

The RBL White Paper Series

# Our Leadership Journey

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If you google the word leader and leadership, there are 487 million hits. That's an awful lot of information. If you google subordinate and follower there are less than 25 million hits. So, almost 20 times more has been written about leadership than about being a good subordinate. Maybe we've identified the crux of the leadership challenge- not enough followers!

Clearly, leadership is a topic where the volume of writing does not match the value. Much is written and many of the same ideas are repeated. In the last decade, we have addressed the issue of how leaders have impact by contributing to this huge volume of work with four books and many articles. In this article, we'll review this work and synthesize how we believe we've contributed a unique perspective around four ideas:

1. Leadership is about more than individual, psychological competencies; it's also about delivering results. An effective leadership formula is *leadership = attributes \* results* (*Results Based Leadership*, Harvard Business School Press, 1999).
2. Leaders must focus outside the firm on investors and customers as well as inside because results are tied to multiple stakeholders both inside and outside the organization. When this is done well, greater market value occurs (*Why The Bottom Line Isn't*, Wiley, 2003 and soft cover- *How Leaders Build Value*, Wiley, 2003).
3. Individual leaders matter; but leadership matters more. It's critical to pay attention to leadership as an organization capability not just leader as individuals. When this capability ensures the desired customer experience, both customers and investors are served. (*Capitalizing on Capabilities*, Harvard Business Review, 2004; *Leadership Brand*, Harvard Business School Press, 2007).

4. There are two kinds of individual leader competencies- a set of fundamental competencies-- the Leadership Code, and a set of unique competencies that relate to how leaders connect employees with customer- the differentiators (*The Leadership Code*, Harvard Business School Press, 2008).

[ *Let us review the evolution of these ideas.* ]

## RESULTS BASED LEADERSHIP - THE KICKOFF

In the late 1990's we had a simple insight – much of the practice of leadership was focused on individual, psychological competencies. Virtually every book we could find then, and to a great extent now, was aimed at individual, leader competency development (what we called the attributes of leaders). Popular examples include:

- *Seven Habits of Highly Effective People*
- *Authenticity*
- *Leadership Secrets of (Attila the Hun, Thomas Jefferson, Buddha, Santa Claus, etc.)*
- *Emotional Intelligence*
- *Judgment*
- *The Extraordinary Leader*
- And so on

In seminars we frequently ask, “What makes an effective leader?” The response is often the same: setting a vision, having integrity, communicating, being bold, making things happen, and other personal attributes. Frequently, leadership development experiences are organized with one day on each attribute.

We proposed that this approach was half right. Leaders do need to have effective attributes but leadership is also about getting results. So, in our 1999 book, *Results Based Leadership*, we explored four results that leaders need to deliver:

- Employee-- Leaders must increase employee competence and commitment as evidenced in productivity and retention.
- Organization-- Leaders must build sustainable capabilities that shape an organization's identity.
- Customer-- Leaders must ensure customer delight as seen in share of customer.
- Investor-- Leaders must build investor confidence in the future as seen in intangible value.

It was at this time we realized the importance of the relationship between attributes and results. Neither alone is enough, it's the virtual cycle between them that makes all the difference. We connect attributes and results with SO THAT and BECAUSE OF. One simple application is that when a leader receives 360 feedback which is about her individual competencies, she must ask the "so that" query. I must improve this competency "so that" I deliver a particular result to one of my stakeholders. Alternatively, another leader delivers results and should ask the "because of" question. I delivered this result "because of" this competency I have (or lack).

This simple chart below has guided the last ten years of our writing and applications for leadership. Let us quickly overview each of four results, and then show how we have explored each of them in the last decade.

#### Employee Results

We have articulated a simple formula for employee results: competence \* commitment \* contribution. Leaders must enable employee results in all three areas. Employee competence means that the individual has the skills to do the job. Commitment or engagement is about invest-

ing discretionary energy to do what it takes to get things done. Contribution is about finding meaning in work.

#### Organization Results

Organization theory has shifted the focus from structure, shape, and morphology to capabilities. Capabilities are the DNA of companies and determine how things are accomplished. Sample capabilities include: speed of change, learning, collaboration, innovation, service, efficiency, culture or shared mindset, and so on. These capabilities become the key to sustained strategy execution, the deliverables of HR, and the core identity of the organization.

#### Customer Results

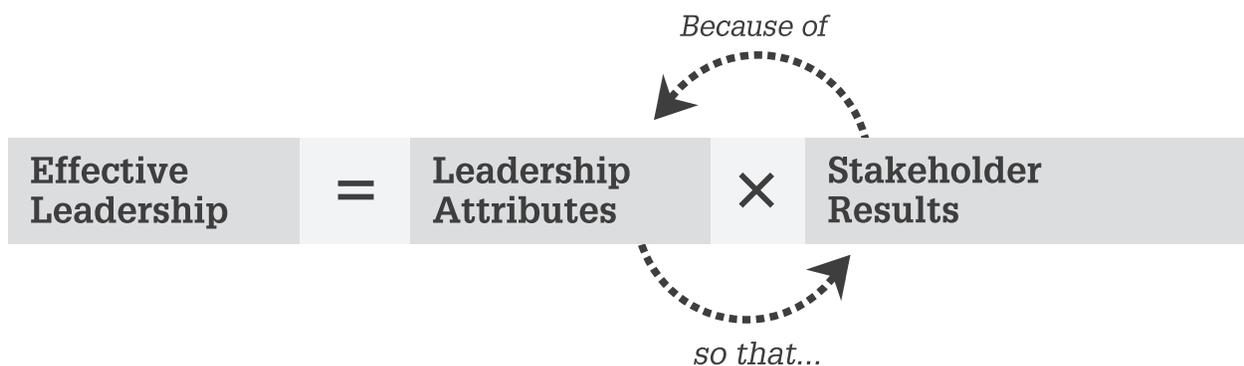
Ultimately, what happens inside an organization needs to deliver value to customers outside the organization. The tag line, being "the employer of choice," makes more sense if we are the employer of choice of employees our customers would choose. Using customer criteria as the filter for internal management actions validates those actions.

#### Investor Results

What happens inside the organization also affects investor confidence for the future. Investors invest based on industry favorableness, firm performance, and quality of leadership and organization. We believe that the leadership and organization dimension is often the most difficult to specify, but also one that may hold a key to firm's overall market value.

In the last decade, we have worked to further explore each of these four result areas.

Figure 1: *The Virtuous Cycle of Attributes and Results*



**INVESTOR RESULTS: WHY THE BOTTOM LINE ISN'T (OR HOW LEADERS ADD VALUE)**

We began with a very simple question: “Which of the four results areas are senior executives most interested in?” With a few notable exceptions, senior executives tend to be interested in what investors want because it aligns with the executives’ personal interests and because it sustains the longevity of the firm. So, we began to read and ask questions about how market value was derived. Pretty soon we were reading the work of Baruch Lev, an economist at NYU who was the world’s expert on intangibles. At about this time, we felt as though our approach to leadership was going in a very different direction than what we knew our colleagues were studying and we were excited about what we were learning.

Since 1990, financial results have played a decreasing role in market value so that across industries, by 2005, market value was half earnings and the other half intangibles.

Intangibles are the factors that give investors confidence in the future of your company versus other competitors in the same industry. These intangibles determine why two companies in the same industry with similar earnings might have vastly different market values. We synthesized a number of studies on intangibles into the Architecture for Intangibles that explains how leaders increase confidence in future earnings.

These intangibles define what leaders must do to build capabilities that investor’s value. We found that intangibles exist in both up and down markets.

Figure 3: Architecture for Intangibles

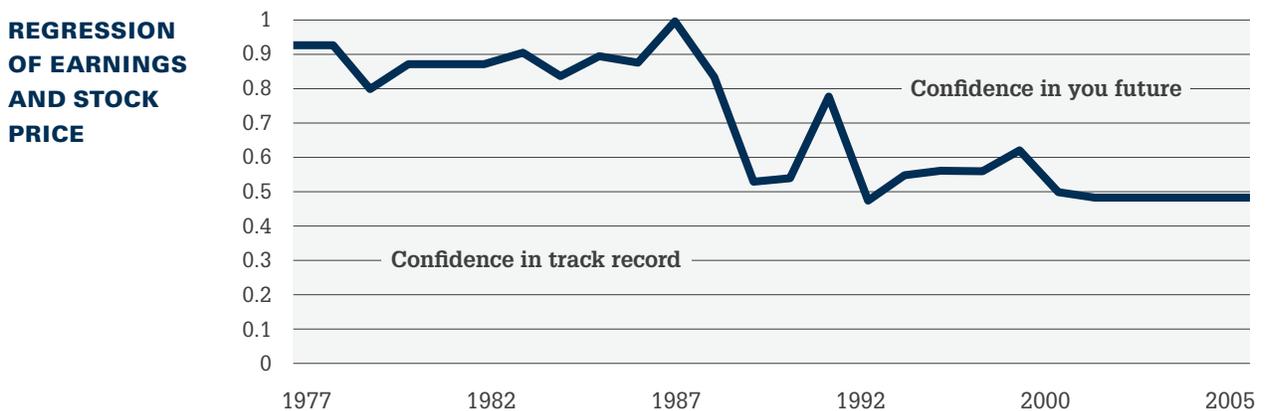


- *Keep our promises:* The organization has a track record of delivering earnings in a consistent manner.
- *Create a clear, compelling strategy:* There is a shared direction about how we will win in our industry.
- *Align core competencies:* We have developed targeted core competencies that are consistent with our strategic direction.
- *Enable organization capabilities:* We have distinct social capabilities that allow us to win through our people and organization.

**ORGANIZATION RESULTS: CAPITALIZING ON CAPABILITIES**

About a year after the publication of *How Leaders Build Value*, we published an article, “Capitalizing on Capabilities” in the Harvard Business Review, June 2004 that defined, identified, and operationalized organizational capabilities. Organizational capabilities are the fourth level of the Architecture for Intangibles. We had a fondness for these issues because we realized that organizational capabilities are the deliverables of strategic HR and because they have a direct line of sight to improv-

Figure 2: Financial results account for a shrinking proportion of a company’s market value



ing market value. Leaders at companies like GE, Singapore Airlines, P&G and many others discovered how to increase investor confidence by building capabilities of leadership, talent, culture, and customer connection. In this work, we suggested that once leaders have defined strategy, they should create organization capabilities that enable and sustain that strategy. These capabilities outlast any individual leader, management event, or HR practice.

In particular, we wanted to look at internal organizational capabilities from the outside in. For example, HR at Intercontinental Hotels sponsored an “Organization (or Intangibles) Audit” where they solicited feedback from employees and leaders but also franchisors, key customers, analysts, and institutional investors. The process of obtaining this organization level feedback and determining how to act on it was new ground. The results spoke for themselves-- they fought off a hostile takeover and were able to convince analysts that they should not continue cost-cutting but invest in customer service.

We continue to reflect on the capabilities organizations require to achieve sustainable success. In our recent writing, we have added to our original list the capabilities of simplification, social responsibility, and managing risk. When capabilities integrate diverse HR practices and when they are linked to customer expectations, they build long term sustainability.

#### **CUSTOMER RESULTS: LEADERSHIP BRAND**

As we turned to the customer results, we began to focus on the importance of a brand that distinguishes a firm by making and acting on promises to customers. We liked the metaphor of brand because it is so clearly tied to business results. As a marketing concept, brand starts with the customers. Traditionally, individual competencies for leadership are defined exclusively inside the company by interviewing high versus low performing leaders and then linking the identified competencies to strategy execution.

The more we started with firm brand and the identity of the firm in the mind of the customer then worked to identify leadership behaviors consistent with that external brand, the more we were sure that we had struck gold. We captured our thinking with two conceptual shifts:

1. Individual (focus on the leader as a person) versus Organizational (focus on leadership as a capability) )
2. Inside the Firm (focus on what happens inside the person or the firm) versus Outside the Firm (focus on customer and investor expectations)

These two shifts are shown in the following figure:

Figure 4: *Leadership Brand*



*Competent Leaders:* As we've pointed out before, this is where most companies spend their time and it's an important quadrant, trying to determine the knowledge and skills of the individual leader.

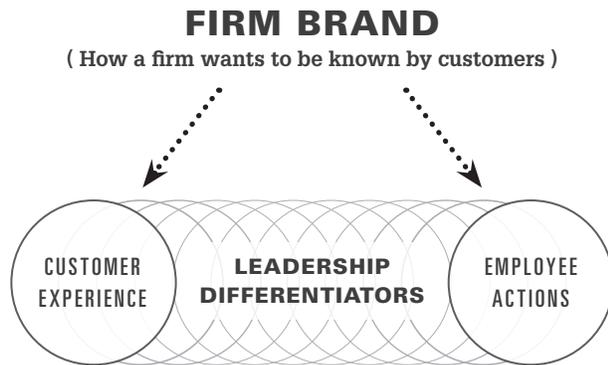
*Leadership Systems:* Aligning selection, development, compensation, and retention systems so they are integrated and helpful to leaders.

*Celebrity Leaders:* Famous leaders who are known to customers and investors help by drawing attention to the firm-- think Steve Jobs or Bill Gates.

*Leadership Brand:* Leaders at every level who are recognized both by employees as well as customers and investors for their ability to deliver results in a manner consistent with firm brand identity. Confidence in the future drives price earnings multiple and higher market value.

Leadership brand occurs when external customer expectations are translated into internal leadership behaviors so that leaders ensure employees deliver the desired customer experience whenever they touch the customer. To do this, the firm must not only build good individual leaders but must develop leadership as an organizational capability, recognized inside the firm and also by the market.

Figure 5: Firm Brand



An early adopter of these ideas was ADIA--the Abu Dhabi Investment Authority-- the largest sovereign wealth fund in the world. ADIA has identified three “cultural pillars” describing their desired firm brand:

1. Effective collaboration
2. Prudent Innovation
3. Disciplined Execution

This perspective guides HR practices as well as leadership development initiatives. HR practices such as selection, development, performance management, and retention must all integrate around effective collaboration, prudent innovation, and disciplined execution. As action learning projects are identified for emerging Emirati leaders, they are also structured to deliver the cultural pillars or firm brand elements:

- *Effective Collaboration*—Each project will be sponsored by a member of the Administration Committee and staffed by 2-3 participants in the cohort. In this way, collaboration occurs among the people on the project and between the project team and the senior executive. In addition, projects are identified that cross departments to ensure collaboration across organization boundaries.
- *Prudent Innovation*—This cultural capability can be developed by scoping the project so that it delivers a level of impact on the numerator or the denominator e.g. \$150,000 impact.
- *Disciplined Execution*—Tight time frames ensure disciplined execution. Therefore, each project must be completed in 8, 10 or 12 weeks. Each project must also be measured for impact and a short white paper

written that describes what the project intended to accomplish and key learning by the team. This information is made available to future cohorts.

In our consulting practice and in our research with Hewitt on Top Companies for Leaders (published by *Fortune* every 2 years) we discovered that leadership brand may be created by 6 integrated steps:

Figure 6: Architecture to build Leadership Brand



We attempt to link customer expectations to leadership actions so that employees could see a line of sight from what they did to what customers expect.

### EMPLOYEE RESULTS: MANAGING TALENT AND ABUNDANCE

We have written indirectly about employee results by helping frame the ways in which the HR function can deliver value (*HR Value Proposition*, Harvard Business Press, 2005). When HR departments, practices, and professionals align their work with the goals of the company and with the customers, HR builds employee commitment.

We are currently working to further understand employee results in two ways. First, we have synthesized the key insights that general managers should know about talent. To do this, we have created a talent menu of 10 things that a general manager should understand to build better talent. These include defining, assessing,

and investing in talent, as well as managing diversity, matching people and position, and measuring talent. Second, we are working to further clarify how people make meaning at work. While employees may be competent (able to do their job) and committed (willing to work hard), when they also feel a sense of contribution or meaning, they are more productive. We call this “creating the abundant organization” and draw insights into this phenomenon from multiple disciplines like positive psychology, demographics, high performing teams, commitment, and social responsibility.

We clearly believe employee results matter and deserve attention, but to date we have focused on leadership in investor, organization, and customer results.

### **LEADERSHIP CODE: BACK TO THE BASICS**

During 2008, we realized that we really had not impacted how the majority of firms did leadership. Rather than fight this tide, we decided to do integrative and synthesizing research around attributes that would allow leadership practitioners to move on and join us in our quest to integrate attributes with results.

Faced with the incredible volume of information about leadership, we asked our colleague at The RBL Group, Kate Sweetman, to join us and then turned to recognized experts in the field who had already spent years sifting through the evidence and developing their own theories. These thought leaders had each published a theory of leadership based on a long history of leadership research and empirical assessment of what makes effective leadership. Collectively, they have written over 50 books on leadership and performed well over 2,000,000 leadership 360's. They are the “thought leaders” of this field.<sup>1</sup>

In our discussions with them we focused on two simple questions whose answers had always been elusive:

1. What percent of effective leadership is basically the same?
2. If there are common rules that all leaders must master, what are they?

We wanted to understand if an effective leader at, say, Wal-Mart in any way resembles an effective leader at Virgin Airlines? Does an effective leader in a bootstrapping NGO in any way resemble an effective leader at the famously bureaucratic United Nations? Does an ef-

fective leader in an emerging market resemble an effective leader in a mature market? Does an effective leader in organized crime in any way resemble an effective leader in organized religion? Does an effective leader in a Swiss pharmaceutical company share any underlying characteristics with an effective leader at Google?

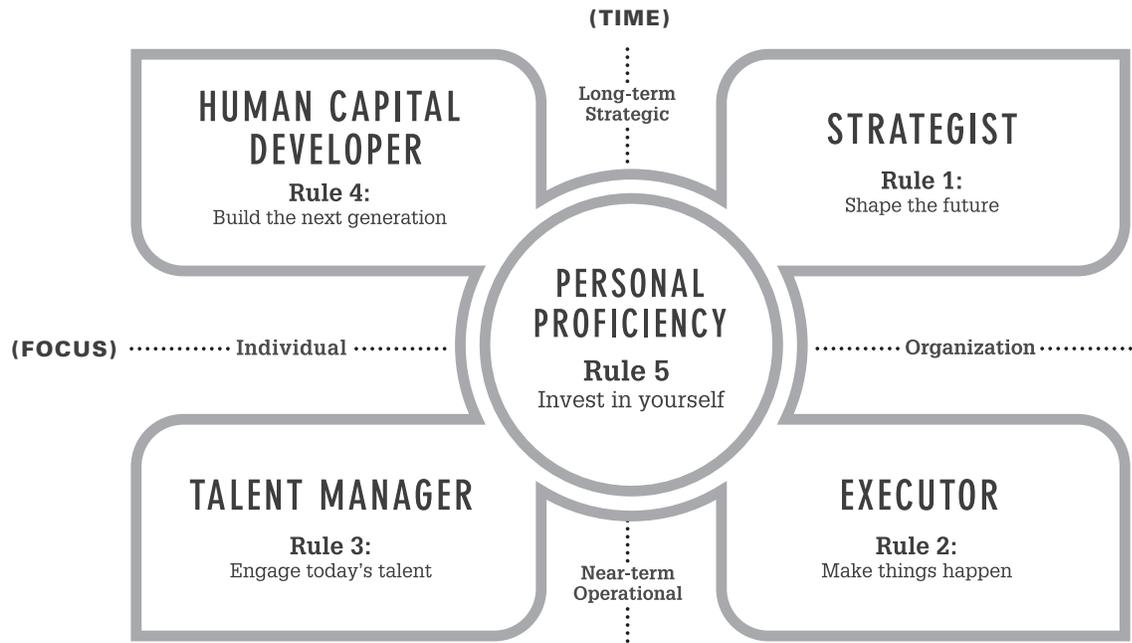
To the first question, the experts varied as they estimated that somewhere in the range of 50 to 85% of leadership characteristics were shared across all effective leaders. The range is fairly broad, to be sure, but consistent. From the body of interviews we conducted, we concluded that 60-70% of leadership effectiveness would be contained in a Leadership Code if we could crack it. Synthesizing the data, the interviews, and our own research and experience, a framework emerged that we simply call the Leadership Code.

In an effort to create a useful visual, we have mapped out two dimensions (Time and Focus) and placed what we are calling Personal Proficiency (self management) at the center as an underlying support for the two dimensions. This figure (next page) synthesizes the Leadership Code and captures the five rules of leadership that capture Leadership DNA. These five rules can be readily applied to any group of leaders:

**Rule 1: Shape the future.** This rule is embodied in the strategist dimension of the leader. Strategists answer the question “Where are we going?” and make sure that those around them understand the direction as well. They not only envision, but also can create a future. They figure out where the organization needs to go to succeed, they test these ideas pragmatically against current resources (money, people, organizational capabilities), and they work with others to figure out how to get from the present to the desired future. Strategists have a point of view about the future and are able to position their organization to create and respond to that future. The rules for strategists are about creating, defining, and delivering principles of what can be.

**Rule 2: Make things happen.** Turn what you know into what you do. The Executor dimension of the leader focuses on the question “How will we make sure we get to where we are going?” Executors translate strategy into action. Executors understand how to make change happen, to assign accountability, to know which key de-

Figure 7: *The Leadership Code*



decisions to take and which to delegate, and to make sure that teams work well together. They keep promises to multiple stakeholders. Executors make things happen, and put the systems in place for others to do the same. The rules for executors revolve around disciplines for getting things done and the technical expertise to get the right things done right.

**Rule 3: Engage today’s talent.** Leaders who optimize talent today answer the question “Who goes with us on our business journey?” Talent managers know how to identify, build and engage talent to get results now. Talent managers identify what skills are required, draw talent to their organizations, engage employees, communicate extensively, and ensure that employees turn in their best efforts. Talent managers generate intense personal, professional, and organizational loyalty. The rules for talent managers center around resolutions that help people develop themselves for the good of the organization.

**Rule 4: Build the next generation.** Leaders who are Human Capital Developers answer the question “Who stays and sustains the organization for the next generation?” Talent Managers ensure shorter-term results

through people while Human capital developers ensure that the organization has the longer-term competencies required for future strategic success. Just as good parents invest in helping their children succeed, human capital developers help future leaders be successful. Human capital developers throughout the organization build a workforce plan focused on future talent, understand how to develop the future talent, and help employees see their future careers within the company. Human capital developers ensure that the organization will outlive any single individual. Human capital developers install rules that demonstrate a pledge to building the next generation of talent.

**Rule 5: Invest in yourself.** At the heart of the Leadership Code – literally and figuratively – is Personal Proficiency. Effective leaders cannot be reduced to what they know and do. Who they are as human beings has everything to do with how much they can accomplish with and through other people. Leaders are learners: from success, failure, assignments, books, classes, people, and life itself. Passionate about their beliefs and interests, they expend an enormous personal energy and attention on whatever matters to them. Effective leaders inspire loyalty and goodwill in others because they

themselves act with integrity and trust. Decisive and impassioned, they are capable of bold and courageous moves. Confident in their ability to deal with situations as they arise, they can tolerate ambiguity.

As we have worked with these five rules of leadership, we can make some summary observations.

- All leaders must excel at Personal Proficiency. Without the foundation of trust and credibility, you cannot ask others to follow you. While individuals may have different styles (introvert versus extrovert, intuitive versus sensing, etc.), any individual leader must be seen as having personal proficiency to engage followers. This is probably the toughest of the five domains to train and some individuals are naturally more capable than others.
- Effective leaders have one towering strength. Most successful leaders have at least one of the other four roles in which they excel. Most are personally predisposed to one of the four areas. These are the signature strengths of your leaders.

- All leaders must be at least average in his or her “weaker” leadership domains. It is possible to train someone to learn how to be strategic, execute, manage talent, and develop future talent. There are behaviors and skills that can be identified, developed, and mastered.
- The higher up the organization that the leader rises, the more he or she needs to develop excellence in more than one of the four domains.

It is very bold to say that these five domains synthesize and summarize leadership, but we continue to believe that we have captured the essence of what attributes effective leaders need.

#### WHAT’S NEXT?

After a decade, we are more confident than ever about a balanced formula for leadership= attributes \* results. This simple formula allows us to organize theory, research, and practice of leadership. The summary of our publications in leadership can be seen in Figure 8:

Figure 8: Our Leadership Journey



We know there is more to do. As we look ahead, there are more stakeholder groups that leaders can build value for that have results for. For example, we are interested in communities and how leaders ensure social responsibility. We're also interested in how investors, venture capitalists, private equity funds, sovereign wealth funds and others determine quality of leadership during due diligence processes. Our initial research into this area and the global economic condition suggests current approaches are relatively primitive. This future work will continue to flesh out the mix of attributes and results that characterize effective individual leaders and organization leadership capabilities.

As we have done this body of work, we have better defined the importance of both leaders as individuals, and leadership as a system; of both attributes of effective leaders, and results of effective leadership; and of leaders serving stakeholders both outside and inside their organizations.

We have many ideas that continue to build on this logic over the next decade and hope to use fewer words to have more impact.

<sup>1</sup> These generous thought leaders included: Jim Bolt (working on leadership development efforts); Richard Boyatzis (working on the competency models and resonant leadership); Jay Conger (working on leadership skills as aligned to strategy); Bob Fulmer (working on leadership skills); Bob Eichinger (working with Mike Lombardo to extend work from Center from Creative Leadership and leadership abilities); Marc Efron (working on large studies of global leaders); Marshall Goldsmith (working on global leadership skills and how to develop those skills); Gary Hamel (working on leadership as it relates to strategy); Linda Hill (working on how managers become leaders, and leadership in emerging economies); Jon Katzenbach (working on leaders from within the organization); Jim Kouzes (working on how leaders build credibility); Morgan McCall (representing Center for Creative Leadership); Barry Posner (working on how leaders build credibility); and Jack Zenger and Joe Folkman (working on how leaders deliver results and become extraordinary).