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Cracking the Leadership Code

A journey through leadership



» BY DAVE ULRICH AND NORM SMALLWOOD

If you Google the words “leader” and “leadership”, there are 534 million results. That’s an awful lot of information. If you Google the word “subordinate” there are about 25 million results. So, almost 20 times more has been written about leadership than about being a good subordinate. Maybe we have identified the crux of the leadership challenge – not enough followers!

Clearly, leadership is a topic in which 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 will review this work and synthesize how we believe we have contributed a unique perspective around four ideas:

1. **Leadership is about more than individual, and psychological competencies.** It is also about delivering results. An effective leadership formula is leadership = attributes x results.
2. **Leaders must focus outside the firm as well as inside.** Focusing externally on investors and customers is as important as focusing internally because results are tied to multiple stakeholders
3. **Individual leaders matter; but leadership matters more.** It is critical to pay attention to leadership as an organizational capability, not just leaders as individuals. When this capability ensures the desired customer experience, both customers and investors are served.
4. **There are two kinds of individual leader competencies.** There is a set of fundamental competencies – the leadership code and a set of unique competencies that relate to how leaders connect employees with the customer who are their differentiators.

Let us review the evolution of these ideas.

Results Based Leadership: The kickoff

In the late 1990s 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*

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 a day on each attribute.

We propose that this approach is 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 the share of customer wallet
- **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 is the virtual cycle between them that makes all the difference. We connect attributes and results with “so that” and “because of”.

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).”

Figure 1: The Virtuous Cycle of Attributes and Results

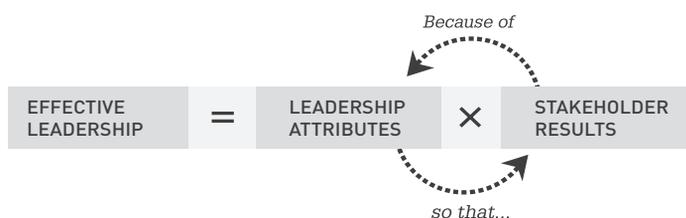


Figure 1 has guided the last 10 years of our writing and applications for leadership. Let us quickly review each of four results, and then demonstrate how we have explored each of them in the last decade.

Employee results

We have articulated a simple formula for employee results: competence x commitment x 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 investing 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 Human Resources (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 that 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 favourableness, 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 a firm’s overall market value.

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

Investor results: It’s not the bottom line (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 it sustains the longevity of the firm.

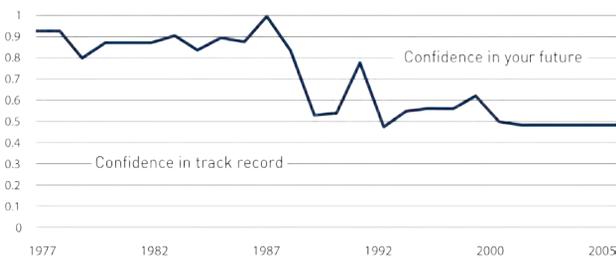
So, we began to read and ask questions about how market value was derived. Pretty soon we were reading the

work of Baruch Lev, Professor of Accounting and Finance at NYU Stern School of Business, who is 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.

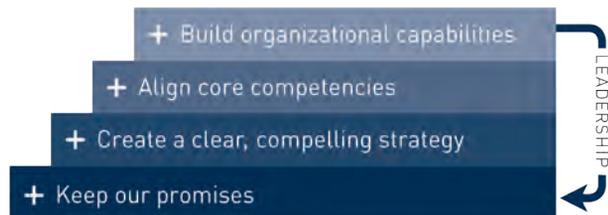
Since 1990, financial results have played a decreasing role in market value so that across industries, by 2005, market value was half earnings and half intangibles:

Figure 2: Regression of Earnings and Stock Price



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 an Architecture for Intangibles that explains how leaders increase confidence in future earnings:

Figure 3: Architecture for Intangibles



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

- **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 “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* in 2004 that defined, identified and operationalized organization capabilities.

Organization capabilities are the fourth level of the Architecture for Intangibles. We had a fondness for these issues because we realized that organization capabilities are the deliverables of strategic HR and because they have a direct line of sight to improving 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 organization 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 as they fought off a hostile takeover and were able to convince analysts that they should not continue cost cutting, rather 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 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.

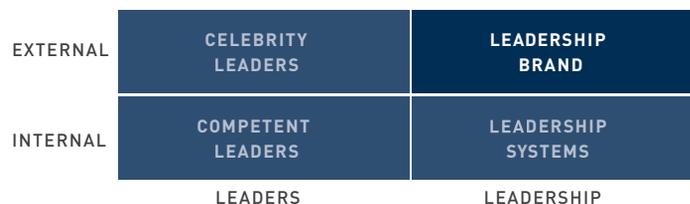
As a marketing concept, brand starts with the customers. Traditionally individual competencies for leadership are defined exclusively inside the company by interviewing high- versus low-performing leaders, and then linking the identified competencies to strategy execution.

The more we started with the company brand and the identity of the firm in the mind of the customer, then identified leadership behaviours 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 illustrated 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 the selection, development, compensation and retention systems is important 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 who inspire confidence at every level are recognized 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 a higher market value.

Leadership brand occurs when external customer expectations are translated into internal leadership behaviours, 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 the Abu Dhabi Investment Authority (ADIA), the largest sovereign wealth fund in the world. ADIA has identified three “cultural pillars” describing their desired company brand:

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

This perspective guides HR practices as well as leadership development initiatives. Human resources 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 company brand elements:

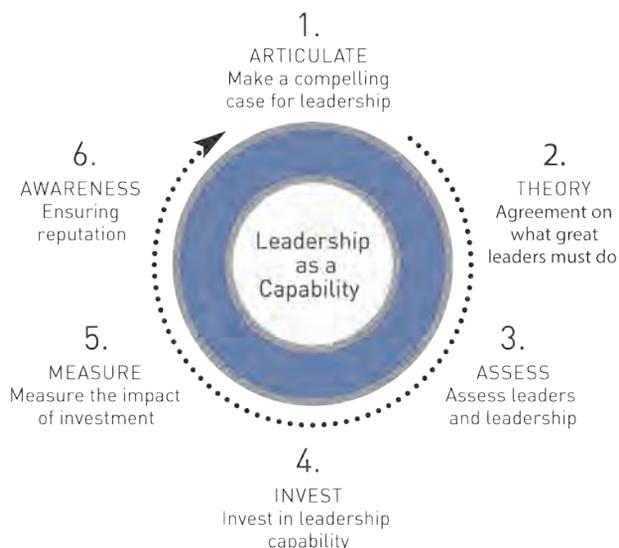
- **Effective Collaboration:** Each project must be sponsored by a member of the administration committee and staffed by two-to-three participants in the cohort. In this way collaboration occurs among the people on the project and between the project team and the senior executive. In addition, projects are identified for 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 within a specified time frame. Each project must also be measured for impact and a short whitepaper written that describes what the project intended to accomplish and key learnings by the team. This information is made available to future cohorts.

It was at this time we realized the importance of the relationship between attributes and results.

Neither alone is enough, it is the virtual cycle between them that makes all the difference.

In our consulting practice we discovered that the leadership brand may be created by six integrated steps:

Figure 6: Architecture to Build Leadership Brand



We attempt to link customer expectations to leadership actions so that employees could have 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. 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 must 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 and committed, they are more productive when they also feel a sense of contribution or meaning. 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 on 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 provided leadership. Rather than fight this tide, we decided to do integrative and synthesizing research on attributes that would allow leadership practitioners to move on and join us in our quest to integrate attributes with results.

Faced with an incredible volume of information about leadership, we asked our colleague at The RBL Group, Kate Sweetman, to join us. We 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 what defines effective leadership based on a long history of leadership research and empirical assessment. Collectively they have written over 50 books on leadership and performed well over two million leadership 360s.

In our discussions with them we focused on two simple questions, the answers to which 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?

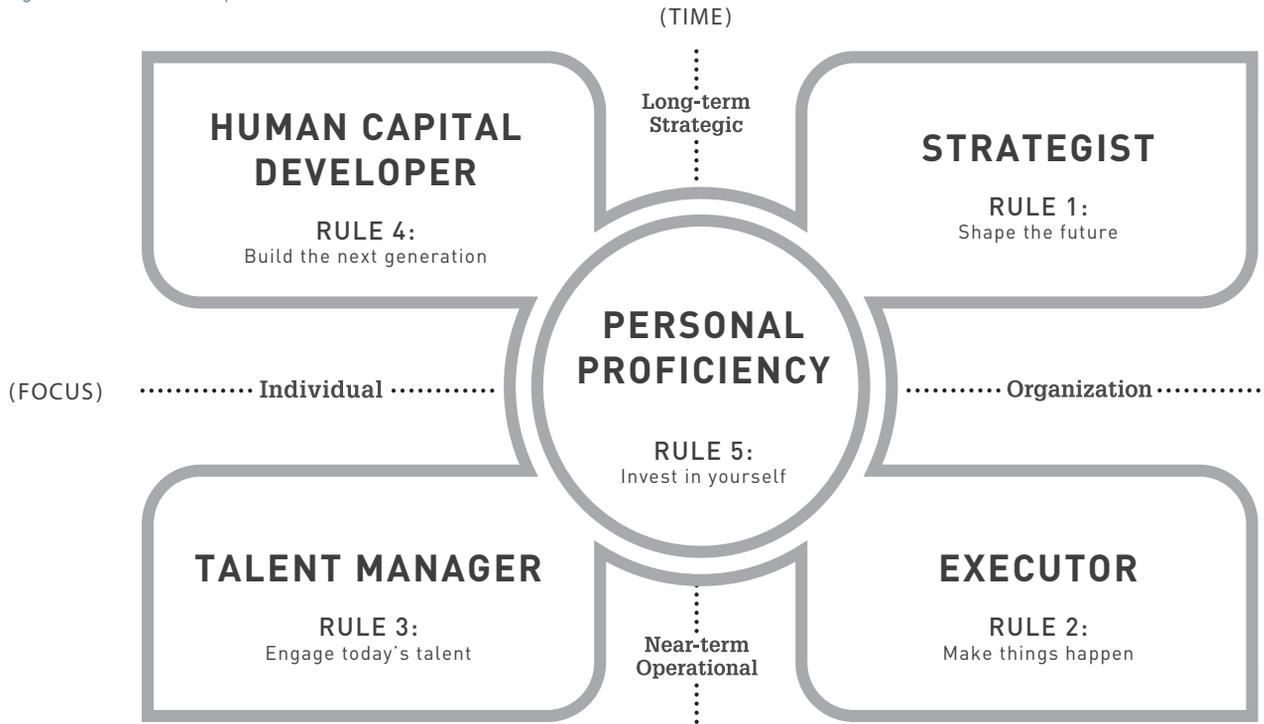
We wanted to understand if an effective leader at, for instance, Walmart, in any ways resembles an effective leader at Virgin Airlines? Does an effective leader in a bootstrapping Non-Governmental Organization (NGO) in any way resemble an effective leader at the famously bureaucratic United Nations? Does an effective 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 agreed 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 centre as an underlying support for the other two. This figure below synthesizes the leadership code and includes the five rules of leadership that capture leadership DNA. These five rules can be readily applied to any group of leaders:

Figure 7: The Leadership Code



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 can also 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 uncover 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 need to go?” Executors translate strategy into action and know how to make change positive. Executors assign accountability, know which key decisions to take and which to delegate, and ensure 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 them, 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 centre on 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 succeed. Human capital developers throughout the organization build a workforce plan focused on future talent, understanding how to develop potential 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 employ 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 good will 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 behaviours and skills that can be identified, developed and mastered.
- The higher up in 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?

We know there is more to do. As we look ahead, there are more stakeholders that have results for leaders to build value for.

For example, we are interested in communities and how leaders ensure social responsibility. We are 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 systems. We have examined the attributes of effective leaders and the results of effective leadership, and of leaders serving stakeholders from both outside and inside their organizations.

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

Dave Ulrich and Norm Smallwood are partners and co-founders of the RBL Group, a leadership development and human resource education consultancy, in Provo, Utah. They are the co-authors of numerous renowned leadership books. The following books provide content referenced in this article: Results Based Leadership, Why the Bottom Line Isn't and The Leadership Code.