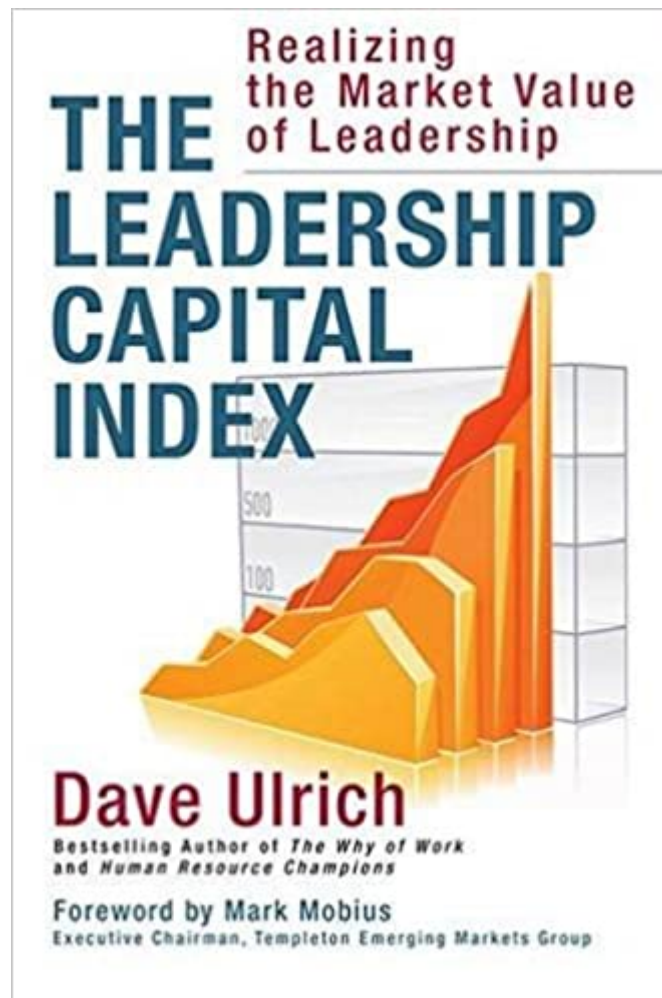




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# The Leadership Capital Index: Realizing The Market Value Of Leadership



## Synopsis

When it comes to evaluating a firm, leadership matters. We know that financial outcomes can predict about 50 percent of a firm's market value. Intangibles like strategy, brand, talent, R&D, innovation, risk, and so on account for the rest. But leadership underlies them all. And despite how important we know it is, we've been forced to rely on subjective and unreliable ways to measure its impact—until now. In this landmark book, leadership scholar, author, and consultant Dave Ulrich proposes a “leadership capital index”—a Moody's or Standard and Poor's rating for leadership. Drawing on research from investors and business leaders, and synthesizing the work of dozens of consulting firms and leadership experts, Ulrich analyzes two broad domains, each comprising five factors. The individual domain includes personal qualities, strategic prowess, execution proficiency, interpersonal skills, and fit between the leader's style and the organization's market promises. The organizational domain encompasses a leader's ability to create customer-focused cultures, manage talent, demand accountability, use information to gain competitive advantage, and set up work processes to deal with change. Ulrich details rigorous metrics and methods for evaluating leaders on each of these factors. The result is a groundbreaking book that will be of vital interest not only to equity and debt investors but also to boards of directors, executive teams, human resource and leadership development professionals, government and ratings agencies—and of course to leaders themselves.

## Book Information

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## Customer Reviews

“Ulrich isn't just reeling off ideas. He backs them with the sharpest thinking from the Big

Four and beyond. And he suggests how entire organisations, including HR, can support leaders in creating and propagating cultures that encourage the right behaviours.

— Robert Jeffrey in *People Management*

“No one is born a CEO. There’s a full skillset that must be learned over time. Drawing on extensive research, Dave’s approach to measuring this special brand of leadership enables investors and executives alike to evaluate and understand the qualities of those who determine a company’s culture and ultimate success.”

— Stephen A. Schwarzman, Chairman, CEO & Co-founder, Blackstone

“It is a delight to read Ulrich’s take on leadership. His deep thinking, insights, and analytical ideas have brought much-needed rigor to the practice and processes of leadership. With this book he has begun the crucial journey of more deeply understanding leadership as a vital organizational asset.”

— Lynda Gratton, Professor of Management Practice, London Business School, and author of *The Key*

“In today’s digital world with sophisticated metrics, going with your gut on key talent acquisitions can be very hazardous. Ulrich has now introduced some needed rigor into evaluating organizational leadership.”

— William Conaty, Advisory Partner, Clayton, Dubilier & Rice, and coauthor of *The Talent Masters*

“This is a valuable and practical guide for investors to evaluate the leadership of companies before they invest. For those interested in the discipline of leadership, it is a comprehensive framework to look at leaders—their style and values—and evaluate how they perform. And this is also like version 1 of a useful manual for corporate leaders on how to run their businesses successfully.”

— Dr. Tan Chin Nam, Chairman, Temasek Management Services, and senior corporate adviser

“Leadership was once something you had to have faith in. Dave Ulrich has introduced some science into the mix. It takes some of the guesswork out of figuring out what great leadership really is.”

— Keith R. Read, Senior Managing Director, Cerberus Capital Management, LP, and Cerberus Business Finance, LLC

“Investors who study Ulrich’s approach—and employ it—will give themselves an advantage in the ever-tougher challenge of performing in today’s markets. The book provides a genuine edge in answering the question, How do we find the better companies? Answer: by finding the better leadership teams.”

— Jim Ware, CFA, founder of the Focus Consulting Group and coauthor of *High Performing Investment Teams*

Leadership is critical for any company’s success, but how can you put a concrete, measurable value on it? For the first time, David Ulrich shows how anyone can effectively evaluate the impact of leadership quality on the market value of any firm.

After two decades of leadership books all of which promise 7 paths to leadership ecstasy, it is refreshing to find a treatise that tries to identify empirical dimensions which can be used to: (1) assess current leaders and/or (2) potential leaders. Ulrich has done a comprehensive review of many of the previous books on leadership which may have identified two or three important leadership dimensions which worked in their situations, but in this book insights are drawn in a comprehensive picture of what to look for in a prospective CEO. Congratulations are in order for Ulrich and the system he articulates.

I guess we always knew that leadership and building a sustainable leadership pipeline both bring value to the business, it's just that we never knew how much value until this book.

Another masterpiece. Thankful to the seller.

I have read and reviewed all of Dave Ulrich's previously published books and consider him to be among the most valuable contemporary business thinkers in terms of how to accelerate personal growth and professional development within a workplace culture. In the Foreword to this, his latest work, Mark Mobius suggests that Ulrich offers "a systematic and logical way to measure the elusive variable of company leadership that plays such a key role in determining company success and market value. Dave Ulrich has found a way to measure this variable, so critical to investment success." Obviously, all organizations need effective leadership at all levels and in all areas of the given enterprise. How to determine the market value of this leadership? As Ulrich acknowledges, people often make this demand: "Show me the measures on the existing balance sheet and income statement... The value of this book is that it provides you with the right questions to ask and the right indicators to track." In an article that appeared in the April (2015) issue of Harvard Business Review, Allan Freed and Dave Ulrich observe, "What we need is a leadership capital index, similar to a financial confidence index (such as Moody's or Standard & Poor's). It would move beyond casual and piecemeal observations of leaders to more thorough assessment of leadership." They then explain how they and their colleagues at the RBL Group created a leadership capital index by interviewing and surveying investors and by synthesizing at dozens of studies of the impact of leadership. "In general, these studies offered deep insights on one piece of an overall leadership puzzle. Some focused on personal leadership style of the CEO, others on compensation or training practices, and still others on organization

governance and design. Few attempted to prepare a comprehensive approach to leadership as a whole that could be accessed by investors. As is often the case with an HBR article, “Calculating the Market Value of Leadership” led to this book in which Ulrich develops in much greater detail what does indeed offer a comprehensive approach to leadership as a whole that could be accessed by investors. These are among the subjects of greatest interest and value to me in Chapters 1-5, also listed to suggest the scope of Ulrich’s coverage:

- o Examples of Studies on Individual Leader Competencies and Financial Results
- o Individual Leader Proficiencies: Personal, Strategic, Execution, People, and Leadership Brand
- o Examples of Studies on Organizational Capabilities/Human Capital and Financial Results
- o High-Level Overview of Leadership Capital Index
- o Thought Leader Assessments of Leadership Capital Index Factors
- o Types of Risk (Based on the COSO Framework)
- o Framework for Assessing Leaders’ Personal Proficiency
- o Indicators for Personal Proficiency
- o Framework for Assessing Leaders’ Strategic Proficiency
- o Approaches to Strategy (Key Dimensions of Strategic Proficiency That Create Overall Strategic Approach)
- o Environmental Trends and Redefinition of Industry
- o Indicators for Strategic Proficiency
- o Framework for Assessing Leaders’ Execution Proficiency
- o Exemplary Thought Leaders on Execution and Change Processes
- o Decision-Making Governance Grid

It is no coincidence that most of the companies annually ranked among those that are most highly admired and best to work for are also annually ranked among those that are most profitable and have the greatest cap value. However different these companies may be in many (if not most) respects, all of them have this in common: effective leadership at all levels and in all areas of the given enterprise. Until now, with all due respect to ratings, it has been difficult (if not impossible) to calculate the value of an organization’s leadership. As Ulrich explains, the leadership capital index has two dimensions, or domains: individual and organizational. “Individual refers to the personal qualities (competencies, traits, characteristics) of both the top leader and the key leadership team in the organization. Organizational refers to the systems these leaders create to manage leadership throughout the organization and the application of organization systems to specific business conditions. Using these two domains, previous leadership and human capital work may be synthesized into a leadership capital index that investors can use to inform their valuation decisions. Obviously, no brief commentary such as mine could possibly do full justice to the abundance of information, insights, and counsel that Dave Ulrich provides when helping his reader to understand WHY it is imperative to realize the market value of leadership and HOW to do that by putting the Leadership Capital Index into practice. I am among the readers of this

book who are convinced that studying leadership through investor expectations is a very good and breakthrough idea. Just about everything an executive needs to know about that idea is in this book. It is a stunning achievement. Bravo!

Investors must be aware that organizations often do a mediocre job of selecting C-suite leaders. Ulrich book shows investors how to go from a vague (and frankly inaccurate) gut feel, to a rigorous approach to assessing the leadership of the companies they invest in. Investors get a quick win: they avoid betting on leaders who sound good, but don't actually have the skill set needed. For the world, the big win is that if investors get more serious about assessing leaders, then we will end up with better ones. Dave Ulrich knows how difficult this topic is and avoids simplistic or feel-good solutions -- but he does offer solutions; practical ways an investor (or board or HR) can get a good and broad handle on the quality of leadership. Good work Dr. Ulrich! We appreciate the care you put into this book.

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