



# How much core-business knowledge should our leaders have?

One of the unanswered questions in business.

by **Amanda Goodall**

**M**ight former Halifax Bank of Scotland (HBOS) CEO Andy Hornby have fared less badly if he had spent more years in actual banking rather than in supermarkets? Do high-tech firms perform better when they are led by technical experts? Is that why the top-team at Google all have degrees in computer science? Do German automobile companies outperform many others because engineers are on the shop floor and in the boardroom? Finally, and importantly, should your beloved soccer team be coached by a good ex-soccer player? The current manager of Spain, Vicente del Bosque, played in midfield for Real Madrid. My research suggests that genuine expertise matters. Leaders should be experts in the core-business of their organizations. Being a capable general manager alone is not sufficient. This is a hot topic – there is recent evidence that major firms have moved away from hiring CEOs with technical expertise, towards hiring leaders who are generalists. Fifty years ago, as society switched from family-owned businesses and employment through entitlement, to a more meritocratic and efficient approach to enterprise, good management was crucial – as it still is today. But the pendulum may have swung too far towards general management functions and away from core-business functions. Although we admire entrepreneurs, scientists, engineers, artists, and others with ideas, we typically assume that they're no good at actually running a business. I have found these assumptions to be wrong. For example, in professional basketball, we found that teams that win the most are those led by former star-players. Most hospitals in the United States and the United Kingdom are led by general managers with no medical training. Yet I found that the most outstanding hospitals in the US were led by CEOs who are doctors. Similarly, the most successful universities in the world are led by Presidents who are also highly respected academics, and the same is true for business schools.

L'IMPRESA N°1/2013

### Gaining pole position in Formula 1 racing

My most recent study, with co-author Ganna Pogrebna from Sheffield University, looks at one of the world's most competitive high-technology sectors – Formula 1 competition. We look at the entire 60 year history of Formula 1 Championships. We find that F1 teams that are led by former drivers or mechanics outperform those that are led by either managers or qualified engineers. Drivers and mechanics also have higher average pole frequencies (finishing first in the qualifying, and, as a result, starting the race at the very front of the grid) and average fastest lap (showing the fastest time in the race on any given lap). Former drivers and mechanics win twice as often as other kinds of F1 leaders. This result holds in our statistical analyses after we include other intervening factors – for example, the location of the race circuit, the number of cars in the race, the fame of the constructor team, and the year of the race.

We also find that the number of years that a leader has raced competitively has a big effect. Within a sub-sample of former-drivers, those with the longest driving careers go on to be the *most* successful leaders. A team principal with 10 years of competitive driving experience, instead of zero years, has a 16 per cent higher chance of their team performing well in Grand Prix races. That is a big effect.

Of course the constructor that is close to the heart of all Italians is Ferrari. Ferrari, who are one of the oldest teams in F1, have won 16 World Constructors' Championships, more than any other team. Notably, if we look only at the history of Ferrari, we find that the most successful team principal was a former driver – Jean Todt. Another prominent example is the comparative newcomer Red Bull Racing, who won both the Constructors' Championships and the Drivers' Championships in 2010 and 2011. The Red Bull team leader is Christian Horner, who was also previously a racing driver.

### Why might experts, like former drivers, make better leaders?

**Better strategic vision** – Former drivers and mechanics may become better leaders because they are familiar with all aspects of Formula 1. From an early age driver- and mechanic-leaders develop technical knowledge about the underlying activity of Grand Prix racing. This may mean that they acquire extensive experience in formulating driving tactics and combine it with a good understanding of mechanics. Leaders with high levels of expertise and experience may also communicate more effectively with all parts

of the racing team, which is likely to embed team strategy. In short, team principals who have a deep understanding of the core-business activities may allow for better identification of strategic opportunities and challenges.

**More credibility** – Former drivers and mechanics may command more respect because of their proven track record; they may also be viewed as more credible since they have “walked-the-walk”. Having been “one of them” may signal that a leader understands the culture and value system, incentives and motivations of their F1 team colleagues. In addition, we might expect driver-leaders to act as role models within the team, and, be more likely to coax high performance and to manage the egos of the drivers.

**The capacity to serve as a standard bearer and create the right working environment** – We show that drivers who had the most years of racing competitively went on to be the best performing leaders. Arguably, it is only the successful drivers who continue to race. Apart from the credibility this bestows on a team principal, their proven excellence will undoubtedly inspire the people who work for them, and possibly also push their drivers and other team members to go above and beyond in their own quest for quality. In addition, having been an expert may help team leaders hire other outstanding experts.

Mechanics and drivers, who have spent many years in F1, may also be more likely to create the right work environment for other experts and core workers because they understand what conditions are required. For example, experts may be less invested in bureaucracy, than managers, they may allow greater levels of autonomy, and so on.

Let's be clear: to be an expert leader you also have to be an expert manager. But we're accustomed to seeing Fortune 500 firms choosing charismatic general managers for senior leadership positions over core-business experts. We're also used to seeing chief executives flit back and forth across industries, becoming jacks-of-all-trades, masters of none. Might our organizations be paying the price?

Our F1 study adds to the growing evidence that suggests if we want to boost our economies and our companies through innovation and entrepreneurship, we need more specialists and fewer generalists running the show – real experts not managers.



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