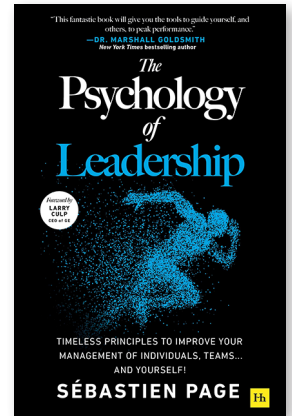


Executive Book Summaries®

The Psychology of Leadership

Timeless Principles to Perfect Your Leadership of Individuals, Teams... and Yourself!

by **Sébastien Page**



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THE SUMMARY IN BRIEF

The same ideas shared in modern leadership books are found in the writings of philosophers, famous religious figures, and prophets throughout history. Tied to key models in research-based psychology, the principles presented in this book are timeless, but will give you a fresh perspective on setting goals, executing them, leading and reading people, and managing your stress. Witty, conversational, and personal, *The Psychology of Leadership* blends research, humor, and self-improvement advice to deliver simple yet powerful guidance on mastering the mental game of leadership.

Leaders will develop what feels like mind-reading abilities for interpreting workplace personalities, hidden motivations, and group dynamics. They will learn how to inspire their organization to move mountains, improve their ability to listen, communicate, and when necessary, persuade. Along the way they will dramatically improve their own mindset and resilience.

IN THIS EXECUTIVE BOOK SUMMARY:

- Discover the connection between research on happiness and goal setting.
- Define accomplishment and success in a nontraditional way.
- Leverage control theory to execute goals, personally and at the organizational level.
- Apply the Big Five Personality Traits model to reading and leading people.

PART I: Setting Long-Term Goals

You've heard that employee engagement, culture, and meaning are important. But practical advice on how to do that has been lacking. How do you integrate these concepts into goals and practices that drive success? And what does the latest research on happiness reveal? Part 1 answers these questions.

Principle 1: Beware of the Side Effects of Measurable Goals

Clear, metrics-oriented goals can be powerful. They motivate people, create a sense of accountability, and make performance evaluations more transparent. Also, research shows that sharing goals—and the metrics used to measure progress against them—improves collaboration. It's easier to collaborate when you know what others are trying to achieve.

However, like medicine, goals can have side effects. Measurability is a powerful active ingredient. It makes a goal more effective and more susceptible to side effects.

Research in psychology has revealed three important side effects: goal-induced blindness, reduced intrinsic motivation, and failure to differentiate between luck and skill. If we are not careful, if we adhere too much to the measurability of goals, then we will encounter these problems.

Principle 2: Redefine Success

As a leader, you can use positive psychology, aka the science of happiness, to set better long-term goals for you and your organization. To do so, you must ask the right questions and change how you think about goals and, ultimately, success.

When we set goals for ourselves or an organization, we define "success." Most people think that success brings happiness. Of course, it's not that simple. Groundbreaking research in positive psychology proves that success rarely brings happiness. Counterintuitively, it's the other way around: Happiness leads to success.

People thrive when they:

- engage in tasks that are challenging yet match their capabilities,
- maintain positive relationships with people around them, and
- find meaning and accomplishment in their work.

Principle 3: Set Goals That Maximize Engagement

When people are engaged fully, they can enter the state of flow, in which time flies and everything just clicks. There are applications for leadership, too. You must set the conditions for people in your organization to spend as much time in flow as possible, whether working individually or in teams.

The principle for maximizing engagement is to maximize return on time spent (ROTS). Doing a ROTS audit is easy. Just step back and contemplate how much time you spend daily on useless emails and meetings. Low ROTS activities aren't particularly enjoyable and are less likely to lead to a flow state than high ROTS activities.

Yet low ROTS activities are irresistible for two reasons. First, they have low activation cost—they require little energy to get started. It's so easy to pull your phone from your pocket and scroll. Second, they tend to provide a short-term reward.

High ROTS activities, in contrast, often have high activation cost. But once started, they lead to higher engagement and more time spent in a state of flow. High ROTS activities are more likely to align with your long-term goals and values. And they're more likely to recruit your full and differentiated capabilities. In the long run, they contribute to your energy reservoir rather than drain it.

Principle 4: Prioritize Relationships

Relationships are so important to the psychology of leadership. We're wired to crave social connections. Also, there's a link between the importance of relationships and flow. Social interactions put your brain in the sweet spot for engagement. On the other side, the lack of positive relationships can be debilitating.

Some of the most important goals you can set for yourself and your organization should focus on relationships. These goals aren't perfectly measurable, and that's okay. Relationships are the most important and biggest challenge to mastering the psychology of leadership.

For an organization, happiness is challenging to define. Every CEO must address the tensions between maximizing profitability for shareholders, treating employees right, and keeping clients happy. These are all important relationships.

Principle 5: When You Talk About Meaning, Mean It!

Corporate leaders believe it's important to provide broader meaning to goals to motivate employees. There is merit to this idea, but let's reframe it as follows: You and your organization must pursue goals that have meaning. There's

Most people and organizations are starved for meaning, especially considering how much time we devote to work every day.

a difference between adding meaning to goals and pursuing goals that have meaning. This plays a powerful role in the psychology of leadership.

Meaning is the great motivator in life. Your sense of purpose gets you up in the morning and keeps you going when you face obstacles. Given its importance, meaning isn't discussed nearly enough when organizations set goals.

Most people and organizations are starved for meaning, especially considering how much time we devote to work every day. Research in positive psychology shows that it's a key component of well-being. When you talk about meaning, be sincere! Take meaning seriously. Roll up your sleeves, convene your leadership team, and start the discussion. Don't merely attach meaning to goals; pursue goals that have meaning.

Principle 6: Don't Focus on Winning

When we set goals, we define accomplishment. It feels good to achieve your goals, to succeed, to win. And it should be the same for your organization.

All these concepts are connected: goals, accomplishment, and happiness. But if you want to lead your organization in an inspiring, sustainable, and positive way, you can't just focus on winning for the sake of winning. You must get off the goals-accomplishment treadmill and rethink your entire goal-setting process. You must redefine success not in terms of winning for its own sake, but as a function of mastery goals.

Mastery in business leadership is all about process. It means making how you do things better. It means improving your technology, operations, culture, supply chain management, recruiting capabilities, strategic planning, ability to engage in mergers and acquisitions, and so much more. If you lead your organization with a mastery mindset, and everyone gets excited about doing things better, faster, and cheaper, then over time, you'll deliver extraordinary results.

Principle 7: Choose Your Role Models Carefully

Research on role models shows that your sense of ethics and aspirations are influenced by who you admire—perhaps more than you realize. Having good role models will

make you a better person, which will make you a better leader... and, ultimately, a better role model to others. It's the circle of leadership life.

But remember that no one is perfect.

You can learn important leadership lessons from those who have accomplished extraordinary things. However, these lessons come with warning labels. Take a balanced view of the role of money as a source of motivation.

For example, Steve Jobs, Elon Musk, and Jeff Bezos seem to have mastered the psychology of leadership, don't they? The truth is this: What worked for them may be innate, idiosyncratic, and come with unattractive traits that the rest of us can't overcome. Most incredibly successful people are bad at relationships. Jobs treated some of his colleagues poorly. At Twitter, aka X, Musk took a brutal and impulsive approach to employee layoffs. Jeff Bezos has been known to harshly insult the people who work for him.

It's not necessary to be a jerk in the name of accomplishment. And money is great, but it's not everything.

Principle 8: Unleash the Power of Social Comparison

Social comparison is often a motivator for the uber-wealthy. There's always somebody to compete against. To unleash the power of social comparison, however, you need to manage the good and the bad of social comparison.

As a leader, you can use healthy internal competition to boost productivity. Popular tools for this include sales or productivity leaderboards and the classic employee of the month award.

Like its benefits, the drawbacks of social comparison are intuitive. In organizations, social comparison can hurt collaboration. Use it carefully. Internal competition must not come at the expense of trust, mutual respect, and a shared understanding of the team's mission.

Principle 9: Identify and Manage Your Core Beliefs

One of the best things you can do to improve as a leader

is to know yourself better. To do so, it helps to understand your roots and define your (and your organization's) core beliefs. These are the mental reflexes that drive a lot of your decisions. You can trace most of your personal core beliefs to your upbringing, just like corporations' core beliefs are often established by their founder.

How can you apply core beliefs to your leadership role and your responsibility to set goals and cultural norms for your team? Here's a three-step process:

1. **Observe:** Pay attention to the rules of thumb or common sayings being used at critical moments.
2. **Discuss:** Explain what core beliefs are. Reflect on the company's DNA, its founders, and critical moments in its evolution.
3. **Formalize:** Decide which core beliefs should be abandoned or modified, and which ones should be emphasized.

Part II: Executing Your Goals

Even if you clear your mental fog by setting long-term goals, your life and career can and will go astray. Execution is hard. Really hard. And guess what? Stuff happens. This second part covers execution. It begins with a discussion on managing stress for optimal performance. You can't go after big goals if you can't manage your stress. Then, it explains how control theory—a powerful set of mathematical models and principles typically used in engineering—addresses many of the execution challenges you will face on the journey towards your big goals.

Principle 10: Optimize Stress for Peak Performance

Stress can be both good and bad, and it's impossible to minimize it to zero. Instead, it must be optimized. This may seem counterintuitive, but you need stress to perform at your best. It's the same for your team in terms of organizational stress.

The Yerkes-Dodson (YD) curve maps performance to stress levels. It looks like an inverted U. Initially, as stress increases, performance increases because you become more motivated and alert. At some point, you maximize your performance. After that threshold, performance deteriorates. You choke under the pressure. Hence, the YD law seeks a Goldilocks level of stress.

Stress isn't a bad thing. You just need to operate in the in-

termediate range—the top of the U curve—that's optimal for performance.

Principle 11: Work Backwards from Your Goals

No matter your goal, you'll need to course-correct along the way. Reality won't match the plan you wrote down on paper. What's the best way to handle the inevitable deviations? In an unusual case of intellectual cross-fertilization, psychology borrowed control theory from science and engineering. It doesn't require complex scenarios or computer-based optimization models. Leaders can use the model as a way of thinking—a rule of thumb.

Control theory is a framework to handle dynamic feedback loops. The three most important rules are the following:

1. **Start from the endpoint.** Work backward from your big goal to develop plans, milestones, and performance indicators.
2. **Optimize the path.** Set targets to be difficult yet achievable. Manage expectations and build a plan that will allow you or your organization to make progress at a rate that maximizes engagement.
3. **Don't anchor decisions on past information.** When results deviate from your plan, adjust execution based on forward-looking analysis rather than what has happened so far.

When things get tough, people look to you as a leader to remind the organization of a brighter long-term outlook. And they want you to tell them how the organization will get there. You may have to revise the plan. That's okay. It's much better to re-baseline than to hold on to a plan that has become unrealistic.

Principle 12: Learn Strategic Patience

Another takeaway from control theory is that if you have a long window to decide, you should keep your options open. It may seem obvious, but it's constantly violated in business. It speaks to the psychology of decision-making under uncertainty. Most organizations suffer from a false sense of urgency and a bias towards action. Of course, leadership often requires quick decisions. However, sometimes the best decision is to wait and see what happens. This is "strategic patience."

If you're patient, problems have a way of working themselves out over time. Take some time, as appropriate, to assess each situation that requires you to make a high-stake decision. Ask yourself, do I need to make this decision now?

One of the most critical leadership qualities is being comfortable making people uncomfortable.

Principle 13: Focus on What Matters

In addition to planning backward and exercising strategic patience, control theory teaches us to separate signal from noise. When dealing with the noisy outcomes against your plan, you must answer several questions:

- How often should you measure progress?
- How should you calibrate your response?
- When should you take corrective action, and when should you let things play out?

The easiest way to separate signal from noise is to take a long-term perspective. Frequent measurements of performance against goals and adjustments are useful, but only if you're also able to put them in the context of the long-term trend before you make major decisions.

Part III: Unleashing the Power of Personality Psychology

As a leader, you can't execute your goals if you don't bring people along. You're asking people to charge up the hill with you. Will they follow?

Every leader needs to be a bit of a psychologist and understand how people are wired. The most ubiquitous model to understand how people think and behave is called the Big Five Personality Traits. Part III provides a unique view of this model by applying it to the psychology of leadership.

Principle 14: Call on the Introverts

The most well known of the Big-Five personality traits is extroversion. Extrovert leaders often undervalue introverts. There are important leadership rules to learn from this trait.

The most important rule of thumb related to extraversion that will help you as a leader is to call on introverts. Read their non-verbal cues to know when they have something to say. Extroverts tend to dominate the conversation but they start talking past each other and can't narrow down the

options to find a good solution. To move forward, call on someone who's remained quiet throughout the debate. It's usually—but not always—one of the members who prefers to sit back, watch, and think. One of the introverts.

To do so, you may have to stop the extroverts from talking, including yourself. In business, listening is a superpower. In four words, here's a critical lesson in leadership: talk less, listen more.

Principle 15: Be Disagreeable, Sometimes

Do you know someone who's hard to work with? Someone who enjoys conflict? A self-centered jerk? This person would score low in agreeableness, the second trait of the Big Five. This principle goes against the conventional wisdom that agreeableness is always a positive trait.

Those who score high in agreeableness are averse to conflict. They're more likely to be empathetic, flexible, and altruistic. But someone can make a significant contribution by disagreeing with the consensus. And merely agreeing with everybody is not productive, especially in a leadership position.

One of the most critical leadership qualities is being comfortable making people uncomfortable. In doing so, you're not always agreeable. But you're pushing people to grow, especially if you're giving them feedback in a respectful way that lets them know they're valued.

Principle 16: Harness the Positive Side of Neuroticism

A little neuroticism can be a good thing. If you score high on this scale, you can succeed as much, if not more, as your thick-skinned colleagues who score low.

First, there may be a positive relationship between neuroticism and creativity. Research has shown that anxious people tend to have a highly active imagination—which is why they tend to perceive threats before others or even when there are none.

Second, neuroticism leads to vigilance and can be a source of motivation. Being a little bit of a worrier makes you attentive, focused, even driven. People who are low in neurot-

icism can be satisfied with suboptimal circumstances.

Principle 17: Balance Openness and Structure

Openness to experience is the fourth of the Big Five traits. It is a longing, desire, or pull for novelty or newness. Wanting to try different things, experiment, see something you've never seen, or do something you've never done.

On the other side of the scale, someone with low openness follows routines. There's a pattern to their day. They're comfortable mastering something they've done a thousand times.

Openness is a good quality in a leader. You must drive change within your organization and adapt to trends in your industry. However, you need balance. You must focus on a key set of priorities if you want your organization to remain competitive. A few things done very well are better than many things done half-assed. You may subscribe to the build fast and fail fast school of thought, as long as you're prepared to shut down underperforming initiatives.

Principle 18: Unleash the Power of Good Habits

The last but not least of the Big Five includes self-discipline, attention to detail, and dutifulness. Think of people who are organized, punctual, and thorough. A-students, if you will. This Principle teaches you to maximize the positive side of conscientiousness while avoiding the pitfalls associated with extreme levels.

Conscientiousness is a tendency towards order, systematization, logic, reason, neatness, and structure. Of the five traits, conscientiousness is the most preferred in the workplace. People who score low in this trait tend to miss deadlines, show up late and unprepared at meetings, and

hand over poor-quality work.

Conscientiousness comes from a collection of good habits: showing up on time, creating routines and checklists for quality control, rewarding excellence, keeping track of business win streaks, and more. At the same time, you must watch for perfectionism and workaholicism and continue to foster flexibility and creativity.

To start with the end in mind is the key to all the lessons in leadership and psychology covered in this book. There are many definitions of "the end," from completing a project to the inescapable end of your life. When you start from an endpoint, whatever the endpoint is, you get clarity on your goals and how to execute them. You become a better leader.



Sébastien Page is Chief Investment Officer and Head of Global Multi-Asset at T. Rowe Price. He has written two finance books: *Beyond Diversification: What Every Investor Needs to Know*, and the co-authored *Factor Investing and Asset Allocation*, and he has won six annual research-paper awards: two from The Financial Analysts Journal and four from The Journal of Portfolio Management. He appears regularly on CNBC and Bloomberg TV, and in 2022 was named a Top Voice in Finance by LinkedIn. He has been quoted extensively in The New York Times, The Wall Street Journal, and Barron's.

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