PERTH LEADERSHIP INSTITUTE

WHITE PAPER

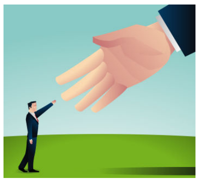
Wealth Creation and Personality: Identifying, Assessing and Developing Money-Makers

May 2011

EXECUTIVE SUMMARY

Section 1: Measuring Money-Making Behaviors

We can assess and measure money-making behaviors using the concept of financial signatures which link behavior directly with capital creation.



Section 2: Personality Drivers Behind Financial Signatures

We can identify the personality drivers behind capital creating and capital consuming behaviors. This shows the links with business outcomes so that we can see the behavioral link with business outcome and the ability to make – or lose - money.

Section 3: Improving Money-Making Ability

The behavioral model allows us to show what behaviors need to be modified in order to improve money-making ability. This opens up the way for practical ways to improve business acumen.

Section 4: The Money-Makers

We can identify the precise behavioral traits that are associated with an exceptional ability to make money. We can do the same thing for money-makers generally.

Section 5: The Capital Consumers

We can do the same thing for people who lose money, both those behaviors that are linked with exceptional capital consumption, and other types of capital consumption.

Section 6: Financial Mission and Alignment

We can use these insights with individuals so that their own money-making ability improves and with managers so that they are better aligned with the financial mission of their teams and companies so that their overall financial performance is improved.

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Introduction

The background to personality approaches is that they have focused on predicting the thinking styles of individuals and their capability in interpersonal relationships. However no personality model has ever had a direct link to making money or to business acumen.

The Perth Leadership Institute has been conducting research for several years to identify the links between personality characteristics and the ability to make money. For the purposes of our research we define this as the behavioral propensity to create capital.

Until fairly recently this research would have been regarded as being totally outside the mainstream. However as the disciplines of behavioral economics and behavioral finance have emerged as respectable new areas for research, our research has similarly started to form part of the early mainstream.

These behavioral disciplines have focused on the cognitive biases that underlie decision-making and how they impact economic and financial phenomena. Our research has similarly focused on the cognitive biases that impact financial outcomes by both individuals and teams. Our research has started to build up a corpus of data in these areas which is unique in this field.

"…. research to identify the links between personality characteristics and the ability to make money…."

The research we have been conducting has led to the development of practical assessment instruments that focus on these behavioral characteristics. We have used them with numerous companies both large and small. They have been tested in the field and have shown their practical worth in real-life environments in corporations.

Our work is now being used in the context of leadership development, behavioral risk management and for investment and valuation analysis in companies. It forms a new approach to leadership development.

Leadership development approaches are slowly and rather belatedly starting to include business acumen within their ambit. But as yet these approaches are still generally early-stage and lacking in precision at the level of the individual, except for our work.

Our research has focused on developing predictive models of leadership and business acumen. These apply at the level of the individual, the team the organizational unit and the overall organization. We can show direct links with the financial metrics that are routinely used in the financial statements of a company.

The research we have conducted now allows us to address the fascinating topic of what personality characteristics are associated with the ability to create capital and indeed the characteristics that lead to its consumption. This White Paper sets out to provide an overview of this approach, its major components and some of the data linking creation of capital to personality.

The data set out here forms only a small part of our overall research and findings. Many of the relationships that pertain to the findings here are not set out due to space limitations. Also this is not primarily aimed at being an academic paper which shows these many findings. Its main goal is practical in nature to show some of the immediate implications for business enterprises.

Our research has involved research numerous executives and the development of psychometric assessment instruments. The goal of this work has been the following:

- To assess the levels of business acumen in managers and executives
- To predict their impact on the financial outcomes of organizations which they are involved
- To predict the financial impact of teams
- To be able to make quantitative predictions of financial impact which use metrics that appear in conventional financial statements such as income statements and balance sheet
- To enable these impacts to be translated into predictions of valuation impact at the level of an organizational unit, division or company.

This White Paper sets out some of our findings in these areas. The findings are preceded by an explanation of the behavioral financial model we have developed so that the reader can understand how the results were obtained.

It is particularly important to understand the assessment instruments we have developed and how they work together to produce the results set out in this paper. Accordingly the reader will find some details that they might prefer to skip and come back to later. However the reader will appreciate the reasoning behind the results and be better able to understand them once they understand the overall model we have developed.

Section 1: Measuring Money-Making Behaviors

Financial Signatures Reflect Financial Traits

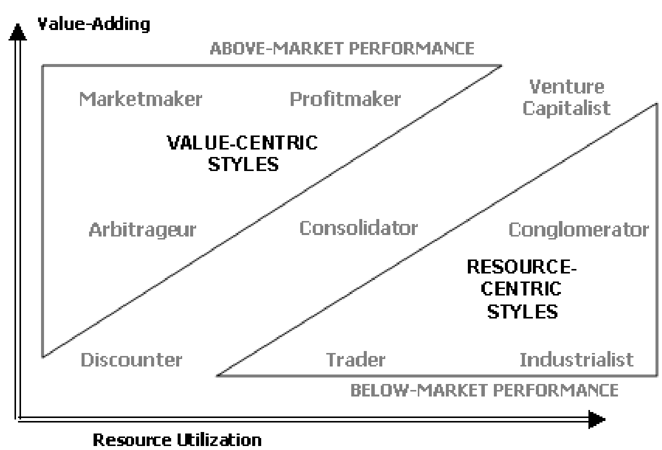
The Perth Leadership Outcome Model is so-called since it is concerned only with the outcome of behavior, not the behavior itself[1]. It defines outcomes in financial and valuation terms.[2]

The research is based on fieldwork with some several hundred managers and then with over one thousand senior executives. This research linked copany outcome siwth CEO behaviors.

The Perth approach is based on the observation that we all have individual financial traits. These financial traits lie deep within us, so we shall call them innate. These financial traits constitute an internal calculus which drives how each of us approaches decisions involving risk and reward and cost and benefit. They imprint themselves on all of our decisions, in the vast majority of cases without us knowing this.

The research shows that there are distinct behavioral patterns which reflect different ways that individuals are driven by these internal factors to create financial value. These behavior patterns are called financial signatures. The research has identified nine financial signatures which we show below at Figure 1 The Nine Financial Signatures

Figure 1 The Nine Financial Signatures



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[1] Prince, E. Ted, The Three Financial Styles of Very Successful Leaders, McGraw-Hill, New York, 2005

[2] Prince, E. Ted. "Research Note: How the Financial Styles of Managers Impact Financial and Valuation Metrics" Review of Accounting and Finance, Vol. 7, Issue 2, 2008, pp. 193-205

These financial behavior patterns, or financial signatures, are composed of two dimensions of financial traits. These are the propensity to utilize resources to a greater or lesser degree in achieving business goals, and the propensity to add commercial value to products or services, again in achieving business goals.

Each financial signature is in effect a personalized and at least a partly irrational response to a financial situation which imposes a systematic and predictable bias on all of our financial decisions. Thus individual behavior and individual cognitive effects have led the decision to be at least partly irrational in the particular manner which is dictated by the particular position that the manager occupies on the above diagram. Thus the model is one that incorporates the cognitive biases of the individual concerning the factors of value-adding and resource utilization.

Leading to a Formal Model of Business Outcome

The resulting financial signature shows us the behavioral propensity of an individual to generate capital to a greater or lesser extent. In the diagram, financial signatures to the upper left generate more capital since their propensity to add relatively high amounts of value more than outweighs the resources they are behaviorally inclined to consume in achieving this value. On the other hand, on the right hand lower side of the diagram, individuals will be using a level of resources which generally will not be outweighed by the value-added contribution, which will lead to the generation of less or even the consumption of capital.

> **"…..Each financial signature is in effect a personalized and at least a partly irrational response to a financial situation which imposes a systematic and predictable bias on all of our financial decisions….."**

Financial signatures represent the most basic level of financial behavior. These can be grouped into styles which aggregate the signatures into a higher level representing the financial impact of these styles.

We can divide the nine financial signatures into three financial styles based on this diagram. These are the Value-Centric, Balanced and Resource-Centric styles. The first will tend to outperform the market and the last to under-perform while the balanced styles will perform at the market level.

Thus financial signature and style can tell us not only about the level of individual performance we can expect, but what will happen if a company is composed mainly of a particular financial signature or style relative to its close competitors and to the market it participates in as a whole.

The Model is Measurable in Business Terms

Perth has developed instruments to identify and measure financial signature, most notably its Financial Outcome Assessment instrument. This has been given to almost 1,000 participants. Results show that most people cluster to the lower right of the financial signature chart.

Most managers have financial signatures that lead them to under-perform the market and either to generate less capital than their close competitors or to consume it. This pattern prevails even at high executive levels and so far the research has not been able to find a statistical difference in financial signature between executives and other levels.

This parallels work done in other leadership studies which shows that on both personality and competency tests, there are no significant differences between managers at widely different levels[3] It also provides a more scientific underpinning for studies that show that few leaders consistently make money and that the vast majority fail as leaders, on both straight leadership and financial results grounds[4]

"…..the Value-Centric financial styles lead to relatively high growth and high capital generation over the longer-term….."

The value-added dimension of financial style is reflected in the gross margin of a unit or enterprise relative to other similar units or close competitors. That is, this accounting measure is a true measure of value-added, both at a corporate and at a behavioral level. We use this measure and not profitability since the latter does not measure value-added. It was not designed to do so, and in any case is too prone to manipulation to be useful.

Similarly the resource utilization dimension of financial style is reflected in the level of indirect expenses relative to other units doing similar work or to close competitors. Once again we need to convert this to a percentage of revenue to allow comparison with other units in the organization and with close competitors.

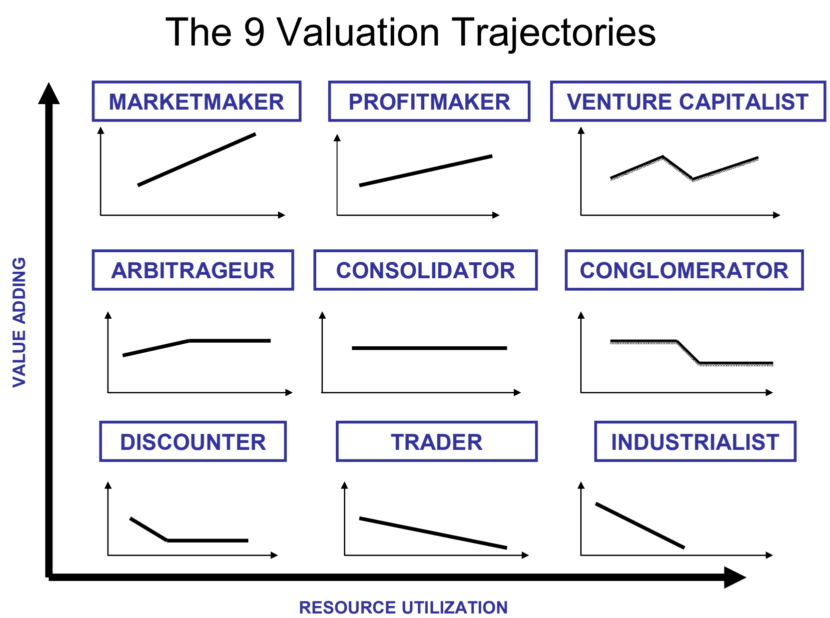
By adopting this approach, we can calculate the financial mission of the unit or enterprise and compare it to its competitors. This will show the relative positions of the enterprises in a market from the viewpoint of their financial mission.

If financial signature leads to a systematic bias to financial decisions either by individuals or teams, we would expect this to be reflected in the valuation of a company. Our original

[3] Hogan, Robert. 2006 *Personality and the Fate of Organizations*. New Jersey: Lawrence Erlbaum, p. 41
[4] Ibid, p. 206; Lucier, C., Kocourek, P. and Habbel, R. manager succession 2005. The crest of the wave. 2006 *Strategy and Business*, Summer, pp. 100-113.

research found such an impact. Basically the Value-Centric financial styles lead to relatively high growth and high capital generation over the longer-term, since the value-added impact of the style more than outweighs the resources utilized in its achievement. The reverse is true for the Resource-Centric styles which lead to relatively low growth over the longer-term and thus relatively low or negative capital generation. We show this in the valuation outcomes of the 9 financial signatures at Figure 2 The Nine Valuation Trajectories

Figure 2 The Nine Valuation Trajectories



The Perth model addresses corporate and microeconomic issues and decision-making via the concept of the financial signature and the associated valuation outcome. The cognitive biases it addresses can be measured both psychometrically through assessments and financially as reflected in the financial statements of a company.

The Perth approach takes behavioral finance a major step forward by enabling prediction to be carried out at the level of a specific individual, team or company and to predict the precise financial and valuation outcomes that will flow from these decisions.
The approach is measurable and able to be operationalized so that it provides results that can be falsified, the major criterion of a scientific method.

Section 2: Personality Drivers behind Financial Signatures

Perth has developed a model of leadership outcome which describes the business personality of an individual in terms that can be objectively assessed. It assesses this business personality using its Executive Outcome Assessment.

> **"….How do we describe a money-making – or a money-losing - manager using the business personality tools we have developed?"**

The Executive Outcome Assessment (EXOA) measures the behavioral characteristics that lead to the organizational outcomes that can be associated with particular financial outcomes; this enables us to compare results from both the FOA and the EXOA to look at correlations between financial signature and business personality. This then enables us to see links between capital creation and business personality.

We now have a database of data covering over a thousand executives which provides us with a valuable source for looking at the behaviors associated with capital creation and financial impact. We can use this to correlate the financial signatures of managers with leadership outcome types. This allows us to make conclusions about the issue of what behaviors are associated with high levels of capital creation and money-making ability.

What are the types of leaders that fit into the money-making patterns we have described? How do we describe a money-making – or a money-losing - manager using the business personality tools we have developed? What are the dominant characteristics of a leader who is exceptional at making money? How can we recognize these different types of leader just from observing them? And what are the fundamental money-making outcomes of these leadership types, as distinct from the underlying, static, components of business personality?

This section sets out to address these questions. We will do this by first developing our model for leadership types.

The Multiple Faces of Business Personality

Describing a business personality is difficult. It covers a lot of complex personal traits. The traits sometimes show themselves strongly, other times weakly, and sometimes not at all. They are exposed in certain types of situations and not in others. They may change the way they are expressed over time. They may even be deliberately hidden. We must cope with all of these factors when developing and applying the model.

The business personality model has four modes. So the manager in effect has four "faces". Each of these will evince itself in different ways and at different times. But the only way we describe the individual in his totality is to show the four faces. We then have an instrument to show all of the behaviors of which he is capable.

But even this may be misleading. One face may be more prominent than others. Indeed this is often the case. Then it makes sense to talk about the four faces and the dominant face. This allows us to simplify the analysis by making it easier to categorize the leaders, yet still without sacrificing the depth of analysis to show his business personality in its true depth.

How do we identify the dominant face? This is not always easy. But the principle is to review all the available evidence to identify what observers tend to feel is dominant. That, of course, may vary also. Different observers may see different faces. We need to apply critical analysis to any evidence on dominance we find.

As we will see, there are sixteen leadership types. To describe any leader we will need to identify the four faces of the business personality. But in applying the model to real people, we will simplify, where we can, by referring to the dominant face.

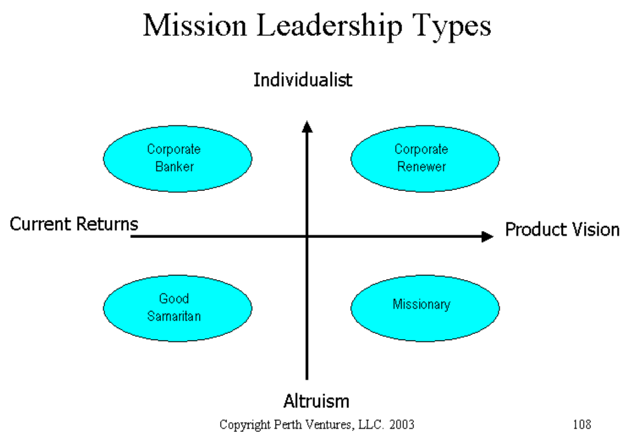
The Mission Modes Types

"….Both of these describe fundamental life missions for the manager…."

We can identify two types of behavioral driver, the Risk/Reward tolerance driver and the Recognition driver. Each of these describes a mission. One mission relates to how much reward the manager seeks, and how much risk they are prepared to accept in order to earn this reward. The other mission relates to how much they wish to be recognized in achieving the first mission. Both of these describe fundamental life missions for the manager. They may change, but in any case are stable over long periods of time, often always. These are the mission modes. They are the first Fundamental issues we wish to address in identifying the business personality of the manager.

We show the mission leadership types in Figure 3 The Mission Modes Types

Figure 3 The Mission Modes Types



Corporate Banker

The corporate banker is a leader who is relatively cautious in a business sense and focused on short-term returns rather than long-term profits. This type of leader does not pursue grand visions, is focused firmly on the maintenance of the company and will pursue cash flow at the expense of a big hit much later on. In more extreme cases, he can pursue personal goals to the detriment of company goals, even though he is cautious from a business viewpoint.

Corporate Renewer

This type of leader is a corporate change agent. He usually has a grand vision for the company and product. He aims for a major impact in the market and in terms of valuation. He plans to change the company in a major way, possibly radically. He may even aim to change the world. In the more extreme cases, self-recognition is a major goal and may even over-ride company interests.

Good Samaritan

The Good Samaritan tends to have his or her head firmly rooted in the present, and is practical but also caring. In the more usual case, they are oriented to ensuring that the company does well, even at their personal expense. In the more extreme cases, they are prepared to devote some of their gains to social and other causes, but in a low-key, cautious and sustainable manner. They tend not to let their caring mission interfere overly with the corporate mission but this can sometimes occur. This type of leader is often a respected community figure and will sometimes consciously give up corporate goals for community and social betterment.

Missionary

Missionary leaders are caring also but have a higher risk/reward tolerance and are more oriented towards a product vision. They tend to focus on two strong goals. The first is the product vision they are aiming to implement. The second is a social vision. This social vision may be external to the company, or may involve it, as in helping employees.

Accordingly Missionaries are not so much on a social and corporate sustaining path as a social and product change path. At the extreme, this often leads to conflicts between corporate and social goals. The leader tries to assert his altruism at the same time as asserting the product vision. As a result this business personality tends often to have major problems in meeting current earnings and cash goals. He tends to be dependent on outside capital, which, due to his passionate and caring nature, he is frequently able to attract.

The Managing Modes Types

We can identify what we call the Managing modes of the manager. These indicate where the manager stands in terms of his capabilities to build and maintain relationships. The second identified his habitual way of thinking and decision-making. This reveals whether he was very logical in a formal sense, or much more intuitive. These Managing modes are fundamental in identifying the Managing approaches used by the manager in making decisions. We show these types at

Figure 4 The Managing Modes Types.

Clinician

The Clinician is an introverted leader very focused on good internal management processes and measurement. They tend to be methodical, logical and focused on good earnings and cash flow. Usually this leader is not a risk-taker but there are examples of

Clinicians who are more so. The Clinician tends to be cold, objective, pragmatic and colorless. He is the opposite of a charismatic leader although he may well be inspirational.

Marketeer

The Marketeer's extroverted nature tends to focus him on relationships with people and other organizations. One telltale signal of a Marketeer is a formal and strong internal system for developing and closing prospects. This system integrates all stages and aspects of the marketing and selling cycle into a unified chain. It is the embodiment of what is now known as Customer Relationship Management.

The Marketeer tends to focus strongly on relationships with organizations via strategic alliances, both short- and long-term. He is also usually a strong salesperson personally. He tends to focus to a far lesser extent on product or product quality. This can result in problems with product quality and competitiveness later on as the product becomes dated. This can also result in lower gross margins as the marketing emphasis overwhelms product needs. Customer loyalty can therefore suffer from lower product quality, to the detriment of company earnings and receivables.

Alchemist

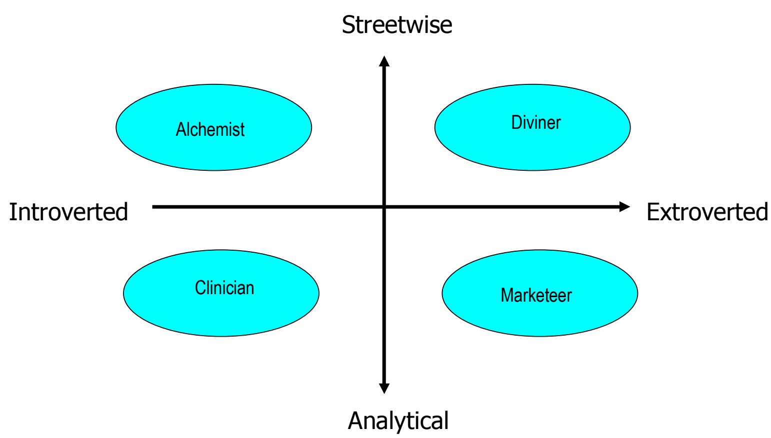
The Alchemist tends often to be a technical founder or industry or domain expert. However his knowledge is founded on intuition and experience rather than on formal analysis and logic. This type of leader often has a proprietary mechanism or secret that derives from their intuition or experience that they tend to hoard.

This type of leader will keep on developing the secret but in privacy or with a small group of trusted people. The leader is not overtly sales or marketing oriented and spends little time with customers or the market. Yet he possesses a sixth sense of what the market wants. Hence sales, while not strong, often tend to remain in a relatively steady state. This type of leader often extracts safe earnings from them being an expense-averse individual.

Diviner

The Diviner leader often tends to be a founder from a sales background. He also possesses industry or domain expertise, but from a customer rather than from a product viewpoint. This type of leader has a sixth sense for what his customers want and need and will work with them to ensure that it is developed and delivered. He eschews formal marketing and sales analysis. Like the Alchemist he is generally not a big spender but at an extreme level of extroversion, as a showman, will become so.

Figure 4 The Managing Modes Types



The Professional Modes Types

There are two drivers. One is his extent of focus on customers and products. The other is the extent to which he was focused on analysis or execution. We can use this as another way to identify habitual ways of making decisions by a manager. We see these types at

Figure 5 The Professional Modes Types

Project Engineer

The Project Engineer leader has typically come from an engineering background. This is frequently from a shop floor or production environment rather than a design or systems environment although it can be either. As such this type of leader has a characteristic attention to detail, a highly pragmatic approach to products and the business and a strong focus on cost reduction.

This type of leader is very logical in focus. He is not strongly focused on the viewpoint of the customer although his background gives him a good idea of what they want. He tends not to be comfortable with customers or marketing. Typically sales growth is low. Gross margins are good but not excessive. This type of leader is not visionary or innovative. He makes a good business more out of detail focus than on innovation and new products. Product quality is a primary focus for this type of leader.

Project Estimator

The Project Estimator often comes from a purchasing, logistics or estimating background. Once again they are characterized by an attention to detail but particularly in the financial area. They are closely focused on earnings, margins, cost accounting and cash. However, they are not focused on sales and marketing, new products or innovation. While they are focused on product it is from a cost rather than from a quality viewpoint. Unlike the Project Engineer types, they will willingly reduce product quality in order to achieve cost goals, something which the Project Engineer finds hard to do.

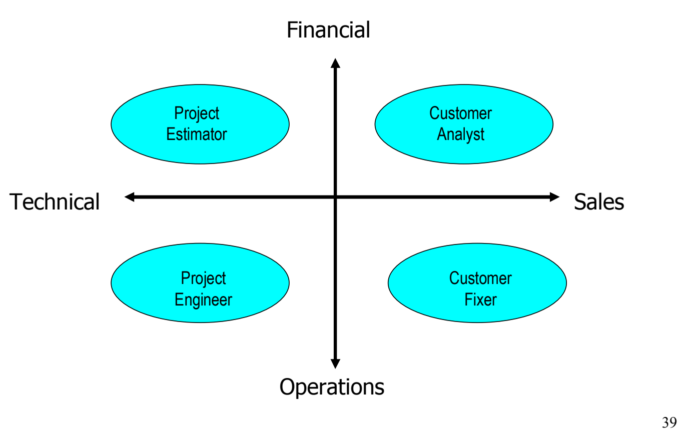
Customer Fixer

The Customer Fixer leader is from a sales background but has a strong operations bent. He is often someone who worked for a line rather than a corporate unit so has had a close relationship with the product development people in his background. This type of leader is strongly sales-oriented. He spends much of his time and effort figuring out exactly how the customer would implement the product or service. He will work with the customer to achieve this end, acting as key liaison with his own product development people. This type of leader is strongly sales oriented. He tends to be fairly strategic and sometimes visionary, but pays far less attention to margins, earnings and technical and product quality. As such, sales tend to be strong. The downside is that customer returns are high and earnings and margins are constantly under pressure.

Customer Analyst

The Customer Analyst is oriented towards customers and sales but is more hard-nosed than the Customer Fixer. He tends to take a more financial approach to sales. Hence his margins arte better, customer returns are lower and receivables in better shape. However sales growth is not as high, at least in the short-term. This type of leader pays some attention to product but from the features rather than from the product quality viewpoint. He will be willing to trade off quality in return for more features. This type of leader tends to be feature- and function oriented and hence not innovative.

Figure 5 The Professional Modes Types



The Leading Modes Types

There are characteristic behavioral drivers for the leading mode. One is the extent to which the manager delegates and empowers his employees. The other is his speed of reaction time. Both of these lead to four leadership outcome types. We show these at Figure 6 The Leading Mode Types.

Battalion Commander

The Battalion Commander leader has a command style of leadership but is oriented toward fast action. This type of leader responds quickly and decisively to situations but can be wrong-footed by his quick actions, fatally so if he does not compensate quickly. As a result, company strategies can be volatile and sometimes fashion driven.

The company tends to change direction quickly. Expediency is the major company style and company products and marketing can accordingly. The company may have volatile sales since it occasionally hits a major sale but loses many others due to its expedient strategies. Earnings are often volatile and gross margins tend to be lower than average. The company tends not to have a sustained product focus and tends to focus on deals rather than products since it cannot sustain long-term attention on them.

General

The General also has a command style but in this case it is characterized by either a slow, measured or methodical planning and rules-based approach. Rules tend to be relatively rigid. Discipline is tight and there is little delegation.

For some industries this works well and sales can be good spurred on by tight sales discipline and rules. However where the complexity of the product or service increases, the requirement for creativity in selling and management increases and the company may be less successful.

This type of leader tends to resist innovation, but product quality is usually good. Gross margins are not high but are consistent as are earnings. However sales growth over the long term is generally poor as the company is not able to innovate enough to keep it competitive in the market.

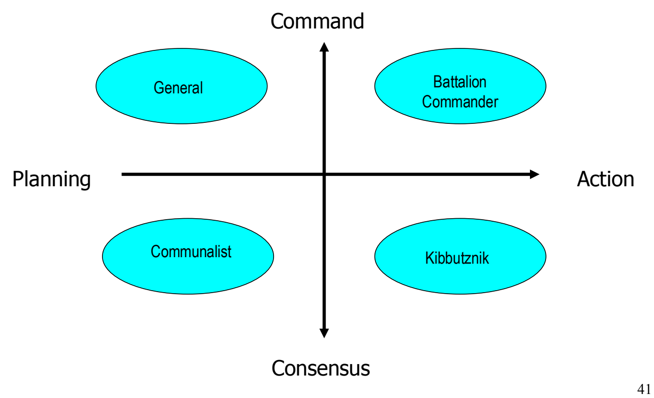
Kibbutznik

The Kibbutznik leader is a curious blend of corporate democrat and action-oriented mover and shaker. The company tends to give everyone a say in decisions but decisions are then made swiftly and action is taken quickly also. Since there is often a community of interest and agreement, the company can be innovative despite its democratic style of management. Product quality is good since everyone takes responsibility for the product and its execution and delivery.

Communalist

The Communalist leader is a consensualist. The company throws open most decisions to committees but there is little central direction and the company is slow to make decisions and to take action. Product decisions are only painfully arrived at. The pace of new products generally suffers leading to competitive issues, decreasing margins and poor sales growth. Expense levels tend to be high. This is due to the need to have everyone heavily involved and the expense and time to process decisions and effect execution.

Figure 6 The Leading Mode Types

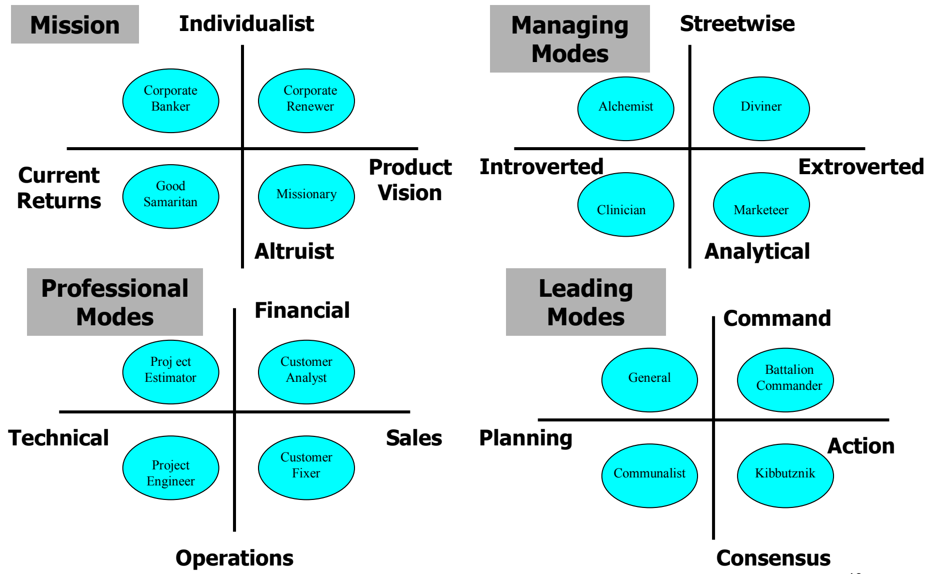


Introducing the Leadership Cockpit

We have now introduced to you the full complement of the 16 leadership types. As you can see, these are designed to cover all the main outcomes of leadership. The 16 leadership outcome types are divided into four modes. Every manager or leader will have a position in each one of the modes. So he will show 4 leadership outcome types. However one of these types will be his dominant type (actually, occasionally there will be two dominants but that is another story).

So we now have a way of fully describing a leader in terms of his leadership outcome type in each of the modes, and showing which one will be the dominant. We can make this more visual by summarizing the manager's business personality in one diagram. We show this at Figure 7 The Leadership Cockpit

Figure 7 The Leadership Cockpit



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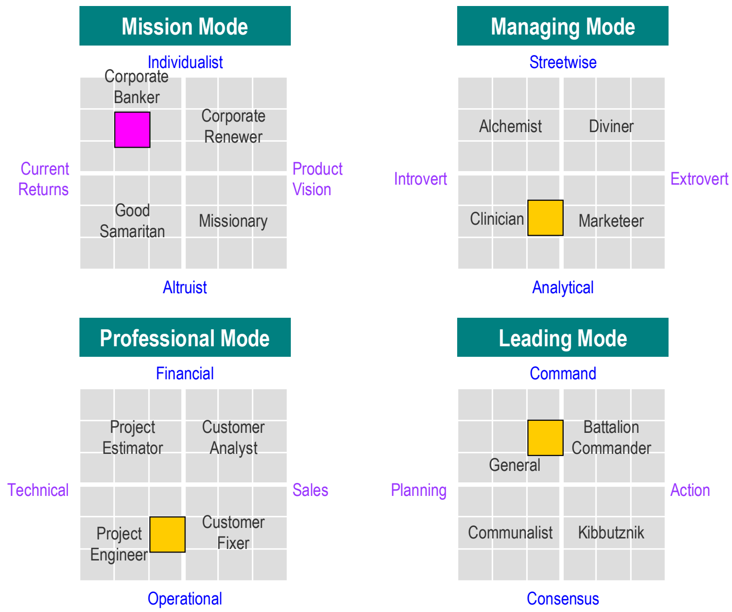
As you can see, this is a very convenient way of summarizing the business personality of a manager or for that matter, any leader whatsoever at any level of the organization. We can describe the business personality in terms of the four modes all shown in the one diagram.

We can also show the exact position of each mode position so that we can see even deeper into the business personality of the manager. This position provides us with a variety of information including the intensity of the behavioral driver, how strong it is and how much it can be a vulnerability. We show an example of the leadership cockpit, together with the mode positions at Figure 8 Leadership Cockpit with Intensity

Figure 8 Leadership Cockpit with Intensity



This Leadership Cockpit shows us a leader who is a Corporate Banker in his dominant mode. In those other modes, he also displays non-dominant behaviors of the Clinician, Project Engineer and General.

We get a picture of this leader as a conservative manager, highly analytical, dominated by figures, very quality-oriented and loathe to delegate too much. We can surmise that the company led by this manager will be somewhat frugal, resistant to big visions, reluctant to invest much in the future, and fairly tightly managed with a lot of hierarchy and process. As you can see we already have a good picture not only of this leader, but also of the type of company that will be created on his watch.

However this leader will tend to have different moods and in some of them he will be led not by the Corporate Banker mode, but by other modes, albeit for much less time than the Corporate Banker behavior dominates. We can predict what these moods will be from the other modes. However we can't predict when they will occur, just that they will occur sometimes, but for much less time than the Corporate Banker behavior.

As you can see, the Leadership Cockpit provides us with a rich description of a leader, and the corporate outcomes that result from his business personality. We can predict his dominating behaviors and other business behaviors that will also occur, albeit with less frequency.

We can also see the intensity of these behaviors relative to each other. We can compare these behaviors with those of other leaders. We can compare them not only on the dominant and other modes, but also on their intensity of their behavioral drivers. In sum, the Leadership Cockpit provides us with a comprehensive, insightful view of a leader which is predictive of the impact on the company, not just in qualitative terms, but also in measurable terms relative to other peers.

Section 3: Improving Money-Making Ability

We now move to the issue of improving money-making ability. It is based on the outcome model we have demonstrated. It draws on the numerous examples and lessons we have set out using real executives, both public and well-known, and private and not so well-known. In this section we will show how to improve based on your own particular leadership outcome type.

The outcome model we demonstrate in this White Paper has a powerful corollary. Once you know your own leadership type, you have a very good idea how to correct your behavior to improve your money-making ability. You must simply try to be more like managers in the opposite quadrant. Easier said than done, no doubt, but at least we have a road-map.

For example, if you are a Good Samaritan, our model says that you should try to emulate the behavior of an uncorrected Corporate Renewer. A Good Samaritan is not comfortable with taking chances and investing for the future. He or she needs to. A Good Samaritan is somewhat altruistic. He or she needs to be somewhat more company-focused, like the uncorrected Corporate Renewer. For each leadership type, this general rule is the same.

"….To correct…You must simply try to be more like managers in the opposite quadrant…."

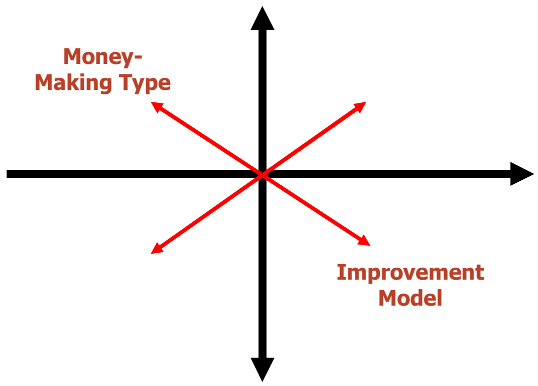
We can now see the outline of the approach to correcting for the business personality and for each of the sixteen leadership types. The leader should identify his or her dominant behavior and style and aim to compensate for it in a significant but not overwhelming manner. How to do this?

It is a consequence of the way we have set up the business personality model that the balancing act is always in the opposite corner of the leader's business personality type. This is simply because we have set up the model on the basis of a full spectrum of opposites.

It follows that the leader should compensate by adding in correction elements of the business personality that is the exact opposite of what he is. Thus, by moving this way, he adds in the elements in which he has lower competence and gaps and thus compensates for the dominant behavior what would otherwise have a failing effect. We show this in the following diagram

Figure 9 The Rule of Money-Making Correction

The Rule of Money-Making Improvement



The manager has to balance a number of competing objectives and interests and it is extremely rare that a manager can be successful by just moving in one direction.

To successfully balance off the legitimate interests of different constituencies and different but legitimate modes of operation of the company, the manager will need to focus to some extent on other modes and objectives. The manager's business personality provides him already with some major strengths and approaches.

So the approach is not to diminish the manager's strengths in these areas, but merely to balance them so that the manager is meeting the approaches and objectives that he would not otherwise cater to. To the extent that the manager does not cater to these other areas, in which he may have some blind spots, the manager is at risk of failure since he is not meeting legitimate needs and approaches.

This approach provides a logical and consistent framework for the leader to see how he should work towards complementing his skills and gaps by adding in other elements to meet these gaps.

The basic principle of correction is that for each component of the business personality, we should aim for a limited form of balance. That is, the primary thrust of each element of the business personality should not be reduced to zero - this would be unrealistic and impossible - but it should be balanced by adding in some limited focus on other elements of the business personality.

This balance can be achieved in a variety of ways using basic techniques used in our programs. Note that we are not expecting the leader to change his business personality, just to recognize what he or she is not good at, and to take appropriate steps to correct for this by adding in the various correction elements that compensate for the gap or area of lower competence.
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Section 4: The Money-Makers

We can now proceed a further step in our analysis. In this we can compare and correlate the results for the same individuals on the FOA and the EXOA. This will show us for any individual how their capital creation and consumption results correlate with their leadership outcome results and their business personality. This is what we will do in the next two sections.

In doing this, we are focusing only on the most exceptional types of propensity for capital creation. There are other types which create capital, but not at high levels, or even medium levels.

"….only about 12% of managers we have tested actually create capital…"

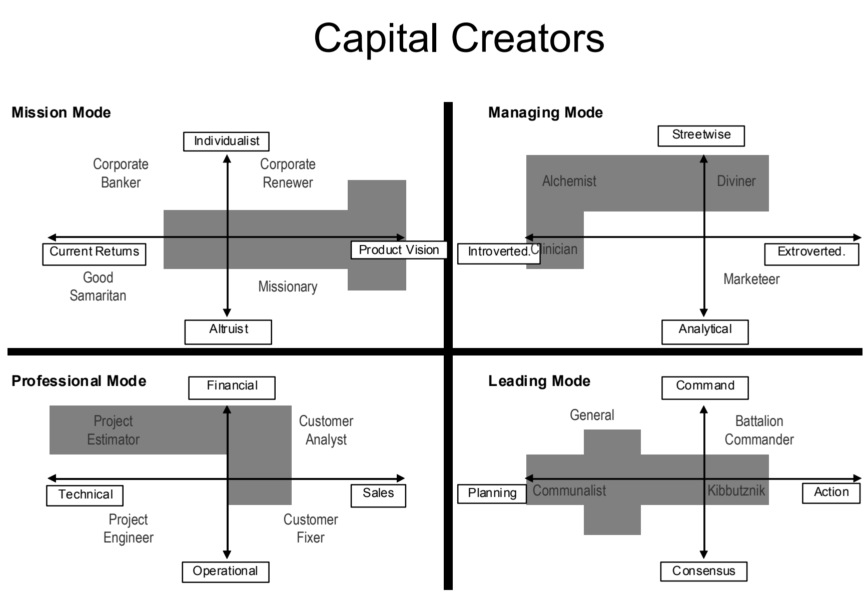
It should also be noted that most people do not create capital and that most of our data is associated with the vast majority of managers who in fact either consume capital or who do not create it.

To be specific, our research has discovered that only about 12% of managers we have tested actually create capital. That is, the nose for profit is limited to only s small subset of the population, both generally and managerially.

In each of the four modes there are locations for capital creation. These are shown at

Figure 10 The Capital Creators.

Figure 10 The Capital Creators



Exceptional Money-Makers

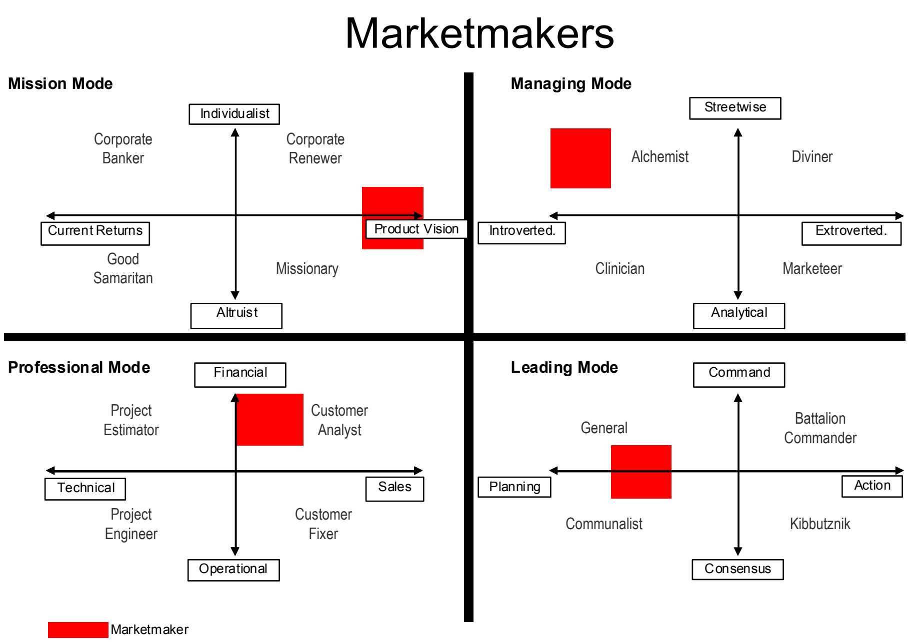
There are four personality types that have exceptional capabilities in creating capital and making money. These are:

- The Alchemists
- The Visionaries
- The Customer Analysts
- The Generals

We show these at
Figure 11 The Marketmakers.

As was discussed earlier in this White paper, Marketmakers have high value-adding and low resource utilization. They therefore have high levels of capital creation. They occur in each of the four modes in the Leadership Cockpit at the locations shown in red.

Figure 11 The Marketmakers



Alchemists: Alchemists by definition are introverted and streetwise. By streetwise, we mean people who distrust logic. Bill Gates, Mark Zuckerberg and Michael Dell are good examples of this type.

These invariably create a new very nigh value product which creates new market segments. I n order to quality for this characteristic the person is usually intensely, not mildly introverted. He must also be intensely, not mildly streetwise.

Usually the company founded by this person does well even though the founder is highly introverted because the product is revolutionary enough that it attracts market interest and sales support than the founded himself cannot attract.

Visionaries: Visionaries are extremely forward looking and are strongly oriented to giving up the present for a far-off future. If they are too altruistic or too individualist they will not fall within the magic area. They can be only mildly altruistic or mildly individualist. There are powerful psychosocial reasons for this but we do not nave the space to discuss this here.

Furthermore, being mildly visionary is not enough either. The psychological impulse to look forward must be intense otherwise the person will not be in the magic area for exceptional money-making and capital creation propensity. Examples of visionaries are Larry Ellison of Oracle and Steve Jobs of Apple.

Customer Analysts: These managers are characterized firstly by being sales rather than product oriented. However if they are too strongly sales-oriented they will fall outside ether magic zoned for high propensity to create capital.

Their other characteristic is that they are strongly financial oriented. This does not mean that they will have financial qualifications, in fact usually they will not. Rather it means that they their zone of psychological comfort is exceptionally strong in the area of dealings with finances. Good examples of this type are John Chambers of Cisco and Sam Walton of Wal-Mart.

Generals: These managers are disciplined planner types. However if they are too strongly planning oriented they fall abruptly outside of the magic zone due to their relative slowness in adapting to market conditions and in losing market opportunities.

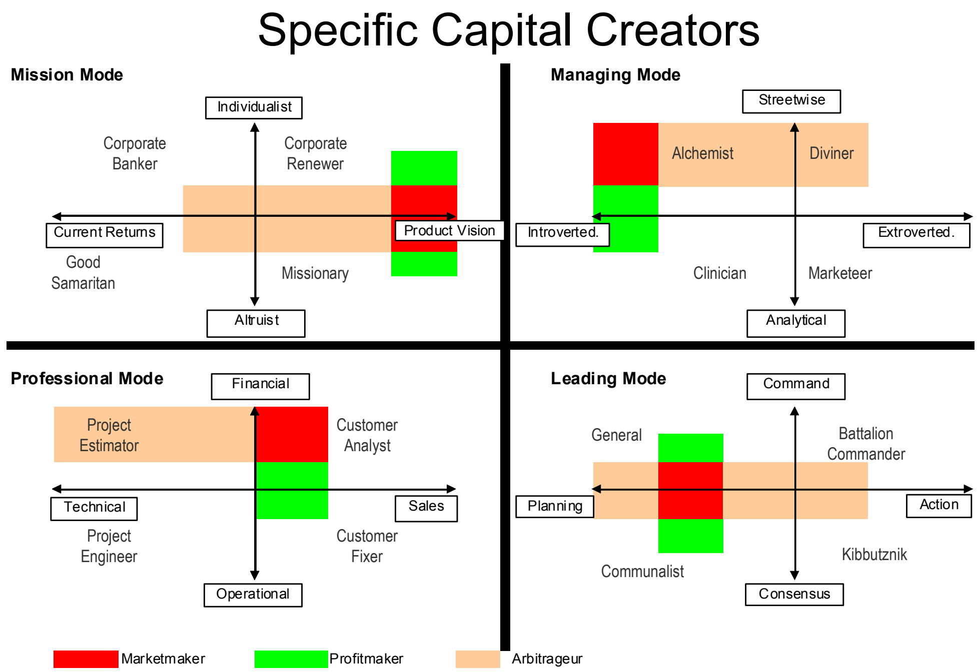
In addition these managers cannot be extremely consensual or extremely command oriented in their management styles. To the extent that they become too strong in these areas, they again abruptly fall outside the magic zone of propensity to create capital. An example of this type is Harold Geneen, the famous manager of ITT.

Specific Types of Capital Creators

The Leadership Cockpit also shows us where the specific types of capital creators are located in the Leadership Cockpit. All of these are located within a certain continuum of business personality. We show these at

Figure 12 Specific Capital Creators.

Figure 12 Specific Capital Creators



Psychic Intensity Counts

A few qualifications. Where a person's results are located within a quadrant counts and are in fact highly significant. The quadrants measure not only the behavioral characteristics, but their intensity.

So there are other zones where managers make less money. Next, most people have a propensity to consume capital or not to create any and these occur within other zones of the Leadership Cockpit. These other zones have characteristic financial impacts associated with them. We show these in the following section.

Section 5: The Capital Consumers

Capital-Consuming Personality types

Now we can turn to those people who consume capital. Since many more people consume than create capital, there are many more locations in the Leadership Cockpit associated with capital consumptions. These are as follows:

Extreme Needs for Self-Recognition: This occurs in the Mission mode. Basically these needs lead to high resource utilization to buttress these extreme needs for recognition as an individual.

Extreme Needs for Helping Others: This occurs in the Mission mode. Basically these needs lead to high resource utilization to buttress these extreme needs for helping others

High Level of Extroversion: This occurs in the Managing mode. It occurs because the focus on building relationships overwhelms the focus on building process or products.

High Analytical Focus: This occurs in the managing mode. It occurs because the focus on analysis leads to high process requirements and thus high resource utilization.

High Technical/Operations Focus: This occurs in the professional mode: It occurs since the focus on a high level of technical detail and operations leads to over-investment in quality pushing up resource utilization beyond the levels of value-adding available.

High Sales Focus: This occurs in the Professional mode. It occurs since the desire to make a sale overwhelms financial factors or even the customer's need.

High Command Orientation: This occurs in the leading mode. It happens because the focus on hierarchy leads to low attention to divergent views and thus is associated with poor decision-making that increase costs.

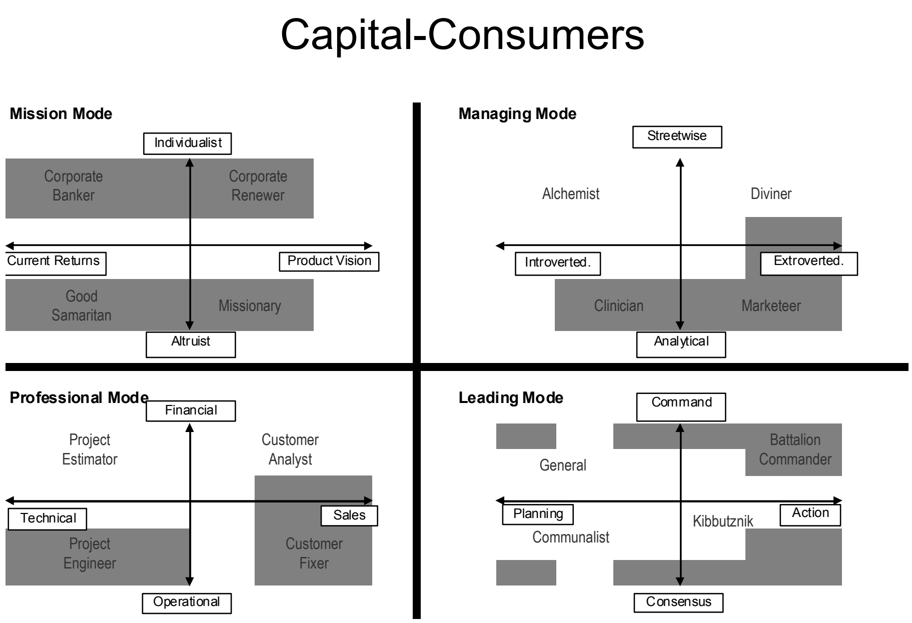
High Consensus Orientation: This occurs in the leading mode. It happen because the focus on gaining consensus leads to such high attention to divergent views that it pushes up costs and slows down action leading to missed opportunities including becoming behind the market.

Extreme Decision-Making Speed: This occurs in the leading mode. It occurs because extremely high speeds of decision-making lead to poor decisions, low product quality, inconsistent strategy thereby impacting margins adversely.

Extreme Slowness in Decision-Making: This is the opposite of the action style. Slow3 decisions lead to higher costs and missed opportunities which impact gross margins adversely.

These zones of high capital consumption are shown at Figure 13 Capital Consumers.

Figure 13 Capital Consumers



The Highest Capital Consumers

Those who have the highest capital consumption are termed Industrialist. It should be noted that our research has found no association between level in an organization and propensity to consume capital. We have found other associations between factors such as level of education which we do not have space to discuss here.

IN the Leadership Cockpit there are five areas associated with the highest levels of capital consumption. These are the following:

Low Product Vision: There is such a focus on meeting current needs that gross margins can never get to the levels needed to have sustainable profitability. This occurs even if resource utilization is very low. This occurs in the missing mode.

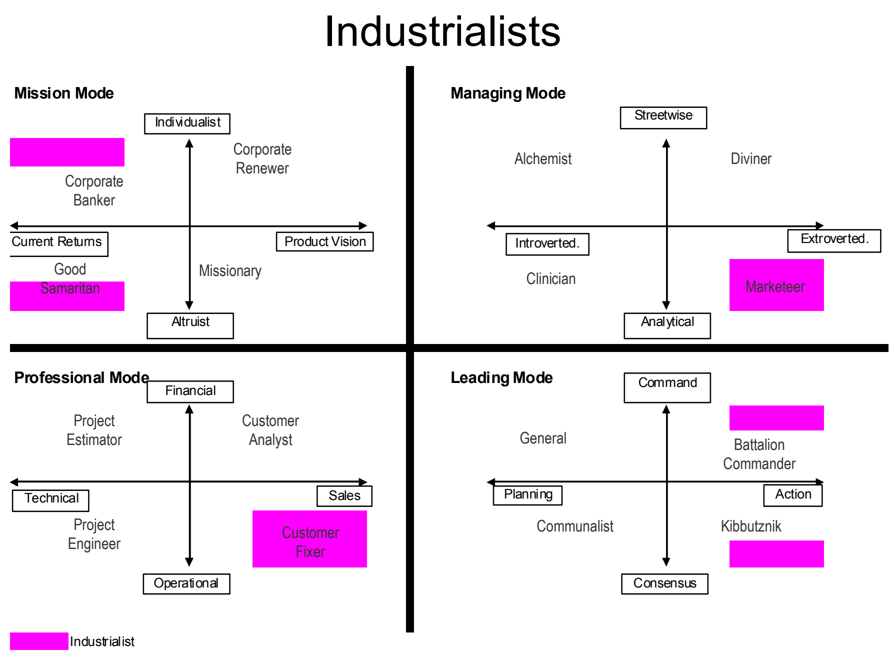
High Extroversion/High Analytical: High needs for relationships coupled with high process requirements associated with being overly analytical lead to very high resource utilization which is always lower than value-adding and thus gross margins. This occurs in the Managing mode.

High Sales/Operational Focus: The high sales focus that largely ignores financial factors is associated with high process requirements and over-investment in process and quality.

Very High Decision-Making Speed: This factor alone increases costs significantly so that at a certain speed it can never be compensated for by h9igh gross margins.

These locations for high capital consumers are shown at Figure 14 The Industrialists

Figure 14 The Industrialists

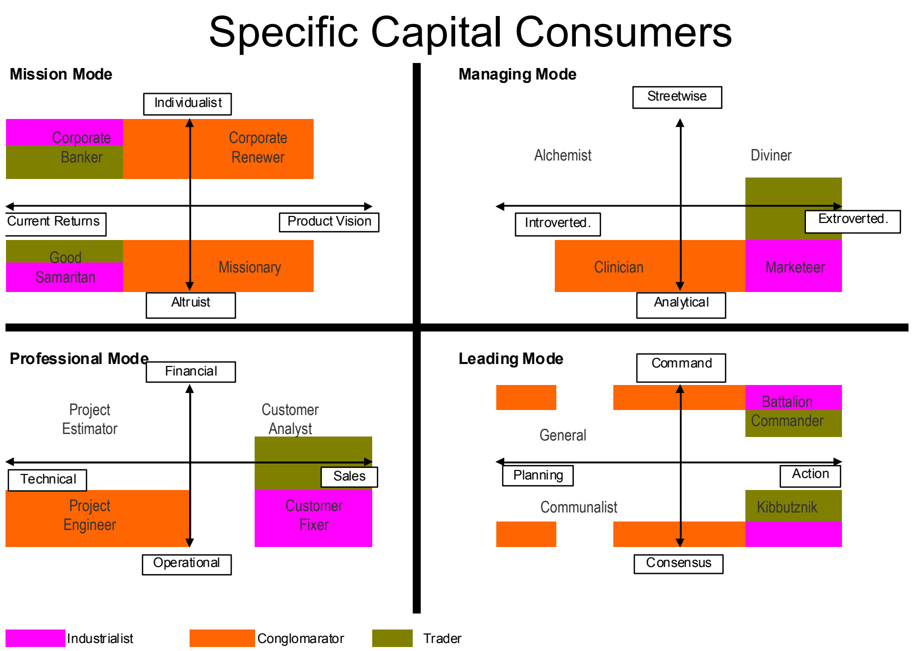


All Capital Consumers

At Figure 15 Specific Capital Consumers we show the regions where specific types of capital consumers are located in the leadership Cockpit. These types are the Industrialist, as we have already shown, the Conglomerator and the Traders.

All are located on continuums with the Industrialists reflecting the varying strengths of the business personality factors involved. So once again the leadership Cockpit shows us that psychic intensity of these drivers is highly significant. This is why any assessment instrument must explicitly measure intensity as well as the drive involved.

Figure 15 Specific Capital Consumers



Section 6: Financial Mission and Alignment

The Concept of Financial Mission

Financial signature reflects a person's innate financial traits. However frequently people behave differently for a variety of reasons. The different behavior may reflect experience, the impact of the organization, a boss or a spouse. We call this behavior a person's financial mission. A financial mission is how a person acts in practice in their business decisions.

A financial mission does not necessarily mean that a person has improved their financial outcome. Often it may actually lead to a worse financial outcome. When assessing a person's financial impact it is critical to assess not only their financial signature but also their financial mission.

"….A financial mission is how a person acts in practice in their business decisions…."

The EXOA is used to do this. Based on proprietary behavioral information, the EXOA can tell us about the financial mission of an individual so that it can be compared to the financial signature to see if there has been an improvement or otherwise and if so, what can be clone about it.

The financial mission gives us another perspective on the money-making capabilities of as person. It also gives us information about their leadership agility and thus their capability to be able to move to different and improved financial missions.

The financial mission provides another perspective on business and financial impact. This White Paper does not aim to cover it here but to raise the issue to show the necessity of assessing it and comparing it with financial signature to get a full appreciation of the capital creation propensity of individuals and teams.

When Perth conducts its programs it assesses both financial signature and financial mission of individuals and teams. It then uses this information to be able to design a change program that will improve the financial mission of the participants at the individual and the team levels.

The Concept of Business Alignment

Another key concept in leadership and business impact is that of alignment between the individual and the organizational units he is part of or interacts with. These include his team, unit, division or company.

It is not enough for a financial signature of mission to be capital creating. It must also share the same approach to valuation building otherwise there will be a disconnect which will be an obstacle to building value because there will be different approaches which will cause conflict.

We can assess the financial mission that the individual or team needs to be aligned with by using the Corporate Financial Outcome Assessment (CFOA).

The Corporate Financial Outcome Assessment (CFOA) measures the financial mission of the organization based on behavioral data; it enables us to evaluate both organizational alignment but also gives us a yardstick for measuring competitive prowess from a behavioral perspective.

Alignment is also a key concept in business outcome. We can assess and measure alignment by comparing financial signature and mission with the results of the CFOA. The EXOA shows us the types of behavioral change we need to undergo in order to improve alignment.

Conclusions - Improving Business Performance

Individual Performance

The FOA and EXOA assessments can be used to show how a manager's financial mission can be improved and what behaviors he needs to modify in order to improve the financial outcomes resulting from his management style. In particular:

- How to improve business acumen
- Showing how particular behavioral changes will impact business outcomes
- Reveal behavioral changes needed to perform at an optimal level in different environments e.g. changing market position; being acquired by another company: moving to a new organizational unit.

Team Performance

By aggregating a team's financial signature and leadership outcome data a number of objectives can be met:

- Show how the financial style of the team will lead to certain financial outcomes
- Show how its behaviors need to change in order to improve those outcomes
- Reveal the behaviors of the team which are preventing them achieving specific business outcomes.

Individual Alignment

The assessments can show the following:

- The extent to which the individual's financial mission is aligned with that of his team
- The changes needed to improve alignment with his team or organizational unit.
- The extent to which his current level of alignment will produce better or worse financial impacts

Team alignment

The assessments can show the following:

- Whether the team is aligned with the financial mission of the division or company of which it is a part
- Whether the team is on a productive or non-productive valuation trajectory in its financial mission relative to the company and its competitors
- The behaviors it needs to modify in order to improve alignment

Onboarding

The uses of the assessments for onboarding include:

- To assess the extent to which a new hire's financial mission is aligned or otherwise with that of the organization
- The behaviors he needs to modify in order to improve alignment
- The financial impact of changes in alignment due to changes in behaviors
- The extent to which he needs to change behaviors used in his previous position in order to have better financial alignment with the new company or unit

Leadership Development

Leadership development usually focuses on interpersonal skills and behavioral competencies. The Perth approach allows these to be complemented by assessment and training in business acumen, and to show the linkages between behavior and company business and valuation outcomes.

We use these assessments in our leadership programs with our clients and show them how to use the results to improve self-awareness of executives and managers so that they can improve their financial and valuation impact.

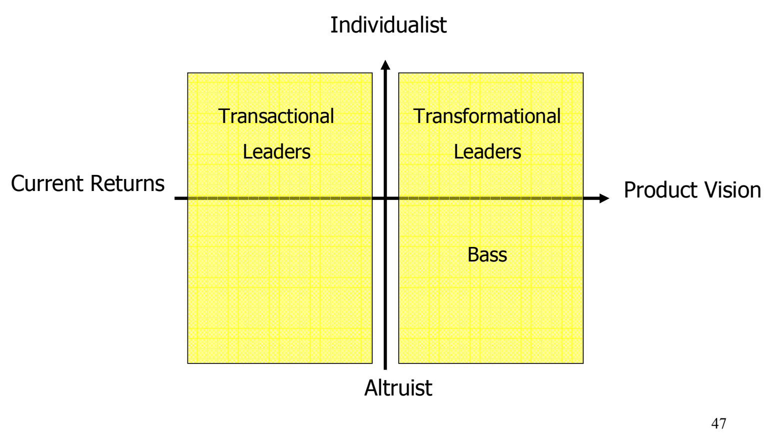
This provides a new perspective to traditional leadership programs and can align executives better with the financial mission of their organization and with its valuation goals. It will also significantly improve their ability to improve their own financial and valuation impact.

Appendix: Comparing Business Personality and Other Leadership Approaches?

There have been numerous approaches to leadership types. Many of them appear to be similar to the ones set out here. How does our classification of leadership types compare with other approaches? In general these approaches base their approach on just one dimension. Our model integrates all of these approaches into a single model

To take an example, the classic transactional/transformational scale of leadership. This corresponds to our Current Returns/Product Vision (for Risk/Reward) scale as we show in Figure 16 Transactional vs. Transformational Managers.

Figure 16 Transactional vs. Transformational Managers

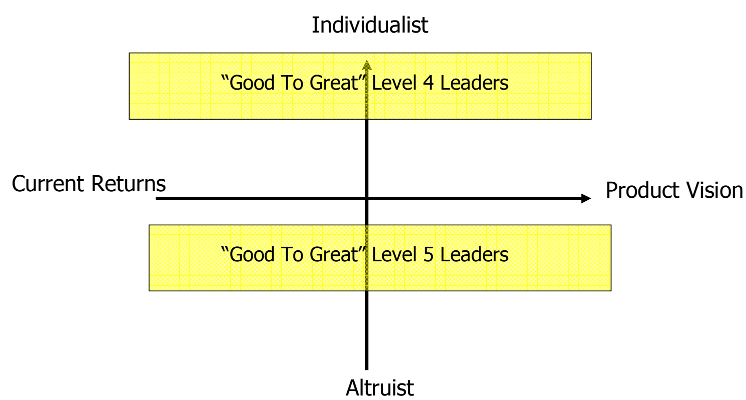


However, we believe that this is just one, albeit important, dimension of a manager and that there are many others. Indeed, concerning the manager's mission, there is an additional one, the Individualist/Altruist scale (for Recognition), which we show at Figure 1 The Nine Financial Signatures.

This division corresponds to the division made by Jim Collins in his White Paper, Good to Great. His Level 5 leaders are those that we identify in the Altruist segment of the Recognition scale. They are the ones with a high level of humility. They do not span the whole segment since this would make them so Altruistic as to conflict with their company's objectives. We detail how later.

The Level 5 leaders create enduring organizations. Collin's Level 4 leaders do not create enduring organizations. The Level 4 leaders correspond to our Individualists. These need a high level of Recognition and are usually charismatic. The Collins classification is a valuable contribution to our understanding of great managers. However, once again, it presents only one facet of the manager's business personality, which we show in our Recognition scale.

Figure 17 Level 4 and Level 5 Leaders



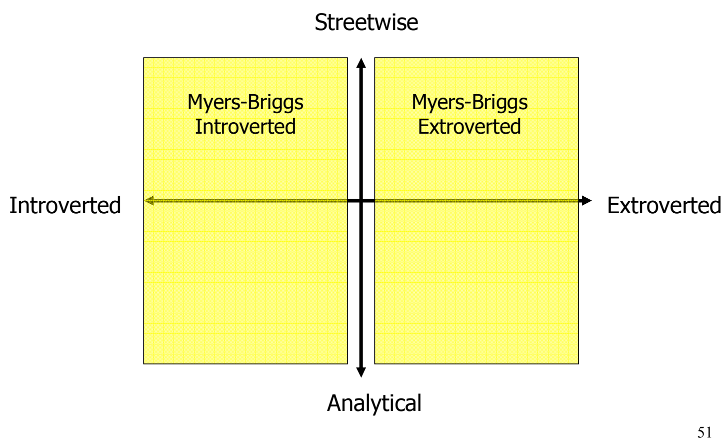
[49]

Our relationships scale, showing Introverted and Extroverted leaders, is clearly the same as the widely used Myers-Briggs scale of the same name, at

Figure 18 Myers-Briggs Types.

This assessment has the benefit of using a multi-scale approach. However, most of the Myers Briggs scales do not have a direct link with company outcome. This scale is an important indicator of manager strategies and company outcome. The leadership approaches that are based on just one dimension therefore are missing an important ingredient in leadership profile.

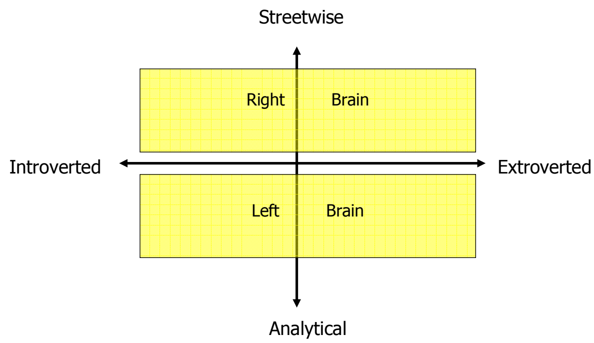
Figure 18 Myers-Briggs Types



Our Logic scale, linking Streetwise and Analytical managers, is similar in some ways to the left-right brain distinction, as we show at managers This approach, enshrined in approaches to spur lateral thinking, is basic to analyses of creativity.

However most analyses of creativity do not focus specifically on the dimension of financial creativity, which characterizes our notion of being Streetwise. We believe this is a crucial factor in predicting manager behavior and company outcome. Management approaches that do not include some proxy for this factor are missing out on a key leadership dimension.

Figure 19 Creativity in Managers



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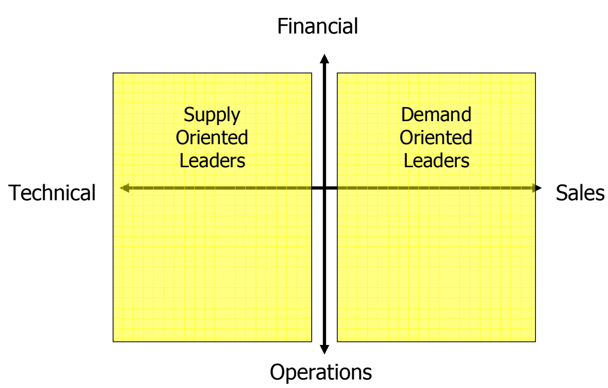
A more recent distinction in business is between supply- and demand-oriented managers. This reflects the emergence of ERP (enterprise resource planning) and CRM (customer relationship management) systems. This corresponds to our divisions between technically- and sales-oriented managers, at Figure 20 Supply and Demand Managers. This division has long been recognized. But it is yet another dimension of manager business personality which impacts company outcome in important ways. Any leadership approach will miss many of these ways if it does not include this dimension.

Figure 20 Supply and Demand Managers



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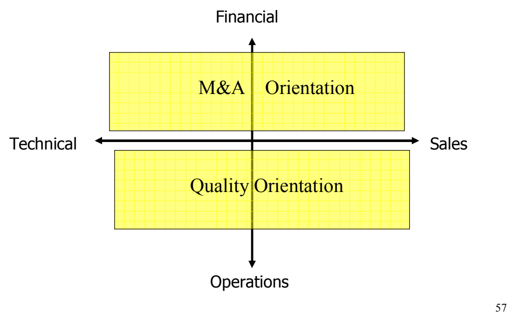
Our execution scale links financially oriented with quality-oriented managers. This links managers who prefer M&A approaches with those who focus on issues of execution and quality, as we show at Figure 21 Quality vs. Resource Leaders

This links a number of leadership types who are often treated separately.[i] Where they do link them,[ii] they are still limited to a small number of dimensions. While an improvement, this still does not provide us with the explanatory power of our model.

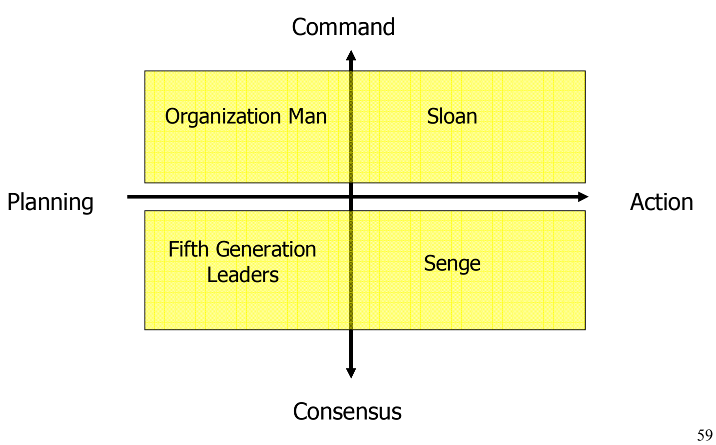
Figure 21 Quality vs. Resource Leaders



Over the past few years, the concept of the learning organization[iii] and the learning manager has become a widely discussed issue. The learning organization integrates all members into a self-organizing learning network fuelled by a strong ethos of empowerment and delegation.

The learning organization manager corresponds to our Delegation scale, linking Command and Consensus leadership types, shown at Figure 22 5th Generation Leaders.

Figure 22 5th Generation Leaders

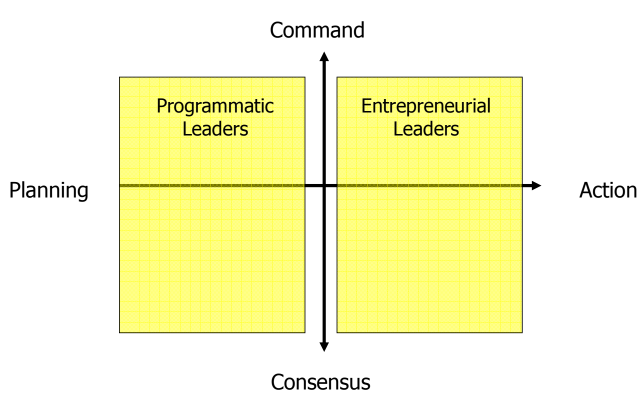


Finally, the subject of entrepreneurship has now become a central focus on business schools everywhere. There are both entrepreneurial managers and those who are more programmatic, as shown at

Figure 23 Entrepreneurial vs. Programmatic Leaders.

This division is yet another crucial dimension in the typology of managers. Any typology should include this dimension in order to be able to achieve a higher degree of comprehensiveness.

Figure 23 Entrepreneurial vs. Programmatic Leaders



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We know that leadership comprises many dimensions. These are inter-related in numerous complex ways. The traditional leadership typologies we have outlined here in general are uni-dimensional. The particular dimension they choose is of vital importance, but it is far from being the only one.

No matter how useful the transactional/transformational leadership scale, it is not the only explanatory factor. We exclude the others at our peril. Our leadership outcome types have the merit that they attempt to put all the principal factors under one roof.

[i] For example, Juran, op. cit.
[ii] See Miller, D., The Icarus Paradox: How Exceptional Companies Bring About Their Own Downfall, HarperBusiness, 1990, and his discussion of organizational cultures at p. 5ff.
[iii] Senge, P., The Fifth Discipline: The Art and Practice of the Learning Organization, Doubleday, 1990.