

Adsidia

Developing people and organisations for excellence



Getting Ahead of The Curve: High Performance Leadership Delivers High Performance Businesses

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1. Introduction

Businesses with exemplary leadership outperform their competitors and the market by a significant factor. If the benefit of leadership excellence is true in good times how much more necessary is it during recession?

There is much material in the public domain examining the significant economic benefit of excellent leadership in business. These are based on rigorous industry studies and case studies of specific interventions. The overwhelming conclusion is that to achieve high levels of market and economic performance, businesses are dependent upon excellent leadership which in turn results in highly engaged staff.

This is true across the board, even for organisations which have excellent reputations and are held in high regard. It is recognised that people are a business' most critical competitive advantage, and all other things being equal, a business with excellent leadership and highly engaged people will succeed to a degree that leaves others falling well behind the curve.

If this is true in the good economic times, how much more necessary is it for businesses held in the vice like grip of a global economic downturn and "credit crunch". For any company, regardless of size, excellent leadership is absolutely vital to plot the course and not simply become a victim. The advantage available to smaller businesses is responsiveness and agility, it is simply easier to respond to the market.

2. Financial Performance and Leadership

Between 1995 and 2004, Richard ROI, a global thought leader on organisational and leadership development, then working for Crawford International, studied the financial performance of 94 Fortune 500 companies. His report concluded: *"Companies with adaptive corporate cultures and strong leadership practices financially outperform those that do not [have these characteristics]"*

Richard ROI observed: *"As we worked with corporations over the past 24 years, we came to recognize the importance of corporate culture and strong leadership in supporting business change and transformation. Clients that have an adaptive or agile corporate culture have historically thrived in the face of organizational change while those with non-adaptive cultures suffer through change,"*

The key factor in enabling this level of adaptability was seen to be "Exemplary Leadership Practices", a phrase coined by Kouzes and Posner to describe leaders who fully embraced and applied the five characteristics of leadership that they had observed in high performing companies. Namely:

- **Modelling:**
Leaders create standards of excellence and set the example of the way that people should be treated and pursue goals.
- **Inspiring:**
Leaders are passionate about the difference they can make and enlist others in the realisation of their vision.
- **Challenging:**
Leaders innovate to improve the organisation and its capabilities.
- **Enabling:**
Leaders empower their people, encourage collaboration and build spirited teams to achieve extraordinary results based on mutual respect and trust.

- **Encouraging:**
Leaders spur on their people to greater achievement by recognising and celebrating the contribution of the individual.

There are some talented leaders who quite naturally exhibit these characteristics but most do not. However, these capabilities can be developed and as the studies reviewed in this paper show, that investment shows a significant return.

In this era of globalisation we have experienced a period of unprecedented change. A company's economic success, even longevity, is dependent upon it adapting to the demands of its new situation. Roi's observation is that leadership is crucial to an organisation adapting successfully.

Companies studied by Roi and which model these high levels of adaptability include 3M, Apple, Bank of America, Cisco Systems, Barclays, Hewlett Packard, Genentech, GlaxoSmithKline and Intuit.

Roi's study looked at three Key Performance Indicators which show the difference between the high performance companies that enjoy an adaptive culture and excellent leadership and those that do not. The performance was measured from 1996 to 2001.

	Adaptive Culture	Non-Adaptive Culture
Net Income Growth	989%	-47%
Net Income Index Growth	11.5	1.7
Stock Price Growth	204%	70%

The central finding of Roi's study is that investing in strengthening leadership and culture is key to improving adaptability and it has a significant impact on the long term financial performance of a company.

The companies adopting best leadership practice demonstrate that they can "buck the trend" and that investment in high quality leadership is crucial to top level commercial and economic success.

3. The Economic Cost of Disengaged Employees

Towers Perrin conduct regular studies into many aspects of the human side of business. Their 2007 Global Workforce Study examined responses from 90,000 workers in 18 countries. Their findings showed that the majority of workers are not fully engaged with the success of their employer's business and, as a consequence, hold back their full commitment and participation.

Overall the study showed that almost 80% of workers, that is 4 out of 5, are "not living up to their full potential or doing what it takes to help their organisations succeed". While 2 out of 5 are disenchanted or completely disengaged. Because the engine of any business is its people it is obvious that this has a massive impact on the ability of a company to succeed.

The level of engagement varies by country ranging from 3% in Japan to 54% in Mexico. The USA sits at 29%. In Europe: the UK enjoys the full engagement of only 14 per of the workforce (i.e less than 1 in 4); Poland 9%, Netherlands 13% and Germany 17%.

Further Towers Perrin research demonstrates the commercial impact of this. They measured the engagement levels of employees in more than 50 global companies. The organisations were divided into two groups, based on these engagement levels, and changes in operating income for each group were examined.

Over a 12 months study, companies with highly engaged staff outperformed those with less engaged staff by a considerable margin. Those with highly engaged employees saw an average increase in operating income of 19.2% while those with below-average levels of engagement showed an operating income decline of almost 33%.

A similar three year study showed that companies with a highly engaged staff achieved a 3.74% increase in Operating Margin over the period, as opposed to a 2% decline for those companies that did not enjoy the full commitment of their staff.

These studies make it plain that developing a fully engaged workforce is of vital importance to commercial and financial success and that investment in this area will generate a return.

3.1. Engaging the Workforce

The question then is, what exactly is a highly engaged workforce and what factors affect the level of engagement? Understanding this is necessary to identify the correct investment.

In "Building a Highly Engaged Workforce" The Gallup Management Journal described engaged and disengaged staff. Their definitions are paraphrased:

- "**Engaged** employees are builders. They want to know the desired expectations for their role so they can meet and exceed them". These are the people who want to do their best and gain great job satisfaction from personal and company achievement. They are aligned with the company and enjoy using their skills and talents to enable the business to succeed. They are the drivers of improvement and innovation.
- "Employees who are **not engaged** aren't necessarily negative or positive about their company". They do not commit themselves and, to borrow the American phrase, as far as their company goes "they are from Missouri". They are always sceptical and believe things when only they see them. They sit in the no-mans land of low motivation and scepticism, neither giving nor achieving much.
- The "**actively disengaged**" employees are "Consistently against virtually everything." They are unhappy and everyone knows it. Their negative attitudes undermine the business and their colleagues.

There are some significant indicators that a company's workforce is not fully engaged. Such companies see low levels of productivity and quality, significant levels of stress and absenteeism and high levels of staff churn. These factors have obvious negative impacts on customer satisfaction, competitiveness, market share, return on investment and finally the bottom line – profitability. In this light it is easy to understand the divergent performance statistics identified by Roi and appreciate the reasons behind lack-lustre stock performance and investor sentiment.

3.2. Leadership and a Highly Engaged Workforce

In study of leadership published on-line at the Leadership Challenge web-site Kouzes and Posner identified a very strong correlation between highly engaged staff and exemplary leadership as measured by the Leadership Practices Inventory, a key element of Adsidia's leadership development programmes.

This study showed that there is a very high correlation between the actual practice of exemplary leadership by leaders, as witnessed by their staff, and those staff experiencing attitudes which represent being highly engaged.

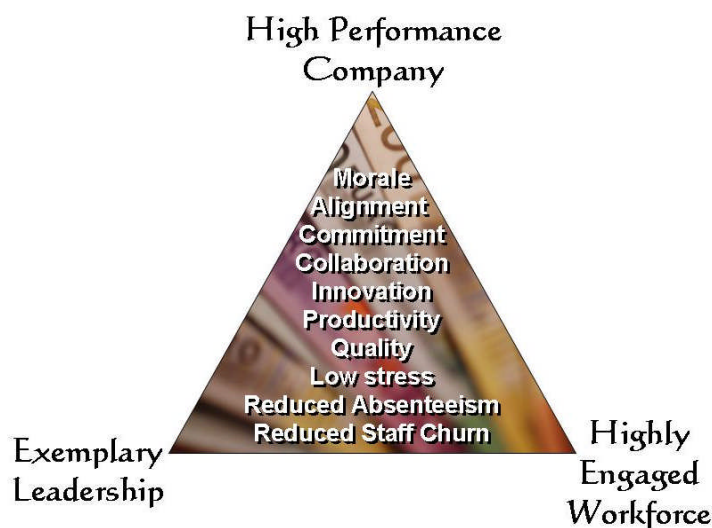
The study also showed the reverse: Where leaders did not exhibit high performance in terms of exemplary leadership then staff exhibited low levels of engagement.

The following table places these two sets of characteristics aside by side.

Exemplary Leadership Practices	Characteristics of a Highly Engaged Workforce
<ul style="list-style-type: none"> • Modelling the Way • Inspiring a Shared Vision • Challenging the Process • Enabling Others to Act • Encouraging the Heart 	<ul style="list-style-type: none"> • Pride in their workplaces • Strong motivation (willingness to work hard and long hours) • Team spirit • Being productive • Trusting management • Clarity about their responsibilities

Kouzes and Posner assert that the evidence is clear: exemplary leadership is vital for achieving highly engaged staff. They also show that this aligns with Richard ROI's results showing that high levels of commercial and fiscal performance positively correlate with high levels of exemplary leadership. This also aligns with the outcomes of the Towers Perrin studies.

Together it becomes clear that excellent leadership leads to a highly engaged staff and both result in high levels of commercial and financial performance



3.3. Correlating Leadership and Employee Commitment

In 2007 Zenger & Folkman correlated data from over 110 thousand "360 Degree Assessment" questionnaires from over 50 different organizations. From these they analysed the results for questionnaires where almost 5500 leaders had both leadership effectiveness ratings and employee commitment (engagement) results. The leaders were divided into deciles based on their aggregate 360 Degree Assessment scores. The subordinates' level of

engagement for each decile of leadership was assessed. The results showed a direct, almost linear correlation between level of staff engagement and the quality of their leaders.

Leaders in successively higher deciles generally had employees with increasingly higher levels of employee commitment and satisfaction. This clearly shows that effective leadership behaviour is highly correlated with employee commitment.

The staff of leaders rated in the tenth decile (with leadership scores between 90 and 100) scored about 75 out of 100 for levels of engagement whereas staff scored just over 20 out of 100 for engagement with leaders in the first decile. This result showed that the leaders who exhibited high quality leadership saw around a 4 times greater level of commitment and engagement from their staff than the poorest leaders. Those leaders in the seventh decile enjoyed virtually 3 times greater commitment from their staff than did the poorest leaders.

4. An Example: Bayer

Bayer publish a case study where they executed an executive leadership development programme using a before and after 360 Degree Assessment to gauge the outcome. They report:

- The managers as a group were afterwards rated as operating at 120 percent of their original proficiency on a variety of critical work behaviours.
- Individual growth topped 160 percent in proficiency across virtually every competency, indicating that individual managers had addressed those areas of particular need in their situation.
- The managers and their groups reported that their working relationships had become much more cohesive and productive, demonstrating a greater ability to focus on strategy, goals and improved customer service.
- There was evidence of broad organizational impact, from increased productivity due in large part to a more motivated and empowered work force, to fresh and energetic thinking about the design, marketing and sale of the company's products.

Individual comments included:

- "Did very well in cost cutting to achieve higher profitability."
- "Significant cohesion among department members, working together toward common goals."
- "Increase in my own efficiency of 15 to 20 percent due to greater delegation."
- "Our ability to launch new products has increased dramatically."

5. Conclusion

The plain conclusion from the studies reviewed is consistent with the findings of many similar studies: excellent leadership generates highly engaged staff and high levels of business performance.

High levels of staff engagement do not come about by accident. They require investment in developing a quality of leadership that is concerned as much with its people as the business

goals; recognising that the staff are people and that under the right conditions they will gain immense satisfaction from successfully achieving their goals and bringing about company success. They commit to the journey that the company is on and choose to travel the same path. Such companies have a buzz, they are dynamic and are an exciting place to be. As a result they enjoy the best market and commercial results. They gain competitive advantage from their people, the engine of the business, and leave their competitors behind. The investment in developing exemplary leaders shows returns.

6. Further Information

Adsidia specialises in developing and facilitating high performance leaders, making a difference to the people who make a difference to the business. You can contact Adsidia at info@adsidia.com, call +44 1462 416417 or visit www.adsidia.com