MICHIGAN
ROSS SCHOOL OF BUSINESS

CEO

eepulse

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Leadership Pulse™ Research Results
from December, 2006 Pulse Dialogue™

Leadership confidence
HR confidence
Leader energy

A report on key business trends

Research Study By:
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Energy and Confidence:

What do the trends tell us about 2007?

Consumer confidence is an important
metric in understanding consumers' willingness to purchase.

Leadership confidence is key to knowing if employees will go "above and
beyond" at work.

In the same way that being confident in the market means you are more likely to spend more, being confident in the leadership of your organization and in the firm's direction translates to your being more willing to remain employed when times are a little worse, to help out when a special project takes more people, and going above and beyond to do whatever it takes to help your organization thrive.

Thus, tracking leadership confidence is important. The starting point is the leaders' confidence in themselves. Thus, in this leadership pulse we add one more trend point to the data we have been collecting for the last 3 years. We study how leadership confidence is trending.

Also, we did some work on trends in human resource management (HRM) confidence. For those who have not been with the project from day one, let me explain why we focused on HR confidence (vs. other departments). Our initial sample of participants was a group of HR executives who attended executive education programs at the University of Michigan's Ross School of Business. Since then, we have expanded the study to include other leaders. But early on we started trending HR confidence (confidence in the HR department), and therefore, we continue to collect that data.

Lastly, we asked energy again. We are going to continue tracking energy because the predictive nature of the one-item metrics. It gives us powerful information to help understand the various industries and other subgroups in our sample (e.g. functional groups, data by level, etc.).

In a nutshell, what did we learn?

- Energy is finally trending up. This is the 2nd period with an overall increase in leaders' energy. However, improvement is not in play for all industries.

- Leadership confidence went down from summer, 2005 (continued fall from summer, 2004).

- HR confidence also declined since summer, 2004.

Energy is up, and confidence is down. This seems like a mixed message. However, in the studies I conduct within firms, I often see that as people start to individually recover from events, energy starts swinging up while attitudes towards others (confidence, satisfaction, etc.) do not necessarily improve at the same pace or at the same time. People do not see change in their peers' as early as they feel changes within themselves. This is because it takes time for internal increases in energy to manifest itself to the others. It could be the case that people are individually feeling a bit better but not seeing evidence of a group effect yet.

This could be good news overall. If we are witnessing the beginning of an upward trend, then 2007 will be a year of improvement for all industries. Or consistent with our "dream[1]" at eePulse, maybe we will see employee energy (ee) improve for everyone everywhere (ee).

In this report we dig into the data, we examine comments, we learn from the leaders about best practice. We hope that you can use the data to create dialogues within your own organization. And our wish is that your conversations result in learning moments and actions that help you energize the leaders and employees with whom you work.

If you have comments or feedback on the results, please write to me at: theresa@eepulse.com.

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[1] We chose the word dream vs. vision. We like the idea of being dream generators and actively together to make our dreams come true.

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The leadership pulse study

The leadership pulse research taps into a large sample of executives (over 4,000 to date) who have agreed to participate in short, Pulse Dialogues (our word for short surveys[2]) conducted every two months. We gather data on topics of strategic importance to leaders and then provide results to those who participate in this study. Our goal is to learn from data, create a dialogue around the subjects we study and help leaders continually learn so they can use the data to bring value to their organizations. The results presented in this report are from the Pulse Dialogue that closed on December 22nd, 2006. .

Who responded to the Pulse Dialogue?

A total of 386 leaders participated in the current Leadership Pulse. See Appendix A for complete sample characteristics.

Energy Pulse™ trend[3]

The data for December 22nd 2006 (see Figure 1 below) reveal that **across all industries, energy levels have rebounded slightly from their lowest point of July of 2006.** As you can see, energy spiked up in March of 2006; however, it declined in the next period. Therefore, when we saw energy go up again in October, we were not clear whether it was another temporary increase or the beginning of a trend. With the December additional increase, there is hope that energy will continue its climb.

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[2] I have changed the word to Pulse Dialogue as a signal that the process used is an attempt to evolve the traditional survey process. For example, the dialogues are done on a more frequent basis with fewer questions, and we provide everyone who participates with results and multiple ways to engage in dialogue about the results. In addition, participants receive personal reports that compare their own results to averages for people in their industry and the overall sample. We think the dialogue and learning is the key to this information exchange, where in traditional surveys scores and one-way communication are the overall goals.

[3] As part of the on-going research, the Leadership Pulse tracks leaders' energy levels over time. Background information on energy and validation of the Energy Pulse metric can be found on the eePulse web site (www.eepulse.com). Numerous multi-firm and within-firm studies have demonstrated that the one-item energy question predicts (using longitudinal, predictive research methods) turnover, customer service scores, sales, absenteeism, quality, 360 performance ratings, and more. The net is that **when energy goes down, if no intervention is implemented, then individual and firm performance will go down in the near future**. Also, we discovered that leadership energy is a lead indicator of all employee energy because leader energy affects employee energy.

Figure 1. Energy pulse trend (average score plotted) from January, 2004 to December, 2006

Energy Pulse Trend
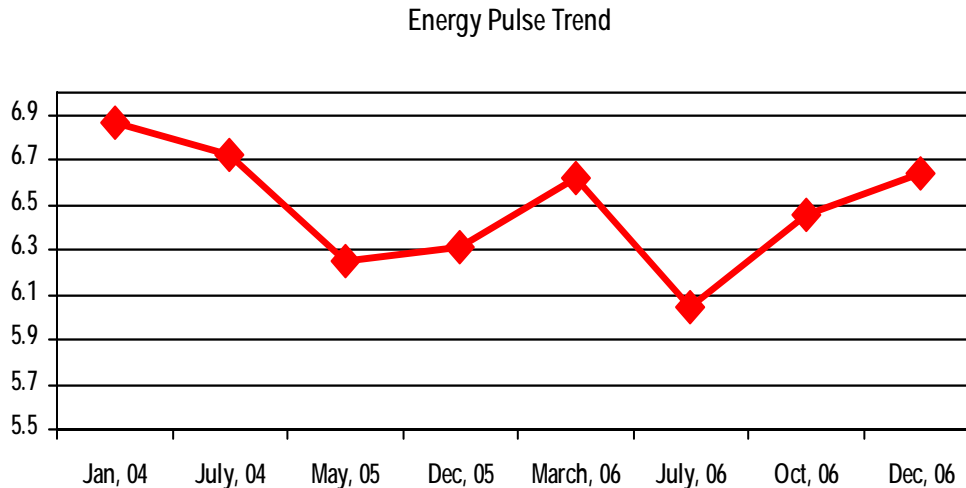
However, the data reveal two important additional pieces of information. One, overall energy scores are below the productivity zone. The productivity zone is the range in which the leaders report they are most productive. Remember that energy is not a maximization scale; higher levels of energy are not necessarily better. Energy is an optimization scale; you want to be at an energy level that is optimal for you. Thus, when we assess energy and trends, we ask people not only where they are on energy but where they are most productive. Both numbers are then used to create reports that are predictive in nature. Being in "the zone" is important for maximizing firm performance, reducing turnover, improving customer service and sales, and more. Thus, we want to see energy improve but not "max out" at a level where people are feeling they have too much energy and are spiraling into burnout.

The leadership data for December show that, although energy is improving (See Figure 2 below), there remains 22% of the current sample reporting in what we call the "danger" zones (either overly energized to the point of potential burnout or not energized); both conditions predict sub-optimal performance levels (See Table 1).

Figure 2. Energy pulse trend using average score for overall sample, with productivity zone (December, 2005 to December, 2006)
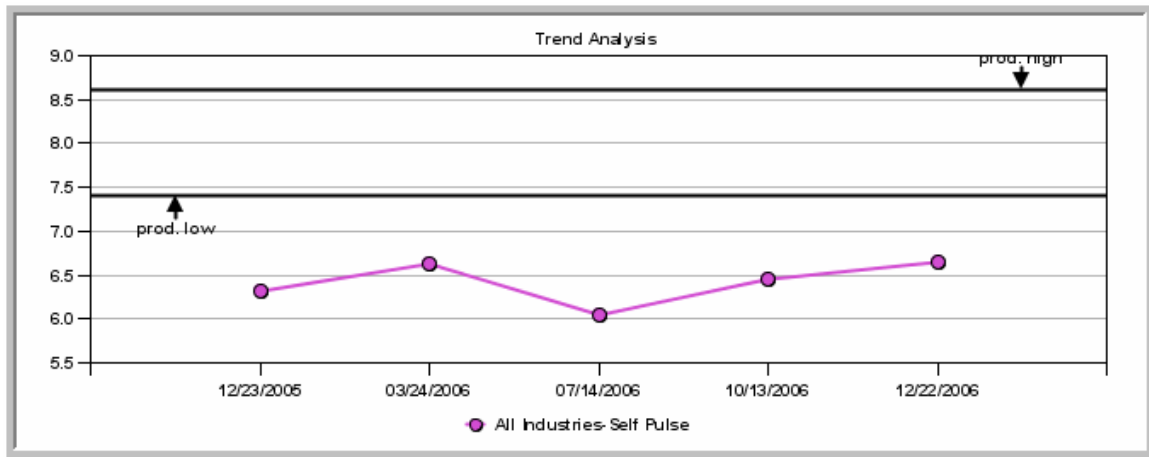

Table 1. Energy Levels of Current Sample (N = 386)

Question Details

Overall, how would you rate your current energy level at work? (Enter a number from 0 to 10 using the Energy Pulse scale on left.)

Response Scale		Percent
8.76 - 10.0	Overly energized	11%
6.26 - 8.75	Very energized	54%
3.75 - 6.25	Energized	24%
1.25 - 3.74	Somewhat energized	9%
0.0 - 1.24	Not energized	2%

Below is the energy data by industry. The arrows under the change column indicate that a majority of industries (12) trended up from last period (October). Note that the red arrows means the increase is by more than 5 per cent.

Although 12 industries are trending up, a total of 6 industries saw a decrease in energy scores. And most of the industries remain below their optimal productivity zone (designated by blue scores, the number showing the degree to which each is below its own productivity zone). We consider groups in "danger" when they are one or more point below their optimal zone.

Looking at table 2, you would conclude that the communications, engineering, and wholesale trade industries are doing well this period because they are "in the zone" (designated by the thumbs up). Also doing well are the industries that are

above their zone by less than 1 point (not approaching burnout, but in a healthy stretch zone). Those above zone industries are biotechnology and mining.

Table 2. Energy Pulse Score by Industry

Group	Pulse (SD)[a]	Change[b,g]		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 Industries	6.64 (2.09)	⬆	0.18	-0.77	7.41	8.62	11	24	65
Agriculture	NA		NA	NA	NA		NA		
Biotechnology	8.20 (1.15)	⬆	0.95	0.04	7.18	8.16	100		
Communications	7.43 (1.49)	⬆	0.94	👍	6.62	8.66	33	67	
Construction	6.06 (2.15)	⬆	0.23	-1.02	7.08	8.52	13	38	50
Consulting	6.41 (2.31)	⬇	-0.28	-0.93	7.34	8.61	16	25	59
Engineering	7.31 (1.85)	⬆	1.12	👍	7.30	8.83	13	88	
Finance, Insurance, and Real Estate	7.10 (2.13)	⬆	1.02	-0.64	7.74	8.43	7	17	76
Government	6.44 (1.81)	⬆	0.06	-0.96	7.40	8.60	8	31	62
Health Care	6.42 (1.90)	⬆	0.89	-1.27	7.69	8.85	11	28	61
Information Technology	6.57 (1.97)	⬆	0.94	-1.02	7.59	8.64	10	23	67
Manufacturing	7.02 (1.82)	⬆	0.57	-0.32	7.34	8.46	6	24	69
Mining	8.83 (1.26)	⬆	3.83	0.05	7.72	8.78	100		
Not-For-Profit Agency	6.66 (1.79)	⬇	-0.39	-0.88	7.54	8.82	10	10	80
Other	6.43 (2.39)	⬆	0.22	-1.24	7.67	8.52	15	21	65
Retail Trade	4.91 (2.30)	⬇	-1.78	-1.89	6.80	9.15	36	27	36
Services (other than consulting)	6.53 (1.78)	⬇	-0.57	-1.26	7.79	8.80	7	28	66
Transportation and Public Utilities	6.58 (2.62)	⬇	-0.12	-1.00	7.58	8.03	17	17	67
Web-based Technology	6.19 (2.52)	⬇	-1.87	-1.67	7.86	8.42	15	31	54
Wholesale Trade	7.00 (1.73)	⬇	-0.63	👍	6.64	8.37	33	67	

The industries that are below their zones by more than one point are construction, health care, information technology, retail trade, services (not consulting), transportation and web-based technology.

Leadership energy and NASDAQ trends

I thought that it might be of interest to look at the leadership energy trend and a few trends in the financial markets. Below is a chart that shows the NASDAQ monthly composite trend vs. the leadership energy trend.

Figure 3: NASDAQ composite and energy pulse trends
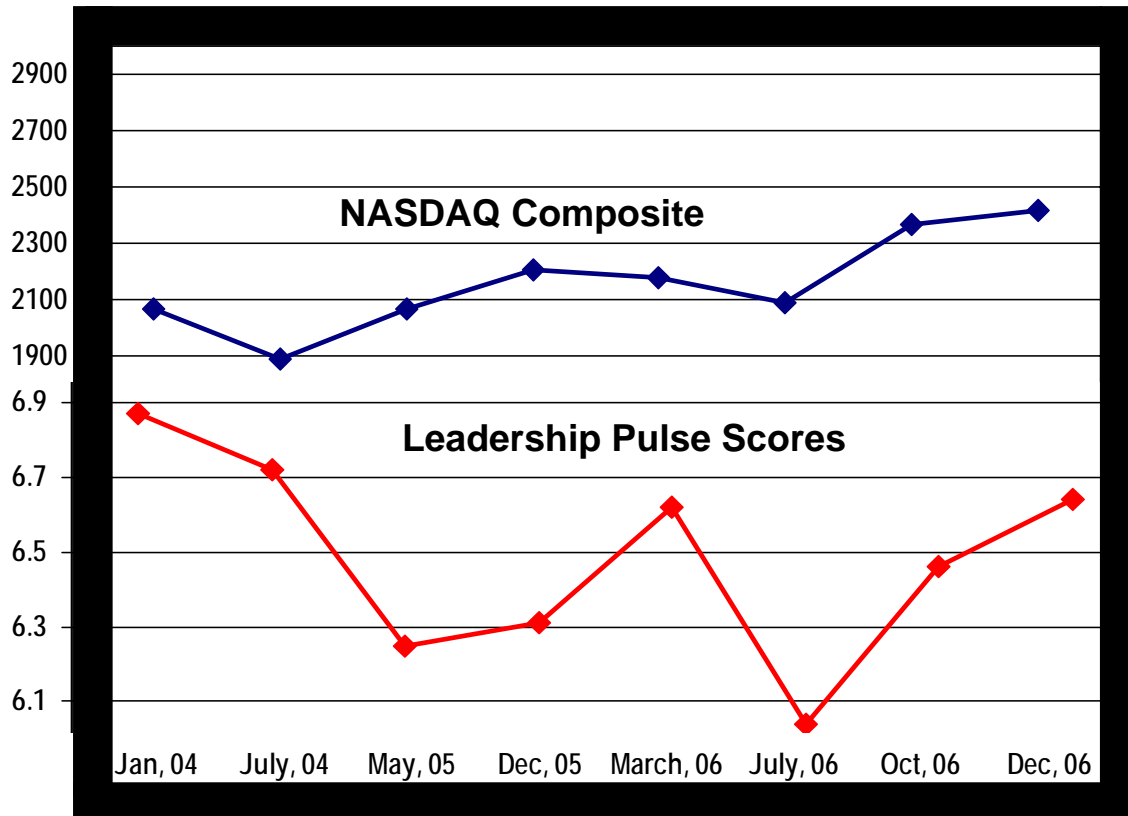
This says nothing about causation, but it is interesting to look at the trend data. Except for the time periods from July, 04 to May, 05 and from Dec, 05 to March, 06, the trends parallel each other (that is 5 out of 7 trends consistent). This may mean nothing at all, or it could indicate that leadership energy is somewhat affected by financial trends. The comment data would tell the story that leaders watch the financial markets, and they indicate it affects their energy; therefore, the idea has some merit.

In fact, in my earliest studies of energy, I worked with firms going through initial public offerings. We found correlations of .60 and above between employee energy and the stock price (when looking at the data weekly). This type of relationship has some dangerous and perplexing implications.

In many firms, incentive plans are developed to help employees "feel" like their wealth and well being are tied to financial metrics such as stock price. So, if you see this type of relationship in your own firm, you may think success. And indeed, you would have been successful at getting people to think about how

their work affects the company's overall performance. However, there are some unintended consequences. In one company in particular, I had an opportunity to spend time with the employees. As I walked from floor to floor and visited with employees, I realized that the company's minute-by-minute stock price was scrolling across employees' computer screens. The correlation was not explained by employee success, that day, being so great that Wall Street noticed. It was explained by the fact that stock price affected the energy level of the employees. Now keep in mind that my research to date shows that energy affects performance (within-firm studies and other research with large firm-level samples). However, many things outside of employees' control affect stock price. So if an announcement is made about your company or industry, and the news hits the press, and then your stock price goes down (as often happens), it means your employees' energy levels are likely to decline. Then if energy declines and you don't do anything about it, performance really declines, and your stock price certainly will go down. There is a spiral effect, and it is important to know the strength of the relationship between external metrics such as stock price and internal measures such as energy so that you can be proactive in stopping a downward spiral or in helping escalate a positive upward spiral.

Are we seeing the same phenomenon with the leadership energy pulse data? Additional industry-specific and more rigorous studies are needed to answer that question. For now, I ask that you consider what this type of pattern may mean for your organization and your own management teams.

Leadership Confidence Pulse™

Two types of confidence metrics were assessed during the current Leadership Pulse Dialogue. One reflected the degree of overall confidence in the senior leadership team and the other measured the degree of confidence in the HR leadership team. Using a 1 = *Not at all Confident to 5 = Very Confident scale* format, participants were asked to rate the 5 leadership confidence variables and the 3 HR confidence variables (see table below).

Table 3. Leadership and HR confidence items

Leadership Confidence Questions
Your organization's leadership team overall
The economic climate for your organization
Your organization's ability to execute on the vision
Your organization's ability to change as needed
That your organization has the right people and skills
Your own personal leadership and management skills

HR Confidence Questions
Your HR team's ability to execute on HR tactical work
The overall effectiveness of your HR department
Your HR team's ability to execute on HR strategic work

In addition to the current leadership confidence results the results of two previous time periods are reported (June 2004 and June 2005).

Table 4: Percent confident for all leadership confidence questions (percent confidence is the total answering 4 or 5 on the 1 to 5 scale).

Leadership Confidence Variable	Percent Confident June 2004	Percent Confident June 2005	Percent Confident Dec 2006
Your own personal leadership and management skills	92%	88%	87%
Your organization's leadership team overall	76%	73%	70%
Your organization's ability to execute on the vision	67%	60%	61%
The economic climate for your organization	65%	63%	59%
Your organization's ability to change as needed	65%	56%	56%
That your organization has the right people and skills	63%	59%	55%

Results show that over the past three years the percent who report high confidence levels have, in most cases, decreased. Personal confidence has decreased by 5 percentage points since 2004 and by only 1 point since 2005. Both confidence in the leadership team and in the economic climate have decreased by 6 points since 2004.

While confidence in the ability of their organizations to change as needed has stabilized from June, 2005 to December, 2006, overall confidence in ability to change as needed remains lower than the 2004 scores. Finally, confidence in having the right people and skills has steadily declined and is currently 8% less than when measured in June of 2004. The line graph below provides a visual representation of the steady reduction in leadership confidence over the past three years.

Figure 4: Confidence Trends, 2004 to 2006
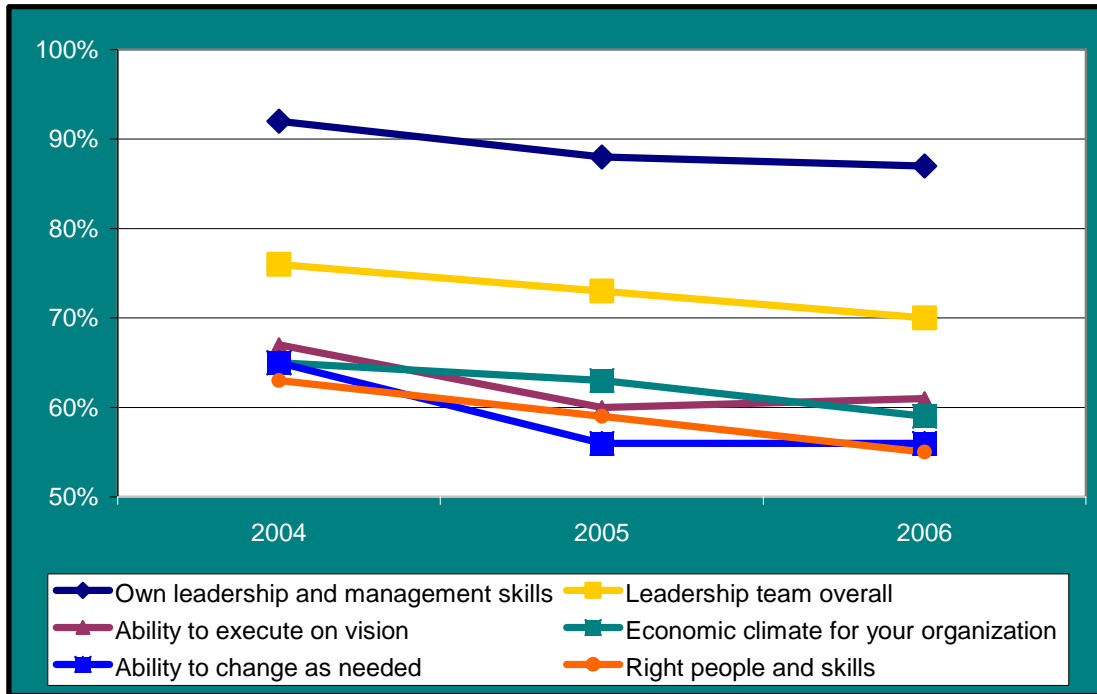
HR confidence

In addition to tracking the change over time of leadership confidence, we also review HR confidence over two periods of time. Specifically, we asked the following three confidence variables in June, 2004 and again in December, 2006.

Table 5: Summary of HR Confidence Trends

HR Confidence Variable	Percent Confident May 2004	Percent Confident Dec 2006
Your HR team's ability to execute on HR tactical work	83%	59%
The overall effectiveness of your HR department	65%	49%
Your HR team's ability to execute on HR strategic work	61%	46%

The results of tracking HR confidence are similar to those of the leadership confidence trend data. While the rank-order in confidence levels have not changed (in 2004 and 2006 respondents were most confident in their HR teams ability to execute tactically and least confident in their HR teams ability to execute strategically), confidence across the board has declined since May 2004. Confidence in ability to execute tactically has declined by 24 points, confidence in

overall effectiveness has declined by 16 points, and confidence in ability to execute strategically has declined by 15 points.

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) and from time 2 to time 3 (2006). We 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, results indicate drops in the scores from 2004 to 2005 and from 2005 to 2006. For those people who answered both times, their scores declined. With both overall change and within-person-change declining, it increases our confidence that a "real" change is evident.

Analysis of confidence scales and subgroup differences

The confidence variables discussed above were combined into two separate scales. The first scale consists of the five leadership confidence items and will be referred to as the Leadership Confidence Scale (LCS), while the second scale consists of the three HR items and will be referred to as the HR Confidence Scale (HRCS)[4]. Next, we investigated differences between scale scores and the various demographic data collected.

Figure 5: Leadership and HR Confidence by Firm Size (1 to 5 response scale; 5=very confident)

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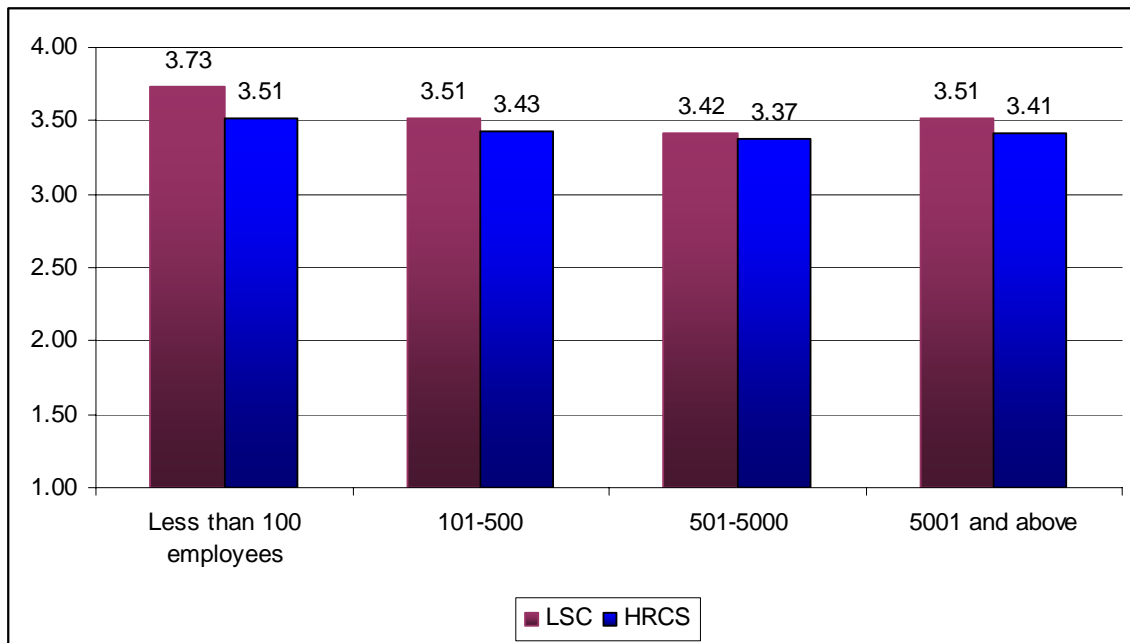
[4] Internal reliability estimates are alpha or reliability coefficient = .84 for the LCS and reliability coefficient = .90 for the HRCS, respectively.

Above you will see the results of both the leadership and HR confidence scales by firm size. For both confidence measures, the data reveal that leaders with fewer members had the highest confidence on both leadership and HR confidence. Below are some sample comments:

Over 500 employees

"Our vision, mission, values are not clearly defined; there is very little regard for leadership in that the same incompetent team continues to recycle, resulting in loss of critical personnel."

"Overall, there is no integration among the different areas of the company. Plans are not accomplished in terms of new products launching or re-launching timeline and there is always an excuse about that but, even thus, the sales objectives are not reviewed."

"Our senior leadership is not on the same page; they have built silos and are operating independently, yet deny that this exists"

Less than 500 employees

"Our leaders are experienced, competent and honest."

"Our CEO has developed our leadership team and successfully sold his vision."

Figure 6: Leadership and HR Confidence by Performance (1 to 5 response scale; 5=very confident)
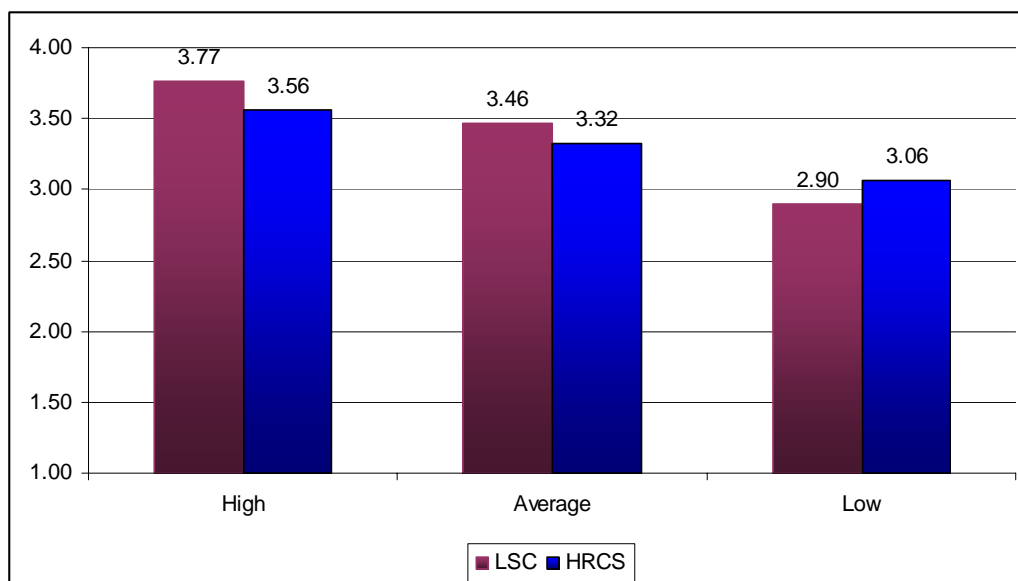
Results show that the highest performing organizations also have the highest degree of confidence in both their senior leadership and HR teams. The last subgroup analysis shows the averages on both scales by rate of change.

Figure 7: Leadership and HR confidence by rate of change the firm is experiencing (1 to 5 scale; 5=very confidence)
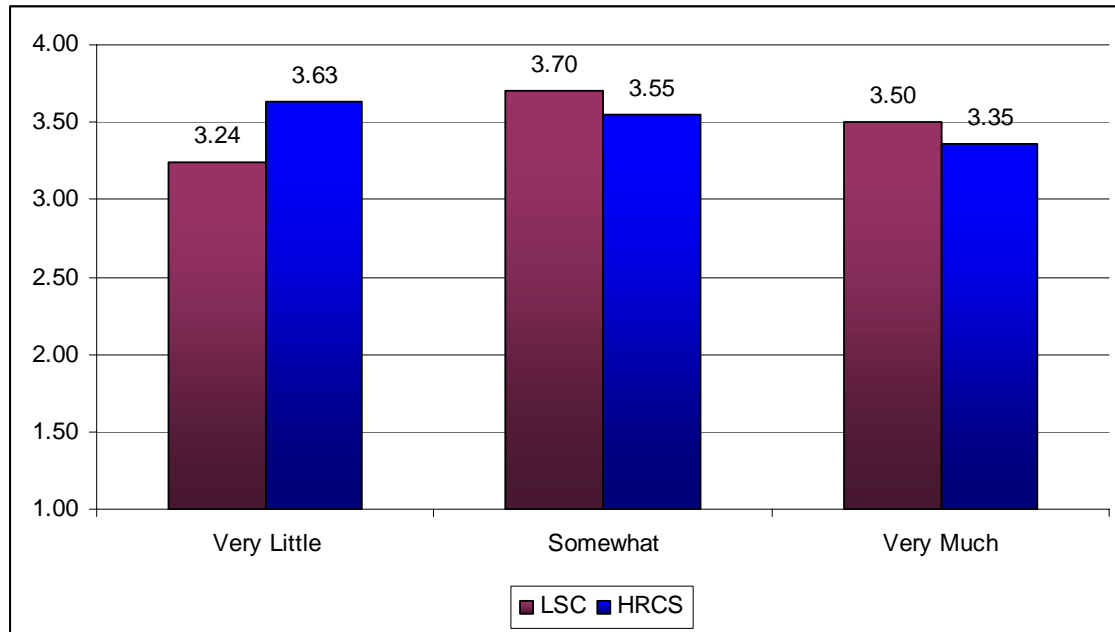
Results show that as change increases, leadership confidence goes up and then back down, but HR confidence consistently goes down.

Open Ended Comment Questions

In additional to the quantitative data, we asked open-ended comment questions as part of this study. Below is an analysis of the data.

Leadership Confidence Question Posed: "If you could change one thing about the way your leadership team is working, what would that be?"

Five themes emerged from the qualitative analyses that appear to affect leadership confidence. Below are the themes and a short explanation of each.

- Leadership
- Communication
- Team

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- Change
- Focus

Leadership – These comments focused on the need for senior leadership to establish a vision, encourage followers regularly, align practices and policies with strategy/vision, and establish or improve leadership training, development and succession processes.

Communication Summary – Respondents said they wanted to see information pushed further into the organization to make decisions and to improve communication between departments/units. They also wanted improvement in two-way communication patterns (i.e., information moves up as well as down). An additional element involved the desire for feedback related to how well actions taken were aligned with long-term organizational goals/vision.

Team – Two concerns were evident here. First, respondents expressed a concern over the degree of cohesiveness. There was a sense that some leadership teams were too large thus defusing accountability. Oversized leadership teams were also perceived as diluting the vision as various team members attend to disparate components of the vision. Second, the data revealed concerns related to poor communication tactics and a need to improve the speed of on boarding new leaders.

Change - Too much change affected confidence levels. The concern over change took two forms. First, respondents' confidence was reduced when the leadership team changed too frequently. If a leadership team restructuring occurred more than once a year this appeared to exacerbate the erosion of confidence as respondents reserved expressing confidence based on a "wait and see" attitude. Second, when the existing senior leadership team attempted to "change course" too frequently, this action also appears to erode overall confidence levels.
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HR Leadership Confidence Question Posed: **"**If you could change one thing about the way the HR department is working, what would that be?" There was a lot of variability in the way this question was answered. However, there were some general themes which did emerge.

The two main themes involved resources and alignment with organizational strategy. The resource concerns consisted of two elements. First, respondents said they needed more financial freedom to carry out various initiatives. Second, several respondents suggested that they needed to hire more staff as the organizational needs grew but the number of staff remained constant.

The second theme was loud and clear. In various forms the message was that HR needed to become a strategic partner aligned with and supporting larger organizational goals. In fact, several respondents felt HR should be viewed as

and operate as a business unit - a department that is working in concert with the rest of the organization to make the company, employees and the culture better.

Energy and confidence: A story about change management

After looking at the comments and data, I just can't understand why if energy is up, why is confidence down? So we played with a subset of the data, examining scores for the set of respondents who participated in both surveys. Below is a graph that charts the change score in energy (from October to December, 2006) against the overall leadership confidence score. The data is organized by firm performance (separating out high vs. average vs. low performing firms). Note that this only analyzed with a subset of score (100) with people who answered all questions and energy both times. The results are weak, but they suggest an interesting pattern.

Figure 8: Change in energy and leadership confidence for various levels of organizational change the firm is experiencing
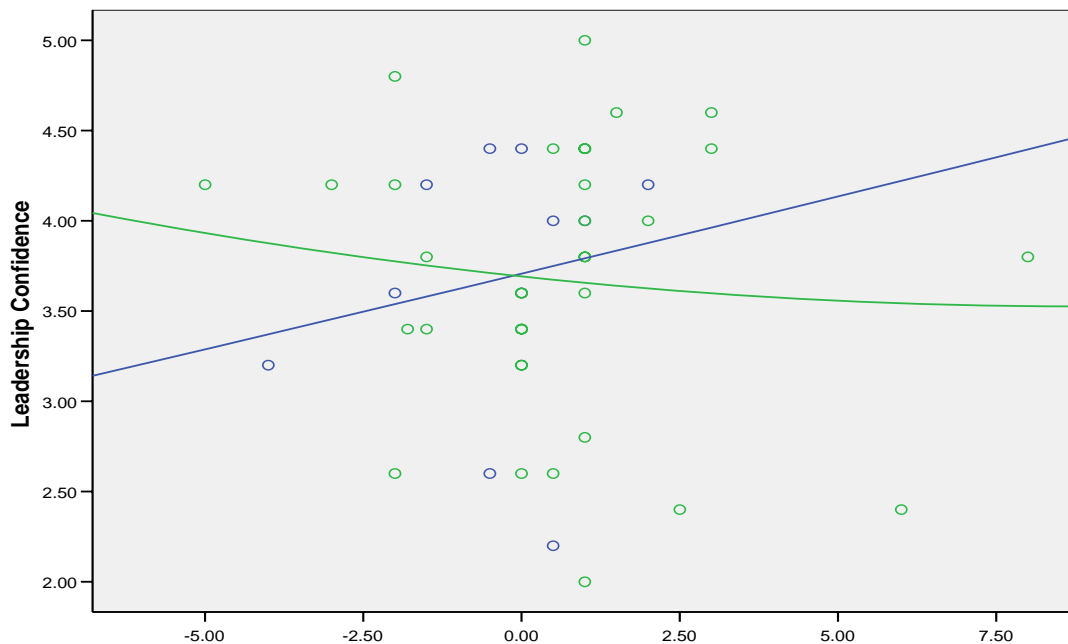
**Energy change from September to December, 2006 (sample size = 100)
Blue = low or moderate rate of change; Green = high change**

The blue line represents the relationship between change in energy (from September to December) and leadership confidence in December for firms described as going through low or moderate amounts of change. The green line shows the relationship for firms that say they are going through high amounts of change.

Think about your own experience as organization change increases. You have too many priorities; the path forward becomes less clear, and increasing energy is needed just to keep up with day-to-day responsibilities. Also, increasing energy is associated with being able to deal with the change. But, at the same time when things are "shaking up" from change, confidence in the people making the ground move from under you would likely go down. The lesson learned here, to me at least, is that energy and change are related, and the relationship varies based on the source of the energy change.

This is very consistent with what we see in our client work. In fact, the relationship also changes based on where you are in the cycle of change. At the beginning of a change initiative we find that there is excitement over something new, and in the early stages, people seem to look at change as something everyone else has to do (but now me!). However, as it becomes clear that you personally have to change, the excitement of new goes away. In fact, in some in-depth studies that I have done with leaders are they go through change, we see a pattern where the leadership team is pretty "gung ho" at first, and then as they realize they too have to change, their own personal energy and confidence in themselves declines, sometimes rapidly. This is all part of the nature of change, and firms that do well realize the dip exists and immediately respond to the issues. If you don't recognize the dip, you risk the change program running into serious problems.

Conclusion

At first, when reviewing the data, I became concerned that leadership confidence declined. But the decline is from summer of 2005 to December of 2006. If you look at the energy trend, energy too declined if I focus on just those two points in time.

The new burst of energy is encouraging. My best estimate, based on limited data, and assuming we continue on the path on which we are headed, is that leadership confidence will start to increase. Even for those firms that are going through more change, and for whom this may be having some negative effects on confidence, we know that change is needed to move forward. So what we may be seeing is just a slight dip based on needed changes in the organizations we study.

I will make a point of asking leadership confidence sooner in 2007, so we can trend this and learn more. My big challenge now is engaging you all to help diagnose the results. The comments this time around were fairly short. It may be because the questions were not well worded or the topic not of interest to you. I would appreciate any ideas you have for making the dialogue process more focused on your needs. If you have ideas for questions we should ask, please feel free to write to me. I am brewing up some new ideas that will be out to you

soon. In the meantime, please provide any feedback you have that will help us all benefit from this data and dialogue process.

Next Pulse Dialogue: Volunteerism at work

The topic for the next pulse dialogue is important not just to all of us but to citizens around the world. We are going to investigate the topic of volunteerism at work.

Thank you for your participation.

If you are interested in being part of the ongoing efforts to help leaders bring added value to their organizations please contact Dr. Welbourne at theresa@eepulse.com.

If you are currently not part of the Leadership Pulse study group, and you wish to participate (or sign up leaders within your organization), you can register at http://www.umbs.leadership.eepulse.com.

Appendix A: Sample Characteristics

Demographic distributions	
Company Size	**Percent of total**
	%
Less than 100 employees	37.6
101 to 500 employees	10.6
501 to 5,000 employees	19.2
5,001 to 25,000 employees	8.5
25,001 and over	8.8
No response	15.3
Total	100.0
Job Level	**Percent of total**
	%
C-core job (CEO, CFO, CIO, CAO, etc.)	29.8
VP level job (VP of any functional area)	18.1
Director level job	17.1
Manager level job	9.8
Professional in non-management position	6.0
External consultant	7.5
No response	11.7
Total	5.2
Industry	**Percent of total**
	%
Agriculture	0.0
Biotechnology	1.3
Communications	3.9
Construction	2.1
Consulting	19.5
Engineering	2.3
Finance, Insurance and Real Estate	7.5
Government	3.6
Health Care	4.7
Information Technology	8.1
Manufacturing	13.5
Mining	0,8
Not-For-Profit Agency	2.6
Other	12.8
Retail Trade	2.9
Services (other than consulting)	8.3
Transportation and Public Utilities	1.8
Web-based Technology	3.4
Wholesale Trade	0.8
No Response	0.9
Total	100.

Functional Area	Percent of total
	%
Engineering	2.8
Finance / Accounting	2.8
General Administration	2.1
General Management	24.4
Human Resource	29.3
Information Technology (IT)	3.6
Manufacturing	1.0
Marketing	3.9
Other	7.3
Public Relations	1.0
R&D (other than IT)	2.6
Sales	6.5
No Response	12.7
Total	100.0