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# Why we need Expert Leaders

by Amanda Goodall, Cass Business School

for

## Developing Leaders

Some years ago in a corridor at the London School of Economics, an old friend and I debated the merits or otherwise of Andy Hornby, the former HBOS CEO who was at the helm as the bank spectacularly crashed. When I raised the issue of Hornby's distinct lack of banking experience, my friend replied: "Andy", whom he knew, "is a really clever guy".

"So" I said to my friend, who was a clever guy himself, "you won't mind if he operates on your children then?"

I was making the simple point that intelligence is not a substitute for knowledge. Yes Hornby was top of his MBA class at Harvard, which is no mean feat. But this didn't make him an expert in banking, or any field for that matter.

My research suggests that management ability is also not a substitute for core business – expert - knowledge when it comes to leadership.

The importance of good management is undisputed. In one of the most comprehensive studies of its kind, led by Nicholas Bloom (Stanford University), Raffaella Sadun (Harvard) and John Van Reenen (LSE), management practices were assessed in 8,000 firms in 20 countries in the developed and developing worlds. The authors' find that good management is strongly correlated with firm productivity, return on assets, and firm survival. They also show that variation in the management of firms can be linked to performance at a national level (this work is summarised in the latest issue of Harvard Business Review<sup>1</sup>).

That leaders should be good managers is also not disputed. However, has the emphasis on management knowledge diluted the importance of core-business knowledge when hiring new heads? Recent evidence suggests that major firms have moved away from hiring CEOs with technical expertise, towards instead the selection of leaders who are generalists.

### Generalists or Specialists?

When it was announced that Mark Carney will be the next governor of the Bank of England, George Osborne, Chancellor of the Exchequer, described him as "the outstanding central banker of his generation". Robert Peston, BBC's business editor, translated his

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<sup>1</sup> Bloom, Nicholas and Sadun, Raffaella and Van Reenen, John (2012) Does management really work? Harvard business review, 90 (11). pp. 76-82. ISSN 0017-8012

statement into soccer-speak by suggesting that “Mr Osborne regarded Mr Carney as the central banking equivalent of Sir Alex Ferguson or Pep Guardiola”. Both managers, of Manchester United and Barcelona FC, had successful playing careers, in particular Guardiola was one of the best footballers of his generation. In a similar vein, Mark Carney is being sold as someone who really understands banking.

This issue first arose for me after having worked closely with two organizational leaders. The setting was research universities. I noticed that both presidents’ I worked with had different ideas about institutional priorities: one, who had been an obsessive and very highly cited researcher, focused much more on hiring great scholars; whereas the other, who had stopped doing research early in his career to become an administrator, seemed less focused and less interested in research output and scholarship. This led me to ask the question, who should lead research universities? Should they essentially be good scholars or good managers?

As many will be aware, especially readers of *Developing Leaders*, there are hundreds of theories about leadership and thousands of books and articles on the subject. The challenge for anyone interested in this field is to try to move away from one-off anecdotal examples, towards identifying patterns in data that may help us to understand some general principles. Measuring the effect of leaders on organizational performance is challenging, because of the difficulty identifying what is caused by the leader, versus many other intervening factors. We cannot randomly assign leaders to organizations; however, it is still possible to isolate the leader-effect. One method adopted by economists, is to assess the change in performance of a company or even a country, following the sudden death of a leader (see for example the work of Francisco Perez-Gonzalez, Daniel Wolfenzon and Morten Bennesen). I use longitudinal data, with various control variables, to identify the change in leader and the change in organizational performance over a number of years. I have found that approximately 15-20 per cent of performance can be explained by leaders.

The study of university presidents, that became my PhD, was published in several journals and a book (‘Socrates in the Boardroom: Why Research Universities Should be Led by Top Scholars’, Princeton University Press, 2009). My research suggests that there is a relationship between university performance and leadership by an accomplished scholar. I found that not only were the best universities in the world more likely to be led by outstanding scholars (e.g. the Stanford’s and MIT’s), but I could also show, in longitudinal data, that universities improved their performance over time when better scholars took the reins. Thus, I found that leader characteristics (success in scholarship) were closely aligned with the core business activity of a university (research and teaching).

In the last few years I have examined the question about how much core business knowledge leaders should have in a number of different settings. One was the highly-skilled environment of basketball, where it is possible to clearly identify the coaches’ characteristics and teams’ performance. In a study with Larry Kahn (Cornell) and Andrew Oswald (Warwick U) we found a strong relationship between brilliance as a basketball player and the

(much later) winning percentage and playoff success of that person as a basketball coach. Indeed, we found that the better the player (they played for the All-Stars), the better their performance as a coach.

Discussion about specialists and generalists is evident in healthcare, not least because of recent moves by government to give GPs more power in the NHS. Relationships between doctors and managers can be fraught—with the former accusing managers of bureaucratising healthcare and interfering in the practice of medicine, and administrators criticizing doctors for being too focused on their own patch. Over the last 100 years hospitals have changed from being led by doctors, which was the norm in both the UK and the US, to being led today by non-medically trained managers; indeed, in the US only 4% of hospitals are led by doctors, and the figures are similar for the UK. In a cross-section study using US hospital data, I looked at who runs the very best hospitals in America – was it more common to find professional managers as CEOs or qualified doctors? I found that hospital quality scores were approximately 25% higher in hospitals run by physicians than in the average hospital.

In my most recent study I have shifted setting again, this time looking at the competitive industry of Formula 1 World Constructors' Championship. My co-author Ganna Pogrebna (Sheffield U) and I use six decades of field data from Formula 1. In our study we measure the change in leader (F1 principal), with the change in performance (the number of Grand Prix wins and podiums) over the 60 years. In our calculations we control for the race circuit, the race year, the constructors (McLaren, Red Bull, Ferrari, etc), and the number of cars that qualified. Our primary results showed that the most successful team leaders in Formula 1 motor racing are more likely to have started their careers as drivers or mechanics - - as compared with leaders who were principally managers or engineers (with degrees). When we looked further into the data we found that the result is being driven by team principals who were themselves former racing drivers; time spent as a driver has a big effect on future performance as a leader. The extra probability of gaining a podium position when a driver has had a decade's experience of competitive racing is about one-in-seven.

In our final analysis we looked at the impact of a leader's previous driving experience on performance *in conjunction with* the experiences of drivers who currently compete for the team. The results are impressive; a rookie driver stands a very good chance of gaining a podium position when the team principal has had more than 5 years driving experience. Indeed, the former racing experience of the leader shows up as being more important than the F1 experience of the current driver in their team. So, Red Bull's third successive year of winning both the Constructors' Championships and the Drivers' Championships, may have more to do with their principal, Christian Horner, who was a former racing driver, than Sebastian Vettel.

## **What differentiates expert leaders from generalists?**

In a number of datasets we observe two notable patterns; first, leaders who are experienced in the core business are associated with improved organizational performance (e.g. doctors in hospitals, scholars in universities, former drivers in Formula 1). Second, the results are not explained fully by core business experience alone; for example, in universities successful presidents were among the best scholars; similarly, in basketball the winning coaches were former outstanding players. Hence, it seems that both core business knowledge *and* a high ability in the core business activity are involved.

For many who work in professional service firms (PSFs) this will make sense. Firms like PwC, Linklaters and McKinsey appoint professionals to the top job, and usually insiders, who have been successful in their careers.

So why might experts make better leaders? To address this question I will return to our Formula 1 study.

### ***Credibility***

One of the most common terms associated with leadership is credibility. If a leader is not credible to followers - a leader or a manager located in any area of an organisation – then their job becomes impossible. Someone who has ‘walked-the-walk’ is immediately more credible, and this effect is magnified in organizations where folk prefer not to be led at all (e.g. doctors and professionals). In the world of Formula 1, former drivers and mechanics may command more respect because of their proven track record in the sport. Principals who were former drivers with 5-10 years of racing experience have the strongest effect on Grand Prix podiums and wins. Having been ‘one of them’ may signal that a leader understands the culture and value system, incentives and motivations of their F1 team colleagues. In addition, we might expect driver-leaders to act as role models within the team, and, be more likely to coax high performance and to manage the egos of the drivers.

### ***Better strategic vision***

Being familiar with all aspects of the core business may give a leader an advantage strategically; it may help them better identify strategic opportunities and challenges. From an early age former drivers develop technical knowledge about the underlying activity of Grand Prix racing. This may help with formulating tactics. Principals with high levels of expertise and experience may also communicate more effectively with all parts of the racing team, which is likely to embed team strategy.

### ***The standard bearer***

We show that drivers who had the most years of racing competitively went on to be the best performing leaders. Arguably, it is only the successful drivers who continue to race. Apart from the credibility this bestows on a team principal, their proven excellence will undoubtedly inspire the people who work for them, and possibly also push their drivers and other team members to go above and beyond in their own quest for quality. In addition,

having been an expert may help team leaders hire other outstanding experts because the bar is raised. In universities for example, it is common for top scholars to act as a magnet for other top scholars.

### ***The right working environment***

Former drivers, and also mechanics, have spent the most years in F1, on average. They understand quite well the kind of work environment that is required for team members. Different environments suit different kinds of employees. A head who is an expert in the organization's core business, may have greater intuition about the right working conditions and incentives that are required to attract, and hold on to, the core workers. A marine research institute in Scandinavia recently hired a former military person to run it. The institute was very successful; however, it is funded by the government who do not understand the scientific process. Their new army chief introduced a myriad of managerial processes, including insisting that the scientists clock in. This has resulted in an exodus of many of their best researchers, who have jumped ship to universities that understand better the necessary working environment.

### **The weaknesses of experts**

I have suggested here that being a successful manager alone is not a sufficient condition for effective leadership; but, correspondingly, experts must also be excellent managers. There are important reasons why those who have become experts in their field should invest heavily in their own development: specialists have focused intensely on their subject, often to the detriment of other areas of personal development. Being intrinsically motivated, to the extent that experts are, will likely require shutting out the world for some years lest it distracts from the goal in hand.

Intrinsic motivation combined with self-motivation may leave specialists too self-focused; they may lack the ability to put themselves in others shoes. Hubris might, therefore, be a weakness of experts. An individual who has succeeded in one area might become overly confident about their abilities in other areas. Self-reflection improves all, but it may be even more important for experts and professionals.

### **Finally ...**

In recent years there has been a trend to promote into leadership positions individuals who are skilled managers, but who do not necessarily have either a background in the sector concerned, or hands-on experience of the core business activity. Similarly, there is evidence that major firms have moved away from hiring CEOs with technical expertise, towards instead the selection of leaders who are generalists. The research I have summarised here finds that in contrast to recent trends, it is those who are experts in the core business of the organization who make the best leaders.

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