EVALUATING THE TRUE PERFORMANCE OF LEADERS

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Abstract

We live in the age of post-truth where lying has become so acceptable that we have numerous euphemisms for deceit. It has become difficult to evaluate the true performance of leaders since they have no problem taking credit for the work of others and spinning the truth so that it appears that they have done a stellar job. Many leaders are more interested in form than substance. This paper discusses the problem of evaluating the performance of corporate leaders and provides a new paradigm for rating CEOs that includes factors that provide long-term value such as efficiency, creating meaningful work, employee engagement, customer satisfaction, and diversity.

Keyes (2004: p. 5) asserts that "deception has become commonplace at all levels of contemporary life… It is now as acceptable to lie as it is to exceed the speed limit when driving."

Indeed, some feel that we are in the "age of post-truth." The term "post-truth" became the Oxford Dictionary's Word of the Year in 2016 (Wang, 2016). Another important term that is being used all the time is "alternative facts." Keyes (2004: 15) underscores the point that lying has become so acceptable that we have created numerous euphemisms for being dishonest (e.g., "poetic truth," "virtual truth," and "augmented reality"). He calls this "euphemasia"; it takes the sting out of admitting that one is a liar. Jon Lovett, a former speech writer for Hillary Clinton and Barack Obama as well as a stand-up comic and television writer had the following to say about deception:

> We are drowning in it. We are drowning in partisan rhetoric that is just true enough not to be a lie; in industry-sponsored research; in social media's imitation of human connection; in legalese and corporate double speak. It infects every facet of public life, corrupting our discourse, wrecking our trust in major institutions, lowering our standards for the truth, making it harder to achieve anything (Davis, 2017, para 2).

The *Chronicle of Higher Education* identified 10 key trends in higher education. One of them was "a growing movement to teach students to separate fact from fiction." This is now known at many schools as "information literacy" (Najmabadi, 2017). It has become of utmost importance for students to be taught to know the difference between fiction and fact. Colleges and universities are offering courses with provocative titles "Fake News, Lies, and Propaganda: How to Sort Fact from Fiction" (Hutchinson, 2017). The need to teach students how to distinguish between fact and fiction is becoming a major concern to educators.

Unfortunately, research demonstrates that once false beliefs are accepted by the public, they become almost impossible to change (Gorman & Gorman, 2017; Kolbert, 2017; Mercier & Sperber). In fact, refuting misstatements strengthens them (Konnikova, 2017):

> When we are overwhelmed with false, or potentially false, statements, our brains pretty quickly become so overworked that we stop trying to sift through everything. It's called cognitive load—our limited cognitive resources are overburdened. It doesn't matter how implausible the statements are; throw out enough of them, and people will inevitably absorb some. Eventually, without quite realizing it, our brains just give up trying to figure out what is true.

Lying is not limited to politics; corporate fraud is a serious problem. In the United States, a single type of corporate fraud involving corporate securities has been estimated to net its perpetrators $380 billion annually (Tillman & Pontell, 2016). Friedman & Gerstein (2016) provide numerous examples from the financial, automobile, retailing, and accounting industries (e.g., Wells Fargo, Libor, Takata Airbag, Volkswagen emissions rigging, General Motors ignition switch scandal, Toyota sticky pedal, and Toshiba), to show that corporate leaders have no qualms about selling dangerous products or using deceitful accounting to enrich themselves. Corruption, dishonesty, and dubious accounting are alive and well in the corporate world.

We not only live in an era of post-truth. Lynch (2017) asserts that the "defining trait of the age seems to be arrogance…the arrogance of thinking that you know it all and that you don't need to improve because you are just so great already."

Given how easy it is to lie or distort the truth, it is important to understand how to rate the actual performance of leaders—political leaders, corporate leaders, and higher education leaders. Needless to say, many leaders tend to take credit for the accomplishments of others. It is not always that easy to separate the truth from the fiction. This paper will focus on corporate leaders but will also discuss other kinds of leaders when appropriate.

EVALUATING PERFORMANCE OF LEADERS

Even if leaders did not bend the truth, it would be difficult to evaluate their performance. There is evidence that CEOs are reaping

the rewards of successful performance of their firms when they have little to do with it. Kahneman (2011: 205) states that the correlation between the quality of the CEO and the success of his or her firm is probably about .30. According to Fitza (2013), 70% of corporate performance may result from chance or luck, which thus dwarfs the abilities of even capable CEO's to act as prime factors in corporate success.

Kahneman (2011: 206-208) asserts that the halo effect together with outcome bias helps explain the popularity of various books dealing with leadership. These books focus on successful firms and then attribute it to leadership style. Actually, most cases of corporate success result from simple luck. Chance quite often explains the success of certain firms and the failures of others, not the competence of leadership. Indeed, with the passage of time, the situation often reverses itself and the successful firms become unsuccessful and vice versa. Kahneman claims that the message of *Built to Last*, a leadership book by Collins & Porras (1994), is that "good managerial practices can be identified and that good practices will be rewarded by good results." Kahneman (2011: 207) disagrees and states: "In the presence of randomness, regular patterns can only be mirages." It is interesting to note that about 8 of the 18 companies extolled in *Built to Last* have stumbled (Reingold & Underwood, 2004).

Peters & Waterman (1982), authors of *In Search of Excellence*, studied 43 of America's best run companies in order to determine what made them successful and came up with eight basic principles of management. How did these firms end up doing in the longer term? Eckel (2013) says that "two thirds of them underperformed the S&P 500 over a decade. Some faltered badly, and some even went out of business." The stock performance of these companies did not stand the test of time (Baum & Smith, 2015).

SUBSTANCE VS. FORM

Another problem with the evaluation of leadership performance is the issue of substance versus form. A key principle

of financial reporting is that "information should be expressed so that substance, not form, governs" (Meyer, 1976). Substance refers to reality, truth, and actuality, what really is happening; form refers to external characteristics and appearances. Using the language of marketing, one might compare form to the package and substance to the actual product. Leaders want to look good so there is an incentive to sacrifice substance and focus on form. This is why they often purposely defer maintenance. No one gets recognition for properly maintaining the infrastructure so that bridges and tunnels do not collapse. Politicians prefer investing in something new rather than in fixing old infrastructure, i.e., they choose expansion over maintenance. No one gets credit for bad things that did not happen; people do not notice dams that did not fail, bridges that did not collapse, blackouts that did not occur, or buildings that did not crumble. Friedman & Kass (2018) state that auditors have a moral and possibly legal responsibility to highlight the issue of deferred maintenance when auditing a firm. Apparently, many do not.

It is not glamorous to maintain buildings so many organizational leaders spend huge amounts of money on new buildings and allow older buildings to fall apart. This is what is going on all over the country when it comes to infrastructure such as bridges. A total of 58,495 bridges out of 609,539 (9.6%) in the United States are rated as structurally deficient (Cardno, 2016). Seventeen percent of American dams (15,498) have been identified as high-hazard potential by the American Society of Civil Engineers.[1] By doing this, leaders are also sacrificing safety and reliability in the name of expansion and growth. If you want to look good for your next job, it is more impressive to say that you built a new bridge, dam, building, and/or program than saying you maintained the existing infrastructure. Maintenance can never be as glorious as expansion.

New York City is spending billions on new subway stations but is using a signal system that is antiquated, much of it dating back to the 1930s. The signal system was supposed to be computerized in

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[1] https://www.infrastructurereportcard.org/cat-item/dams/

1991 after a subway derailment killed five people. In 2017, more than 25 years later, only one out of 22 subway lines has computerized signals. The deadline for finishing this task keeps getting pushed forward and is now estimated to be 2045 (Fitzsimmons, 2017).

Because maintenance does not yield glory it is obvious that when evaluating leaders, one must examine whether they have been maintaining the infrastructure. Leaders who purposely defer maintenance in order to spend on new projects are kicking the can down the road and will often cause serious long-term problems.

One way CEOs harm their organizations by valuing form over substance is through ruinous mergers and acquisitions. A merger or acquisition may look good in the short-term but could result in a disastrous outcome. Some examples of disastrous mergers and acquisitions: AOL and Time Warner (price = $164 billion), Bank of America and Countrywide (price = $4.1 billion); AT&T and NCR (price = $7.4 billion); Google and Motorola (price = $12.5 billion); and Sears and Kmart (price = $11 billion) (CB Insights, 2016).

EFFICIENCY VS. WASTE

Closely related to the idea of substance over form is the problem of ignoring efficiency when evaluating leaders. A good leader works on removing various kinds of inefficiencies and waste and creating a lean organization. Lean is defined as follows:

> Becoming 'lean' is a process of eliminating waste with the goal of creating value. Waste can be defined as any activity that uses resources unproductively, applies the wrong resources, fails to tap into necessary resources or directs them to the wrong outputs.
>
> The waste within Lean Thinking has been categorized in seven main components: **Overproduction**: Delivering more than what is necessary; **Waiting**: Having to hold the start of one process to proceed with the next one; **Transportation**: Moving

> components necessary to create value from one location to another, creating waiting time; **Inventory**: Holding equipment not strictly necessary for the completion of a determined process; **Processing**: The time taken to complete documenting a determined equipment or process; **Motion**: Any movement that does not add value to the product. It can be walking around and searching for materials or tools; and **Defects**: Doing things over because they were not done the first time (Nieto, 2015).

Employees in a lean organization (lean manufacturing or lean management) are constantly aware of activities that waste time and resources but do not create any value and find ways to eliminate them.

One kind of costly inefficiency results from hiring too many managers. The issue of too many managers and too few workers is a serious problem. According to Rosencrance (1990), "More than half of the modern American corporation consists of workers uninvolved in operations or production work, an astounding fact." This may explain why approximately 30% of employees are seen as being redundant after a merger or acquisition (Marks, Mirivis & Ashkenas, 2017). Hamel (2011) observes that "Management is the least efficient activity in your organization."

> The Boston Consulting Group (BCG) found that over the past fifteen years, the amount of procedures, vertical layers, interface structures, coordination bodies, and decision approvals needed…has increased by anywhere from 50 percent to 350 percent (Bodell, 2012).

One study found that 80% of employees feel that managers are "unnecessary." One reason for this is that 75% of employees believe that approachability is the foremost quality of an effective, capable manager, yet only 50% of employees state that they have a manager that is approachable. The same study also discovered that less than 50% of managers claimed that they had a mentor to provide them with guidance on how to be a more effective leader (Pounds,

2017). In the most complicated organizations, “managers spend 40 percent of their time writing reports and 30 percent to 60 percent of it in coordination meetings” (Bodell, 2012). It should come as no surprise that if an organization wants to be nimble it has to trim the administrative bloat.

Many corporate leaders are unaware that the latest buzzwords and theories in business are lean management and learning organizations, not hierarchy and bureaucracy. Friedman and Friedman (2016) describe the purpose of “lean thinking.” It is a holistic strategy whose goal is to make an organization run more efficiently by moving away from a hierarchical organizational structure filled with bloat and unneeded layers of bureaucracy. Businesses today should be trying to flatten their organizational structure and remove unneeded layers of management. The goal should be to create learning organizations where knowledge is shared. Morgan (2015) discusses the problems of the hierarchical organizational structure:

> “There are many challenges with this model but to name a few. Communication typically flows from the top to the bottom which means innovation stagnates, engagement suffers, and collaboration is virtually non-existent. This type of environment is riddled with bureaucracy and is extremely sluggish. This is why the hierarchy is perhaps the biggest vulnerability for any organization still employing it. It opens up the doors for competitors and new incumbents to quickly take over…those still stuck with the hierarchy are going to have one heck of a time trying to attract and retain top talent” (Morgan, 2015).

Dugas (2014) discusses the shortcomings of the hierarchical form of management that is prevalent in most organizations. Managers have one major purpose, to tell subordinates what to do. The only way the system works is if managers know more than their subordinates. Unfortunately, it is difficult to believe that when you have, say, seven layers of management, that this will be true.

> But here's the reality of companies today. There are many layers of managers between the doer and the CEO. In order for this organizational structure to work, every layer must have a manager better than the people below her. But we know this can't possibly be true. A great example comes from so called "knowledge workers" who often are capable people who can make good decisions given access to the right information. Instinctively, or unconsciously, managers know this to be true, so oddly most engage in preventing access to the needed knowledge (they become gatekeepers) in order to justify the great wisdom they bring to decisions (Dugas, 2014).

In academe, administrative bloat is a huge problem (Friedman & Friedman, 2018). This type of hierarchy is not unusual: provost > associate provost > dean > associate dean > chair > faculty member. It is difficult to have a nimble organization with so many layers of management. Instead of recognizing and correcting the problem of overstaffing, top administrators often point to their creation of new schools, departments, and centers as great accomplishments Ginsberg (2014) states:

> Indeed, for every $1 spent on instruction, $1.82 was spent on non-instructional matters including 'institutional support,' i.e., the care and feeding of deanlets. If the ratio of deanlets to professors in 2010 had been the same as in 1976, there would now be nearly 400,000 fewer deanlets whose combined salaries account for one-fourth of all tuition dollars paid by students and their parents in 2010.

Leaders should be rated on whether they were successful in reducing waste and inefficiencies in their organizations. Voters as well as others in a position to choose leaders must be educated to distinguish form from substance.

CREATING MEANINGFUL WORK

Yet another yardstick for rating leaders is whether or not they succeeded in making their employees' jobs meaningful. The ability to convey the sense of meaning in work has been proven to be a crucial ingredient of successful leadership but one which is largely overlooked when leaders are chosen.

An organization that wants to hire and retain the best employees has to create a corporate culture where employees feel that their work is meaningful, i.e., where work bestows a sense of purpose, makes a difference, and benefits society. Employees who work at meaningful jobs demonstrate much higher levels of job satisfaction than those engaged in non-meaningful work. Moreover, meaningful work is correlated with life satisfaction (Barker, 2014; Steger, Dik & Duffy, 2012; Thottam, 2005). Finding meaning in work increases employee motivation, engagement, and job satisfaction and reduces stress and absenteeism (Rosso, Dekas & Wrzesniewski, 2010). Bock cites research by Adam Grant, Professor at Wharton, which states "when people are able to connect their jobs to something meaningful, their productivity increases as much as five times" (Goudreau, 2015). Employees today want more from a job than just a good salary.

The National Society of High School Scholars surveyed millennials — who now comprise more than 33% of the labor force and growing to 50% by 2020 — about the ideal place to work. It is not surprising that Google (#1), Apple (#4), Microsoft (#7), and Facebook (#29) did quite well. The surprises were that the FBI (#5), Central Intelligence Agency (#8), and the National Security Agency (#19) also made it to the top of the list. St. Jude Children's Research Hospital came in at second place and the Army at #42 (Wortham, 2016). Wortham observes that "Survey after survey shows that millennials want to work for companies that place a premium on employee welfare, offer flexible scheduling and, above all, bestow a sense of purpose." There are three major reasons that 60% of millennials leave their companies within three years: they want workplace flexibility and economic security and they prefer working at purposeful, meaningful jobs (Taylor, 2013).

One survey found that 80% of respondents aged 13-25 want to work for a firm that "cares about how it impacts and contributes to society" (Meister, 2012). According to Colvin (2015):

> The best ones, especially among millennials, want to work for organizations pursuing a worthy mission. And through social media and employment websites, they're continually aware of other jobs available to them and how other workplaces stack up against their own. It's no use trying to push them around.

People want to feel appreciated and that they work at meaningful jobs that make a difference. This is why Google ensures that employees feel that the work they do is meaningful and important (Goudreau, 2015). Meaningful work is more important than the size of the paycheck in providing happiness (Myers & Diener, 1995). One study found that custodians in a hospital would go out of their way to joke with patients and help family members since this made their jobs more meaningful and made them feel valuable (Schwartz, 2015).

Meaningful work is especially important to women, even more than security and opportunities for a promotion (Tolbert & Moen, 1998). Women are not interested in pursuing fields such as mechanical or chemical engineering unless they feel that these majors result in jobs that are societally meaningful. Framing the engineering major in a way that stresses solving societal problems attracts women to the field (Nilsson, 2015). M.I.T. has a program that "focuses on developing technologies that improve the lives of people living in poverty" and that program is 74% female (Nilsson, 2015).

Research by Bailey & Madden (2016) demonstrates "that meaningfulness is largely something that individuals find for themselves in their work, but meaninglessness is something that organizations and leaders can actively cause." In fact, there are seven things that some leaders do that contribute to a feeling of meaningfulness. These factors include not providing recognition for hard work, making employees work at senseless, pointless tasks, and treating people unfairly (Bailey & Madden, 2016).

EMPLOYEE ENGAGEMENT

There is a strong relationship between performing meaningful work and employee engagement (Bersin, 2015). The Gallup organization has been measuring employee engagement using what they refer to as the Q^{12} Employee Engagement Survey, which uses an instrument consisting of 12 items. Engaged employees are enthusiastic and passionate about their work. Because they care about their organizations and are emotionally committed, they will do everything possible to enhance the reputation of their organizations. Gallup's research shows that approximately 70% of American workers are disengaged, with much of this due to poor leadership (Harter & Adkins, 2015). The average engagement score on a 5-point scale (1 = "highly disengaged"; 3 = "moderately engaged"; and 5 = "highly engaged") is an anemic 3.6. Perhaps the root of worker disengagement is that their managers themselves are likewise disengaged. Research has shown that only 35% of managers themselves are engaged in their jobs (Adkins, 2015).

There is quite a bit of evidence that employee engagement can provide a company with a huge competitive advantage. It is therefore important for leaders to focus on this key metric and find ways to improve it (Sorenson, 2013; Christian, Garza & Slaughter, 2011; Crim & Seijts, 2006). The lost productivity due to employee disengagement has been estimated to cost the United States economy approximately $370 billion each year. Moreover, "Performance against revenue expectations is 23% greater for companies with high engagement capital compared to those with low engagement capital" (ADP, 2012). It should be noted that most firms probably do not even use 50% of the collective brainpower of their employees (Caroselli, 2011: 4).

It is important to understand the difference between engagement and satisfaction; the two are not the same. It is quite possible for one to be satisfied with one's job and at the same time be unwilling to do anything extra for it and act as a minimizer. It is easy to imagine an organization where there is so much bloat that

little serious work gets done but employees are quite happy. ADP (2012) defines the two terms as follows:

> Employee Satisfaction: A measurement of an employee's "happiness" with current job and conditions; it does not measure how much effort the employee is willing to expend.
>
> Employee Engagement: A measurement of an employee's emotional commitment to an organization; it takes into account the amount of discretionary effort an employee expends on behalf of the organization.

It is imperative to recognize the difference between the two concepts since there are factors that are important for job satisfaction but have minimal impact on employee engagement (e.g., job security, compensation, and benefits). Organizations that are concerned about such factors as employee productivity, customer satisfaction, and the bottom line should be rating leaders on this crucial measure. The following quotation of Malcolm Forbes resonates with many CEOs today: "I think the foremost quality – there's no success without it – is really loving what you do. If you love it, you do it well, and there's no success if you don't do well what you're working at." People who love what they are doing are going to be engaged and happy. Indeed, happiness and levity in the workplace is seen by many researchers and CEOs as a positive force, one that provides a competitive edge in an age where creativity and engagement are so important (Gostick & Christopher, 2008).

During the 1930s and 1940s, employees on the assembly line at Ford Motor Company were fired for laughing or smiling while working. Ford's philosophy was: "When we are at work, we ought to be at work. When we are at play, we ought to be at play. There is no use in trying to mix the two" (Ford & Crowther, 1922). Today, many firms are concerned about the happiness of employees at work since they feel it increases engagement, productivity, and profits. Moreover, it improves employee retention; happy workers are less likely to look for other jobs than unhappy ones (Pink, 2006: 186-187; Collinson, 2002). One study found that happiness improved productivity by 12%; unhappy workers, on the other hand reduce

productivity by 10%. The researchers conclude that "Positive emotions appear to invigorate human beings" (Revesencio, 2015).

Hence another important measure of successful management is whether or not leaders inspire their employees to be engaged in their work. CEOs should be rated on employee engagement. If employee engagement is in decline, it does not bode well for the future of the firm. Ensuring that employees are paid well is not sufficient to ensure employee engagement.

REPUTATION OF FIRM FOR BEING ETHICAL

There is a leadership crisis in the United States and indeed in the entire world. According to a recent study (Ketchum, 2013), only 24% of people globally believe that leaders – in business and politics – are in fact providing effective leadership. Gentry (2013) makes the point that the 21st century is a "golden age" when it comes to scandals involving ethics. There are quite a few CEOs who have become infamous for destroying or nearly destroying successful companies (e.g., Ken Lay and Jeffrey Skilling, Bernie Ebbers, Dennis Kozlowski, Richard S. Fuld, Bernie Madoff, Angelo Mozilo). There are several websites dedicated to the worst CEOs of all time – a daunting task after the Great Recession of 2008. Lennick & Kiel (2011: xxxii) assert: "The integrity crises of the first decade of the 21st century have been devastating. But they have not yet convinced enough leaders of the importance of morally intelligent leadership. How many wake-up calls do leaders need to get the message that their ultimate success depends on moral leadership?"

According to a 2014 World Economic Forum study, young people are distraught over the lack of values displayed by leaders. Corporate leaders seem to be only concerned about finding ways to inflate their own salaries rather than in ensuring fair wages for employees (World Economic Forum, 2014).

The literature on organizational trust has identified three components leading to trust in leaders – ability, integrity, and benevolence (Mayer, Davis & Schoorman 1995). Integrity and credibility are the foundations of effective leadership (Kouzes & Posner, 2010: 15). Leaders who are not trusted by subordinates will

not be effective in "selling" their vision to followers (Kouzes & Posner, 2010: 15-20). Few people are willing to follow leaders they do not trust. Of course, the vision has to make sense and leaders also have to be seen as capable (Kouzes & Posner, 2010). An effective leader is perceived as trustworthy and competent, compassionate and humane (Fox, 2010).

Untrustworthiness is a major cause of leadership failure (Kouzes & Posner, 2010; Nahavandi, 2003:79). Unfortunately, employee distrust of management is quite prevalent among American workers. A key factor contributing to the lack of credibility is that leaders are not providing transparent, open communication (Ketchum,2013). According to the American Psychological Association's 2014 Work and Well-Being Survey, only 50% of American workers feel that their "employer is open and upfront with them" (APA, 2014). Only 47% of respondents indicated that they were satisfied with employee recognition practices (APA, 2014). It is important for employees to feel valued by employers since those who do feel appreciated are more likely to be in good psychological health, more likely to be engaged in their jobs, and less likely to feel stressed than those who do not feel valued (APA, 2014).

Another factor that may contribute to the lack of trust in leadership is how poorly workers are being compensated relative to top management. A number of CEOs have destroyed their organizations in the pursuit of maximizing shareholder values (and their own compensation). Excessive compensation of CEOs is a problem that has gotten worse. Companies now have to disclose the "pay ratios" of CEO compensation divided by compensation of the median employee. CEOs in general earned about 140 times more than the median worker in their firm. Standard & Poor 500 CEOs made 347 times more than the median employee (up from a pay ratio of 46:1 in 1983) (Stewart, 2018).

Jared Bernstein, former chief economist for President Biden, believes that employers feel "that labor costs must be held down at all costs because maximizing profits is the be-all and end-all" and hence the share of corporate income that goes to employees is

currently at its lowest point since 1951 (Greenhouse, 2015). The real wage for blue-collar workers in the manufacturing sector has not changed for 35 years, yet productivity is up 200% (Bernstein, 2016). According to Greenhouse (2015), "the decline in labor's share of corporate income since 2000 costs workers $535 billion annually, or $3,770 per worker."

Many companies insert clauses into employment contracts that require arbitration to settle any disagreements between the firm and its employees. They do so knowing that arbitration tends to stack the deck in favor of the company and against employees because arbitrators often consider the companies their clients. Thus, employees are forced to deal with intermediaries whose loyalties lie with their adversaries rather than with impartial judges and juries. To make matters worse, appeals are very difficult in arbitration. In some cases, firms specify in contracts with employees and customers that all cases would be handled by one arbitration firm exclusively. Some firms use the same arbitrator for numerous cases. In fact, in a five-year period, the same arbitrator was used 40 times by one firm (Silver-Greenberg & Gebeloff, 2015a; Silver-Greenberg & Gebeloff, 2015b).

Alex Brigham, executive director of the Ethisphere Institute, which uses a ratings system known as the Ethics Quotient to create a list of the "The World's Most Ethical Companies," states:

> … studies show that employees increasingly want to work for an organization that aligns with their own personal values. They are more loyal to such organizations. In addition to providing a competitive advantage in workforce recruitment, many companies also display the designation in their marketing materials to attract customers, particularly in new markets, where the company may not be well-known (Smith, 2013).

Ethical leadership has assumed great importance in the accounting profession (Copeland, 2015). The accounting profession

has concluded that if an organization is truly concerned about behaving ethically, it must start with the leadership.

> The emergence of the twenty-first century was plagued with extensive, evasive and disheartening leadership failures. Despite the accounting profession's standards of professional ethics, it was also tainted with ethical leadership indiscretions during this era. In response to these ethical leadership failings, renewed interest in developing accounting professionals with strong ethical principles and ethical leadership behaviors has emerged (Copeland, 2015).

The accounting profession uses the term "tone at the top" to denote that the leadership of an organization creates the "tone of an ethical – or unethical – atmosphere in the workplace" (Malley, 2013). COSO, The Committee of Sponsoring Organizations, stressed the importance of leaders setting a tone at the top by establishing honesty and integrity as the very first principle of internal controls (COSO, 2013). The Institute of Internal Auditors (2012) states the following regarding the crucial need for auditors to create a corporate culture where ethical decisions are made.

> What rationalization does a company make to justify a corporate culture where ethics are ignored? In recent years, greed, fraud, and a lack of ethical conduct have led to the collapse of many organizations. A variety of internal and external pressures can lead companies down the wrong path. And once the first misstep is taken, it's a slippery slope to hurting stakeholders, the community, and your reputation (The Institute of Internal Auditors, 2012).

If the accountants, auditors, and executives at the top of the corporate hierarchy are concerned about integrity and ethics, this goal will trickle down to all employees.

It is crucial to rate the reputation of both CEOs and companies for ethics. This is a key metric and is much more meaningful than the price of a stock. Organizations that are not

perceived as being ethical will face many long-term problems when it comes to hiring motivated employees or selling products.

CUSTOMER (CLIENT) SATISFACTION / REPUTATION FOR QUALITY PRODUCTS

Clients/customers constitute a major stakeholder and firms must be concerned about them. One reason that the corporate goal of maximizing shareholder value was referred to by Jack Welch, former CEO of GE, as the "dumbest idea in the world," and a good way of destroying an organization in the long-run was that it caused firms to ignore client/customer satisfaction (Denning, 2011). McSweeney (2008) cites studies that conclude:

> A corporate purpose focused on providing value to customers not only is competitively superior to a purpose of maximizing shareholder wealth, but also typically produces greater long-term returns to shareholders.

Accounting firms have to measure client satisfaction and do everything possible to ensure that it is being maximized. One study found that 51% of accounting firms are not measuring client satisfaction (Caragher & Telberg, 2010).

Cohen (2011) provides 72 definitions of marketing. The various definitions of the term "marketing" indicate that marketing is ultimately about providing value for clients/customers and satisfying needs. Three of the key questions Peter Drucker (2005) posed to every business were: "What is our business/mission? Who are our customers? What do our customers value?" Drucker made it clear that "The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself." This is why customer satisfaction surveys are a key part of marketing research. A company that is indifferent to its customers' needs, will not survive for very long in the highly competitive digital age.

Reputation is an "intangible asset" but is important in

attracting and retaining the best employees. Eccles, Newquist & Schatz (2007) underscore the importance of corporate reputation. They feel that firms have to proactively manage risks to their reputations, and not to wait until something negative occurs that threatens it and then respond. This is known as crisis management. They strongly believe in managing reputational risk by taking the following five steps: "assessing your company's reputation among stakeholders, evaluating your company's real character, closing reputation-reality gaps, monitoring changing beliefs and expectations, and putting a senior executive below the CEO in charge" (Eccles, Newquist, & Schatz, 2007). They state the following about reputation:

> Executives know the importance of their companies' reputations. Firms with strong positive reputations attract better people. They are perceived as providing more value, which often allows them to charge a premium. Their customers are more loyal and buy broader ranges of products and services. Because the market believes that such companies will deliver sustained earnings and future growth, they have higher price-earnings multiples and market values and lower costs of capital. Moreover, in an economy where 70% to 80% of market value comes from hard-to-assess intangible assets such as brand equity, intellectual capital, and goodwill, organizations are especially vulnerable to anything that damages their reputations (Eccles, Newquist & Schatz, 2007).

The following memo below was sent by Warren Buffet, CEO of Berkshire Hathaway, to his senior managers:

> The top priority — trumping everything else, including profits — is that all of us continue to zealously guard Berkshire's reputation. We can't be perfect but we can try to be. As I've said in these

> memos for more than 25 years: We can afford to lose money — even a lot of money. But we can't afford to lose reputation — even a shred of reputation (Baer, 2014).

The memo echoes Buffet's famous statement about the importance of corporate reputation: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

Back in 2005, the foremost business leaders who attended the World Economic Forum were asked to name their leading measure of success. Only 20% mentioned profitability; the majority mentioned the reputation of the corporation, integrity, and high-quality products (Hindery, 2005: 10). In the same vein, Professor Cronin of Lancaster University stressed the importance of the corporate brand value:

Thus, a brand's reputation as an employer, its treatment of workers and consumers, its upkeep as a good corporate citizen, and its capacity to maintain and develop positive relationships with its customers all become important factors in cementing a particular image and awareness in the psyche of the public (Hilpern, 2015).

An effective CEO enhances the value of his/her company's brands (Hilpern, 2015) and hence it is important to rate CEOs by examining the overall reputation of the firm and customer satisfaction.

DIVERSITY

An organization that wants to be creative must encourage diversity, i.e., people from all kinds of backgrounds with all kinds of views working together (Lorenzo et al., 2017; Phillips,2014; Hewlett, Marshall & Sherbin, 2013; Chadefaux & Helbing, 2012; Page, 2011; Page, 2007). Desmarias (2015) sees diversity as the secret ingredient that leads to creativity:

It's the holy grail of business success--a creative team that can innovate your company into unchartered and untapped markets. There's no shortage of advice about how to foster it, but really the

shortest route to creativity lies in one simple ingredient: a diverse team made up of people who spring from widely varying backgrounds. When placed in close proximity, they're like flint on steel, producing sparks that can ignite brilliant ideas.

Several organizations speak of "2D diversity," i.e., two dimensions of diversity. What is meant by 2D diversity? It refers to inherent diversity (gender, ethnicity, religious background, nationality, disability, age, and sexual orientation) and acquired diversity (language skills, cultural fluency, military experience, global mindset, gender smarts, working in a foreign country, and education) characteristics (Hewlett, Marshall, & Sherbin, 2013). There is a strong and significant correlation between 2D diversity and growth.

By correlating diversity in leadership with market outcomes as reported by respondents, we learned that companies with 2-D diversity out-innovate and out-perform others. Employees at these companies are 45% likelier to report that their firm's market share grew over the previous year and 70% likelier to report that the firm captured a new market (Hewlett, Marshall, & Sherbin, 2013).

Racial and gender diversity has been found to correlate with economic performance, i.e., more customers, increased sales, and greater profits (Herring, 2009; Patrick & Kumar, 2012). Unfortunately, women only account for 17% of Fortune 500 company board seats and hold only 3% of board chairs (Kristof, 2013). Firms should endeavor to have more women on corporate boards. One global study that examined 2,360 companies found that organizations that had women on their board of directors had better growth and higher average returns on equity than those that had only men (Phillips, 2014). Jack Ma, founder of the huge Chinese e-commerce firm Alibaba believes that "women think about others more" and that "women balance the logic and the instinct." He considers women the "secret sauce" that makes his company so successful (Kokalitcheva, 2015). At Alibaba, 34% of the leadership positions are held by women and 40% of the total workforce is female. By comparison, only 21% of Google's leadership consists

of women, and 30% of its employees are female (Kokalitcheva, 2015).

A study conducted by BCG and the Technical University of Munich found a positive, statistically significant relationship between innovation and management diversity. Of six types of diversity examined, four – industry background, country of origin, career path, and gender – correlated positively with innovation. Age diversity correlated negatively with innovation and academic background did not correlate at all with diversity. Interestingly, there was a strong positive correlation between having a high percentage of female managers and disruptive innovation. Disruptive innovation is defined as a "a new product, service, or business model that fully replaces the version that existed before." An example of disruptive innovation would be what Amazon did to the retailing industry (Lorenzo et al., 2017).

In the knowledge economy where people tend to work in groups what matters most is the "c factor," the collective intelligence of the group. There is evidence that firms with senior leader teams consisting of multicultural and female members had significantly higher growth rates than firms with teams consisting of white males exclusively (Weaver, 2001). It appears that women add something unique to the success of a team. The collective intelligence of a group is not additive; it is the social sensitivity of group members that determines how well the group will function. A team consisting of many geniuses that cannot work together will probably not accomplish as much as a cohesive team that taps into the creative energies of each member. According to Thompson (2015):

A general collective intelligence factor explains a group's performance on a wide variety of tasks. This "c factor" is not strongly correlated with the average or maximum individual intelligence of group members but is correlated with the average social sensitivity of group members, the equality in distribution of conversational turn-taking, and the proportion of females in the group.

Women appear to be better than men at social sensitivity, i.e., the ability to correctly perceive, interpret, and respect the feelings, viewpoint, and opinions of others in the group. This is why having women in a group improves its c factor, i.e., it becomes collectively smarter (Thompson, 2015).

An organization that wants to maximize its innovativeness has to be concerned about obvious as well as subtle, less intentional and possibly unconscious discrimination (Friedman, Friedman & Leverton, 2016). There may be unintentional discrimination against people with foreign names, those wearing strange clothing (hijab, yarmulke, turban, snood, etc.), or the physically unattractive. A recent study using data from approximately 120,000 British respondents found that heavier women and shorter men had fewer "life opportunities" (education, job status, and income) than thinner women and taller men, respectively; they also tend to make about $2,100 less annually (Walton, 2016). Diversity and innovation work together and highly-effective employees come in all sizes, shapes, and backgrounds.

The world is changing too rapidly for an organization to tolerate a toxic workplace where employees taunt or bully those who are different. The only workplace culture that makes sense in the Creative Economy is one which is inclusive and embraces all kinds of people regardless of appearance. When a team consists of Chassidim, stutterers, overweight women, unattractive people, short people, and individuals wearing turbans and hijabs, a firm will have truly overcome the challenges of diversity (Friedman, Friedman & Leverton, 2016).

The job of a CEO is to make sure that a company is welcoming to all types of people. All it takes is one great idea to make a company thrive, and that great idea may emanate from a totally unconventional team player. In addition, a CEO has to ensure that management consists of 2D diversity. By the same token, the loss of a key person because he/she does not feel included at his/her job can help destroy a company (Friedman, Friedman & Leverton, 2016).

CONCLUSION

This paper discusses a new paradigm for rating CEOs. In an age of post-truth where lying has become so acceptable, it has become difficult to evaluate the true performance of leaders. In addition, the old ways of running a firm simply do not work. We are no longer an industrial economy characterized by assembly lines but rather a globalized, knowledge economy where creativity is of paramount importance. Leaders have to be rated using different metrics than, say, share price. Focusing on maximizing share value was a huge mistake and virtually destroyed hitherto powerful firms. This paper suggests that corporate leaders should be evaluated on the following metrics:

- Have they properly maintained the infrastructure? Are the improvements substantive or just superficial and meaningless (substance over form).
- Has the firm become more efficient? Is the firm using fewer managers?
- Is the proportion of employees that find their work meaningful high and rising? Is the percentage of employees (and managers) engaged in their work high and rising?
- Does the organization have a reputation for being ethical?
- Is customer satisfaction high and rising?
- Is there diversity in the organization?

What truly matters is long-term performance. In the knowledge/creative economy it is important for an organization to have the right kind of leader as well as the right kind of employees. One mistake or lapse on the part of management can damage the firm irreparably and bring it down. Good leadership is about creating a culture where employees are engaged, feel that their work is meaningful, and want their organization to thrive. The ideal leader is one who appreciates the importance of diversity in enhancing creativity, sets an ethical tone at the top, is concerned with maximizing customer/client satisfaction, and wants to build a strong, positive reputation for his/her organization.

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