



July, 2005

Leadership Pulse Research Results

Leadership in Crisis

By: Theresa M. Welbourne, Ph.D.



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Energy

Energy is something that travels; it travels through the power lines and when it touches something, there is a reaction. It touches your home, and lights go on, music is played and you can use all the electrical appliances in your house.

Energy in your organization travels too; it travels from one person to another. When your leaders are energized at work, they spark the hearts, minds and souls of your employees to take action and move your company forward. Your leaders are the people who energize each other, employees, customers, and your partners to work together and grow the organization.

But what happens when your leaders’ energy levels start to dwindle? What happens when your leaders themselves are not energized? This is not a rhetorical question because the latest Leadership Pulse findings show that, despite several positive moves in the economy, leadership energy and confidence have taken another dip.

The Sample

The research done via the Leadership Pulse comes from a large sample of executives (over 4,000 to date) who have agreed to participate in short, Pulse Surveys conducted every two months. We gather data on topics of strategic importance to leaders and then provide results to those who participate in this University of Michigan study. Our goal is to learn from data, create a dialogue around the subjects we study and help leaders continually learn and bring value to their organizations.

The results presented in this report are from the survey that closed on May 31st, 2005. A total of 369 people participated in the study. Of those who responded, 31% were in C-core jobs (e.g. CEO, CFO, CIO, etc.), and 23% were VP level while 25% were at the Director level. The remainder is in senior manager or manager-level positions. The industries they come from include the full range studied with 16% from manufacturing, 3.7% from communications, 8.6% from finance, insurance and real estate, 6.7% in health care, and 10% from information technology.

Overall Scores and Change from Last Year

Compared to scores from last year at this time, the overall energy reported by executives dropped from 6.72 to 6.25. The percent of people reporting to be in the overall, “high-energy” zones dropped from 62% to 53%.

We also asked five questions about various aspects of leadership confidence. In the same way that consumer confidence is related to buying habits, leader confidence is related to leader energy *and* the energy levels of their employees. Thus, when we see confidence in all aspects of business go down, with the highest drop in the degree to which these leaders think their firms can change, we should begin to worry.

Variable	Summer, 2005 (June)	Summer, 2004 (July)	Points Decline
Energy (mean or average)	6.25	6.72	.47
Energy (% in high energy zone)	53%	62%	9 points
Energy (% in low energy zone)	12%	8%	4 points
Confidence in the overall leadership team of their firms (% saying they are confident)	73%	76%	3 points
Confidence in economic climate of their business	63%	65%	2 points
Confidence that they have the right people and skills.	59%	63%	4 points
Confidence in their ability to execute on their company’s vision	60%	67%	7 points
Confidence in their firm’s ability to change as needed.	56%	65%	9 points
Confidence in their own personal leadership and management skills.	88%	92%	4 points

Table 1: Overall scores for energy and leadership confidence

It is certainly possible that part of the reason for the drop in scores is that the sample changed from time 1 (2004) to time 2 (2005). However, the data for the study can be calculated at both the overall, group-score level and at the “within-person” change level because scores are stored in the data base as one line item over time. When the within-person-change scores are calculated, we find that they too show drops in the scores from 2004 to 2005, so for those people who answered both times, their scores were lower.

What if we focus in on a specific group of respondents? We examined the C-level executives as they are the most aware of financial trends and upcoming business. Even at the C-level, the downturn in scores is prevalent. The most negative drops for the C-level group were in the following: energy (drop of .66 for those who responded both time periods), that they have the right people and skills (mean dropped by .18 for those who responded both time periods) and for ability to change as needed (mean dropped by .12 for those who responded both time periods).

Overall, our examination of the data (although still preliminary) shows fairly steady and negative drops in scores for both energy and leadership confidence.

Results for Various Demographics

We examined whether there were differences in the score for various demographic groups. Below are a few examples. The first is by firm size, and the figure below summarizes the data by firm size.

ENERGY SUMMARY - PULSE										
Group	Pulse (SD) ^a	Change ^{b,g}	WPC (#) ^c	Zone ^d	PLow ^e	PHigh ^f	Energy (%)			
							Low Energy (0.0 - 3.74)	Medium Energy (3.75 - 6.25)	High Energy (6.26 - 10.0)	
All Companies	6.25 (2.13)	↓ -0.46	-0.55 (127)	-1.28	7.53	8.66	12	34	53	
500 or Less	6.13 (2.23)	↓ -0.63	-0.55 (84)	-1.41	7.54	8.63	16	31	52	
More than 500	6.44 (1.99)	↓ -0.30	-0.42 (41)	-1.04	7.48	8.71	6	40	54	

^a Average (Standard Deviation) | ^b Change from Previous Time Asked | ^c Change for Respondents Answering two periods in a row
^d Points above or below Productivity Zone | ^e Lower Productivity Boundary | ^f Upper Productivity Boundary
^g ↑ = 0 to 2.5%; ↗ = 2.6 to 5%; ↘ = 5.1%+;

Table 2: Energy Pulse by Firm Size

This chart shows that both the change and within-person change scores, overall, went down for all companies in both the smaller and larger size categories (based on number of employees). All companies are below their own productivity zones (note that the PLow and PHigh are specific zones calculated for firms in that demographic group).

We further drilled down into the size categories to show results for other demographics, still based on number of employees.

ENERGY SUMMARY - PULSE

Group	Pulse (SD) ^a	Change ^{b,g}	WPC (#) ^c	Zone ^d	PLow ^e	PHigh ^f	Energy (%)		
							Low Energy (0.0 - 3.74)	Medium Energy (3.75 - 6.25)	High Energy (6.26 - 10.0)
500 or Less	6.13 (2.23)	↓ -0.63	-0.55 (84)	-1.41	7.54	8.63	16	31	52
101 to 500	5.80 (2.42)	↓ -0.71	-0.58 (15)	-1.55	7.35	8.63	26	25	49
Less than 100	6.24 (2.16)	↓ -0.61	-0.54 (69)	-1.36	7.60	8.62	13	34	54

^a Average (Standard Deviation) | ^b Change from Previous Time Asked | ^c Change for Respondents Answering two periods in a row
^d Points above or below Productivity Zone | ^e Lower Productivity Boundary | ^f Upper Productivity Boundary
^g ↑ = 0 to 2.5%; ↑ = 2.6 to 5%; ↑ = 5.1%+;

Table 3: Drill Down of Energy Pulse for Firms in Less than 500 Employee Category

Lastly, the table below shows the breakdown for firms with over 500 employees. Here too you see everyone reporting below their most productive zones (blue and negative means below zone), and the within-person change scores are negative. Only for the 501 to 5,000 employee group do you see that they report an overall change score that is positive, but it is only .04. And the within-person-change score is negative. Thus, there is no evidence to suggest that the decrease is a function of firm size.

ENERGY SUMMARY - PULSE

Group	Pulse (SD) ^a	Change ^{b,g}	WPC (#) ^c	Zone ^d	PLow ^e	PHigh ^f	Energy (%)		
							Low Energy (0.0 - 3.74)	Medium Energy (3.75 - 6.25)	High Energy (6.26 - 10.0)
More than 500	6.44 (1.99)	↓ -0.30	-0.42 (41)	-1.04	7.48	8.71	6	40	54
25,001 and over	6.46 (2.07)	↓ -0.24	-0.55 (10)	-1.30	7.76	8.85	7	42	51
5,001 to 25,000	6.33 (2.13)	↓ -0.97	-0.71 (11)	-0.86	7.19	8.59	7	44	48
501 to 5,000	6.46 (1.89)	↑ 0.04	-0.19 (20)	-0.95	7.41	8.65	5	37	58

^a Average (Standard Deviation) | ^b Change from Previous Time Asked | ^c Change for Respondents Answering two periods in a row
^d Points above or below Productivity Zone | ^e Lower Productivity Boundary | ^f Upper Productivity Boundary
^g ↑ = 0 to 2.5%; ↑ = 2.6 to 5%; ↑ = 5.1%+;

Table 4: Drill Down of Energy Pulse for Firms with More than 500 Employees

Similar drill-down analysis indicates no particular pockets of demographic groups that would change the overall conclusion that the trend is down.

Action Gap

Another analysis we do with the data is to calculate what we call an “action gap.” We calculate a score for confidence in the organization’s resources (e.g. economy for the firm, leadership team, people, and their

own leadership skills), and we subtract from that number their confidence in their ability to use those resources (execute on vision and change as needed). Using the average scores from last year and this summer, 2005, you can see that the action gap grew from .14 to .25.

The logic flows that if you are confident that you have the right people in place and the economy is there for your business, and you are the leaders and in charge of these resources, then one would think they would be confident they could execute and move forward. This is not the case; something is getting in the way.

In addition to scores overall going down, the real dip is in the leaders' perceptions that they can use the resources they have to execute and to change to meet the needs of their organizations.

Variable	Time 1	Time 2
Confidence we have resources	3.87	3.76
Confidence we can use those resources	3.73	3.51
Action Gap	.14	.25

Table 5: Action Gap Calculated with Mean Scores

The “have” vs. “do” gap is an important one to understand. In order to dig deeper into this relationship, we plotted the scores for the “having resources” and “using resources” data with energy in 2004 and related those two numbers to firm performance in 2005.

There are a few points to be explained:

1. The energy score is not the overall mean on the 1 to 10 rating scale. Energy, as measured by the eePulse team, is an optimization construct. Each person’s energy and departmental data are calibrated through an analysis of where the person is most productive. The gap between where the person is most productive and where the person is today creates a score that is then trended over time.

For the leadership pulse study, we do not have multiple time periods (or enough to calculate variance scores, which are the preferential data for more complex analysis), but we could at least calculate what we call a Productivity Gap score. This number is generated by subtracting the current energy level from the energy level where the individual reports being most productive (note that we have several years of validation research confirming use of self reporting for productivity gap metrics).

2. We ran this analysis for both confidence that the individual has resources and that the individual can use resources. There were no meaningful results for the “having resources” data. Therefore, it will not be reported.
3. The firm performance data are self reported. However, researchers have found ample evidence that self-report data are accurate for research purposes. Also, our research team has access to actual firm performance, and in future research, we will further validate these metrics.

The graph below shows that leaders who reported low “gap” scores (they are reporting to be very close to the score where they are most productive-near 0), who were confident that they could execute on their vision AND that their firm could change as needed had higher performance in 2005 (bigger, darker circles, with and without yellow outline denote high performing firms).

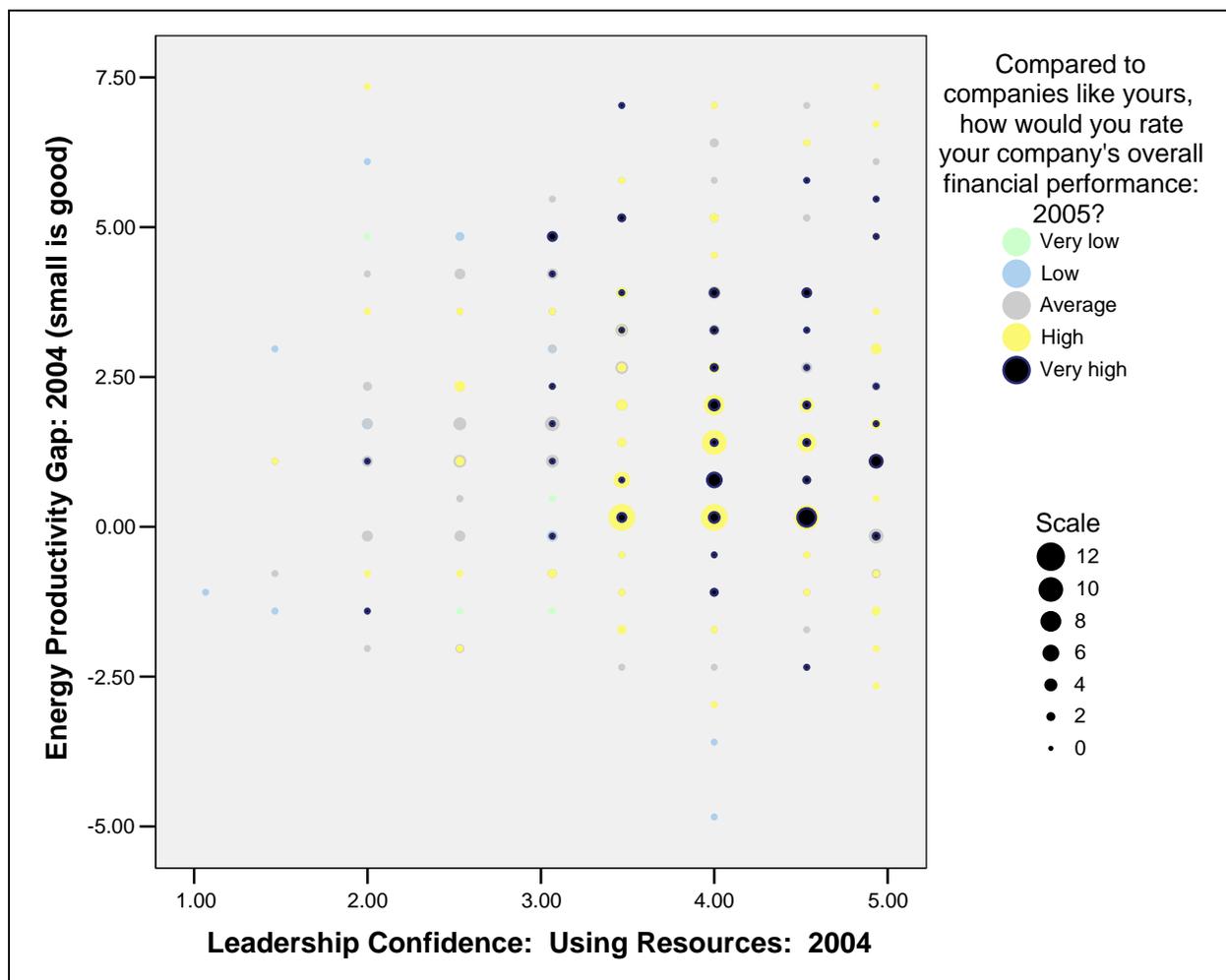


Figure 1: Plot of energy productivity gap and confidence in 2004 with firm performance in 2005.

Learning from Leaders

In addition to gathering the trend data, we asked the survey respondents to tell us what key factors influence their confidence in their firm’s ability to grow. The data was categorized, and the comments fell into the following top five buckets:

Criteria	Percent commenting on this topic
Sales	18%
Leadership / management	18%
People	18%
Culture	16%
Financial	14%

Table 6: Summary of Comment Categorization: Top 5 Indicators

Consistent with a common sense approach to the subject, sales bring more confidence and energy. Below are some sample comments from respondents:

Question: What key factors influence your overall confidence in your firm's future and its growth potential?

“Understanding our customers and knowing how to organize both development and sales/support”

“Execution of sales strategies the ability to recognize and act on market opportunity”

“The company as a whole has turned around - stock is up, sales are up, profits are up. This translates into confidence to succeed.”

“Client / customer satisfaction and referrals”

“Never satisfied with the status quo. Desire to deliver what the customer wants, not just in our own methods. Extremely loyal base of employees.”

Beyond sales, the comments are all about people – leadership, employees, team, and culture. The people-related comments were by far at the top of the list when it came to factors affecting confidence and growth. Below are some of the comments we saw in the results:

“1. Infusion of new and visionary investment/senior management team 2. Entrepreneurial attitude 3. Commitment/desire to change 4. Current market share and potential for exponential growth as new businesses/products are introduced 5. Commitment to investing in business: people, resources, technology; research, finance to ensure capitalization of growth potential in expeditious fashion 6. Change in strategy and attitude toward recruiting/hiring "best in class" versus "talent to fit budgets." Superb talent pays for itself!”

“Our own ability as a management team to steer the company effectively through the marketplace to position ourselves to capitalize on the opportunities out there. In order to

do that we have to ensure that we have the right people in the right roles (which generally I think we do) and make sure they are all clear on the vision that they are working toward and what they need to focus on to help us get there. We're an entrepreneurial company and need everyone to be looking beyond their day-to-day roles to how they can help us improve what we do, how we do it, etc."

"Ability to execute against current goals, key distribution deals must be closed in next 6 months in order for the company to grow and prosper again, team leaders need to inspire people and connect with them on emotional level"

"People, people, people"

Why is Confidence Declining?

The comment question reviewed above was worded in a positive fashion; we asked what is helping the leaders' grow their business. Among the positive statements, there were a few concerned comments that may give us a clue as to why the confidence scores and energy levels decreased.

The answer is "people." Where everyone is saying that leadership, culture and high-quality employees all make them succeed, there also were comments about being concerned talent will leave. After years of not worrying about turnover, organizations are starting to see good people leave. With the job market picking up, it will be difficult to retain your best talent, and that may be why confidence is lagging.

Additionally, we asked two questions about human resources. We asked confidence in the HR department's effectiveness and confidence in the HR skills of the senior executives. Below is a table with the results of those two questions.

HR FOCUSED QUESTIONS	Summer, 2005	Summer, 2004	Points Change
Confidence in the effectiveness of their HR department.	48%	56%	- 8
Confidence in their senior executive team's abilities in HR	48%	59%	- 11

Table 7: Confidence in HR

The biggest drop in any questions is in the executive team's abilities in human resources. If the most senior leaders are lagging in their people skills, and they know they have problems, then they need help. But note that the scores for confidence in their HR departments also went down. Are these leaders having problems getting the help they need?

The implications for the HR field are severe. Either HR needs to dramatically train up their staff so they can help the most senior executives, or they need to outsource the work to experts who can work directly with the senior team.

Energy and Confidence: Upward or Downward Spiral

Confidence and energy are leading indicators of firm performance. Our long-term predictive research (using regression analysis, control variables and more) shows that energy and confidence at time one can predict performance at time two. Of course, if you see the data heading down, and you stop and do something about it, you can deter a downward spiral and improve your chances of growth.

But an intervention is needed, and a clearly important one is simply making sure that the leadership team themselves are energized by their work. Energy is “catchy,” and if the senior leadership team is starting to become de-energized and lose confidence, those attitudes can pass themselves off to the rest of the employee population.

Immediate attention to the leadership and management teams is warranted. Specific discussions and/or data collection efforts to diagnose their energy, confidence and what’s affecting both will help any organization thrive.

As Greenspan monitors the economy and alters the interest rate in order to avoid complex problems, someone in every organization should monitor the indicators of leadership health. And they need to make adjustments continually to keep leadership energy and confidence in line with what the organization needs.

Realignment, Agility and HR: The Story Unfolds

In the last Leadership Pulse survey we examined the factors that were getting in the way of executing strategy, and we found that the #1 barrier was the company’s past and habits. We discussed the flawed logic of striving for “strategic alignment.” It appears that this most recent survey tells a similar story.

Firm performance is maximized when leaders are working in their productivity zone AND confident that they can BOTH execute their vision and change as needed. Energy to move forward, and executing based on new direction are components of realignment and agility. And what would get in the way of moving forward in a continuous improvement, real-time manner? The only factor to really deter strategy is the people in the company; if they are holding on to old habits, then the organization cannot succeed.

Today’s businesses struggle with the need to move forward based on new data. No longer can anyone be satisfied with our traditional ways of responding to the environment.

The low scores for HR confidence, both for the department and the senior executives, are very troubling; the one guaranteed way to stay ahead of the competition is through your employees. If you can harness the knowledge that employees have about the business and their willingness to provide you with that information, your organization can change.

I worry that too much time and effort are being focused on the emotional side of business and not on performance. There is a real movement underway to help “engage” all employees, but no one has agreed on what engagement even means (see Melcrum report, <http://www.melcrum.com>), and it seems many are being lulled into process and procedure that are not focused on the leaders’ real needs of the day.

The HR focus may have steered away from performance yet again, and it cannot. Leaders will not be energized or confident if they do not have the support they need to harness the people resources in their organizations to not just move forward, but to continue moving forward. Human resource management is a key skill that every leader must master. They must be able to communicate with employees and optimize their energy under good and bad conditions. HR departments must be able to support their line executives in building their executive HR skills as well as in doing the traditional HR work.

Data: A Way to Get Started

One simple way to start the process in your own organization is to share the results of this study with your senior leadership team. Talk about confidence and energy within your own group, and if you find they need help, consider targeted interventions that can be done by your organization, consulting firms or by coaches. Don't wait until the problem escalates.

Also, you can register your leadership team to participate in the Leadership Pulse study (if they are not already a part of the process). Our goal is to expand leadership knowledge and theory by listening to the executives who are part of the study. You can sign up for the process and receive free reports by going to the following link: www.umbs.leadership.eepulse.com.