WHEN IT COMES TO BUSINESS LEADERSHIP, NICE GUYS FINISH FIRST

A Green Peak Partners Study Shows That Conventional Wisdom Is Wrong –
And That Leaders Who Possess Strong Soft Skills Perform Better at Driving Hard Results

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When It Comes to Leadership, How Reliable Is Conventional Wisdom?

To the private equity investors who held key board seats in SkyRocket Software (hypothetical company), Steve seemed to be the perfect CEO candidate. Energetic, hard-driving, and with a strong track record in finance and operations, he'd held positions of increasing responsibility in four companies over the past 10 years. His relentless focus on results seemed to be exactly what was needed to professionalize the company – a startup created by its engineering-oriented founder – and take it through a lucrative IPO.

Steve was proud of his no-nonsense approach. "I don't sugar coat," he told the search committee. "There are bosses who are so caught up in what their people think of them that they spend all their time softening what they say and talking around hard issues. People don't know where they stand or what's expected. That's not the case with me – people may not like what they hear but always know what the score is. And, if they come through for me, I'll always have their backs."

Steve's initial strategy presentation to the board was impressive. The first staff meeting, after he came on board, was another matter. Status reports from department heads went smoothly for about ten minutes, until the lead software development engineer stood up to present. The engineer told Steve and the assembled executives that, because of the departure of an experienced developer, a key element of code – necessary for the product demo – would be at least two weeks late.

"So what you're telling me is that you don't take pride in your work or care about deadlines?" Steve asked bitingly. The room froze. What sort of a leader, the executives wondered, was Steve going to be?

A bad one, as it turned out. Each staff meeting produced another in a series of harsh personal attacks on members of the leadership team. Even those who weren't directly singled out suffered. "You never know when it's going to be your turn in the barrel" said the VP of Communications. The problem wasn't only Steve's harsh manner; his impulsiveness was a problem, too. Team members became accustomed to late night, early morning, and weekend calls – not because of an emergency but simply because a thought had occurred to Steve and he had to share it right at that instant. Sometimes he'd wander off point and start to criticize one staff member to another. "That always left me wondering what he was saying to others about me" commented the VP for Human Resources.

Six months after Steve was hired, the company is faltering. Two senior staff members have left, and others are contemplating leaving. Steve's impulsive changes to project priorities have wreaked havoc with the development schedule. Talks with a major software company about a project partnership – one that promised to lead to acquisition – have fallen through as a result of uninspired product features and unfulfilled promises, and also because its executive vice president in charge of acquisitions found his conversations with Steve to be such an unpleasant experience. Last week, one of the software firm's clients saw a board member at a social event and complained that Steve was painful to work with, and "didn't seem forthright."

The hiring committee is wondering how they could have gotten it all so wrong…

The Harsh, Hard-Driving Executive Is Too Often a Recipe for Failure

Do nice guys finish last?

That's been the conventional wisdom in businesses and organizations ever since Brooklyn Dodgers manager, Leo Durocher, said it (about the rival New York Giants) in 1946.

We're all familiar with the picture of the hard-charging, take-no-prisoners, results-at-all-costs executive – the one who doesn't care much for people's feelings, and doesn't spend much time on "soft skills," but who wins the loyalty of boards, investors, and ultimately staff because he or she drives results. It's the results that matter – so the thinking goes – and concern with the staff's happiness, their feelings, their motivation, and their sense of feeling wanted and needed is a distraction from what really matters: the bottom line.

That's a wonderful story. It satisfies our ideas about what it means to be tough, to be focused, to know what really matters, and to approach business as though it were a sort of machine – a collection of tasks and processes in which people, messy, inefficient people, just get in the way.

The only problem is that it isn't remotely true, even when focused solely on growth, profitability, ROI, and other core financial metrics.

In fact, executives who lack interpersonal skills – executives who just focus on numbers and processes and wreak havoc on their people – perform poorly over all but the shortest of time periods. And their businesses do as well. This is a verifiable fact. Executives who are bullies – who are arrogant, "too direct," impatient or stubborn – are poor performers, not only as people managers, but also at developing strategy and delivering bottom-line financial results.

Executives who are good "people managers" (i.e., possess strong core leadership skills) on the other hand, produce better strategic and financial performance outcomes.

In other words, **soft values drive hard results**. As you will see, **we don't mean pushovers or "doormat executives" either**. We mean leaders who are self aware, able to hold teams accountable, and who can execute tough decisions in an inspiring and fair – not abusive – manner. We also mean executives who encourage rather than snuff out productive conflict and the challenging of ideas – even their own.

These are new, scientific findings based on our research conducted in collaboration with a research team at Cornell University's School of Industrial and Labor Relations.

The Green Peak Partners Study Examines the Traits that Predict Executive Success

This new study, entitled “What Predicts Executive Success?”, originated from our day-to-day work and our everyday concerns. As professionals, we focus on the intersection between executive talent and organizational performance. Green Peak Partners is a premier organizational consulting firm for investors and CEOs, specializing in two key areas: **helping investors** and their companies secure a competitive edge by backing the best people and **partnering with CEOs** in private equity-backed and public companies to maximize leadership effectiveness and organizational success.

Since our founding in 2005, we have leveraged a systematic and highly accurate methodology to assess leadership potential and performance. The assessment consists of a half-day interview with executive candidates that probes their backgrounds – family, education, early-career, and recent professional experiences – and illuminates a series of core qualities, including leadership styles and technical competence.

No assessment tool is worthwhile if it fails to produce reliable results. In 2009, we were able to conduct a rigorous, disciplined assessment of the assessment tool itself. We conducted interviews with the executives’ bosses to determine how well the executives performed on the jobs for which they were hired. Through statistical analyses, developed in collaboration with Cornell researchers, performance was simplified into two categories – the ability to drive results and the ability to manage talent. In all, we studied 72 executives at public, venture-backed, and private equity-sponsored companies ranging from $50 million to $5 billion in revenue, across a variety of industries.

What We Found: Bullying Leads to Bottom-Line Failure; Strong People Skills and Self-Awareness Drive Better Strategic and Financial Results

The results were startling in their clarity – and were directly opposed to conventional wisdom. The study shows that "results-at-all-costs" executives actually diminish the bottom line, especially over time, while self-aware leaders with strong interpersonal skills deliver better financial performance.

More specifically, the study found that:

- **"Bully" traits that are often seen as part of a business-building culture were typically signs of incompetence and lack of strategic intellect.** Such weaknesses as being "arrogant," "too direct," or "impatient and stubborn" correlated with low ratings for delivering financial results, business/technical acumen, strategic intellect, and, not surprisingly, managing talent, inspiring followership, and being a team player.

- **Poor interpersonal skills lead to under-performance in most executive functions.** Executives whose interpersonal skill scores were low also scored poorly on every single performance dimension.

- **Leadership searches give short shrift to "self-awareness," which should actually be a top criterion.** Interestingly, a high self-awareness score was the strongest predictor of overall success. This is not altogether surprising as executives who are aware of their weaknesses are often better able to hire subordinates who perform well in categories in which the leader lacks acumen. These leaders are also more able to entertain the idea that someone on their team may have an idea that is even better than their own.

- **Experience at many different companies is <u>not</u> a positive sign.** The more organizations an executive worked with early in his or her career, the lower the people management rating. Executives who change jobs frequently are often trying to outrun a problem, and that problem often has to do with how they "fit" in the workplace. Job hoppers also lack perspective on the outcome of their leadership decisions, as they typically leave before the changes take effect.

How to Use the Study's Insights to Improve Hiring and Performance

What should investors, executives, and board members do with this information?

The first and most obvious truth is that **companies and their investors need to put more effort into evaluating the interpersonal strengths of potential leaders. They should focus more on <u>how</u> a leadership candidate does the work, *in addition* to <u>what</u> he or she has done.**

However, there are limits to the degree to which an individual can improve his or her basic ability to interact well with others. This means that focusing on interpersonal skills when selecting the right candidate becomes critical. The challenge is that these qualities often aren't revealed by standard hiring tests and interview techniques. This is why Green Peak Partners' interview methodology surfaces hundreds of data points across a candidate's career both on his or her results and the manner in which these were achieved. What's really needed is a change in focus: boards, private equity general partners, and management teams need to focus not only on skills but also on culture, and on how the candidate's personal "culture" fits with the company's.

The most important step that boards and investors can take is to become more aware of the culture of the companies they own and run. Context matters. It's not enough for an investor or director just to sit in on board meetings, which for the most part has been their inclination. They need to understand how people interact in the company, and make sure that those interactions are positive and truly supporting the bottom line.

Evaluating technical competence alone isn't enough. And it's dangerous to assume (as so many have) that interpersonal skills are somehow dispensable a nice to have, or a sign of weakness. Leo Durocher was wrong: Culture does matter, and a culture that values people skills is a successful business culture as well, both on human and financial metrics.

And while interpersonal skills are difficult to learn, boards and investors should look for senior executives who are teachable at some level. The best and brightest leaders we assess and coach at Green Peak Partners want to grow to be even stronger and better – every month and every year. Once again, this points to the importance of self-awareness. If investors can select for that, there may be performance benefits across all categories.

How to Use the Study's Insights to Improve Hiring and Performance (Continued)

Abandon Conventional Wisdom: Nice Means Better Numbers, Too

But, at the end of the day, the most important lesson is this: as an investor or board member in a developing company, it's essential to put aside conventional views about how executives should behave and where they should focus. Unless your business is in complete distress and requires absolute short-term turnaround measures (cutting nearly all costs just to stay alive another day), then you want to steer clear of those 'slash and burn' executives that garnered fame in the 1990s.

As a business culture, and as individuals, we are all too inclined to buy into the idea that effective executives are hard-charging people – and it's only to be expected that they'll cause some breakage along the way. Who among us hasn't at one time or another excused an executive's bad behavior on the grounds that, yes, that's unpleasant but, in spite of the rudeness and acting out, he or she "gets the job done" and delivers the results. The truth is that this probably isn't happening.

Conversely, an executive who is self-aware and good with staff will be better at working with clients and business partners, better at grasping and executing strategy, and better at delivering bottom-line results These mostly lower ego, trust-inspiring executives still hold the bar very high and demand strong performance but with a style that incorporates strong relational skills and respect.

In other words, it's time to change the conventional wisdom. **When it comes to business results, nice guys – or, more specifically, those with highly developed people skills – do finish first.**

Steve is no longer at SkyRocket Software. The exit was messy, painful, and costly.

Joyce, his successor, has her work cut out for her. Inside the company, there are teams to be rebuilt and morale to be restored. Outside the walls, there are client relationships in need of repair and business partnerships that need to be put back on track. In the midst of all this, strategic direction needs to be clarified, a new product roadmap put in place, and a timeline to exit re-established.

Whether she will succeed or not remains to be seen. But to the extent that she tested well for people skills – and she did – there is reason to be hopeful. With luck, Steve's tenure will turn out to be a detour – and another blow to the idea that you can be bad with people and still be good at business. Leo Durocher was wrong, and it's time to call him out.

About Green Peak Partners

Green Peak Partners is a premier organizational consulting firm, with offices in six North American cities, dedicated to expanding the talent and leadership capability of client companies at both the individual and team level. Green Peak helps investors and their companies secure a competitive edge by backing the best people and fully leveraging their leadership talents. Green Peak serves leading private equity firms, their portfolio companies, other private companies and outstanding public companies. The firm offers the best in talent assessment, executive coaching and senior-level facilitation in the country. For more information on Green Peak Partners, please visit greenpeakpartners.com.

About The Study

The study, commissioned by Green Peak and conducted by a research team at Cornell University's School of Industrial and Labor Relations, involved 72 senior executives across 31 companies, half of them with C-level or President titles, who were assessed by Green Peak between 2005 and 2008. As Dr. John Hausknecht, Cornell Assistant Professor stated, "We know very little about what predicts executive success – it is extremely rare to gain access to detailed pre-hire candidate information and short- and long-term indicators of executive performance for this many individuals. Much of what has been written about the predictors of executive success is based on personal anecdotes or conventional wisdom rather than scientific evidence."

The study consisted of two phases. In the first, the executives participated in Green Peak Partners' extensive executive assessment program, which is based on an in-depth four-hour interview. The evaluations probed the executives' backgrounds – family, education, early-career and recent professional experiences – and mapped a series of qualities, including leadership styles and technical competence. In the second phase, interviews were conducted with the executives' bosses between April and October of 2009 to determine how well the executives performed on the jobs for which they were hired. Through statistical analyses, performance was simplified into two categories – the ability to drive results and the ability to manage talent. One of the important outcomes of the study has been the reinforcement of the belief that an executive's experiences and leadership style are directly linked to his or her performance.

- Companies ranged in size from $50 million to $5 billion in annual revenue.
- The top industries represented were retail (31 percent), technology (26 percent) and finance (17 percent).
- Average work experience was 22.4 years.
- 29 percent were CEO candidates.
- 17 percent were female.
- 10 percent attended an Ivy League University.