



Leadership Premium Quantifying the Benefits



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Introduction

- Deloitte conducted research to find:
 - a quantitative metric for the value of leadership
 - its relative importance compared with other aspects of company performance
 - the size of potential uplift or discount it can deliver
- We will review the findings of this research, and discuss:
 - how to build leadership capability at the individual and team level
 - how to measure progress

About the Research

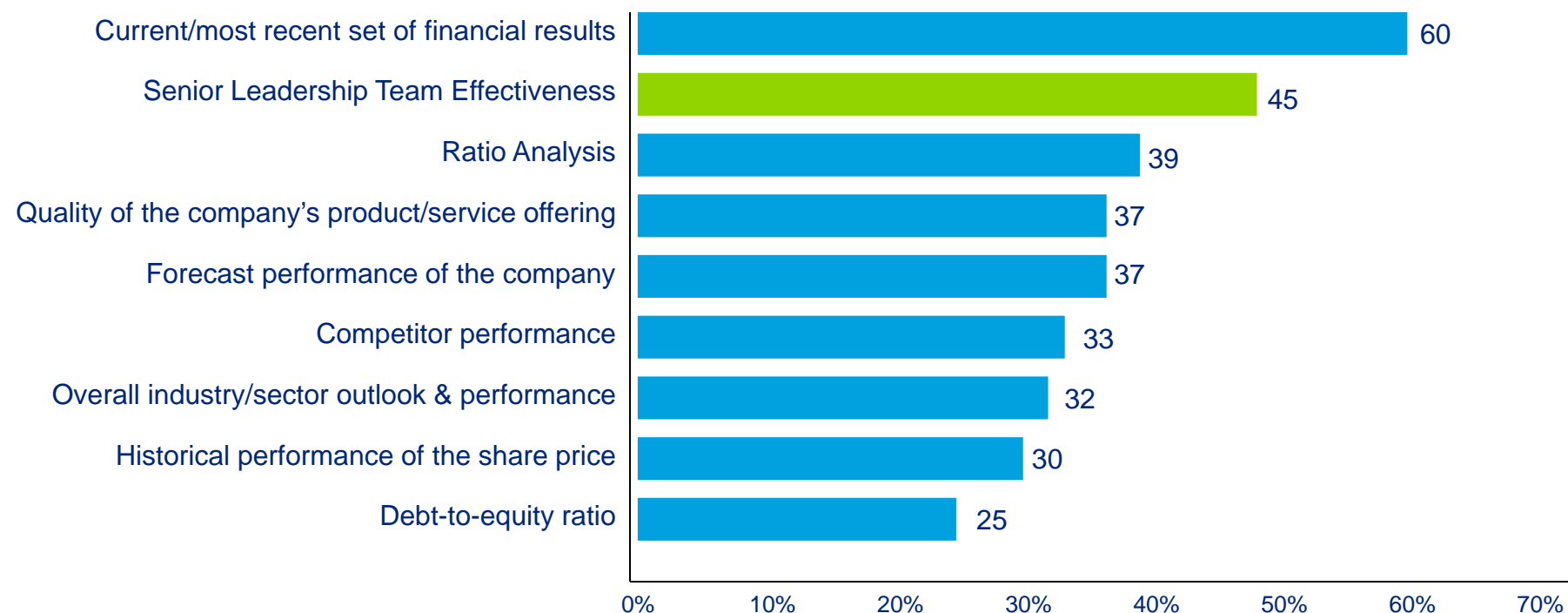
- Research was conducted between August 2011 and January 2012
- Surveys and interviews
 - With analysts from leading investment banks, private equity investors, hedge fund executives, and portfolio managers
 - In US, UK, China, India, Japan, and Brazil

What is the value of leadership?

- Although financial results are still the most important factor, the quality of senior leadership has a tangible, measurable impact on analysts' opinions as to whether companies have been successful and, crucially, will be successful in the future

Criteria that analysts use to judge company success

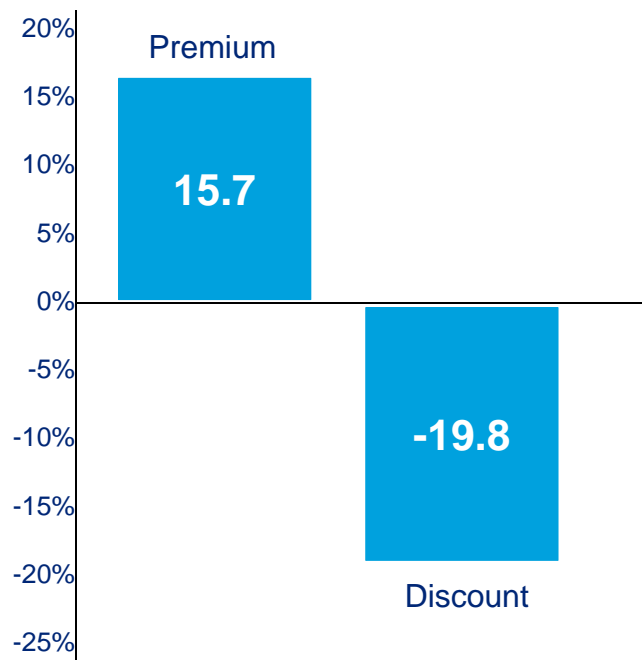
Percent of respondents who cited each factor



What is the value of leadership?

- 80% of analysts surveyed said that a company with a particularly effective senior leadership team would receive a premium valuation
- 80% of analysts also said that they would place a discount on a company that they perceived to have a particularly ineffective leadership team

Average premium and discount placed on effective/ineffective leadership

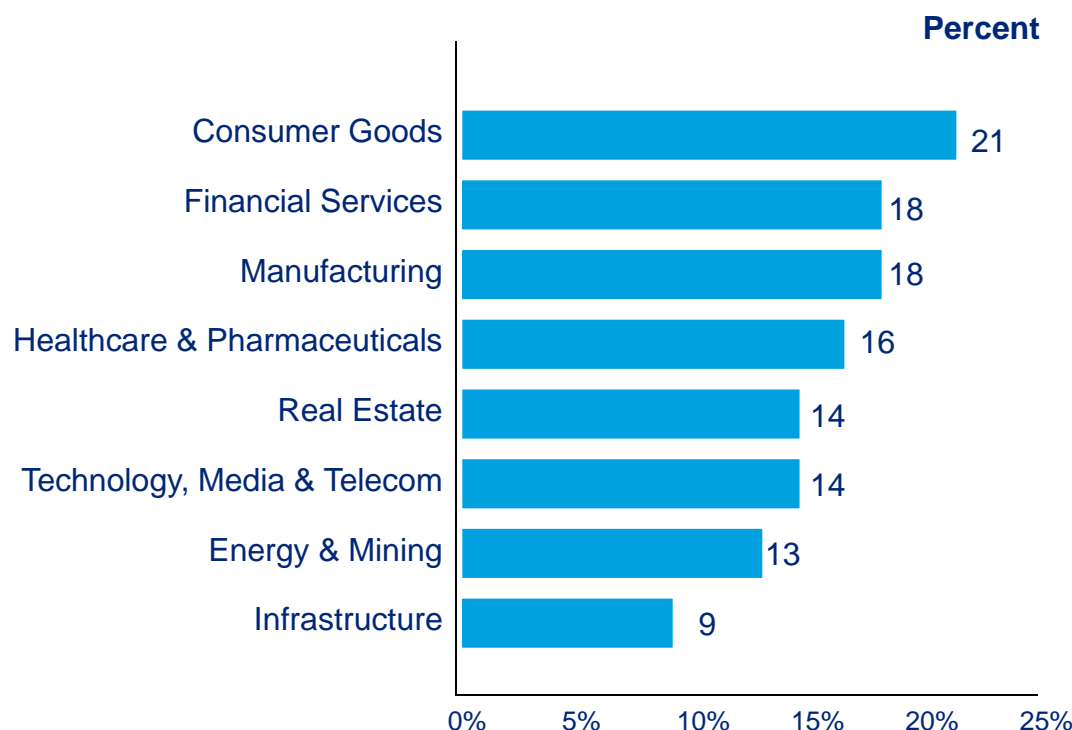


- The gap between the value of a company with good leadership and that of a company with weaker leadership could be more than 35.5 percent
- On average, we discovered a premium of 15.7 percent for particularly effective leadership – and a discount of 19.8 percent for its opposite
- Some analysts stated that concerns about the quality of a senior leadership team would be enough for them to avoid investing in that stock at all

What is the impact of size and type of company?

- Leaders of smaller companies command bigger premium ... potentially in excess of 20%
- In small and early-stage, high-growth companies, the level of risk is higher than in large mature organizations
 - Decisions made by leaders are more impactful to their success/failure
 - Quality of leadership is easier to recognize

Equity value ascribed to senior leadership team by industry



- Those analysts we surveyed who are focused on consumer goods ascribed an average of 21% of company equity to the senior leadership team, compared with 14% for TMT
- This implies that good leaders can make a bigger impact in sectors with lower levels of R&D spend and see their performance reflected in financial results almost immediately
- In industries like TMT undergoing rapid change and constant innovation the impact of leadership performance on results is often delayed

What about privately owned companies?

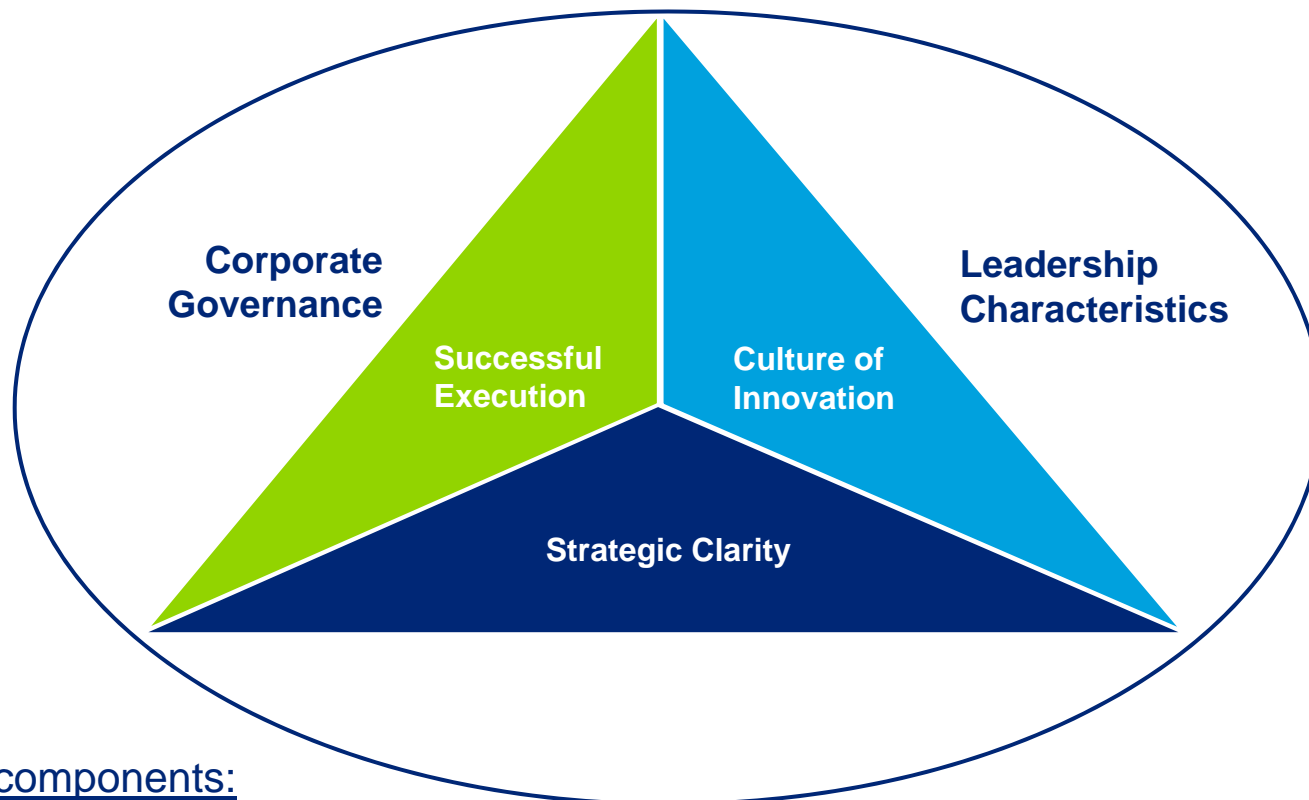
- Although the survey was specifically targeted to public companies, we would hypothesize that the results apply in the same way to privately held companies
 - In fact, the influence of senior leadership in privately held companies is likely stronger
- Leaders in privately held companies tend to be less constrained in their actions by long-established processes and protocols, giving them more freedom to alter the direction of the company
 - The style and effectiveness of a leader in a privately held company is often easier to recognize
- Good leadership will lead to building value in the company, which is a critical component of both attracting investment, and designing an exit strategy for the owner wishing to sell, or retire

What do analysts believe constitutes 'good' leadership?

The basics haven't changed.

All leaders have to:

- Set direction
- Build commitment among the workforce
- Execute strategy effectively
- Find new products, services, and ways of working



Analysts look for 3 core components:

- **Strategic clarity** – a clear vision of what the organization needs to achieve
- **Successful execution** – proven ability to meet objectives
- **A culture of innovation** – commitment to enterprise; an environment for ideas

They also look for 2 critical things that support these components:

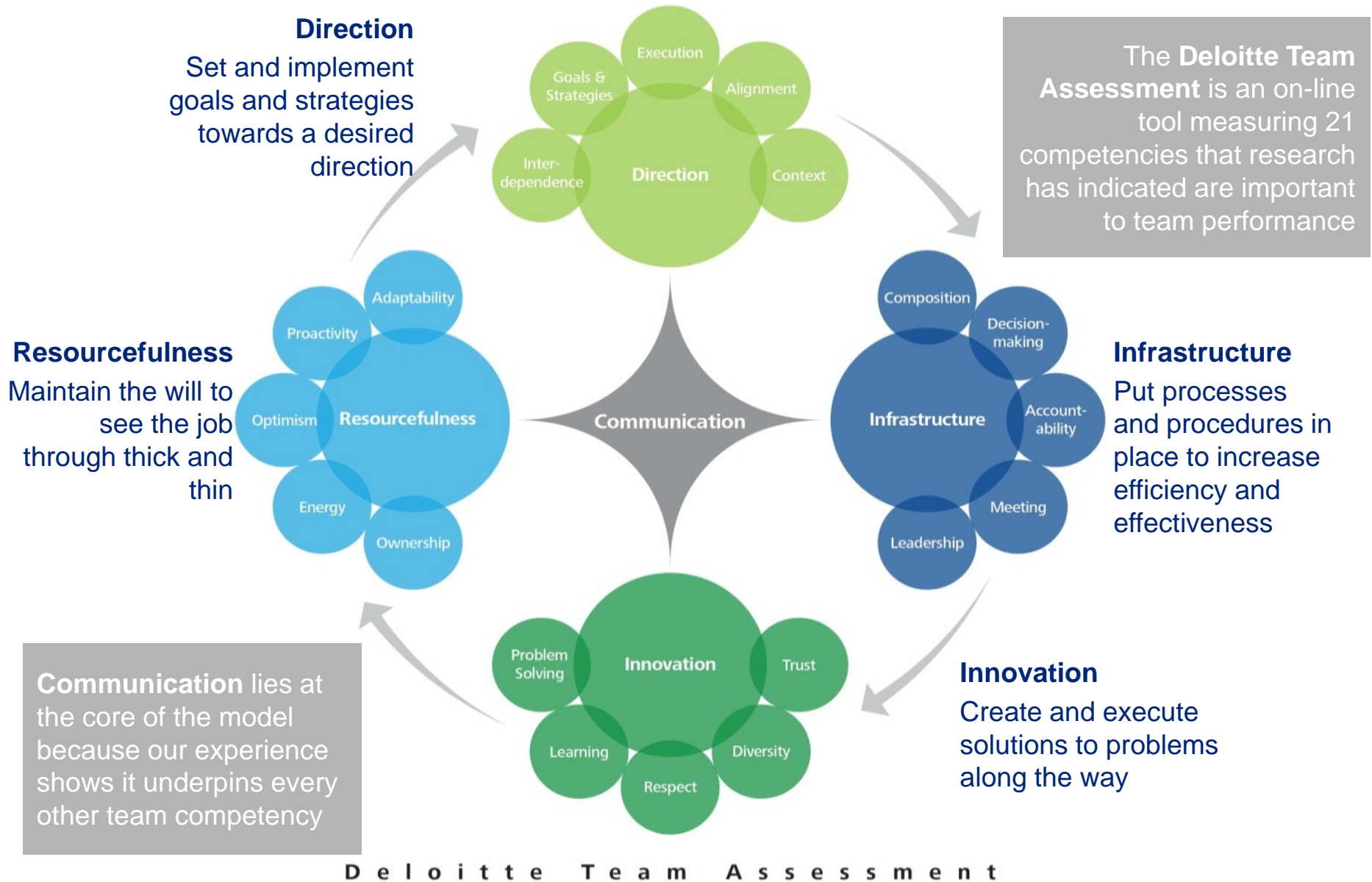
- Effective **corporate governance**
- Effective **leadership characteristics**

What are effective leadership characteristics?



- Our research reveals 6 core capabilities; analysts also cited several personal qualities they look for
- These capabilities are consistent with analysts' demands for strategic clarity, successful execution and continuous innovation
- They also reflect another key finding of our survey: recognition of the importance of the whole leadership team and senior management of the organization
 - Analysts reject the idea of the “hero CEO”
 - They look for the ability to build teams, develop people, and achieve results through the performance of others

How do you quantify leadership team effectiveness?



What does a high performing leadership team look like?



- High performing teams are usually better at every team competency and function than teams that are medium to low performing
- It is common for teams that are low or medium performing to have an imbalance – they are good at some team functions but poor at others
- Teams often prioritize action planning based on their results, and re-survey annually to measure progress
- Consider exploring **Communication** and **Accountability** as a starting point

Who is responsible for leadership development?



Additional Information

Articles available on www.Deloitte.com

The leadership premium

How companies win the confidence of investors

What to do when the Emperor has no clothes

Creating a high performance organization starts with building a high performance senior management team

Leadership by design:

An architecture to build leadership in organizations



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