding abilities, strengths and competencies of corporate leaders. As leadership is about interacting with people, values, behaviours and the leadership culture have a tremendous effect. Among others Schein (1992) emphasizes the strong degree in which especially the organizational culture is linked to leadership. In addition to the beliefs and values of the founders of an organization and their leaders, success stories and learning experiences are those that have high impact on employees. Leaders are expected to act as role models and to be authentic. Daft (2002) stresses this success factor by a simple example: if there is a discrepancy between a person's verbal and nonverbal communication, the nonverbal is granted more weight by the interpreter.

Leadership metrics

Companies seem to deploy wide varieties of tools to measure leadership performance. The main focus of the study is on instruments, which help to measure and assess the performance of corporate leaders. That means detecting and uncovering strengths and weaknesses of individual performance and to find the right balance between the benefits and the efforts of measurement.

Tools and concepts of measuring are widely distributed and often build on standard HR practices, on intellectual capital metrics or on strategy oriented performance measurement systems such as the balanced scorecard (e.g. Kaplan and Norton, 2001; Deking, 2003). Research on measuring individual capabilities as well as individual performance is quite impressive, the link to corporate performance, however, is usually not obvious. Neuberger (1976) summarizes qualities and capabilities compiled by different empirical studies. Ulrich *et al.* (1999) show how to measure leadership performance and how to connect leadership attributes to results. Buckingham and Coffman (1999) developed a measuring stick in order to evaluate the strength of a working place and to assess human capital. Becker *et al.* (2001) provide a concept for assessing human capital based on balanced scorecard.

Leadership deployment

How are measurement results used to more broadly develop leadership capacity in the organisation? Is there a connection to the incentive system for corporate leaders? Are they linked to the career planning process? Does the company create success stories of good leaders as a corporate reference? In this field we look at all the instruments

deriving implicit and explicit, monetary and non-monetary consequences from the metrics. We ask whether consequences are made visible in a transparent way, whether they are designed commensurable, reasonable and fair and whether they are suitable in order to select and develop leaders further? For innovative approaches to combine leadership with incentive systems refer to Rothhaar (2000).

Selection of leaders and leadership development

The selection of corporate leaders and their development directly impacts a company's leadership capital. Large companies usually have implemented practices for identifying leadership talents, instruments for promoting these talents to excellence, practices to foster individual engagement and initiative taking, often via self-selection and self-development (Reichwald and Siebert, 2004). Furthermore the selection and development of individual leaders takes place in a context of corporate mergers and acquisitions, of organizational development and divestment. The mutual impact of individual and corporate level activities therefore has to be taken into account (Rothwell, 1994; Charan *et al.*, 2000). For an overview, concepts for management learning and development and good practices, refer to Möslein (2005).

Taken together, these four conceptual fields – leadership as a day-to-day interactive process, leadership metrics, leadership deployment and selection of leaders and leadership development – form what we call the generic leadership system. As a conceptual framework the generic leadership system describes the overall leadership process of selecting, supporting, measuring, motivating and developing corporate leaders. This process can be seen as the basis for building corporate leadership capital (Siebert, 2005). In order to develop leadership capital as a competitive advantage, however, the generic framework has to be filled with company-specific practices and routines that match a company's unique strategy, structure, and culture.

Different companies, therefore, often focus on different fields such as leadership development or the day-to-day interactive leadership process. Based on this company specific focus they form their unique "leadership system".

4. The interactive-iterative evaluation process

For developing the evaluation framework and performing the evaluation, we followed a similar interactive process as for the process of setting up the field and gathering data: Again starting from a slightly different understanding, we jointly developed the evaluation design, the evaluation criteria and our understanding of the criteria by doing desk research and in an ongoing feedback process. Discussions with the expert circle helped us to refine the evaluation design. For assuring a distinct understanding of the criteria we defined precise questions for the evaluation process.

Five lists of evaluation criteria with a total of 76 criteria and related questions were developed for assessing the four subsystems of the generic leadership system as well as the entire system from a bird's eye view. Each field was assessed on three distinct levels, looking at the individual leadership instruments, the interplay of the instruments within the leadership system, and the integration of the leadership instruments with the respective company's strategy, structure and culture. As a result, each of the four members of the research team had to evaluate each of the 37 company profiles along these criteria on a modified five-point Likert scale. Having all four researchers participating in the evaluation, but only three out of them participating in

the interview itself allowed for a basic assessment of the inter-rater reliability. Even more important, though, was the interactive feedback between the evaluators after having assessed all companies and the iterative process of interactive discussion and re-assessment.

Basic assumptions underlying the evaluation can be best described by listing seven requirements that were identified as predominant challenges for leadership systems in large multinationals to:

- (1) support integration and change in mergers and acquisitions.
- (2) balance between centralisation and decentralisation.
- (3) bridge between global stability and local flexibility.
- (4) support sustained innovation and change.
- (5) foster entrepreneurial spirit and learning.
- (6) support customer-orientation and boundary-spanning.
- (7) drive business strategy and corporate development.

A synopsis of criteria for the assessment of leadership systems that were derived from these requirements is listed below:

- (1) *Assessing the individual leadership instruments:*
 - existence;
 - proficiency; and
 - diffusion.
- (2) *Assessing the interplay of the instruments within the leadership system:*
 - support of interaction and integration;
 - support of initiative-taking and execution; and
 - support of excellency.
- (3) *Assessing the integration of the leadership system with the corporate context:*
 - integration with strategy, structure, culture;
 - support of adaptive capacity; and
 - support of absorptive capacity.

For a more detailed description of the evaluation process please refer to Reichwald *et al.* (2003).

5. Representation of results

As a result we produced an anonymous, inter-company benchmark study on leadership systems and leadership frameworks including confidential, anonymous, descriptive cases presenting promising practices (Reichwald *et al.*, 2003). We aggregated the overall assessments and ranked all of the companies according to our perceived “excellency” in the four fields of: leadership as a day-to-day interactive process; leadership metrics; leadership deployment; and selection of leaders and leadership development; as well as the overall leadership system assessment. Each of the companies got a confidential feedback of their assessment.

As visual representation we mapped the results of our assessment as an “evaluation spider” to the four main areas of the generic leadership system. The evaluation spider shows on top the result in the sub-field “leadership as a day-to-day interactive process”, to the right the result in “leadership metrics”, at the bottom “leadership process deployment (consequences)”, to the left “selection of leaders and leadership development”. The dark thick line represents the results of the respective company in each of the four dimensions. The dashed line illustrates the average of all companies of our company panel in each of the four areas. The maximum possible rating is represented via the thinner outer line.

The example company displayed in Figure 1 shows strengths in the field “Leadership as a day-to-day interactive process” due to excellent interaction processes that fit the company’s communication-oriented leadership culture. In addition the company implemented a transparent incentive system that unfortunately was not seen as having high impact by our interview partners. Reasons for this weakness seem to be routed back to deficiencies in the company’s measurement and awareness of business performance, leadership capabilities or leadership performance. Therefore, the company was rated as under-performer in the respective fields of the leadership system.

For us as researchers, discussing our perception of the companies’ leadership systems with our interview partners either in individual feedback discussions or workshops with leaders from a broader range of leadership positions of the respective companies was an important next step of our hermeneutic research design. It fostered learning and insight for both parties and made clear that an assessment and feedback process similar to the one we developed for our research would be a valuable support tool for the design and further development of corporate leadership systems.

The following section offers a first impression as to what extent selected leadership instruments were used in practice in each of the four action fields. These figures are an

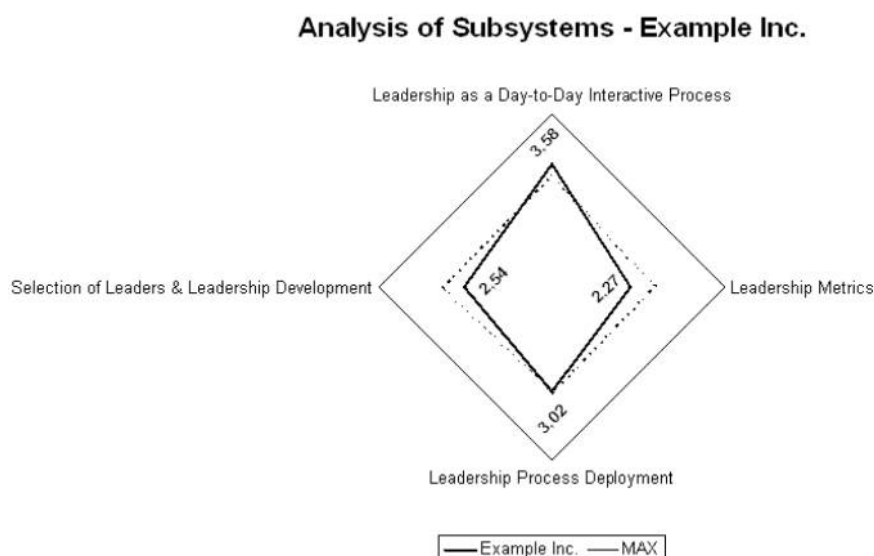


Figure 1.
Evaluation spider

aggregation of results derived from the qualitative interviews (Reichwald *et al.*, 2003). As each of the companies named their instruments in a different way, we categorized similar tools as a basis for the statistics presented. In addition, those figures cannot be taken as general results regarding the use of instruments in industry. For example, if a tool was not explicitly mentioned during the interviews or in the company documents, it was not recorded. Finally, it was not always possible to classify the tools exclusively into one action field; for example, the balanced scorecard is used to set targets but as well in order to measure the performance of leaders. Therefore, the expressiveness of our bar charts is limited but offers a rich overview of instrument classes mentioned in each action field.

Figure 2 shows a wide use of “target setting” and “staff dialogue” tools. “Corporate principles” and “balanced scorecard” seem to be important not only in the daily leadership interaction but as well in the other three action fields. Surprisingly, the use of “coaching” and “intranet support” is lower than commonly expected.

Most companies seem to prefer to measure their leaders’ performance by comparing their “target evaluation” with “targets set”. Only a relatively small number (below 20 per cent) imbeds “leaders’ potential” or “corporate values“ in their performance evaluation. Further typical tools are “180°” or even “360° feedbacks”, “assessment centres” or “management reviews”. “Employee surveys” are usually carried out just once in two or five years (see Figure 3).

There is still precaution when binding consequences to metrics – especially regarding so called “soft factors”. Interview partners only mentioned a few instruments in the action field “leadership process deployment” (see Figure 4). Most companies in our panel use “incentive systems” that are based on “performance” or on “target evaluation”. Only below 10 per cent of the involved companies integrated the measurement of their leaders’ capabilities into the incentive system. Besides the usual career path a few of them offer a “profession” or a “project career”.

“Internal education or seminars” are still the most widely used instruments for leadership development although quite a big number of participants of our study

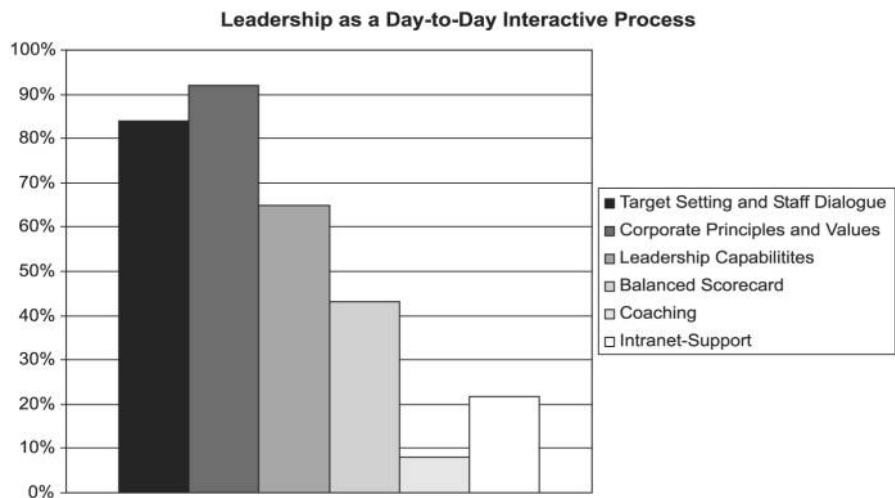


Figure 2.
Leadership instruments in practice – leadership as a day-to-day interactive process

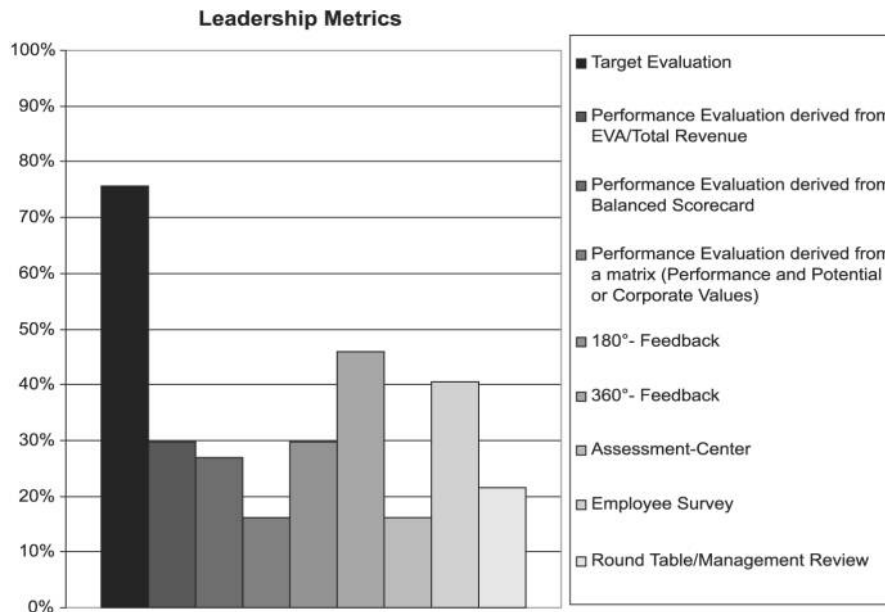


Figure 3.
Leadership instruments in
practice – leadership
metrics

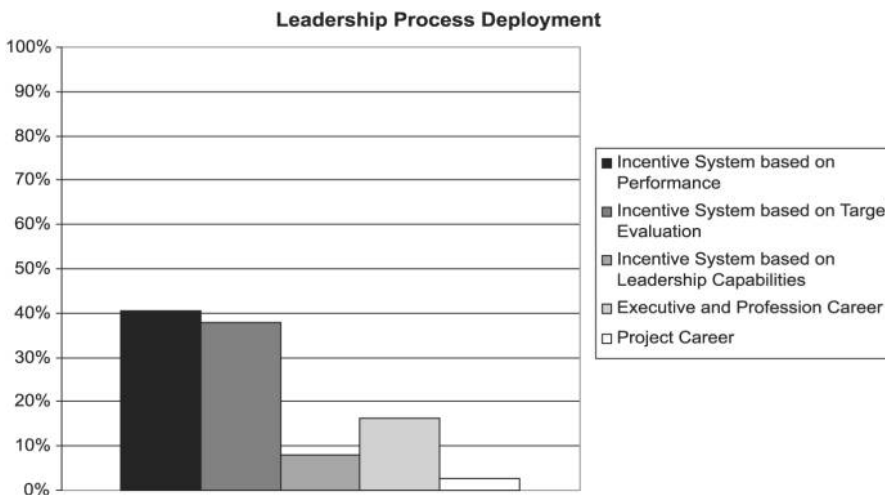
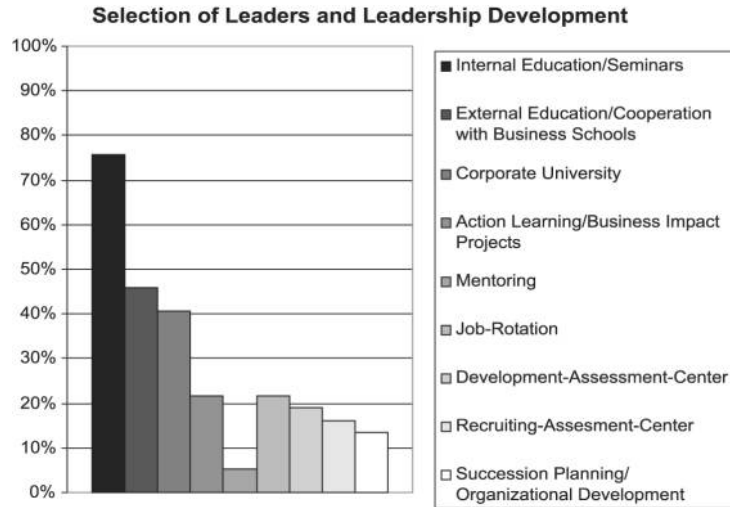


Figure 4.
Leadership instruments in
practice – leadership
process deployment

cooperate intensively with business schools in order to offer customized programmes (see Figure 5). The issue of “corporate universities” is like “action learning”, especially in Germany, still on the raise. In follow-up discussions experts criticized the low use of “mentoring”, “job rotation”, “assessment centres” for development and recruiting and especially “succession planning” combined with “organizational development”.

Figure 5.
Leadership instruments in practice – selection of leaders and leadership development



6. Key learnings

Building upon our qualitative as well as quantitative results, we finally were able to develop a “three-step maturity model” of leadership systems that allows classifying companies according to the degree of excellence with regard to their leadership systems (Reichwald *et al.*, 2003).

Maturity level 1

In the majority of the companies we were confronted with a vast number of tools, instruments and subsystems to support leaders and the development of leadership excellence. Comprising the instruments and concepts found, usually led to an intransparent “instrument landscape”. These singular tools were often optimized for their particular use. Sometimes, however, companies seemed to have lost sight of a bigger picture during the process of optimising those singular instruments. Thus, while interview partners could easily describe specific practices or routines linked to the tools, they struggled, when asked for the instruments’ reason of being, for their interplay with other tools and concepts or for their usefulness as perceived by different observers. The reason often layed in distributed responsibilities for several tools between different organizational units or subunits. Thus, we sometimes found a vast range of sometimes very specialized instruments, which might work well for their specific purpose, but are not well understood of the majority of organizational members, which are not integrated and not transparent for their users. Those instruments in place can not be assessed as really being “in action” and were seen as generating a relatively low impact. Companies that would fit in the described picture had to be classified on the lowest stage of the mentioned maturity model.

Maturity level 2

While quite some companies had to be seen as being in an early stage of developing leadership excellence (stage 1), other companies could roughly be ranked on stage 2. These companies understood their leadership and management system as a process

supported by an integrated set of leadership tools. Their leadership process proved to be leaner. They often even applied fewer instruments, although with a higher impact. Unfortunately, as HR and leadership topics were quite often not handled as top-ranked issues, the leadership systems of companies on that level of maturity just ran in parallel and unplugged to the business system. In addition some of these process-oriented companies saw their systems as “leadership engines” that could produce good leadership in a machine-like way, irrespective of the individuals or the company’s overall strategy, structure and culture.

Maturity level 3

A few companies, however, could be classified on top level of the “leadership staircase” of the maturity model. Those companies showed a strong integration and synchronization of their leadership system with the business system and a good fit, balance and interaction with their corporate strategy, structure and culture. They tried to find a balance between stability and change and tried to support the company’s ability to learn and change through their leadership system. Their systems could be judged as being very lean, quite simple and transparent, but generating high impact on their leaders’ behaviours, actions and decisions – in short, following the Bauhaus leitmotif: “Less is more!”.

7. Further research

In this paper we have given an overview of a current exploratory research project on leadership systems in large multinationals. We have conceptualized “leadership excellence” as a “well-balanced interaction of consolidation and fluidity of leadership and management structures”. The study showed a spectrum of different corporate approaches towards implementing leadership systems reaching from dispersed leadership instrument landscapes to well integrated overall systems. While the shortcomings of broad ranges of tools that are in regular use without a reputation for usefulness, effectiveness and impact is obvious, highly integrated, synchronized and streamlined leadership systems bear a similar risk as they might well support consolidation and stability, but could prove to block corporate flexibility and a company’s ability to continuously learn and change. We tried to reflect this need in order to balance between stability and change (between “consolidation and fluidity” as Neuberger would say) in our evaluation approach. The approach proved to be quite adequate during the subsequent discussions and feedback workshops with the company representatives.

Rooted in a research tradition that follows a “construction strategy” and sees management research as a design science that also has to provide applications and is expected to have real world implications, exploration and evaluation have to be followed by experimentation. As a next step we therefore took our approach of data gathering and evaluation as described in this paper as a basis for developing a self-assessment methodology and tool to support the development of corporate leadership systems. This self-assessment has been piloted at Siemens AG and is now being tested in business units and regions. A web-based support tool for the self-assessment has been developed and is available in the corporate intranet on a global basis. The application of the tool provides further field feedback over time (Möslein, 2005).

In addition, especially two areas seem to be of growing interest for further research. Primarily, there was a huge interest to dig deeper into the role of leadership metrics, the measurement process and the measurement results that aim at making visible the “product” and “output” of leadership. Despite the existence of balanced scorecards, HR scorecards and even leadership scorecards, the question remains where and how to measure the outcome of leadership performance.

Second, there are many leadership instruments, tools and practices that seem to focus solely on consolidation, instead of supporting the adaptive and absorptive capacity in a fast changing environment. However, we also saw quite some practices that strongly support initiative taking, learning and change in a corporate environment. Among others, Pagliarella (2000) argues that leadership could be a strong enabler to build and deploy this capacity to change. The search for balance between consolidation and fluidity therefore seems to us to be a field of pre-eminent importance for future research.

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