

Effective Leadership

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Introduction

In the post industrial global economy, new companies are being valued by the market in terms of potential and knowledge assets rather than tangible assets. Top leaders can no longer afford to have mindsets developed during the industrial era. Today the single most important source of competitive advantage is human capital and Knowledge Management (KM). Keeping and motivating people or developing human capital with a sense of purpose is the only way to deliver innovative products, superior service and unsurpassed quality over the long haul.

Human capital is the sum total of: experience, know-how, skills and creativity of organization members (including top level leadership and down to the lowest level of employee) which can be called 'organizational knowledge', and can be transferred into either commercializeable intellectual assets or supporting intellectual assets (Brooking, 1998). The new perspective is that 'clever' people and 'clever organizations' can build a successful future on intangibles such as ideas, concepts, information and patents. Some of the newly created wealth of this generation are Bill Gates and Paul Allen of Microsoft, Larry Page and Sergey Brin of Google.com, Jerry Yang of Yahoo and Jeffrey Bezos of Amazon, just to name a few. What do they have in common? They all built their success through people with knowledge and today, their organizations are some of the most powerful that one can think of. Other successful organizations like General Electric (GE), Southwest Airline, Medtronic and Skandia Insurance Company Limited are also examples that leverage on the intangibles of human capital. Skandia's measures of human capital to realizing knowledge assets can be seen in Appendix A. The value is found more on the intangibles, and less on the tangibles like physical products, machinery, buildings or land. This also reflects the Resource-based view (RBV) as against the traditional (tangible) asset based view (Meso & Smith, 2000)

Effective Leader

Effective leaders are successful in developing a Sustainable Competitive Advantage (SCA) and in turn resulting in organizational success. Huseman and Goodman (1999) emphasized and used a four phase model for conceptualizing and leveraging knowledge (See Appendix B). A vision is required at the epi-centre of the model. This being the strategic activity needs to be driven by good leadership. Successful organizations like General Electric and Southwest Airline have good leadership that drives these strategic visions.

Macbeth, Njoto and Chan (2003) conceptualize the Integrated Human Capital Development (IHCD) Strategy as a progressive approach to produce high performing organizations. Effective leaders focus on developing people

with special competencies. These competencies can be equated to human capital. Development of human capital includes three dimensions: Intellectual capital, Emotional capital and Social capital. Effective leaders want to create holistic development of people i.e. Knowledge worker, Adaptive worker and Communicative worker.

Intellectual Capital :: Knowledge Worker

Emotional Capital :: Adaptive Worker

Social Capital :: Communicative Worker

Development of Human capital leads to high performance culture and organizational success. Table 1 below represents an adaptation from the IHCD strategy.

Table 1
Integrated Human Capital Development (IHCD)

Development Level	Elements in the Human Capital Development System
Intellectual Capital: <ul style="list-style-type: none"> • Adaptive thinking skills • Expertise • Passion 	Intrapersonal
Emotional Capital <ul style="list-style-type: none"> • Commitment • Consideration • Consistency 	Interpersonal
Social Capital <ul style="list-style-type: none"> • Excellent communication • Effective coordination • Efficient connection 	Organizational
High Performance Management System <ul style="list-style-type: none"> • Personal Performance Objectives • Performance Improvement Tracking • League competition • Skills Development & Action 	Integrated Human Capital Development Strategy

Source: MacBeth, Njoto and Chan (2003)

There is no one perfect leadership style that may characterize effective leadership. According to Dolan (2002) leaders can practice Management by Instructions (MBI), Management by Objectives (MBO) or Management by Value (MBV). However, effective leaders of modern era focus on MBV (refer to appendix C). MBV is a synthesis of developing Intrapersonal, Interpersonal and Organizational skills leading to development of superior Human Capital.

Using the IHDC framework, two great leaders of modern times are compared hereunder:

Leaders Compared

Jack Welch

Jack Welch, the former CEO of General Electric (GE), is an ideal example of an effective leader who led GE to performance excellence through his Six Sigma leadership (Welch & Welch, 2005). According to Jack Welch (2005), leadership is more than Leader-Member interface; it's a dynamic process of building trust and enhancing performance.

Welch took 25 years to transform a 30,000 strong workforce and became an iconic leader of modern times. He relied relentlessly on development of human capital. He crafted simple, easy to understand yet dynamic policies and strategies to embrace high performance culture at GE.

Applying IHCD framework to Jack Welch's 'Six Sigma Leadership':

Developing Intellectual Capital

A leader must ensure that his vision is seen and shared by everyone. Welch was able to create passion for work by linking performance with reward. Being a leader of 30,000 strong workforce was not easy but he displayed energy and a can-do attitude to inspire everyone around him. He always had a solution to a problem and a plan for future. His vision was followed by a sound strategy.

Welch formulated the FOUR S: Self Confidence, Simplicity, Stretch and Speed framework for individuals and FOUR E: Energy, Energize, Execute and Edge framework for teams (Tichy, 2002) and preached the win-win outcome for all. His unyielding emphasis on quality pushed performances to higher level and provided the cutting edge and superiority in the market place. He believed in maintaining healthy tension by setting and demanding high standards (Knight & Dyer, 2005).

Developing Emotional Capital

He encouraged a risk taking culture and always said 'Embrace change, do not fear it'. He always believed in learning culture. This helped to create an innovative, fast adaptive culture that provided flexibility and dynamism to even a huge conglomerate like GE.

GE leaders at various levels were expected to be good listeners. Welch believed in Stephen Covey's (2004) famous habit of, seek first to understand through 'empathic listening', then be understood by presenting your ideas clearly, specifically and contextually. This enhanced credibility and established trust. The candor and transparent practice of recognizing people developed strong interpersonal relationships at GE.

Welch's leadership principle of communicating synergistically and opening oneself to new possibilities and options helped in reducing emotional

and psychological differences between people. He always believed in upgrading his team and never missed an opportunity to coach and build self-confidence in staff during his field visits.

Developing Social Capital

Jack Welch was equally effective while communicating with stakeholders. His ideas were backed by a sound strategy and he radiated confidence and optimism. High performance record helped him in securing support for his decisions. He always show-cased his succession management to assure investors of continued legacy. As a CEO he was equally alert of developments in the environment. His long term Value Chain strategies as well as the Business Process engineering projects were always quality driven keeping customer satisfaction at the helm.

High Performance Management System

A high performance culture with emphasis on challenges and taking a 'stretch' coupled with a monitor system emphasizing continuous improvement gave GE the Sustainable Competitive Advantage that helped the organization in scaling new heights. Jack Welch's effective leadership, encouraging healthy competition and individual expertise, enabled GE to achieve highest quality standard under Six Sigma QMS. He is a true transformational leader (Hughes, Ginnett & Curphy, 2006).

Bill Gates

Born with above average intelligence, Bill Gates had all the right opportunities to develop and nurture his interest in Computers. He followed his passion, associated with the right people, focused on his goal and struck financial success.

Applying IHCD framework to Bill Gates Leadership style:

Developing Intellectual capital

Bill Gates adopted Covey's (2004) effective habit of sharpening the saw to encourage expertise. He believed in taking the stretch and practiced leadership by example. He worked closely with other programmers and cultivated a sense of competition. He developed a culture of relentless work and achieving the impossible (Cringely, 2000).

Right from his schooling days at Lakeside, Bill Gates was very enthusiastic about computers. He and Paul Allen were able to envisage the personal computer (PC) revolution and the need of software to run the machines. His passion for computers and software development resulted in high performance and success of Microsoft (Gates, 1995). Microsoft employees are provided with several opportunities for self development and upgrading of skills for higher performance levels.

Developing Emotional Capital

Bill Gates's iconic individual excellence makes him more of a transactional leader and not transformational. Employees were expected to work hard, deliver results and grow with the organization. His commitment to work and hunger for excellence created an aura of awe for others. Microsoft employees considered themselves second to Bill and always tried to emulate him. The quest for higher business performance created unhealthy rivalry among Microsoft departments.

Developing Social Capital

High levels of entrepreneurial quotient made Bill Gates a successful business leader and stock market favorite. Bill Gates has attracted criticism for his "Bullish" business practices, some of which are classified as unfair trade practices. Microsoft has been in news for anti-trust practices in USA as well as in Europe. In spite of the legal controversy, the popularity of Microsoft products grew and the organization earned higher returns for stake holders. Gates' uncanny ability of striking gold resulted in investor confidence and support. Stepping down from Microsoft's CEO position, he found new interest in philanthropy. Bill and Melinda Gates foundation is endowed with over USD 30 billion. Majority of the funds are channeled to healthcare and development of education in third world nations, taking Microsoft's Brand Equity to new heights.

Conclusion

According to Gelernter (1998) "Bill is no visionary, he is a technology groupie with a genius for showing up, for being at the right place at the right time". Bill Gates was never comfortable with leading the organization. He capitalized on the management and leadership skills of Paul Allen followed by Jon Shirley and eventually he stepped down from the CEO's post to make way for Steve Ballmer (Cringely, 2000). He knew his strengths and pursued his passion for computers with unyielding commitment. He is an example of individual excellence who reached the pinnacle of material success by being the richest man in the world.

Jack Welch in contrast is a leader who spent more than a quarter of a century in revolutionizing the culture at GE and making a difference in several people's lives. He fits George's (2003) framework of authentic leader (refer to Appendix D). He's a true transformational leader who believed in people development and organizational success. In the author's opinion, Jack Welch is more effective as a leader.

Appendix A

Development of Human capital – Skandia's Approach

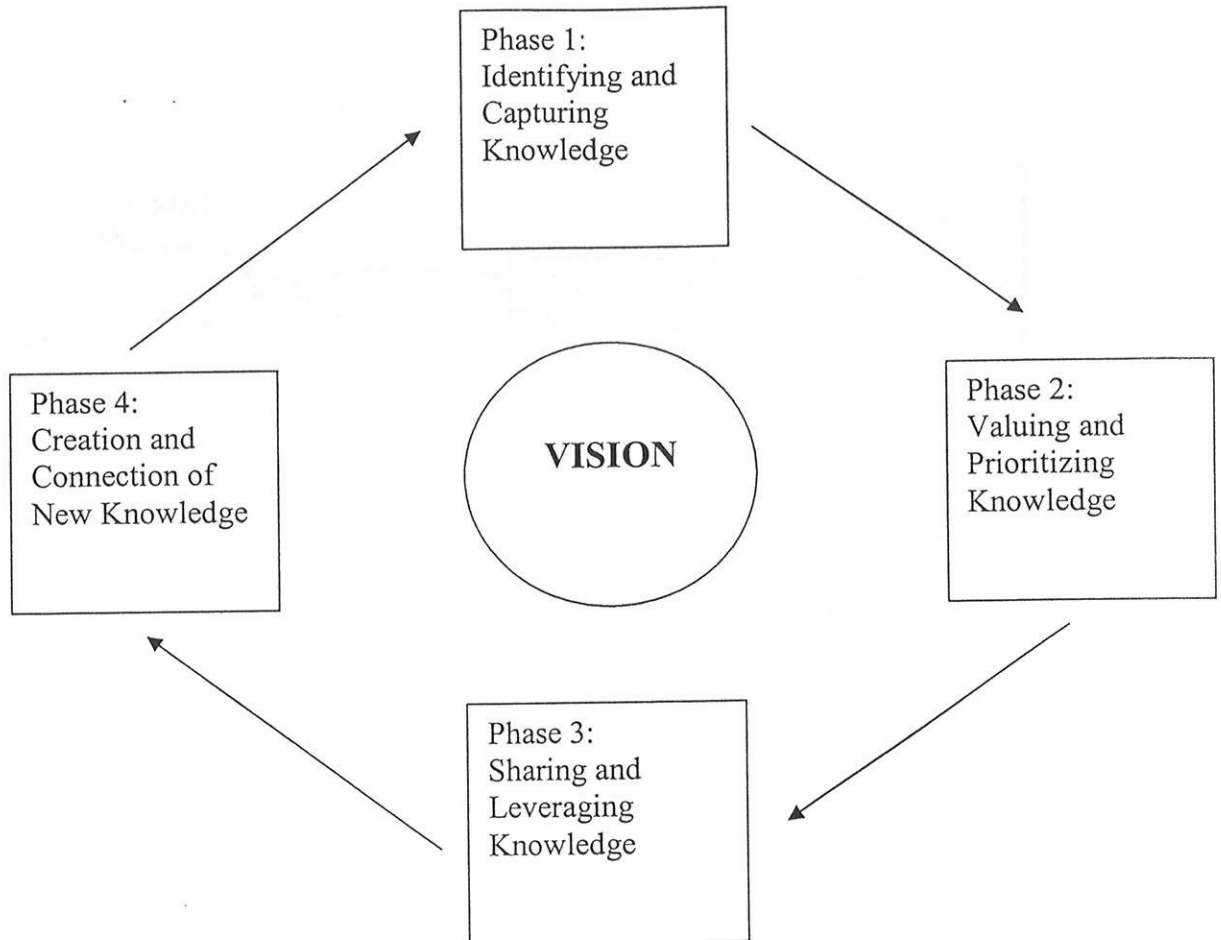
The following measures of human capital are very instructive of Skandia's approach to realizing knowledge assets:

- leadership index (%)
- motivation index (%)
 - * satisfied customers
 - * satisfied salespersons
 - * motivated and competent staff
 - * quality assured and effective administration
- empowerment index
 - * motivation
 - * support with the organization
 - * awareness of quality demands
 - * responsibility versus authority to act
 - * competence
- number of employees (#)
- number of employees / number of employees in alliances (%)
- employee turnover (%)
- average years of service with company (#). (excessive turnover is a threat to cumulative human capital value)
- number of managers (#)
- number of women managers (#)
- training expense / employee (\$)
- average age of employees (#)
- share of employees under the age of 40 (%)
- time in training (days / years) (#)

(Source: Huseman, R & Goodman, J 1999, *Leading with Knowledge: the nature of competition in the 21st century*, Sage Publications, London, pp. 172-173)

Appendix B

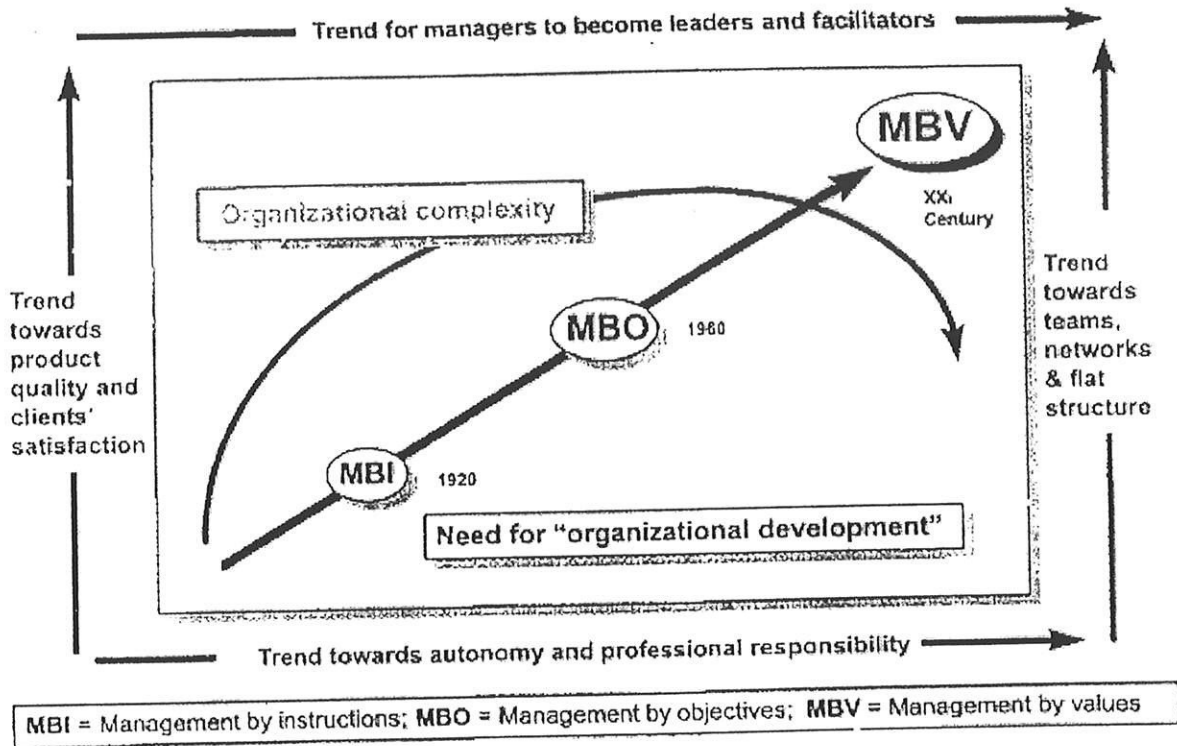
A strategic model for conceptualizing and leveraging Knowledge



(Source: Adapted from Huseman, R & Goodman, J 1999, *Leading with Knowledge: the nature of competition in the 21st century*, Sage Publications, London, pp. 179)

Appendix C

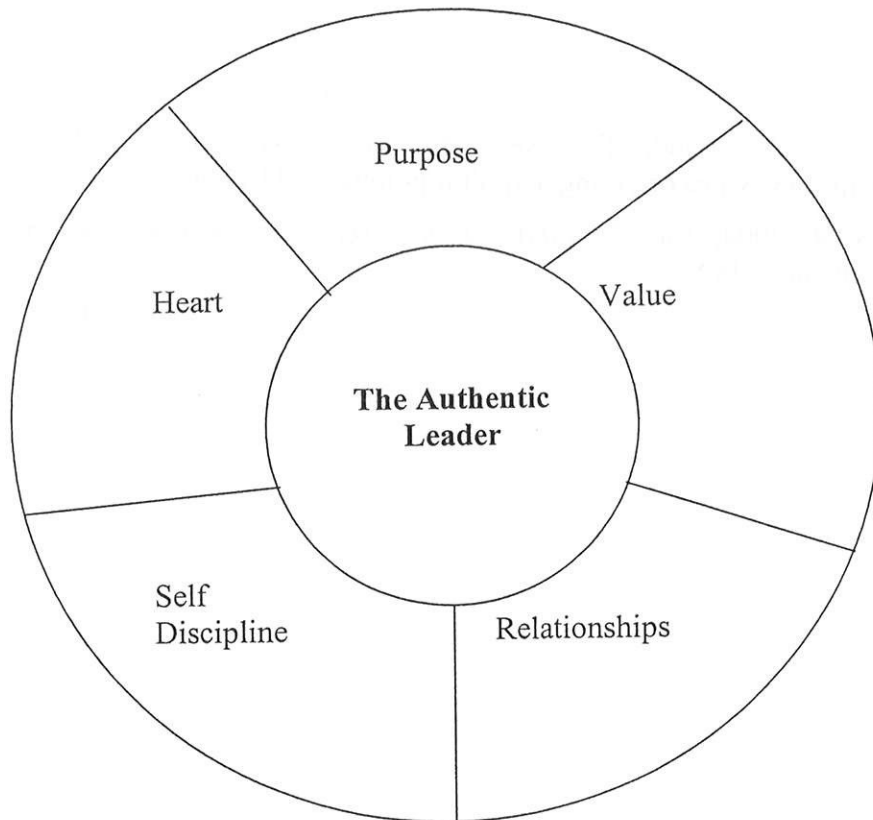
Evolution of three ways of managing companies by instruction, objectives and values



(Source : Dolan, S & Garcia, S 2002, 'Managing by values: cultural redesign for strategic organizational change at the dawn of the twenty-first century', *Journal of Management Development*, Vol. 21, No. 2, pp. 101-117.)

Appendix D

Dimensions of Authentic Leadership



(Source: George, B 2003, *Authentic leadership: rediscovering the secrets to creating lasting value*; Jossey-Bass, San Francisco, p.18)

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