The Latest Thinking

A Better Return on Self-Awareness

Companies with higher rates of return on stock also have employees with fewer personal blind spots. **By David Zes and Dana Landis**

SELF-AWARENESS—a characteristic essential to career success and improved executive leadership—also appears to correlate with overall company financial performance. A new analysis of results from Korn/Ferry International's ProSpective Assessment shows that public companies with a higher rate of return (ROR) also employ professionals who exhibit higher levels of self-awareness.

Korn/Ferry searched 6,977 self-assessments from professionals at 486 publicly traded companies to identify the "blind spots" in individuals' leadership characteristics, revealed by a disparity between answers in two separate parts of the test. The frequency of such blind spots was then gauged against the ROR of those companies' stock. The analysis demonstrated that, on average:

- *Poorly performing companies' employees had 20 percent more blind spots than those working at financially strong companies.*
- *Poor-performing companies' employees were 79 percent more likely to have low overall self-awareness than those at firms with robust ROR.*

Stock performance was tracked over 30 months, from July 2010 through January 2013. During that period, the companies with the greater percentage of self-aware employees consistently outperformed those with a lower percentage.

Despite its close association with high performance and career success, self-awareness is generally in short supply (Orr et al., 2010). Initial outcomes from the ProSpective Assessment in 2012 revealed that 79 percent of those evaluated online had at least one blind spot—a skill that an employee counted

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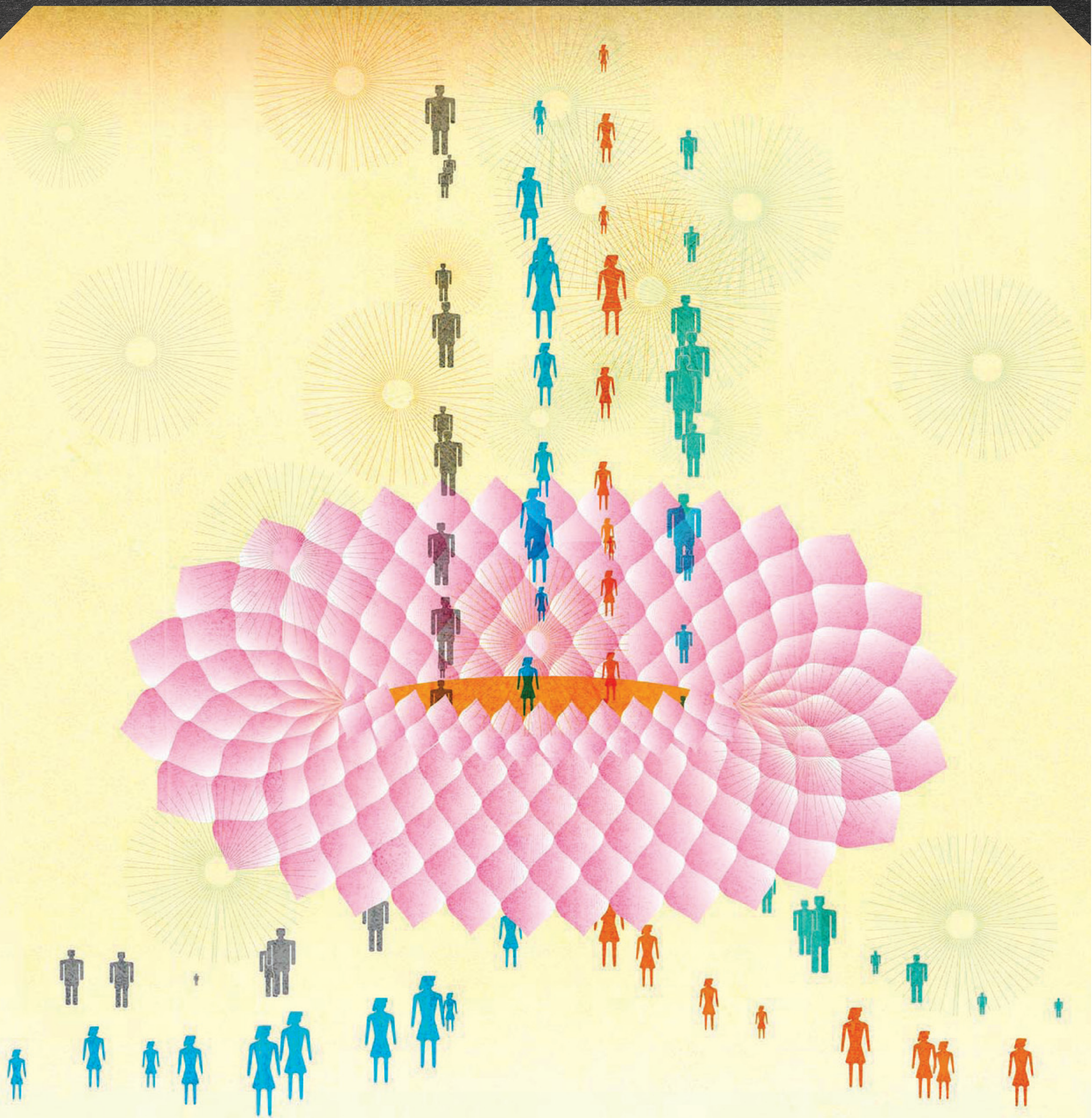

JOHN HERSEY

A HIGHER LEVEL OF CONSCIOUSNESS

THE CONCEPT / High levels of self-awareness, long acknowledged as contributing to individual effectiveness and good leadership, also correlate with corporate performance.

MEASURED WITH / Korn/Ferry's online ProSpective Assessment and financial data on public companies.

IMPORTANT BECAUSE / Self-awareness—knowledge of one's strengths and weaknesses, ability to admit mistakes and tendency to reflect—can be developed in leaders. Fostering a healthy culture of feedback might be one way to leverage human capital to drive corporate performance.

Korn/Ferry created an aggregate model of how companies with highly self-aware employees performed over 30 months compared with those whose workers have more blind spots. The chart above illustrates the final 18 months of the model.

among his strengths when co-workers cited that same skill as one of his weaknesses (Orr, 2012). For this new study, Korn/Ferry considered people exhibiting three or more blind spots to have low self-awareness.

Self-awareness has generally been viewed as an individual attribute. Psychologist and "Emotional Intelligence" author Daniel Goleman (1998) pioneered the idea that "the ability to recognize and understand your moods, emotions and drives, as well as their effect on others," was a hallmark of effective leaders. Self-awareness can directly translate into better professional and personal choices, and result in more-fulfilling careers. On the other hand, those with low self-awareness tend to scramble the messages they receive concerning improvement, interpreting them as a threat rather than an opportunity. Even in these cases, an employee's level of self-awareness can be increased through 360-degree performance appraisals paired with effective coaching. This in turn drives improved performance and greater work satisfaction (Luthans and Peterson, 2003).

Korn/Ferry's findings further broaden the potential importance of self-awareness. Addressing blind spots and increasing self-awareness have long been seen as positives for individuals. Now we have statistical findings that suggest benefits also exist at the macro level of an organization. Leaders with higher self-awareness not only have greater job satisfaction and commitment to their employer personally, but that effect also appears to trickle down to a manager's direct reports (Luthans and Peterson, 2003). In the constant drive for competitive advantage, it turns out that helping employees to better understand themselves and fostering a culture of healthy feedback could also help to improve an organization's overall performance. K/F

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Too often, boards lack the intestinal fortitude for risk that healthy growth requires

No Guts, No Growth

The financial crisis of 2008 rattled corporate boards of directors. In his recent book, "The Future of Boards: Meeting the Governance Challenges of the Twenty-First Century," Harvard Business School professor Jay Lorsch wrote that the economic shock of that year caused many directors to consider what they should do differently. They chose to hunker down. They focused on compliance, cost cutting and purging themselves of insiders in an attempt to boost the bottom line, short-term shareholder value and public perception.

Now, five years on, that formula is outdated. Companies are changing quickly to focus on top-line growth, which will be less about mergers and acquisitions and more about innovation, less about increasing market share and more about finding new markets. This requires boards to play a different role.

Despite efforts to increase their impact on strategy—by seeking greater independence, diversity, industry knowledge, regulatory expertise and international experience—fewer than 20 percent of directors consider their boards to be effective at it, according to a National Association of Corporate Directors survey. Martin Coyne, the lead independent director at Akamai Technologies and author of "How to Manage Your Board While Your Board Manages You," believes many boards have little impact on strategy because they have a myopic view of it. "Strategy is never a one-time event," he said. "Almost every board discussion topic has some connection to company strategy. Boards must constantly challenge assumptions [and] evaluate the effectiveness of strategic execution."

Melanie Kusin, vice chairman in Korn/Ferry International's Board & CEO Services, believes that "growth objectives will force new behaviors for overly conservative boards and greater examination of the fitness of directors to contribute to the challenges of the top line. If you look at companies and CEO's that are performing well today, there is inevitably support at the board level to pursue smart strategies, even if they involve considerable risk. In those companies, board engagement is high and directors have a global view and enough market comprehension to debate and fuel necessary initiatives." Kusin points to Church & Dwight and Estée Lauder as examples of such companies. At Estée Lauder, for instance, presiding director Irv Hockaday sees his main role as integrative, getting beyond the fragmentation of focus that can arise from a committee mentality and ensuring that the board as a whole remains engaged and effective on strategic issues.

Kusin, along with Jeffrey Sonnenfeld, the founding CEO of Yale's Chief Executive Leadership Institute, and Elise Walton, a former Yale-Korn/Ferry senior research fellow, conducted extensive interviews with veteran chief executives, seeking to find out from the CEO perspective what is keeping many boards from being as effective as they need to be. One of their key findings: Many CEO's believe boards often lack the intestinal fortitude for the level of risk-taking that healthy growth requires.

"The risk appetite is out of balance," one CEO told the researchers. Another said boards were stocked with too many "academics, money guys and No. 2's" who were unable to see the whole playing field and "synthesize." Some voiced concern that boards have too many "professional directors"—by some estimates, now a third of all members—who have retired from full-time employment

and whose ambitions often include protecting their board seats and the associated income. "Board members are supposed to bring long-term prudence to a company," said another CEO. "But this often translates to protecting the status quo and suppressing the bold thinking about reinvention that enterprises need when strategic contexts shift."

In short, the research made it clear that most boards are not working as well as they should, and the impetus for improvement needs to come from the boards themselves. They need to create more rigorous and regular methods of self-evaluation, to ask themselves if they are good enough to help the business go where it needs to. If the answer is no, they need effective mechanisms to enact timely change.

A recent survey by Agenda, a weekly news service from the Financial Times, found that although most boards conduct annual self-assessments, only about a third of directors considered their evaluations "very effective." Many directors said the "1 to 5" rating approach is too wide-ranging and general. They also said feedback is "sugarcoated" or "watered down," and that there isn't enough follow-through after the evaluations. "It is time to move beyond check-the-box board reviews and start to seriously evaluate the board's effectiveness," David Larcker, professor at the Stanford Graduate School of Business, told Agenda. "[Then] once you have this information, the chairman or lead director has to be ready to have the difficult conversation about how a director can improve, or whether it is better for him or her to step down."

Better assessments are only half the battle, said Kusin. "Many in our study argued that [even when] annual board reviews were thorough and probing, there is no consistent rigor around removing underperforming directors. That sluggishness could be alleviated by putting more specific 'teeth' in director accountabilities and tying performance to continuing service. Embracing enforceable criteria along with term limits could move the needle on creating more-dynamic board cultures."

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To move that needle, Kusin believes boards should borrow a page from the CEO succession playbook: "We need to start applying everything we are learning about profiling the competencies of CEO's to the selection of board members—gathering the same kinds of data, doing the same kinds of vetting. We are in an era where every CEO is asked to be 'transformative'—to have the ability to know what is innate to the business and see where it can be taken. Given the significant degree to which boards can enable—or stifle—that effort, the same kind of rigor should be applied to very concretely evaluating how a director's aptitude and behaviors align with the long-term strategic platform of a company."

Kusin says personal attributes should become an increasingly important focus of that evaluation process. Her research strongly suggests that what makes a director most valuable and effective, beyond the requisite knowledge and experience, is the capacity to work effectively in a group. As former SEC chairman and Aetna CEO William Donaldson has said, "The most important part of what's really going on in that boardroom [is] the least examined. The board is a social entity. And the human beings on it act like human beings do in groups." Therefore, said Kusin, the best directors "turn out to be those with a broad portfolio of innate personal strengths: natural curiosity, diligence, studiousness, self-awareness, level-headedness and a balanced ego. These, in turn, are the bedrock of other much sought-after competencies such as comfort with ambiguity, rationality in a crisis, confidence, consensus-building skills and—perhaps most importantly—the courage to take smart risks." K/F

JOHN MATTOS

Growth companies are looking for better ways to generate ideas that create value

Beyond Brainstorming

Ever since advertising executive Alex Osborn introduced "brainstorming" to the corporate lexicon 65 years ago, it has been used as a generic term for group creativity and viewed as a panacea for organizations in search of innovation and growth. The premise was that problems are best solved when "taken by storm" by the unrestricted, free-associating input of a group. Participants are supposed to generate as many ideas as possible, firing off uncensored notions, unusual approaches and odd perspectives like human sparklers, all the while deferring judgment and consideration of constraints. This idealization of brainstorming persists today, dovetailing neatly with contemporary culture's unquestioning faith in all things social and collaborative.

The problem is, it has been clear almost since the inception of the idea that brainstorming does not work. In "59 Seconds: Think a Little, Change a Lot," author Richard Wiseman wrote, "Over 50 years of research shows that people often reach irrational decisions in groups … and biased assessments of the situation. … People are more creative away from the crowd."

The first empirical test of Osborn's technique, conducted at Yale in 1958, showed that students thinking on their own came up with twice as many solutions as the brainstorming groups, and those solutions were deemed more feasible and effective. Numerous studies since then have come to essentially the same conclusion. Among the most recent, researchers from the University of Texas at Arlington and Texas A&M found that creativity is stifled in brainstorming groups. "Fixation to other people's ideas can occur unconsciously and leads to suggesting ideas that mimic those of brainstorming partners," explained lead researcher Nicholas Kohn. "Thus, you become less creative." Other studies have pointed to similar behavioral and cognitive impediments: "Social blocking" occurs when the very act of one person speaking has a dampening effect on the thought processes of others; "social loafing" or "free riding" occurs when individuals tend to cede the stage to more active, aggressive members; social anxiety and fear of rejection are common limitations to brainstorming.

TIM BOWER

Researchers seeking ways to improve the model have generally concluded that brainstorming works better when it is less voluble and more rigorous. In a forthcoming article in *The Journal of Product Innovation Management*, professors from Oxford University's Saïd Business School and Babson College in Massachusetts assert that high-performing teams engage in comparatively fewer but more-disciplined brainstorming sessions, usually complemented by other ideation techniques such as prototyping.

Another recent study from INSEAD and the Wharton School of the University of Pennsylvania demonstrated that brainstorming is more effective when individuals generate their ideas independently, before meeting in a group.

Findings like these have led to variations on the brainstorming theme. Former McKinsey consultants Kevin P. Coyne and Shawn T. Coyne developed the concept of "brainsteering," in which discussion is guided by tightly focused questions. Participants are selected less for their unique perspectives and more for their knowledge and experience regarding the problems at hand and the goals and capabilities of the organization. Peter Heslin, a psychologist at Southern Methodist University's Cox School of Business in Dallas, introduced "brainwriting," in which participants are also asked to address specific questions, but on their own and in writing. Each person's ideas are then passed around among the other group members for annotation, critique and embellishment, again in writing. This may go on for several rounds before any group discussion takes place. "Electronic brainstorming"—the exchange of ideas via a variety of devices and platforms, as done in Web-based, open-innovation projects—has proven to be successful because it combines elements of individual and group ideation.

For the past decade, perhaps the most touted approach to generating ideas in organizations has been "design thinking." While managers have traditionally operated using the scientific method, analyzing a problem and deriving from that the parameters of a solution, designers start by imagining a desired condition, then working to define the ways that it can be achieved. In an organizational context, design thinking is essentially a highly process-oriented approach to brainstorming. To imagine new products or market opportunities, design thinkers use modeling tools and techniques to understand the customer's total experience—problems, values, aspirations, social networks—then seek ways to optimize that experience. "Design thinking imbues innovation activities with a human-centered ethos," said Tim Brown, CEO and president of IDEO, a consulting firm that focuses on design and innovation. "[It is] powered by direct observation, of what people want and need in their lives."

One of the foremost exemplars of design thinking has been Nike, the perennially growth-oriented $24 billion maker of sporting apparel and equipment that tops the *Fast Company* 2013 list of the 50 most-innovative companies. For years, Nike has sought to capture or even predict the zeitgeist of the marketplace by doing what it calls "deep dives" into the aesthetics of disparate subcultures, from cars to hip-hop to origami, seeking inspiration for new Nike markets and products. The company's well-known "Innovation Kitchen" is essentially a cross-functional SWAT team of programmers, engineers and designers—professional innovators whose job is to continually ask "What if?" and draw consumers and athletes into an iterative process of making it happen.

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Some, however, view the process orientation of design thinking in business as a bastardization of creativity. Bruce Nussbaum, a former assistant managing editor for *Business Week* who was once one of design thinking's biggest advocates, now believes it has been turned into "a linear, gated, by-the-book methodology that delivers, at best, incremental change and innovation."

Others argue that is precisely the point. "Any manager will tell you that design thinking in business is not about creativity," said Jeanne Liedtka, author of "Designing for Growth" and a professor at the University of Virginia's Darden School of Business. "Businesses [need] to produce a stable and predictable stream of products, services and profits. Creativity is only a way station on the route to what really matters: creating new value for real human beings. If we have to bring simplicity and linearity to the design process in order to make [businesses] comfortable enough to try something new, then so be it."

Roy Luebke, head of innovation and strategic growth consulting at Genedge Alliance, thinks there's still work to be done on that score. "The driver for growing businesses in the coming years is to deliver not just more new things, but more *relevant* new things to the market. We are a long way from having repeatable, learnable innovation processes [that will do that] embedded within organizations." K/F

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How technology lets users be in more than one place—and sometimes more than one version of themselves—at the same time.

Source: "Present Shock" by Douglas Rushkoff, 2013