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Proof Point

Leadership that drives profits

Management teams with two pivotal attributes are linked to 25 percent higher profit margins

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New research reveals that the prevalence of two key leadership characteristics appear to enhance enterprise competitiveness and be associated with significantly higher average profit margins.

Socially flexible executives are open to diverse points of view, self-aware, empathic, and patient. Interpersonally attuned, they skillfully influence and motivate others.

Learning agile executives are curious, creative, and resourceful. They thrive in new, complex, and ambiguous situations, get to the essence of any problem, and inspire others to embrace change and achieve results.

These key characteristics can be accurately measured using Korn/Ferry's viaEdge and Decision Styles, benchmarked, and targeted for development to improve company performance.

What keeps companies competitive in an era of economic volatility? The answers are likely complex and vary based on market, industry, and organizational factors. But what role does leadership talent play? A recent Korn/Ferry Institute white paper argued that organizations with a higher Smart Growth Capacity (SGC)—that is, those populated by executives with high scores on key leadership assessments—are more likely to sustain success in today's slow growth and fast-change economic climate (Everaert, Roy, and Kingdom 2012; Roy 2012).

Preliminary evidence supports this smart growth hypothesis: companies with the greatest rates of agile and socially flexible executives produce 25 percent greater profit margins than lower scoring peers.

Further, the analysis of leadership assessment data from 1,733 vice presidents and C-suite executives at thirty-six multinational companies also revealed that a 10 percent rise in SGC is typically associated with a 15 percent uptick in profit margin. Moreover, results also suggested that companies with increased SGC also tend to be larger in terms of total revenues and assets.

SGC is a scoring mechanism for a company's leadership psychology—one that aggregates the emotional makeup, social behavior, and cognitive tendencies of an organization's senior executives. Researchers increasingly view such characteristics as keys to distinguishing between organizations that will and won't succeed (Crabtree 2004; Towers Perrin 2008; Zhu, Chew, and Spangler 2005; Elenkov 2002). Roy (2012) suggested that SGC was measurable through a combination of the Leadership Style and Learning Orientation of a company's top level leadership.

In terms of Leadership Style, Roy looked for highly socially flexible leaders—those whose experiences, emotional makeup, interpersonal skills, and social behavior facilitate success. They motivate and get the most from themselves and others, and effectively navigate the diverse networks and multiple stakeholders within their organization. They identify and use information effectively—often through social channels. Colleagues tend to endorse them as appropriately empathetic and highly effective in both listening and communicating. They relate well to diverse individuals and can delegate and manage work effectively. They tend to be particularly inspirational and yet avoid the appearance and trappings of self-centeredness.

When it came to Learning Orientation, Roy's Smart Growth model favored those with high levels of agility. Agile leaders seek novelty and complexity and are both comfortable and persistent in the face of ambiguity and change—and thus have the skill sets to thrive in times of volatility. They tend to receive high marks from colleagues and superiors on ratings of innovation, personal flexibility, orchestrating work processes, making complex decisions, and avoiding problems associated with being excessively narrow. They often identify connections and patterns where others do not and prefer working conditions characterized by a need for quick and nimble decision making, creative thinking, and imagination.

To test the Smart Growth hypothesis, the Korn/Ferry Research and Development group examined assessment data of senior managers who had completed a short form proxy of the viaEdge and Decision Styles measures of both Leadership Style and Learning Orientation as part of a Korn/Ferry engagement. SGC for each of the thirty-six companies was calculated using Roy's method and tabulated against public company data, including total revenues and profit margins for 2008 through 2011.

Statistical modeling indicated that the higher the SGC, the higher the company's profit margins in both 2010 and 2011. The top quarter of companies by SGC had 25 percent higher profit margins than the rest in the study. Higher SGC companies also tended to be larger and more successful in general. Investigation on whether changes in total revenues over time—one conceptualization of growth—were associated with SGC was inconclusive. Overall, this preliminary analysis supports the general notion that SGC is related to company performance.

Why would we expect that the psychology of companies' senior management might affect organization performance? General indications from academics and business leaders point to a business climate in which both agile and socially flexible leaders are needed to drive growth and success.

Researchers consistently describe how the globalizing economy has brought corresponding changes in markets, enterprise, and workforce characteristics. Steady and predictable economic development has been replaced by fast, chaotic, and volatile change in markets. Company goals and missions are less stable and more dynamic and opportunity driven. Fast is better than big, innovation is ongoing rather than periodic, and an aptitude for continuous learning is more important than previously earned college degrees. In sum, mastering speed, innovation, change, complexity, and adaptability are central to the success of modern businesses (Lam 2011; Lazonick 2009). These conditions clearly favor the agile leader.

Organizations' internal structures are changing with the times as well—becoming "flatter" and demanding more "horizontal leadership" (Meyer 1998; Pasternack and Viscio 1998). Organizational cultures that were once clearly hierarchic and vertical are now increasingly egalitarian, and decision making is decentralized. These conditions clearly favor the socially flexible leader.

Because of that, leaders with emotional intelligence, social skills, and the ability to motivate are increasingly crucial to the success of companies and teams within them. Indeed, in a recent survey, CEOs indicated that human capital issues top their list of concerns, outweighing even risk, regulation, or financial capital (Conference Board 2013).

Using Korn/Ferry's Smart Growth framework and science-based assessment tools, organizations can evaluate individual abilities with accuracy, benchmark collective results, and pinpoint the skill sets that need to be developed in rising executives to enhance the competitiveness of an enterprise going forward.

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The Korn/Ferry Institute generates forward-thinking research and viewpoints that illuminate how talent advances business strategy. Since its founding in 2008, the institute has published scores of articles, studies and books that explore global best practices in organizational leadership and human capital development.

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