



WHITE PAPER

**TOWARDS A FINANCIAL OUTCOME-BASED
LEADERSHIP MODEL**

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EXECUTIVE SUMMARY

This White Paper shows that current leadership assessment approaches have not kept pace with modern theories of the firm and modern financial approaches. It argues that any leadership assessment approach that does not directly show how an executive's or manager's behavior is linked to the creation and enhancement of shareholder value is largely unrelated to the needs of practicing executives and managers.

The paper argues that any leadership theory must be based on a model of financial outcome for it to be successful and relevant. The theory must link leader manager financial impact and company outcome with standard company financial metrics. In particular the theory must link directly with valuation outcomes for the company. Only by so doing can it be relevant to a company which has as its aim the creation and enhancement of shareholder value.

The Perth Leadership Outcome Model is a financial outcome-based leadership model that integrates all of the elements outlined above. It is capable of predicting company financial outcomes and valuation trajectories from an understanding of the innate financial traits of managers and management teams. The model shows the strategies that managers need to implement to improve their own financial performance and valuation impact. It shows how managers and leaders need to change so as to improve shareholder value. It thus provides guidance that is of practical relevance to a manager or senior executive in running an organization.

More information on this model can be seen in the book by E. Ted Prince, ***The Three Financial Styles of Very Successful Leaders: Strategic Approaches to Identifying the Growth Drivers of Every Company***, McGraw-Hill, New York, 2005.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
TABLE OF CONTENTS	3
LIST OF FIGURES	4
LEADERS FAIL INCREASINGLY FOR FINANCIAL REASONS	5
MORE LEADERS ARE FAILING.....	5
LEADERS ARE INCREASINGLY FAILING FOR FINANCIAL PERFORMANCE REASONS	6
CONVENTIONAL MODELS LACK A SPECIFIC FINANCIAL PERFORMANCE FOCUS	7
CONVENTIONAL APPROACHES DO NOTHING TO HELP LEADERS PREDICT THEIR FINANCIAL PERFORMANCE.....	9
PERSONALITY APPROACHES DON'T WORK FOR FINANCE	9
COMPETENCY APPROACHES DON'T WORK EITHER.....	10
SHAREHOLDERS JUST WANT LEADERSHIP APPROACHES THAT WORK FOR THEM	11
HOW SHAREHOLDERS WILL JUDGE LEADERSHIP MODELS.....	13
THERE IS AN URGENT NEED FOR A FINANCIAL-OUTCOME BASED LEADERSHIP APPROACH.....	16
WHAT ANY MODEL SHOULD AIM FOR TO KEEP SHAREHOLDERS HAPPY	16
SHAREHOLDER-FRIENDLY CRITERIA FOR JUDGING THE MODEL.....	17
THE BENEFITS OF A SHAREHOLDER-FOCUSED FINANCIAL OUTCOME APPROACH	19
THE PERTH LEADERSHIP OUTCOME MODEL™ MEETS THE NEED FOR PRACTICAL, FINANCIALLY-BASED LEADERSHIP HELP	21
SHAREHOLDER FOCUSED ASSESSMENTS.....	21
FINANCIAL MISSIONS WHICH IMPROVE SHAREHOLDER VALUE	22
ACHIEVING SHAREHOLDER-FRIENDLY VALUATION OUTCOMES.....	25
VALUATION AS IMAGE	27
BUSINESS AND HUMAN RESOURCE LEADERS NEED TO ADOPT A SHAREHOLDER-FRIENDLY APPROACH.....	28
REFERENCES.....	29

LIST OF FIGURES

<i>Figure 1</i>	<i>The Financial Mission Model</i>	23
<i>Figure 2</i>	<i>The Components of Financial Signature™</i>	24
<i>Figure 3</i>	<i>The Valuation Model</i>	25
<i>Figure 4</i>	<i>Company Relative Valuation</i>	26

LEADERS FAIL INCREASINGLY FOR FINANCIAL REASONS

More Leaders are Failing

With the world becoming ever more complex, the need for competent leaders is growing strongly. Yet leadership failure is a fact of life. Failures by managers and top executives constantly lead to disruptive management turnover. This change leads to companies frequently failing to realize the creation of the value that had been expected. Leadership disruption is a major cause of failure of the company to realize the returns that stockholders and investors have aimed for.

This failure is not limited to the top executive level. Leadership failure affects all levels of management at all levels of the corporation. As managers ascend the corporate hierarchy they encounter new challenges with which they often cannot cope. These challenges occur in all facets of leadership, in the emotional, social and business challenges thrown up to these new leaders. The challenge is particularly acute in the financial arena. If a leader succeeds in all other areas but fails to achieve a certain level of financial performance, he or she will fail no matter how good a leader they are in other terms.

Why do business leaders fail? This is a vexed and perennial question. When boards and selection committees make managerial appointments, from the relatively junior right through to the top manager, they usually go through hoops to ensure that the selected person will be the best for the position. Even so, in a large number of cases, in a couple of years or so or even less, the manager ends up being ousted or fired. The more senior the position, the more likely it is that this will occur. How can so many wise heads make so many mistakes with so many managers and executives over so many years and in so many companies?

Our recruitment and selection systems are far from guaranteeing that any manager we hire or promote will perform satisfactorily. This is particularly true of their financial performance. The manager may indeed perform well in a management role but still not perform well financially.

Leaders are Increasingly Failing for Financial Performance Reasons

Leaders and managers fail for many reasons. They may have poor interpersonal skills, be poor at creating a vision or at execution. They may not have the persistence to carry through on programs that may take a lengthy time to implement.

But as managers become more senior, these reasons become decreasingly valid. The selection system in the corporation has filtered out most of the individuals who lack these qualities. The nearer a manager gets to the most senior leadership positions, the more likely it is that he or she possesses most of the general skills to be a good leader.

However there is one glaring exception to this conclusion. That is in the area of financial impact. As managers are moved up the hierarchy, it may be only relatively later that they are assigned serious financial responsibilities.

Managers who enter high potential programs frequently have had little or no financial responsibility. Where they have had such responsibility, it is with the management of budgets, the making of which they had little or no responsibility for. Few have had true profit and loss responsibility.

Thus it frequently occurs that even senior managers enter into jobs with heavy financial responsibilities with little or no P&L background. As such, it is difficult if next to impossible to predict how they will perform financially. So our leadership selection systems are highly ineffective at choosing leaders in respect of whom we have a high confidence in their future financial performance.

It is now well accepted that, at the CEO level, turnover is increasing. More and more the reason for this is the lack of effectiveness at increasing shareholder returns. Turnover is also increasing at the levels under the CEO. Some of this occurs when the CEO leaves, since they were part of his management team or hired by his team members. But increasingly it is because these managers too have not been effective financially in their own area of responsibility. There can be chain of failure down through successive levels of management in such a corporation.

As pressure from shareholders grows for companies to be even more focused on creating shareholder value, the pressure increases also on managers all the way down the line to be as effective in their own areas of responsibility as the CEO must be in his, again from a financial and valuation improvement viewpoint.

But it is precisely in this area that leadership assessment has been most lacking. As we will show, leadership assessment and development approaches focus on a huge variety of personal and managerial competencies, but almost never on financial competencies, at least not in any formal sense. The very *raison d'être* for management teams in business organizations is to increase the financial performance and valuation of their organization and ultimately shareholder returns. It is in precisely this area that leadership assessment approaches have failed to help managers, executives and leaders at all levels.

Conventional Models Lack a Specific Financial Performance Focus

Leadership assessment is at best an inexact science. Often it is tragically flawed. All of our progress in technology has not led to a corresponding increase in our ability to assess, choose, and develop our leaders, particularly in the area of financial performance. There are tests for leadership capabilities but, as we know, these have major flaws. The world needs better tests to assess the likely financial performance of leaders, both potential and actual. It needs instruments to get more out of the financial leadership capabilities they do

possess. It needs approaches that transcend the approaches that have so far been utilized in the leadership assessment and training field.

We believe that the world needs break-through approaches to meet the rapidly increasing demand for leaders who can be grown into higher levels of competence and performance specifically from a financial perspective. We need approaches to reduce the tragically wasteful “slash and burn” tactics of boards and investors to leaders who are not performing financially and to the waste of human capital that occurs at most levels of management in the organization.

We believe that many of the leaders and managers who are ousted or fired would have been effective leaders had effective and robust approaches to assessment and leadership development existed which specifically focused on their level of financial competency and impact. In this White Paper we will show that there is in fact such an approach.

CONVENTIONAL APPROACHES DO NOTHING TO HELP LEADERS PREDICT THEIR FINANCIAL PERFORMANCE

Personality Approaches Don't Work for Finance

Standard leadership assessment approaches based on conventional psychological testing have a number of problems. Such tests have invariably been constructed by researchers who have not had a background in business or in business leadership personally. Their philosophical platform is often based on a clinical or psychoanalytic approach. While valuable, these have never been based on the concept of shareholder value. These tests were not designed to link with financial performance or company valuation. Instead they focus on predicting the success or otherwise of the leader's interpersonal and social functioning. This may be interesting and even useful to the leader in a personal sense but it will rarely be of any use to shareholders in the direct creation of monetary value for them.

This explains the pervasive skepticism amongst business leaders about the relevance of such tests to their immediate practical financial concerns. For them, such tests may be of sociological, cultural or individual value but they are not of direct business significance. Tests such as the Myers-Briggs, the Five Factor Model, the Social Outcomes model and so on can provide much useful information from a clinical and social perspective. But to a practicing manager or top executive they usually are only a curiosity. The tests cannot directly help them in their daily quest to increase the price of the stock and deliver tangible financial returns to stockholders and investors. The inability of such tests to become credible at the executive level is explained by these factors.

Competency Approaches Don't Work Either

In the forgoing, the leadership approaches we have discussed have largely been academic approaches. What of the widely-used leadership competency models? These are approaches that derive from a more management-centric perspective. There are numerous such models. These include models from Hogan, McQuaig, Lominger, Disc, Buckingham and others. These models eschew the academic approaches and instead are based on direct scientific observation of management and its results.

Often the leadership competency assessments are essentially more sophisticated versions of vocational tests that are designed to predict how well an individual will perform in a specific job role. These can be effective at what they are designed to achieve. But they cannot predict performance at the level of general management. They were not designed to do this and are incapable of doing this since they do not incorporate a general model that links their vocational approach to the creation of shareholder value.

The competency models postulate that successful leadership performance is based on having a number of competencies, the more the better. This includes being visionary, inspirational, good at execution, customer-focused, and so on. These models typically have anywhere from 50 to 100 or even more competencies that they measure. The problem is that, since they do not possess a theoretical framework other than the assumption that having more competencies is better than having less, they provide no guidance whatsoever as to the ultimate financial and valuation results that a leader will generate.

We call this the “one-size-fits-all” model. Providing a leader or manager at any level possesses many or most of these competencies in good measure, he will be successful, according to that approach.

Any successful theory of leadership that links to the creation of shareholder value therefore means that one has to understand the innate financial competencies of the manager. Additionally we need a model that links these financial competencies to innate general competencies which have a direct link with organizational outcome from a financial viewpoint.

If we have this knowledge then we can assess what personal strategies are needed by the manager to improve their financial impact on the organization. We can identify the particular types of management techniques that will be successful for his or her particular managerial financial impact. These techniques will differ according to the particular impact. These strategies and techniques should be tailored for different types of manager.

There is no “one size fits all” model in leadership, no matter what the conventional approaches might say. It is the aim of a successful leadership theory to be able to construct particular strategies tailored precisely to the manager’s particular financial competencies and financial impact that will result in the creation of shareholder value

Shareholders Just Want Leadership Approaches that Work for Them

We can summarize the preceding discussion by saying that the emerging business requirement is to link manager personality to company financial and valuation outcome. The major constituencies of a company – the shareholders, the board, investors and so on – want to know how a manager’s innate financial traits will impact the outcome of the company. We may measure the outcome in terms of shareholder value. But there are other, qualitative ways to do this as well.

This leads to the question of how important the role of the manager actually is. After all, there are many factors in the success and outcome of a company. Managerial financial competencies are one. What is the particular contribution of the manager’s financial impact in the outcome of the company as distinct from other factors, both non-financial

competencies and external factors such as market, management team and capital, to name just a few?

There is a conventional view of what the prerequisites are for successful business leader performance. This view focuses on the product and market. It does not exclude other factors such as good top management, marketing and capital. However it sees the product and market as being the key factors that determine successful business leader performance.

There is a major problem with the conventional view. This is that it does not take into account the specific financial impact of the manager himself. It focuses on teams and process rather than individual financial competencies. We need to include also the contribution made by factors specific to the manager such as the types of business controls he will tend to be comfortable with and the types of internal preferences he has for running and correcting the company from a financial perspective. Unless we take specific account of these factors, we will not be able to understand the likely financial trajectory and valuation outcome of the company.

In the conventional view the personality of the manager is just one of many factors in company outcome. None of them are more important than the other although there may be situations where one or the other is more important. But one cannot discount the impact of product, market and capital; rather, these are the most important facets of all in leading to financial outcome.

Yet this is much more of an academic view than one held by practitioners. For most professional investors and experienced businesspeople, the mantra is that one bets on the jockey and not on the horse. Professional investors have had enough experience to know that no matter what the company's assets, if the manager or the management team is not the right one, the financial outcome, as distinct from other outcomes (customer satisfaction, employee morale, analyst confidence) will not be optimal. In other words, these assets are for naught without the vital ingredient of the right set of managers.

The conclusion is therefore inescapable. The innate financial competencies and financial impact of managers is a critical component of company success. Translated, the financial impact of the manager is a key driver of company outcome.

Different types of managerial financial impact will drive different types of company valuation outcome. Some of these outcomes will increase stockholder value. Most of them will not.

It is the task of any new leadership theory to show how these differences arise. If we cannot do this, these theories will not be of use to managers, boards, investment bankers or even common shareholders. A useful theory will therefore not just link innate managerial financial competencies to the success or failure to increase company and shareholder value. It will also link the type of managerial financial impact and financial traits to the various categories of successful and failing valuation outcomes.

Ultimately this is the only way companies and their management will satisfy shareholders that they are on the same side.

How Shareholders will Judge Leadership Models

Traditional leadership assessment has been a hit or miss affair. In general it has not been formal. Where it has been formal, it has relied on leadership competency or personality assessment instruments. These instruments have relied heavily on psychoanalytic and vocational competency theory and approaches. Some of these theories are almost 100 years old yet they continue to have a disproportionate influence on leadership assessment and literature.

Yet the modern foundation for the leadership and management of companies is based on financial and business approaches. These have little or no relationship, at least formally,

to psychoanalytic and competency theory. Today's boards and managers are often skeptical about such approaches, as we have shown. These approaches are not informed by modern financial and business scholarship since they were invented before these bodies of literature existed. The emerging requirement is for theories and approaches to leadership that incorporates the vast amount of financial knowledge we have developed over the past 70 or so years. Any leadership approach that does not incorporate this body of knowledge is doomed to be regarded at best as tangential by working leaders, as distinct from academics.

Chief amongst the emerging requirements for leadership assessment are formal and explicit linkages with modern theories of the firm, of microeconomic approaches and of theories of behavioral finance. Modern theories must explicitly explain the issue of stockholder value. The emerging requirement is that modern approaches to leadership link the manager financial impact of the leader formally with the creation of stockholder value. Modern executives and investment bankers will find any approach that does not link these two as being irrelevant to their needs.

Leadership assessment must show how personality variables are directly linked with the ability to create business and stockholder value. This linkage must be supported by formal linkages with the financial and other company metrics that are routinely used by investment bankers, top executives and financial analysts. Any approach that is unable to link the P&L and balance sheets of a company to executive personality will never be able to meet the emerging requirements of leaders that have been brought up and schooled in the techniques and strategies for creating company value. Any leadership approach that does not show a manager him or herself how his or her own personality links with the creation of different types of stockholder value will view such an approach as being of no value

In this, measurement is crucial. The measurement must integrate with accepted approaches to measurement of financial and asset value. The emerging requirements of leadership assessment center on how to integrate personality approaches with company

financial metrics. This will square the circle. Once it exists, executives will, for the first time, have a leadership assessment approach that will provide them with direct, formal and pragmatic guidance on how they personally, given their unique strengths and weaknesses, can create company value, measured using the company metrics that are routinely disclosed to their shareholders. They will then have a formal roadmap to improve not just themselves, but the value they deliver to shareholders.

THERE IS AN URGENT NEED FOR A FINANCIAL-OUTCOME BASED LEADERSHIP APPROACH

What Any Model Should Aim For to Keep Shareholders Happy

Any outcome-based leadership model should aim to achieve the following objectives:

- It must link the personal characteristics of the leader to company financial and valuation outcomes that can be formally categorized
- It must show the financial and valuation implications of innate financial competencies, including valuation outcomes.
- The financial and valuation impact of the leader must be able to be assessed objectively and measured.
- The objective characteristics of the leader's financial impact must correlate with valuation outcomes.
- It must show how leaders and managers can use this knowledge to increase their financial and valuation performances.

The model must be one that is immediately useful to a practicing executive in the field. It should show him how he can improve returns to stockholders and why his returns are below their optimal point.

The above might appear to be difficult to achieve in practice. To date, no leadership assessment method has ever attempted to achieve this level of integration.

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Shareholder-Friendly Criteria for Judging the Model

We identify ten criteria for judging the effectiveness of the outcome-based model. These are as follows:

1. **Predictable Outcomes:** The model should show how the financial impact of managers can be categorized in way that shows predictable financial outcomes for the company they lead. These leadership categories should also be able to be linked with financial outcomes for the company. The financial outcomes should link directly to behavioral characteristics and to company financial metrics. These behavioral characteristics and financial metrics should be capable of being used to show the potential valuation trajectory of a company.
2. **Objective Measurement:** The leadership types and the financial aspects of the leadership type should be capable of being measured through the use of an objective test carried out on the leader. The test results should correlate with leadership type, and with the valuation outcome characteristics of the leader's company.
3. **Understanding of Management Teams of Public Companies:** One should be able to analyze leadership behavior of public company managers by reference to this model. It should explain why the company is proceeding on its particular financial and valuation trajectory and why the company is experiencing a particular financial and valuation outcome.
4. **Practical Guidance:** Results from leaders and managers who have completed the assessments should be capable of providing guidance to other leaders by showing them the steps that are needed to improve company and valuation performance. The assessment results should point directly to practical measures that can be

- taken by the leader to improve his on-the-job performance as measured by company financial metrics.
5. **Accessible Financial Metrics:** The financial metrics used by the model should be easily accessible and available. For a public company they should be publicly available and regularly disclosed.
 6. **Few Metrics Required:** There should be a minimum number of such metrics to keep complexity to a minimum.
 7. **Metrics Reconcile with Generally Accepted Accounting Principles (GAAP):** There should be a direct correlation between the concepts used in the leadership theory and the accounting measures and concepts used in preparing company financial statements. Ultimately the financial metrics used in the model should be capable of being reconciled with the company's financial metrics under GAAP.
 8. **Auditable Outcome:** The financial outcome of the company should be capable of being assessed objectively. It should be able to be assessed using generally accepted audit principles. The concepts of the leadership theory should be able to be reconciled directly with such audit measures. At the very least, the outcome of the company should be able to be reconciled with the leadership theory using the audit principle of whether or not it is a going concern, in assessing success or failure.
 9. **Objective Valuation Principles:** The valuation of the company should be able to be assessed relative to its industry. There must be a general categorization of valuation outcomes for all companies.
 10. **Valuation Linked with Personal Profile:** These outcomes must be able to be linked with leadership types and the financial behavior of the leader. There should

be a general theory of how the different valuation outcomes vary according to leadership types and its financial implications.

The Benefits of a Shareholder-Focused Financial Outcome Approach

The leadership theory outlined above would have the following benefits:

For Managers

- It would demonstrate to them the link between managerial financial impact at all levels of the company and financial performance and valuation trajectory
- It would provide practical ways to improve their performance in terms of valuation and creation of shareholder value.
- It would open up new possibilities for improving the performance of management teams, by showing team members how it applies to them individually, and as a team, including the leader.

For Boards and Corporate Governance

- It would provide a new tool for leader selection, appraisal, development and support.
- It would provide a new tool for assessing the performance of the leader.
- It would provide a new tool for the assessment of the likely performance of the management team.

- It would provide a new tool for use in corporate governance. It would achieve this by allowing the board to assess the risk to the company's performance as a result of being able to understand potential mismatches and gaps that would lead to significant underperformance.
- It would provide a new way for boards to be able to support their managers in a constructive and practical manner rather than having to remove them and to find a new leader who might exhibit similar leadership problems anyway.
- For recruiters, it would provide a new tool for leader and senior executive selection.

For Shareholders and Investors

- For stockholders, it would provide a new way to predict leadership performance and risks and provide them with a way to judge the likelihood of achieving their return objectives.
- For investment bankers, it would provide a new tool to assess likely company valuation trajectories for particular leaders and management teams, particularly as a result of mergers and acquisitions.
- For financial analysts it would provide a new perspective on company performance and potential valuation.

THE PERTH LEADERSHIP OUTCOME MODEL™ MEETS THE NEED FOR PRACTICAL, FINANCIALLY-BASED LEADERSHIP HELP

The Perth Leadership Institute has developed a financial outcome-based leadership theory. This is called the Perth Leadership Outcome Model™ (PLOM). This model has been developed according to the principles set out in the preceding sections.

Shareholder Focused Assessments

This model links the financial impact of the leaders, managers and management teams to financial and valuation outcomes of their organizations. It sets out the strategies which should be adopted in order for the business leader to be able to perform at the required level of financial performance.

PLOM™ is based on several assessment instruments. These are:

- The Financial Outcome Assessment™ - (FOA)
- The Executive Outcome Assessment™ - (EXOA)
- The Corporate Financial Outcome Assessment™ - (CFOA)

The FOA identifies the personal financial traits of a manager and identifies and measures what we call the Financial Signature™ of the manager. This enables us to predict his personal financial impact and performance.

The EXOA identifies the manager's impact on corporate outcome. It shows how a manager needs to change to improve his Financial Signature™.

The CFOA identifies the financial mission and the financial culture of an organization. It is used to show the level of alignment or otherwise between the valuation goals of the company and the type of financial performance that will be generated by the manager without any intervention or change.

The Perth assessments differ in fundamental ways from standard personality and competency approaches:

1. They focus on company outcome rather than interpersonal, social or vocation competencies.
2. They use standard business language for both the assessment and the reports.
3. The outcomes are measurable using standard financial metrics.
4. The individual results can be linked directly to market and competitive dynamics.

The only criterion the model employs is the extent to which the leader will add measurable financial value to the business and for shareholders. This is the direct link with business outcome. Standard personality and competency approaches focus on measuring particular abilities but the output of assessments are not designed to make specific predictions concerning how well they will perform in running an actual business enterprise.

Financial Missions which Improve Shareholder Value

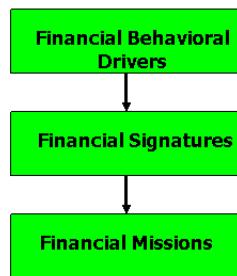
In PLOM, the company's outcome can also be described in terms of the aggregate financial missions of leaders and management teams. In PLOM, leadership types are linked with the leader's financial mission. PLOM introduces the concept of the Financial Signature™ as a way of operationalizing innate financial traits and the way these are expressed in practice. The basis of the model is that the different leadership types have characteristic financial behaviors, which lead to characteristic Financial Signatures™ and valuation outcomes. The financial mission model underlies and leads to characteristic valuation outcomes for each leadership type.

How can we achieve such a leap? The normal way to view financial outcome is to link it to financial metrics such as P/E or price-to-sales ratios, which in turn we read from the company's P&L and balance sheet. Yet we know from the research that underlies PLOM that these metrics are a result of management strategies and controls. These in turn are tightly linked with the financial impact of managers. Thus to look only at these financial metrics is to indulge in financial formalism that does not cast much useful light on the fundamental drivers that underlie financial mission and outcome, namely manager financial impact.

What is the chain of linkages between manager financial impact and financial mission? What type of behavioral engine exists that would allow us to make financial mission inferences with a high degree of reliability rather than a set of intuitive feelings that we cannot formalize? This is new territory for management theory and it is important to be able to set out a cogent set of linkages so that they are transparent to management and leadership observers, not to mention to the leaders themselves. PLOM formally addresses these issues as we show at Figure 1 The Financial Mission Model.

Figure 1 The Financial Mission Model

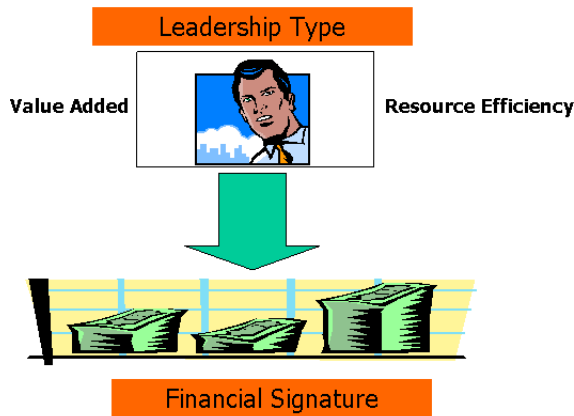
The Financial Mission Model



As we have shown, a manager’s financial impact leads to characteristic behavior and decisions that reflect in a characteristic company valuation outcome. In turn, these reflect the Financial Signatures™ which show, at a more detailed level, the financial approach of any particular type of business leader, as we depict in Figure 2 The Components of Financial Signature™. The Financial Signature™ is characteristic, predictable and leads to certain valuation outcomes. The Financial Signature™ incorporates two main drivers, value-adding behaviors and resource use behaviors.

Figure 2 The Components of Financial Signature™

Personal Profile and Financial Signature



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19

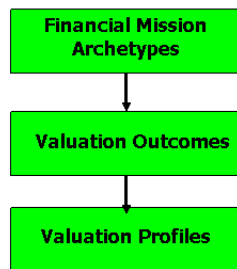
How many Financial Signatures™ are there? We need to recognize that, in principle, there are many such financial signatures. Any financial metric whatsoever for a company can serve as a marker of a Financial Signature™. The issue is to simplify them so we can include them within a small, comprehensible and elegant model rather than making it an econometric type model that is usable only within an academic context. PLOM reduces this multiplicity of financial signatures down to just a few types. These are then used as the basis for valuation trajectory analysis.

Achieving Shareholder-Friendly Valuation Outcomes

PLOM shows how a Financial Signature™ leads to a particular and characteristic valuation outcome. In so doing it introduces some new concepts including valuation outcomes and valuation profiles, as we show at Figure 3.

Figure 3 The Valuation Model

The Valuation Model



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238

What is the chain of events that links Financial Signature™ to these valuation outcomes? Any Financial Signature™ will have a characteristic relationship between the propensity to add value and the propensity to utilize resources. This relationship leads to a behavioral propensity to create a financial surplus, otherwise known as capital. Thus the Financial Signature™ in fact reveals the manager's behavioral propensity to generate capital. Once we know the extent to which a manager generates or consumes capital we can link this directly with valuation outcome through its impact on the capital position of the organization.

When we discuss valuation we are referring to relative valuation. This is the valuation of the company relative to the market it participates in, as we show in Figure 4 Company

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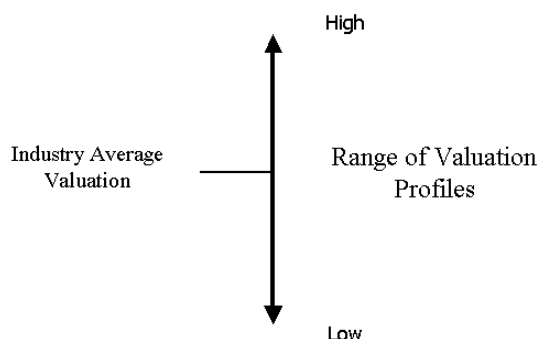
Relative Valuation. What the Financial Signature™ and valuation outcomes allow us to predict is the way the company will be valued relative to other companies in its industry. So the valuation that will emerge is a relative not an absolute valuation.

However this is still very useful. Once we know the average valuation of a company in a given industry we can then point to where a particular company will stand relative to this average. This allows us to proceed to a range of absolute valuations that can be linked with a the financial impact of a management team whose Financial Signatures™ are known. We can thus arrive at quantitative ranges for valuations for the company.

It is important for any leadership model to capture the time-based behavior of valuation. Valuation is not a static process. Rather, it is dynamic, changing in over a period of time. PLOM therefore shows valuation trajectories over a longer-term period of time. In PLOM, since we know the Financial Signature™, we can predict the valuation trajectory. Valuation over time is thus predictable in PLOM. This therefore allows us to make important inferences about the impact of managers that extend to valuation both for the short-term and for the long-term. Some financial missions will lead to higher short-term and lower long-term valuations, and the reverse.

Figure 4 Company Relative Valuation

Company Relative Valuation



Valuation as Image

Valuation is not just a financial issue. At the very least, valuation captures how the market views the company from the viewpoint of its viability and the probability of a positive financial outcome. Thus at the very least we can use valuation as a proxy for the sustainability of the company and its value in the market.

But there are broader applications. These include showing to a management team, a board, investors, or even recruiters, the potential company valuation outcome of recruiting or developing a particular leader, or a particular type of manager.

However much a company may talk of image, for a shareholder, valuation is image. They have risked their hard-earned assets to invest in the company. The extent to which shareholders have confidence in the company will be reflected in the stock price and its relationship to the stock prices of competitors.

In investing in leadership approaches that focus on financial performance, a company is ultimately investing in its image, as well as the reality of its valuation. The better the image, the more the company will be worth and the better off stockholders, management and staff will be.

BUSINESS AND HUMAN RESOURCE LEADERS NEED TO ADOPT A SHAREHOLDER-FRIENDLY APPROACH

Current leadership assessment approaches do not recognize the concept of the innate financial traits of managers. In particular, none links manager financial impact with the creation of company and stockholder value. Once we recognize this concept, we have a direct link between the financial impact of the manager and his impact on company outcome. This failure has led to current leadership approaches being largely irrelevant to the constituency they most purport to serve – shareholders and investors.

Any theory that wishes to be relevant to potential and serving managers and leaders must bridge this gap. It must provide a formal model that directly links managerial behavior and company financial performance and valuation outcome. This outcome must be capable of being measured objectively using standard company financial metrics. In particular, the theory must be able to predict likely valuation trajectories within an industry that derive from the behavior of managers and management teams.

The Perth Leadership Outcome Model™ has been designed to fulfill this role. It provides a direct linkage between a manager's financial traits, organizational financial performance, and company valuation outcome. It is thus capable of being used by leaders and managers as a tool for performance improvement that links directly to the creation and enhancement of shareholder value. It can serve as a powerful tool also for other constituencies such as investment bankers, financial analysts, recruiters, boards and stockholders themselves.

The Perth Leadership Outcome Model™ provides, for the first time, a link between the managerial behavior and modern theories of the firm. It thus links scholarship deriving from the early part of the 20th century to the financial theories of the firm deriving from the then later 20th century. PLOM brings leadership assessment into line with current economic and financial theory and business approaches in the 21st century.

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