

The Next Big Thing in Leadership – Ownership

Leadership is a big topic. We all discuss it. Academics analyze it. Companies try to develop it. Yet leadership does not necessarily or even mostly lead to good financial outcomes.



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We have seen a massive failure of leaders and leadership in the current economic crisis. Good leaders routinely fail. Is there something really big that we have been missing?

Our thesis: yes, we are missing something really, really big. That is ownership.

Companies generally do nothing to develop a culture of ownership. As long as leaders and followers do not feel like, and act as, owners, even the best leadership will not achieve great financial results. In such companies, managers and leaders may get high or even astronomical compensation, even as the shareholders suffer and the company fails.

Cogito Ergo Own?

The traditional view of the leadership challenge is that there are two critical transitions:

- Follower to manager
- Manager to leader

Leadership development focuses on these tasks. By and large there is a good body of approaches that can help make these transitions effective. And it is true that these transitions are necessary to be effective leaders, that is, someone who can manage and lead effectively and earn the respect and trust of those who follow.

But in that transition the rule book says nothing about teaching employees and managers to act and feel like owners. That is, to conduct themselves as if they were an owner, not an employee.

Do Careerists Care?

As employees move up the career ladder to ever-more senior positions, corporate cultures almost everywhere rarely show them how to transition from being employees to owners. The result is that these individuals become managers and leaders who still feel and act like employees, not like owners.

So they do indeed focus on being better managers and leaders, but because they do not think like owners, they do not necessarily care about the long-term outcome of the company. Chances are they will no longer be in the company, and even if they are, their aim is often to maximize their personal income, not that of the company and the shareholders.

The impact of not feeling like an owner is pervasive. It is one reason why so many CEOs are paid so much, even though they may not have achieved anything for their company. And it is the reason why so many senior managers and leaders see their goal as being to maximize their compensation irrespective of company results.

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Stocked Up, No Place to Go

In effect, they are not aligned financially with the company. This occurs despite the so-called alignment driven by having stock options or restricted stock. In fact, options and SARs are generally viewed as just another form of compensation to support their role as employees rather than as leading to behaviors which are aligned with the shareholders who truly paid real money for their stock.

Broadly speaking there are two types of financial cultures. One, into which the vast majority of large companies fall, is an employee culture. The other, into which quite a large number of small companies fall, is an ownership culture.

Ownership cultures achieve more financial and market value for themselves since their employees act more like owners. Employee cultures achieve less value because fundamentally employees care only inasmuch as they don't get fired and they maximize their incomes, irrespective of what happens to the company.

Until a company adopts an ownership culture, it will not be aligned with the interests of the stockholders and managers will seek high compensation even if shareholder value is not achieved.

When these interests are not aligned we can get problems such as the subprime crisis. Traders and some managers and leaders were quite happy to make very risky bets because they could make a lot of money for themselves even if the company and its shareholders suffered.

Valuing Ownership

"...companies with an employee financial culture must adopt a philosophy of Continuous Valuation Management..."

The situation is just like in total quality management (TQM). Companies that do not have a quality-oriented culture suffer due to less quality and more variable financial results.

In much the same way, companies with an employee financial culture must adopt a philosophy of Continuous Valuation Management – CVM. With a CVM philosophy all employees, from top to bottom, feel their responsibility for the overall market value of the company and guide all their thoughts and actions to this end. In so doing, the value of the company is maximized.

In order to maximize market value, companies with an employee financial culture must adopt as a strategy the introduction of an ownership culture. The actions of all of the employees, managers and leaders must be consistent with a culture in which every person, no matter their rank, role, title or level acts as if they were an owner.

In such a culture, all personnel, compensation, selection and development policies must be focused on building an ownership culture. The behaviors of the top managers and leaders must act as an example to people at all levels in fostering this culture of ownership and personal responsibility for results. The philosophy of CVM must be introduced as a basis for this transition.

In an ownership culture focused on CVM, there are therefore 3 critical transitions:

- Follower to manager
- Manager to leader
- Employee to owner

Without the last transition companies need to accept that they cannot achieve their true market value potential and the best shareholder returns.

What Happens in an Ownership Culture?

In an ownership culture, employees think and act like owners. In particular:

- They only use resources when it is clearly necessary; they take the initiative to minimize the use of resources when they see the chance. They also seek out opportunities to suggest increases

when they can see it will lead to fast margin increases.

- They have a personal interest in increasing the financial margin on all of their work; they are provided with the necessary financial data to show the link between their work and the margins that accrue from it.
- Each manager knows that that they have an impact on someone's P&L, even if they are not themselves responsible for that formal P&L. They act as if they have responsibility for that P&L and they feel as if they are actually running their own virtual P&L.
- They actively seek out areas in which they can increase the alignment between their own work and behaviors and the market value objectives of the company.

The Results and the Benefits

In an ownership culture, earnings are maximized, stock value is increased, and the interests of the shareholders and the employees are totally aligned.

This may sound idealistic and in the current financial environment of most companies, it may indeed be. However it is a fundamental shift that is needed to avoid some of the problems we are now seeing.

- *The aim: leadership with ownership.*
- *What to avoid: leadership without responsibility.*

Recommendations and To Dos

- Conduct training for all employees, right from the bottom to the top into what an ownership culture is, what it means for all stakeholders and how it must impact their behaviors.
- For more senior managers assess their financial behaviors to show them how this behavior impacts the bottom line.
- Provide emerging and high potential leaders special training on how their financial behavior impacts the market value of the company.
- Develop training and launch courses for all employees focused on "Continuous Valuation Management" as a basis for an ownership culture.
- Formally integrate ownership objectives into recruitment, compensation, development and promotion strategies.
- Develop comprehensive intra-company communications strategies to sustain and promote the ownership culture.

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