Balancing the Leadership Equation -
Good organization and holding leaders to account

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"Poor organization structure makes good performance impossible, no matter how good the individual manager may be."

Peter Drucker, The Practice of Management

Introduction

Leadership studies invariably focus on only part of the leadership equation. Studies generally cover individual leaders, particularly those at the top of an organization. They are prone to ignore an important part of the leadership equation – the context in which a person has to lead. Furthermore leadership is needed throughout an organization, not just at the top. This is distributed leadership. If it is not effective throughout the organization the negative impact multiplies as the number of ineffective leaders increases. But little attention seems to be focused on this impact of wider leadership capability.

Our article is considers this imbalance and makes recommendations for further examination of the issues. Since talent cannot shine in a vacuum, it will consider the situation in which the leader is working and the context in which performance is assessed. It will explore the challenge for the leader to add value in different parts of the organization and at different hierarchical layers. That will lead to an examination of accountability of leadership roles, whether they are discrete and distinct, to an assessment of the objectives of a job, how they need to vary together with an exploration of the key performance indicators against which the leader's performance will be judged.

The context

Most organizations focus their leadership development efforts on honing the skills of individuals. But they invariably neglect the context, accountability and the performance expected of the role into which that potential leader is then placed. Too often a talented person is placed in a leadership role that lacks distinct decision rights or where the leadership outcomes are not clear – a hollow job. Not surprisingly a few months later the verdict starts to emerge: “It seems so and so is not as good as we thought. He or she is not making much impact in that new job.” But no-one can shine in a non job. When this happens, it is the organization of the work that is at fault not the ability of the leader.

Too often we have seen poor organization design and lack of a clear leadership strategy undermine the leadership development process. Clear accountability is the pre-requisite of successful leadership. Leadership does not exist in a vacuum.

A leader with power who is not held to account is a dictator. But leadership without authority and accountability is impotence. Whilst leadership with unclear or confusing performance criteria is dissolute. We all have our nightmare stories of leaders not delivering or not being held to account for their poor performance and incompetence.
Recent examples of Enron and the crisis in the finance industry show how unaccountable, ineffective or unethical leadership can lead to a crisis for the company and on occasions for wider society.

So why do so many organizations neglect this critical half of the leadership equation?

The leadership equation

The leadership equation consists of six essential components.

1. An accountable role
2. An organization structure with a minimum number of such roles
3. A competent incumbent
4. A reliable set of indices to judge leadership performance
5. A valid method of assessing potential for future, more accountable leadership
6. Management throughout the organization capable of delivering items 1 to 5.

Managers or Leaders – what is the difference?

There has been much debate about the difference between management and leadership. Warren Bennis[1] in his book "Reinventing Leadership - Strategies to Empower the Organization" describes the difference between the old style of command and control management and the new style leadership of collaboration, coaching and support. He states that organizations have to go from macho management to maestro leadership, from someone who believes he or she has all the answers to someone who can 'conduct' staff and encourage them to find the most effective answers.

The key role of leadership is to create a social architecture capable of generating intellectual capital and innovative service. An organization gets the best out of

[1] WG Bennis 2005 HarperCollins Publishers, Inc.

people by empowering them, by supporting them, by getting out of their way. As author Max De Pree said, managers have got to abandon their ego to the talents of others.

But the truth is that it is not a case of management *or* leadership, both management *and* leadership are important, and those in positions with authority and power must develop and use both sets of skills.

However when assessing performance organizations are primarily focused on financial, product or service delivery objectives and when the chips are down, as they have certainly been for most organizations recently, these deliverables take priority and precedence over leadership. This is demonstrated through the organizational design and performance management systems that are used.

So what is meant by leadership?

Leadership in of itself does not exist. It exists in a person with an accountable role. Effective leadership is contextual and depends on the competence of the occupant to handle the demands of a specific role. The CEO of a global company requires a different brand of leadership to that of the night shift manager in a customer call centre or a sergeant in a police station.

Leadership is a process in which an individual sets out a purpose or line of action in such a way that others will willingly move in that direction to the best of their ability and then supports them in the achievement of the action.

Leadership depends upon three critical variables:

- *an accountable role*
- *organizational effectiveness (a minimum number of such roles)*
- *personal competence*

What is meant by accountability?

Accountability occurs when one is answerable to another for work (goal oriented behaviour) resources and results and/or services that can be measured in quantity, quality, cost and time.

Success in carrying out those tasks should lead to reward and recognition from the person or persons who set up the role in the first place. Conversely, failure to deliver what is specified in the role, should lead to some sort of sanction.

The reason why a bureaucracy is so debilitating for those employed in it and those "served" by it, is its disconnection from performance and the consequences of performance. Bureaucrats work in an accountability vacuum which customers, clients and patients recognise as a total imperviousness to their needs and desires. For the bureaucrat lack of performance or service does not matter *to them.*

Bruce Klatt *et al.* (1999)[2] have stated:

- Accountability is a statement of personal promise, both to yourself and the people around you, to deliver specific defined results.

[2] Klatt, B, Murphy, S and Irvine, D (1999) *Accountability: Practical tools for focusing on clarity, commitment and results.* Kogan Page.

- Accountability for results means activities are not enough.
- Accountability for results requires room for personal judgment and decision-making.
- Accountability is neither shared nor conditional.
- Accountability is meaningless without consequences (rewards, sanctions).
- Accountability applies to individuals.'

Why is accountability important for leaders?

When leaders are not held to account the outcome is poor performance and waste. Waste of effort, waste of time, waste of talent, and waste of money. This waste de-motivates those who work for the organization and dissatisfies those allegedly served by it.

The basic premise of an accountable organization is that, a leader takes only those decisions that cannot be taken by those reporting to him or her and which are not also taken by the person to whom the leader reports.

As work becomes more complex, so the decisions being taken differ in nature and quality. There needs to be 'space' for different decision rights between those above the leader and those below. Otherwise, 'compression' occurs when two or more layers are working within the same decision-making zone or level of accountability.

Compression is the opposite of empowerment. It is the enemy of effective leadership.

What is the impact of performance management?

Some companies are trying to focus on more than the simple use of financial objectives and have adopted the Balanced Scorecard to set individual objectives as advocated by Kaplan and Norton[3]. The four perspectives of the scorecard - financial measures, customer knowledge, internal business processes, and learning and growth - offer a balance between short-term and long-term objectives, between outcomes desired and performance drivers of those outcomes, and between hard objective measures and softer, more subjective measures, but although they focus on the outcomes that relate to business objectives there is little that is linked to leadership.

This is typical in many organizations; the performance management processes that underpin the accountability of leaders are usually focused on measures that are linked to management rather than leadership. They generally use performance management to reinforce the management objectives of financial, quality and customer results rather than leadership objectives of visioning, employee development, coaching, support and guidance. And this then impacts the remuneration decisions.

[3] Kaplan RS and Norton DP (1992) the *Balanced Scorecard: Measures that Drive Performance.* Harvard Business Review, January-February

What causes poor performance and lack of accountability?

Our experience of working in both the private and the public sector has revealed that most organizations are still over managed with far too many layers of hollow and unfulfilling jobs. This is surprising in the 21st century, given the fashionable lip service paid to the virtues of a flat organizations and the alleged removal of old fashioned command and control cultures. But in reality widespread current practice is diluting accountability and making it increasingly difficult to hold leaders to account.

One result of this dilution is that responsibilities and accountabilities overlap and while managers are vying for power and control they are ignoring the leadership of the teams working for them. They are focusing on the management rather than leadership aspects of their role.

The evidence suggests there are a number of contributors to this persistent growth in hierarchy-heavy structures and lack of empowerment, which in turn prevent good leadership.

Unclear decision rights

Any organization that exists for a purpose needs someone held to account for delivering that purpose. This means people in that organization should similarly have clear, discrete, unambiguous targets and decision rights that do not duplicate and overlap with the work of their colleagues. They should have control over the levers that enable them to do their work, provide service, produce results and drive improvements and productivity.

They need to be clear about what performance is required, what decisions they can take and what decisions they cannot take.

Research, that initially started with Wilfred Brown and Elliott Jaques and his colleagues at Brunel university, suggested there seem to be no more than seven, perhaps eight, different levels of accountability in any organization. Our fieldwork across the public and private sectors in many countries[4] has found up to eight levels in the largest, most complex global organizations.

The way organizations make decisions (their Decision Making Accountability or DMA) is in effect part of their genetic code. As with DNA it exists irrespective of whether it is 'discovered' or recognized. It is vital to identify these levels of accountability because after many years of fieldwork we now know that *only one layer of leadership is needed for each level of accountability.*

Increasingly we are finding that organizations do not know how many levels of decision rights they have, or need, and do not therefore correctly align their hierarchy of organizational layers to those levels of accountability. Sometimes they have a layer missing but the most common mistake is to build in more layers that can be justified based on the work being done.

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[4] This work has been carried out with a number of individuals acknowledged in The Healthy Organization and The Accountable Leader, but foremost have been Adam Pearce, Bernard Dive and Peter Dugmore.

The impact of too many titles

Each of us likes to have a label for our work which differentiates it from that of others. It is part of human nature. However we have quite often observed companies with an excessive number of job titles that actually drive superfluous layers of hierarchy.

In one bank in which we have worked there was an entrenched culture of titles for leaders that encompassed, team leader, supervisor, shift manager, senior manager, assistant director, operations director, management director, executive director and finally CEO. The only trouble was that over time this had generated two additional layers of leaders that were not needed.

Similarly we have observed a formalistic adherence by many companies in the US to a chain of titles such as, supervisor, manager, head of unit, director, vice president, senior vice president, executive vice president, COO and CEO which invariably spawns unnecessary layers of managers and executives.

The impact of grading systems

Most large organizations have grading systems. These were initially designed to help establish equitable pay throughout an organization. But over the years they have migrated into the space of organization design and leadership development. They were never intended to be the basis for sound organization architecture or effective personal development.

It would appear that the absence of good professional practice in those two areas in so many companies, government departments and local authorities has led to a vacuum that needed to be filled. The unintended result is faulty organization design, which in turn has undermined the accountability of many leadership roles. This is because they invariably have too many grades which become the talisman of success in leadership development schemes and the driver of too many layers. The easiest way to 'earn' more points in a quantitative job evaluation scheme and therefore a higher grade, is to insert another layer in the structure.

Private sector examples

Only one bank studied in the UK[5] has correctly aligned its leadership layers to its levels of decision rights.

At one extreme a bank had twenty two grades in total from the front line to the CEO. One was permitted to move up only a single grade at a time. Many people reported to the next grade above them. Since the number of grades far exceeded the levels of accountability available, they were therefore a major source of over layering and disempowerment.

A couple of banks placed all their senior executives in the same grade but that did not seem to work either, as one had up to eight layers of senior management in that grade alone and both banks were over layered in total.

[5] The work referred to has been conducted with Adam Pearce since 2003. It has covered seven major banks in the UK, including their operations elsewhere in the world.

We have found banking structures among the least accountable in the private sector, which one could predict would have had a detrimental effect on the quality of their leadership development.

Public sector examples

The problem found consistently in the public sector is too many grades. We have not come across a department or local authority with few grades.

Most Whitehall Departments are based on the two civil service grading systems, one for the senior civil service (SCS) and one for those below the SCS. The problem is these departments typically have access to twelve to fourteen grades. This tends to generate around twelve to thirteen layers of hierarchy when they require between six to eight depending on the size and complexity of the department in question.[6]

Local bodies typically have twenty or more grades as a rule. This also encourages more reporting relationships on their various spines of accountability than can be justified.[7]

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[6] This conclusion has been based on work done over the last three years with Adam Pearce, Bernard Dive and Peter Dugmore.

[7] John Bruce Jones has assisted with the work in local authorities.

Why are grading systems the enemy of accountability?

Grading systems do not measure accountability. Their aim is to establish equitable pay not drive organization design. They are underpinned by job evaluation, which is quantitatively driven. Factors relating to size basically drive the answer despite some consultants claiming their system is also qualitative. The latter is demonstrably not the case as illustrated by the fact that every organization we have studied using a job evaluation system has been sub optimally structured: usually over layered. Job evaluation schemes are blind to the qualitative requirement of value adding decision rights that are the bedrock of effective organization structure.

Job evaluation is the basis of grading systems. Grades are linked to pay and usually the higher the grade, the higher the pay. Some senior grades have more substantial fringe benefits aligned to them, such as enhanced pension benefits. Sometimes grades are demarcated by status, such as the SCS grades in the civil service.

Wherever grading systems flourish there is thus a strong incentive to increase one's grade. But grades offer an administrative promotion not a real change in accountability, leading to personal growth and challenge. The key to this is to understand the quantitative determinants within the respective job evaluation systems, such as size of budget, number of subordinates and the like. And of course the shortcut path to increase these resource drivers is to insert another layer in the hierarchy. This is a surefire route to greater reward and enhanced status but in the process it also leads to a silting up of the organization's structure. That in turn has a detrimental impact on leadership development since non jobs are likely to abound across the structure.

Organizational sclerosis and loss of accountability in Whitehall

A further determinant of sclerotic structures in Whitehall is the lack of sufficient emphasis on reward for performance. Given the low rates of inflation in recent years merit increases are often about 1 to 2% a year and thus it can take up to fifteen years for a good performer to move through to the maximum pay rate for a given grade. But a change of grade (an administrative promotion) typically warrants a ten percent increase. And a regrading is easiest to justify when another layer is added to the existing jobs.

In fact the overall reward structures in the civil service are considerably distorted toward long service and not failing than to performance and service improvement. The messages that post service sinecures and civil awards that top civil servants receive after "years of loyal service" influence the whole organization and suggest that risks (from which innovation and improvement flows) should not be taken, and performance improvement is not valued. This does not suggest that massive bonuses need to be paid to get people to perform well in the civil service. The service can learn from the many organizations that pay low level bonuses linked to financial and service improvement or to cost saving and improving efficiency and they see good improvements without inappropriate risk taking.

In Whitehall there is a further complication. Since the late 90s there have been two job evaluation systems in operation. One system (JEGS) is for jobs below the SCS and another (JESP), for those in the senior civil service. But the governance of these two systems is now broken.

Fieldwork in many departments since 2007 has discovered a major flaw in how the grades are now positioned. *The two grading systems overlap in one level of accountability. But fieldwork around the world has established that only one layer of leadership is needed in each level of accountability. Thus the civil service's grading systems have now institutionalized over management and diffuse accountability.* This is a major drag on service delivery, its practice of leadership and ability to develop leaders for the future.

To further compound this felony, the governance process behind these two systems has broken down, evidenced by the fact that the number of jobs in the SCS grew by 40% from 2000 to 2010. Extensive fieldwork (based on over 600 interviews) has also demonstrated that the majority of civil service grades across Whitehall now straddle two and sometimes three levels of accountability depending on the department being studied. This means the civil service's dynamics of leadership development have been seriously compromised during the last decade.

Similar problems have been found in local authorities, which is some cases rely on three different grading systems within the same organization. This is not a proven method of identifying accountability. It is unlikely to help social services' departments produce better leaders.

Is broadbanding the solution?

A number of private sector companies have recognized that too many grades bedevil the effectiveness of their structures and blunt good leadership. In attempting to flatten their structures they have simply broad bands of responsibility, i.e. they have broadbanded their grading structures. Thus where there were say twenty grades they "simplify" them to say six. But if they do not have a reliable and valid reference frame to guide this change and demonstrate that six, not five or seven is appropriate, they are heading for trouble.

This is because they have really only broad banded money or the existing pay ranges from say twenty to six. Experience shows this reward approach breaks down after two or three years because these companies lose control of their costs as in the new system everyone can drift up to the new pay maxima. Then management realizes pay drift is taking place and inserts a glass ceiling within the broad band. This is reintroducing something akin to the old grading system by another name.

A London based national retailer made this mistake. It "simplified" its numerous grades to six and labeled them A to F. When the accountabilities of these jobs were accurately assessed it emerged that Grades A & B were invariably in the same level of accountability, part of B and part of C emerged in another level of accountability while part of C and D yet another level of accountability. And so on. The staff implicitly recognized these anomalies and there were dozens of requests for re-grading, most of which were successful. Net result, the relevant employee cost base in the Head Office rose by 14% in a single year at a time when the company was in dire financial straits.

This company made the mistake of broadbanding money only. It should have broadbanded accountability first and then aligned those levels of accountability against the market, as Tesco did for example in 2001 when it introduced Work Levels.

Accountability and Effective Leadership

Real leaders often seem difficult to find. The difficulty is not always, however, due simply to a scarcity of talent. Organizations that are over-managed but under-led with too many layers of "management" tend to have two characteristics: everyone in the organization is working hard, putting in long hours and meeting their financial targets; yet top management believe that there is a shortage of true talent.

Recently the CEO of an overlayered organization confided that his major problem was lack of talent. And yet all his key staff had been rated 1 or 2 on a five point scale on which 1 was "excellent". The most talented people in middle management were leaving, totally frustrated by the inability to make any meaningful decisions in a cluttered hierarchy. Initially the CEO thought these managers were leaving because they were not being paid enough. Few people leave an organization for less money but that in itself does not prove it was what stimulated them to look around in the first place. The most talented get frustrated when placed in a non job. Talent is marketable, mediocrity is not.

Managers must be properly held to account if they are to fulfil their capability and show what they can do. Accountable organizations are capable organizations.

So what makes an organization one in which leaders are held to account?

An organization has two key dimensions of structure: the 'vertical' and 'horizontal'. The vertical dimension relates to its 'height' – the number of management layers. The horizontal relates to its reach or span of management (or span of leadership, often referred to as the span of control) and how the work of the organization is grouped (geography, function, and so on) and how the different parts of the organization relate to one another. In a properly accountable organization these two dimensions are in a state of equilibrium. Research has established (Fisch 1963[8], Child 1977[9], Janger 1989[10]) that over-layering correlates with small spans.

Recent work in Whitehall has revealed that average spans of below 3 are widespread.[11] These are far too low and have been found to correlate with extensive overlayering. In a policy department or in the corporate office of a global company a span of 4 to5 on average would be the norm while in delivery operations an average of at least 8 would be expected. Overlayered banks have spawned spans below 5 on average. More aggressive templates such as spans of 7 or 8 on average coupled with targets of 7 to 8 layers are being espoused by some of the largest banks setting out to improve the effectiveness of their structures and the accountability of their leaders.

[8] Fisch, G.G. (1963) Stretching the span of management, *Harvard Business Review,* September-October
[9] Child, J (1977) *Organization: A guide to problems and practice* Harper & Row, London
[10] Janger, A. R. (1989) *Measuring Structures Comparative Benchmarks for Management Structure*, the Conference Board, New York.
[11] The Fulton Report noted the same statistic in 1968. Why has nothing happened since? Because Whitehall has not yet cracked the challenge of how to identify accountable jobs.

How does performance management impact leadership success?

An additional factor that organizations need to take into account in assessing the success of leaders is the performance management system and process. The system must support the key objectives of the organization. Ideally this would be a broad set of objectives that focus on the long term as well as short term success of the organization, on leadership as well as management success. These objectives should focus on the important objectives that are key to organizational success and ones where assessment can be objectively measured rather than just those that can easily be measured. But most organizations admit that their performance assessments are still based primarily on financial results and during the recent economic downturn we have seen even more organizations change the payment of bonuses to key financial targets rather than a more balanced set of objectives.

Indeed many believe that the over aggressive, unrealistic and possibly unethical business growth objectives of the banking sector caused the sub-prime mortgage crisis that led to the recession in which we now find ourselves. HBOS is a good example in that it ran onto the rocks of chasing extra sales and higher profit targets led by an inexperienced “leader” who had used that approach in retail but the philosophy was inappropriate for bank lending.

However in normal times when business is good the balance of objectives should include targets related to leadership. But there has been little research into how ‘successful’ leadership is to be judged. Organizations do not generally define and assess objective measures of performance. Most of the research has been based on the measurement of follower satisfaction with the leader’s performance or the self-awareness of the leader's performance as an alternative factor. Neither of these could be cited as satisfactory, objective measures.

A study by Podsakoff Todor and Skov[12] investigated the nature of the relationships between leader reward and punishment behaviours and subordinate performance and satisfaction. Only performance-contingent reward behaviour was found to affect subordinate performance significantly. Positive relationships were found between leader contingent reward behavior and employee satisfaction. Contingent punishment had no effects on subordinate performance or satisfaction.

Some researchers have cited behaviours as key to successful leadership (Campbell 1990); whilst others have found that there is no overall definition of leadership performance (Yukl 2006). Young and Dulewicz[13] in their report into leadership in the Royal Navy say that the key measure of leadership performance is the accuracy of self-awareness of the leader and that those individuals with more accurate self-awareness of their own performance were more likely to adopt a more suitable leadership style.

Sosik and Megerian (1999), Wong and Law (2002) and Tekleab et al (2008) all found that self awareness was a key attribute of successful leaders.

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[12] Podsakoff Todor and Skov 1982 *Effects of Leader contingent and noncontingent reward and punishment behaviors on subordinate performance and satisfaction* The Academy of Management Journal

[13] M Young V Dulewicz 2005 Leadership Styles, Change Context and Leader Performance in the Royal Navy

How do we identify objective performance measures?

This lack of empirical research into the objective measures for a successful leader is worrying if we are to ensure that the skills and capability of leaders are improved. How do we know if training interventions are successful if we can't measure the improvement in leadership performance? How do we know what development needs are necessary if we don't know how to assess who the successful and poor leaders are? How can we indentify future leadership capacity and capability if we don't know where we are now? And are we making effective, balanced decisions on rewards if we are only measuring the achievement of financial results?

One might even hypothesize that we are building an environment where a financial crisis is bound to happen again in one sector or another.

Fortunately there is some evidence that examples of leadership measures are being developed in industry. Barclays UK Retail Bank found that their managers were performing well in a technical capacity but that they needed to demonstrate increased leadership capability. They developed a series of modular experiential learning events to address this issue. They found that the events 'drastically improved' the participants' day-to-day leadership performance and cited an increase in team productivity and an improvement in team engagement as the measures[14].

However this is just one, limited example and we believe that more research needs to be carried out into understanding and defining the objective measures that are the outcomes of successful leadership.

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[14] How HR Made a Difference 2011 People Management

Conclusion

This paper sets out to demonstrate that leadership must be considered in relation to the organizational structure and environment and to the assessment of relevant performance objectives. It is our belief that neither of these factors are sufficiently taken into account in organizations and those responsible for leadership development continue to train and assess leaders while remaining blind to these critical factors.

We feel that organizations must review their leadership assessment processes, look at their accountability levels and at the distribution of leadership responsibility. This calls for two things. A reliable method of identifying accountability and a valid approach to the assessment of potential in an individual who might then be ready to move to the next higher leadership level of accountability.[15]

In relation to the assessment of performance there seems to be little academic evidence to recommend how organizations should do this successfully. Organizations are in the dark about what objectives are important and which of them lead to the assessment of successful leadership performance. It is our recommendation that academic institutions should seek to link with organizations to study, in a real work environment, how performance should be measured and what objectives are key to the successful assessment of leaders throughout the organization.

[15] See chapter 10 in *The Accountable Leader* for an example of how this works in the case of identifying school teachers with the potential to become a school Principal.