Dancing with who brought you:
How to get the highest performance from an existing management team

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Sometimes ya' gotta' dance with the one who brung ya’ –
Old saying from the American South

"The toughest problem we face in the private equity industry," says the Investor Director to me, "is figuring out if the senior management can they do what we require of them. Can they drive the business forward so that we can get a good return on our investment?"

Last month we discussed how one way of addressing that problem is to use psychometric assessments in order to predict the performance of people and thereby take your standard 'due diligence' process from good to great."

My view is that the private equity industry already does a solid job of assessing the management teams of companies in which it invests, and that psychometric assessments are a speedy, effective and highly economical way to supplement the 'due diligence' process.

But What If....?

But what if, as hands-off investors, you need to coax a better performance from the existing management team? What if the senior management team needs redressing rather than replacing? Improving instead of ousting? In short, what if you have to "dance with the one who brung ya"? Again, psychometrics can help.

Psychometric Audits:
Measuring Emotional Intelligence

"Emotional intelligence" (or EQ as in the emotional equivalent of IQ) is today's popular term to describe what psychometrics has always described: how a personality functions.

Traits and characteristics such as self-awareness, impulse control, persistence, empathy, social deftness, etc, are markers of people who excel not just in business but in life.

Though it doesn't matter what it's called (eg, emotional intelligence, EQ, emotional competency, personality style) it does matter to investors -- whether they know it or not-- because it affects significantly an investment's bottom line. That's why it's good to know how 'emotionally intelligent' are the people managing your investments.

A way to do this is through a Psychometric Audit. Put simply, a psychometric audit means applying the psychometric assessment procedure to a senior management team in order to capture the synergy within that team. This is one way of educating a stronger performance from an existing group of managers.

The process of a psychometric audit is identical to that of a psychometric assessment: the person being assessed fills out pen-and-paper questionnaires, is given feedback during an interview, and then verifies that the results are fair and accurate. The 'auditor' repeats this process with the other members of the senior management team and highlights both the proficiencies (what's working well) and deficiencies (what's not) within that management team. The audit delineates the personal styles of the senior managers and maps out paths through the inevitable impasses of personality that occur. It is these impasses that stymie a business's growth.

But does it matter commercially? Does analysing the interplay of a company’s senior managers really have an impact on the bottom line?

You bet! In the case of the private equity industry, you bet literally millions.

Here are real world examples:

* The ability to assess one's self accurately was associated with superior performance among several hundred managers from 12 different organizations. That is, superior performers demonstrated greater 'emotional intelligence'.

* Research in over 200 companies worldwide found that a top performer is 85 per cent to 127 per cent more productive (depending on job complexity) than an average performer.

Why? About one third of the difference was due to technical skill and cognitive ability but two-thirds was attributed to emotional competence. In top leadership positions, over four-fifths of the difference was attributed to emotional competence.

* A manufacturing company trained some of its managers in emotional competencies (eg, how to listen, how to help staff resolve problems, etc). The result: lost time accidents were reduced by 50 per cent, formal grievances were reduced from 15 to 3 per year, and the plant exceeded its production target by $250k. At another site, similar training in emotional competencies (eg, how to read a dog’s body language, how to mask fear, etc.) to their mailmen and found that dog attacks were reduced by 80%. The training proved so superior to the traditional approach (spraying attacking dogs with gas) that it's been offered to all 79,000 postal carriers.

These results are no surprise. Many of us -- but not all-- learned in kindergarten that to ‘work and play well with others' is a very useful skill.

The good news is that even the most hands-off investor can boost the productivity of a senior management team by raising that team’s level of emotional intelligence through a psychometric audit.

Here’s even better news. No matter what the existing “EQ” of managers is, there are 3 psychological truths that the private equity industry can rely upon when seeking to enhance their performance:

1) People can, and do, learn. Old dogs may not learn new tricks but senior managers certainly can (remember the German post?). Given the right assistance, senior managers can learn the interpersonal skills, styles, and techniques required to improve their business. Even if one did not master the lesson of ‘working and playing well with others' while at kindergarten, psychological research has proven that it really is never too late to learn.

2) People are adaptable. The human race is not the biggest, fastest, fiercest species on the planet but we are the most adaptable. We adapt to any climate, any diet, and any circumstance. Humans excel at figuring things out, solving problems and innovating, which, if you think about it, is the essence of good management. Just as humans didn’t get to be the dominant species by accident, likewise senior managers don’t rise to the top by accident. Like most members of our species, senior managers can usually adapt to the directives of investors when given the right circumstances and support.

3) Managers are motivated. Over many years I’ve interviewed, recruited, and psychometrically assessed many senior executives. In my experience of running professional development programs for management teams, I have found that without exception every individual wants to be a better executive, a better manager, a better professional. The problem is that they don’t always know how. Or they can’t locate the path to excellence. Or they don’t know what to develop in themselves in order to improve.

That’s why psychometric audits are worthwhile. They identify what behavioural issues need to be addressed and redressed, and then show you how to do it.

In conclusion, 'dancing with the one who brought you’ doesn’t mean getting stuck with wallflowers! A smart investor lets senior managers be who they are. But a wise investor develops those managers in accordance with who they are. Investors create synergy within a management team by providing a motivated manager with a personal road map to success. Do that and when the music stops, the dance ends, and it’s time to exit the investment, both investor and manager will agree that it’s been a profitable pas de deux.

References:

1. Australian Venture Capital Journal, June 2004 pp.35-6
7 Habits of Highly Unsuccessful People:

To be spectacularly unsuccessful is not easy! It requires special qualities.

Research reveals that the personal qualities of leaders who presided over major business failures are:

1. They **see themselves as dominating the environment**.
   Smart leaders know that in business, circumstances always change and success is fleeting.

2. They **confuse their personal interests with the company’s interests**.
   Smart leaders stay objective and restrain their ego.

3. They think they **have all the answers**.
   Smart leaders know that nobody knows it all, especially them.

4. They ruthlessly **eliminate anyone who isn’t 100% behind them**.
   Smart leaders understand that eliminating dissent only deprives them of useful feedback.

5. They are **obsessed with being the company spokesperson**.
   Smart leaders stay focused on the business and avoid becoming a celebrity.

6. They **underestimate major obstacles**.
   Smart leaders learn which problems are insolvable or solvable at too great a cost.

7. They **stubbornly (and stupidly!) rely on what worked for them in the past**.
   Smart leaders realise that yesterday’s answer won’t fit today’s question.

Sadly, in many corporations these traits are regarded as positive indicators of good leadership. But if left unchecked, these traits can lead to disaster. And remember, you only need 5 out of the 7 to be highly unsuccessful.


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