Center for
Effective
Organizations

Growth, Innovation and High Performance

Readiness assessment for Leadership Pulse™ Sample or *What will 2014 bring?*

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What will 2014 bring?

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Introduction to the Leadership Pulse

The Fall, 2013 Leadership Pulse focused on factors that affect organizational growth and innovation. A total of 256 individuals participated in this Pulse Dialogue. The participants come from a large range of industries, and their job titles range from manager to CEO. Appendix A provides sample details on the demographics of the sample.

Individual Learning

Pulse Dialogue is our term for shorter, frequent surveys with results that are shared for the purpose of learning. The Leadership Pulse is unique in that all individuals enrolled in the program receive their own personal diagnostic reports. The goal is to provide feedback that can be used for leadership learning. Topics are timely, and the participants are comparing their data to that of peers around the world. Also, because the personal reports are stored in confidential manner, with individual access, users can access not only their most recent results but their trend data. In the personal report individuals can go back in time and learn from older data and reporting that may be more applicable today.

In addition to providing individual benchmarking and trend data, participants are invited to attend webinars sponsored by either eePulse or our partners in this project, Mercer and the Center for Effective Organizations at USC.

Team Learning

Additionally, any participant can sign up their teams (direct reports) and receive overall group reports. The teams can be up to 100 people. The group reports consist of aggregate data, so the leaders cannot see responses from individuals. The team pulse has been an important benefit for leaders who are interested in data-driven learning. Their teams can attend the knowledge sharing webinars, and they can learn not only from their own results but from what other leaders are doing in response to the challenges discovered in the learning.

Learn More

To sign up as an individual or team, go to www.leadershippulse.com.

Growth, Innovation and High Performance

The questions and topics explored in this leadership pulse were derived from a large-scale research study with thousands of firms. We want to know what it takes to drive long-term continued, sustained growth.

Growth is difficult, and we find that many firms start to grow and then falter. There's a big difference between sustained growth and sporadic growth, with many more firms stumbling through sporadic growth. Why? We find that growth puts pressure on organizations, and if a firm does not have a strong core, it cannot sustain growth, so it will falter - thus sporadic vs. sustained growth.

Over time, and through multiple studies both across organizations and within firms, we found how to diagnose readiness for growth, innovation and high performance. The three terms accompany each other. High growth firms get there by innovating - they are open to continuous improvement; they foster big and small ideas, and they know how to bring newness into their organizations, cultivate it and grow talent, revenue and bottom-line profitability. Thus, growth and innovation lead to high performance - when growth is sustained. Growth on top of a faltering core results in low performance, and the same can be said for innovation.

High Growth Firms Keep it Simple

We learned early on that high-growth, high-performing firms have low tolerance for unnecessary complexity. Thus, our scientific research needed to be modeled along the mantra of keeping it simple. In the late 1990s, we designed a diagnostic tool to help organizations understand where they were in terms of readiness for growth and high performance. The tool is called the Valour Pulse™. Valour is an acronym to demonstrate the key aspects needed to grow.

According to Webster's Dictionary, "valor" is defined as "strength of mind and spirit that enables a person to conquer danger with firmness." Valour represents a company's culture for growth, change, and innovation. It is key to any organization's success. Valour is not only a meaningful word in and of itself, but it is an acronym that stands for value, ownership, sense of urgency and rewards.

"VAL"
The "val" in "valor" stands for valuing people and value happens when managers and/or peers value an individual and his/her contribution to the company

"O"
“O” represents sense of ownership or the degree to which employees feel like owners of their company, business unit, department, or job.

"R"
The "R" in valor represents informal and formal rewards.

"U"
The traits encompassing v-a-l-o-r provide a roadmap to improved firm performance, but it's not complete. Successful change, growth, innovation and high performance involve a combination of sense of urgency in addition to all of the other components of valor.

Urgency - the Misunderstood Ingredient for Growth, Innovation and High Performance

The research that we conducted on organizational change and firm growth shows that “valor” without the “u” is not enough for success. It’s the balance of urgency with value, ownership, and rewards that leads to high performance. Note that combining the “u” from urgency with the more common spelling of valor gets you to “Valour,” which is the British spelling of the word.

However, we quickly learned that while firms were very good at maximizing value, ownership and rewards, optimizing urgency was not even part of their vocabularies. Urgency also is unique in that it changes frequently. Thus, as we rolled out the work, we focused on the part of the equation that was less understood - creating a culture with a high sense of urgency and then balancing urgency with the other components of val-o-r. We also learned early on that while organizations were equipped to measure and understand val-o-or, which overlaps considerably with traditional employee satisfaction and engagement, there was zero information on how to measure sense of urgency.

If an organization only measures criteria that are part of valor and only respond to issues related to value, ownership, and rewards, the company is not optimizing for growth. In fact, efforts to maximize only value, ownership and rewards (or employee engagement and/or satisfaction) can stunt growth. . This is due to the fact that creating high valor with no sense of urgency leads employees to want to maintain the status quo, to not move forward, to not grow, and to not change. Employees who resist change will drag down performance. Those individuals need to feel a high sense of urgency to move from their current state.

Translating Research to Actionable Data

The original research on Valour was conducted with thousands of firms using organizational-level data. We moved from 200 question, detailed assessment tools, combined with interviews, to a 15-item survey, which serves as a readiness survey. We were able to convert the knowledge of required "balance" between urgency and value-ownership-rewards into an interaction effect in our statistical analysis and then visually graph this relationship with a 2 x 2 summary that could scale. The 4-box summary could be used in on-line tools and applied to any demographic within a firm (e.g. departments, locations, managers). Therefore, not only can be the organization visually see where it is on readiness for growth, innovation and high performance, but leaders can drill down and discover where the core strength areas are and which areas need help. Below are two examples of 4-box reports derived from data collected from employees in two different companies.

Company A

Urgency

Valor		Low	High	
	High	4%	29%	High
	Low	35%	32%	Low
		Low	High	

Urgency

Company B

Urgency

Valor		Low	High	
	High	25%	15%	High
	Low	25%	35%	Low
		Low	High	

Urgency

Figure 1: Sample 2 x 2 for sample organizations

In order to produce these graphs, questions that ask employees about value, ownership, and rewards were summed into an overall score, while questions on urgency were used to create a second score. Scores were then rated high / low, and the result was an overall high/low score on valor and an overall high/low score for urgency. We utilized multiple sources of research to derive cut points and questions. The research data plotted individual employee performance into these boxes (after running the statistical analysis). We were able to see patterns in sales, customer service, patient satisfaction, performance review scores, bonuses and more - all to demonstrate that the 2 x 2 predicted objective performance outcomes in multiple organizations.

Interpreting the Data

The research used to develop these scores is predictive in nature, which means the resulting data seen in these graphs gives managers a sense of things to come (if nothing changes of course). The upper left hand quadrant shows the percentage of the employee population that can have a negative effect on performance in the future. In company A, only 4% of their current employee population has a low sense of urgency but high sense of valor (value, ownership, rewards). This population feels very good about doing little. These people will resist change. The 4% is a fairly low number; thus, this is a positive sign for Company A. Also, Company A has 29% of its employee population (the upper right quadrant) in the high valor / high urgency category; these people are balanced and in the most desired direction (positive). Additionally, Company A has 32% of the population in the high urgency / low valor state. This is a condition that can be fairly easily remedied. When employees already feel urgency, it takes small amounts of care and attention to help them feel more valued. Simple things like communication, praise, and more can help employees move into a higher productive state. Company A has 35% of its population in a position that our research finds can lead to turnover, withdrawal behaviors, and other negative outcomes. However, these employees can be turned around with some effort from their peers and managers. These 35% (in the lower left quadrant) have a low sense of urgency and low valor score. Company A has significant opportunities for improving performance because the lower left and right boxes can be moved fairly quickly.

Company B, on the other hand, has 25% of its employee population in the upper left hand corner, in the low urgency / high valor state. These employees are the most difficult to influence (e.g. why should they change? they feel very valued doing just what they are doing now – not much), and they are likely to cause problems in the future by resisting change efforts. Company B still has significant opportunities for improvement because a large part of their population is in the lower two quadrants, and those people (per our research and experience) can transition to more productive states with simple interventions by management. Things like communication, feedback, recognition of road blocks to performance, and informal rewards are all effective interventions in moving these people to a high valor / high urgency state.

Balance: What it Buys You

Balance in sense of urgency and the components of valor results in higher performance, and in many cases, non-job behaviors. These non-job behaviors are acts of heroism at work and are the things that result in major innovations, changes in technology, loyalty among workers, employees encouraging each other, and as a result, long-term competitive advantage. The value proposition for Valour is long-term growth and competitive position in the market because employees who go “above and beyond” help create companies that go “above” for their customers, their shareholders, their retirees, and others.

Balance is Harder than you Think

Managing urgency is not top of mind in many organizations, and as such, it's easy to lose. Success is one of the factors that, in many cases, can start to decrease urgency and instead drive complacency. Organizations that want to maintain growth need to understand urgency, and one way to do that is to track employee energy because optimal energy leads to the right levels of sense of urgency.

Valour in the Leadership Pulse Sample

As discussed earlier, the valour pulse consists of 15 questions, and these were asked in the most recent Leadership Pulse. Figure 2, below, shows the 4 quadrants, along with the recommended path to move an individual into the fully engaged quadrant.

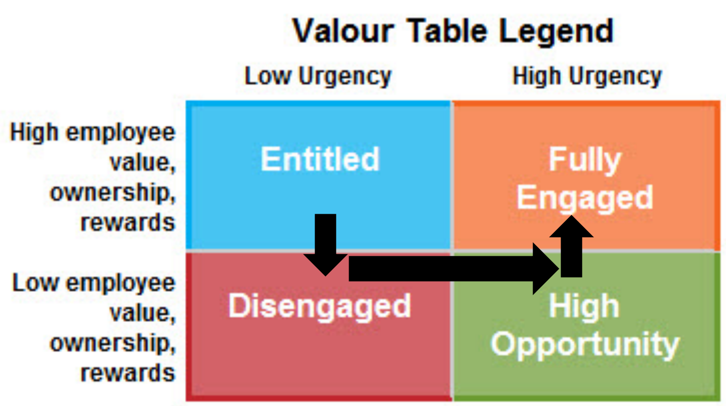

Figure 2: Valour Table Legend

Using the categorization scheme from Figure 2, in Figure 3 we plot the valour quadrants for the entire leadership sample. The majority, 53%, of leaders are fully engaged. These individuals feel a high sense of urgency as well as a feeling their contributions are valued and they are recognized and rewarded for them. The high opportunity and disengaged quadrants are less than half that, each with 21% of the leaders. high opportunity Individuals have a high sense of urgency, but do not feel valued or recognized for their contributions. This group is often poached by other companies as they are often high performers looking for a better opportunity. The disengaged individuals do not feel valued or recognized, but do not feel a high sense of urgency either. By creating an environment that promotes a high sense of urgency, these individuals either move into the high opportunity quadrant, or move out of the company. Lastly, the entitled quadrant is very low with only 5% of the leaders. These individuals feel a high sense of value, ownership, and rewards, but little urgency. They are comfortable in their jobs and are often resistant to change. It is very difficult to increase sense of urgency with these individuals.

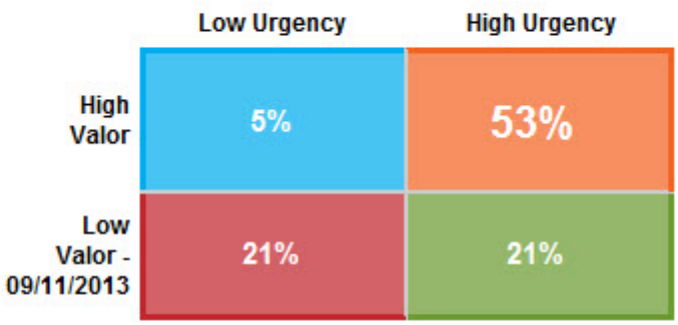

Figure 3: Valour Quadrants for All Leadership Participants

We can further break the leadership sample down by looking at job level. Table 1 shows the percentage of individuals in each quadrant based on Job Level. The highest percentage of individuals in each quadrant is highlighted. CEOs and presidents are the most fully engaged group with 82% in that quadrant. This is not a surprise as the job level innately has a high sense of value and ownership, is well rewarded, and requires a sense of urgency. However, the Other C-core individuals feel the same sense of urgency, but with 38% in the high opportunity quadrant, fewer feel the same sense of value, ownership, and rewards as the CEO group does. In this case, it is the questions around rewards in particular that average nearly 1 point less than questions around value and ownership for the other C-Core group. Senior managers are the most disengaged group, have 45% of individuals in that quadrant as opposed to 41% in the fully engaged quadrant. And while vice presidents have 11% of their individuals in the entitled quadrant, this is still a relatively low number.

Job Level	Entitled	Disengaged	High Opportunity	Fully Engaged
CEO/President	4%	4%	7%	82%
Other C-core (CFO, CIO, etc)		13%	38%	50%
Senior VP or Executive VP	8%	17%		75%
VP	11%	15%	15%	59%
Director	7%	21%	26%	47%
Senior Manager		45%	14%	41%
Manager/Supervisor	4%	8%	31%	58%

Table 1: Valour Quadrants by Job Level

Yellow = Highest score per column

Energy

In our earlier research we learned that value, ownership and rewards are factors that do not fluctuate much. However, that is not the case with sense of urgency. We found that this construct fluctuates dramatically and frequently, and also we discovered that most organizations do not know how to proactively manage sense of urgency. Thus, in order to help organizations grow and successfully maneuver change, the research moved to focus on urgency -- how to measure it at the cultural and individual levels and also how to manage it to optimize performance. Sense of urgency at the organizational level translated to energy at the individual level. We learned how to measure and manage energy, which then helped organizations create and maintain a high sense of urgency culture that was in balance with value-ownership and rewards.

Regular energy reads can help organizations manage growth. Energy is a leading indicator while other metrics are lagging indicators. This can make energy data powerful in not just understanding readiness for growth but for sustaining growth. Energy makes the differences between long-term sustained growth and sporadic growth. In a new report, soon to be released, we show that energy is the only metric that predicts long-term survival and growth for a large sample of firms going public in 1996. This is the biggest IPO year ever, and using survey data collected from senior executives in 1997 (right after their IPOs), we show that energy is the only factor that statistically significantly predicts 10-year growth. This is why energy, as a leading indicator, is important to understand and measure.

We found that the process of measuring energy, asking employees what's affecting their energy and then seeking suggestions for changes that will optimize energy led to high levels of innovation. Also, the predictive validation studies done with over 1 million data points on energy demonstrated that energy is a valid predictor of individual and company performance. Basically managing energy = optimizing productivity and performance to drive sustained growth.

Energy Results for Leadership Pulse

The Leadership Pulse allows us to determine the degree to which larger groups of firms are ready for growth. In this set of questions, we assessed valour. We also measured energy. Below are some of the energy results.

<u>Energy results:</u> Average energy in this Leadership Pulse (using the 0 to 10 scale) was 7.01. This is the highest average energy for the leadership pulse sample measured to date (the Leadership Pulse began in 2003). The latest increase is statistically significant (*$p \leq 0.05$*), calculated from the prior average energy of 6.64 measured at the end of 2012. Figure 3 shows that the overall average energy is on the rise, and has been since September of 2010.

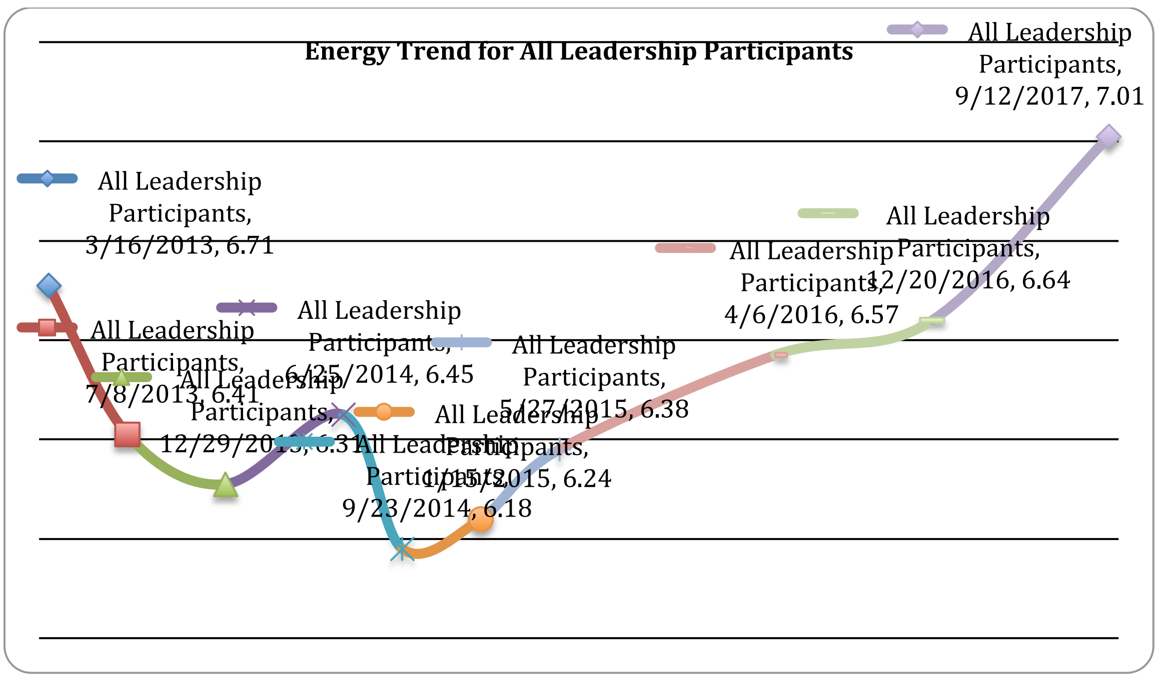

Figure 3: Energy Trend for All Leadership Participants

While we cannot effectively predict whether energy will continue to rise, we do know that energy is not yet close to its optimum level. In fact, the average energy where participants stated they were at their best was 8.11. As shown in Figure 4, only 16.1% of respondents indicated they were at their best energy and only another 11.0% of respondents were half a point or closer to their best energy. Over 50% of leaders who responded were 1 point or more away from their best energy. From the research we have conducted with over 1 million data points on energy, we know that being 1 or more points away from ideal energy level increases risk of lower performance.

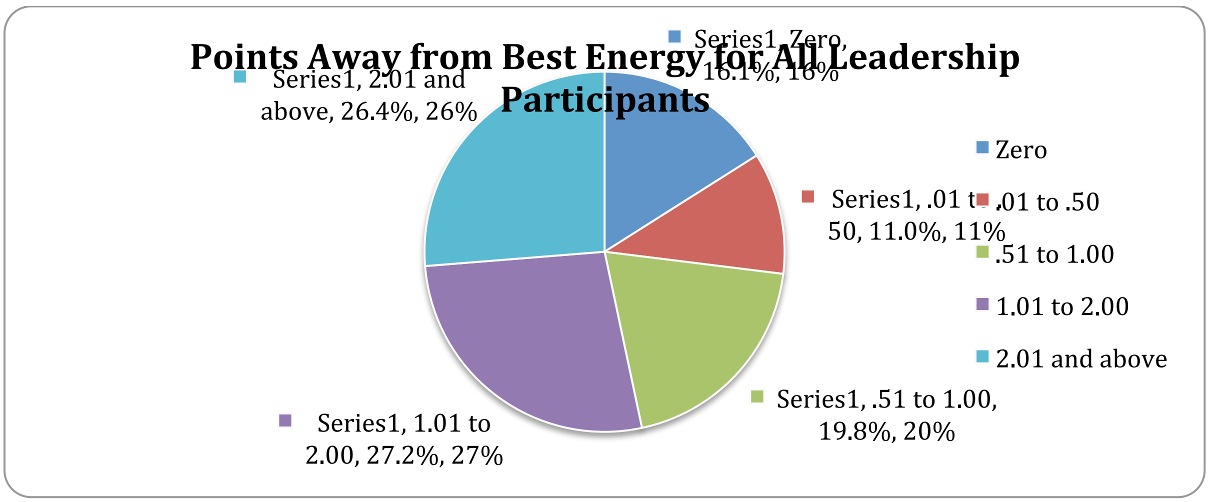

Figure 4: Points Away from Best Energy for All Leadership Participants

Once again, we see the relationship between energy and financial performance. Figure 5 shows a significant difference ($p \leq 0.10$) in the average energy of individuals in High to Very High performing organizations as compared to Average performing organizations and Low to Very Low performing organizations. The difference between the High and Very High performing organizations and the Low and Very Low performing organizations is nearly a full point.

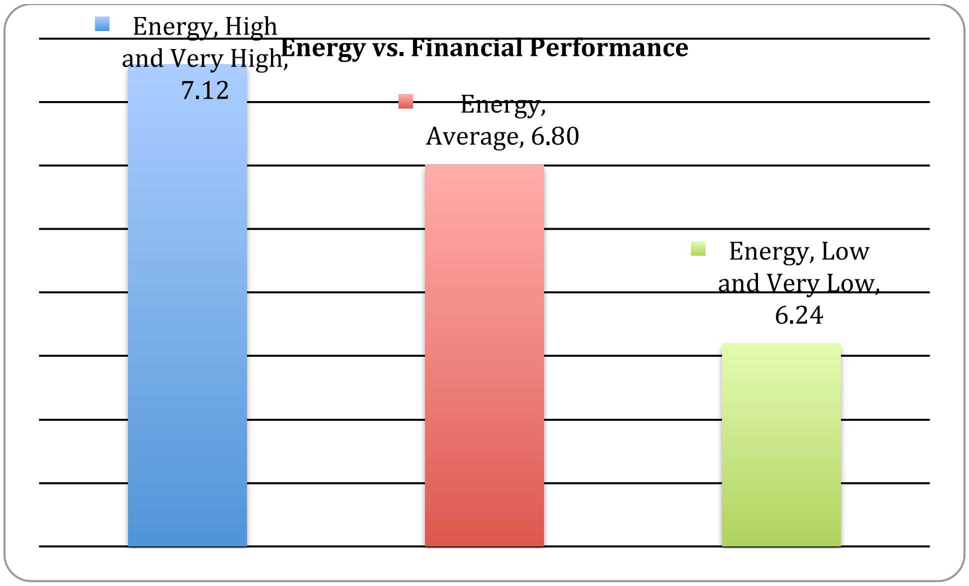

Figure 5: Energy vs. Financial Performance

It is not just the energy level, but how close to groups are to their optimal energy that predicts performance. Table 2 shows that high and very high performing organizations are both just over half a point below their best energy, while low and very low performing organizations are more than a full point from their best energy.

Firm Performance Level	Distance from Average Best Energy
Very High	-0.57
High	-0.54
Average	-0.83
Low	-1.32
Very Low	-1.58

Table 2: Distance from Average Energy by Firm Level Financial Performance

Energy and Valour

Fully engaged individuals are high energy individuals, usually working at an energy level close to their optimal energy. The average energy for the fully engaged quadrant is 7.68 compared to the average energy of the other quadrants which is 6.27. (This difference of 1.41 points is statistically significant at $p \leq 0.001$.) Also, fully engaged individuals are closer to their best energy. The fully engaged group has an average energy that is 0.54 below their average best energy, while the other quadrants have an average energy that is 1.76 below their average best energy. (This difference of 1.22 is also statistically significant at $p \leq 0.001$.)

The relationship between energy, valour or sense of urgency leads to intervention strategies that can help an organization sustain growth, innovation and high performance. We find that regular energy measurement provides leading indicators for leaders. The process of asking employees about their energy and using energy as one part of an overall strategic metrics strategy makes employees feel valued. By being able to contribute to firm-level knowledge, employees get a better sense of ownership in their job. When discussing their energy data and other questions posed in pulse dialogues, employees feel rewarded.

What does the Assessment Tell us? Are Leaders Ready for Growth?

We are encouraged by the increasing trend in energy. However, we say that with caution because although leaders' energy levels are trending up, their scores are still hovering at levels away from their ideal energy levels. The data tells us there is high potential for growth; however, without management of energy, growth may be sporadic.

Our goal is to teach leaders not only how to manage their own energy levels but also how to direct the energy of employees to meet high performance goals. Directing energy is a new skill, and we are discovering pockets of excellence in the firms that are intentionally managing energy and growth.

Growth is a multi-faceted goal. Growing people and talent is a key path to growth in sales and profitability. One question we are often asked is how to hire people who can support growth. There is a "feeling" out there that certain people are better working in high-growth, high-change environments. But who are these people, and how do you find them? These individuals are not necessary entrepreneurs; they want to leave the established firms and start their own businesses. Yes, they will grow a firm, but they may not be the people to help an established firm with a high-growth trajectory. To answer this question, we have been studying what we call "start-up people" - these are individuals who are equipped to handle the uncertainty and stress that comes with start ups, but they can help any organization grow.

Start-Up People

In this Leadership Pulse, we asked about start-up people. In an effort to build a competency model for these individuals, we began the conversation with the leadership pulse respondents.

We asked for 5 adjectives to describe a start-up person, as well as 5 adjectives to describe a non-start up person. Table 3, below, lists the most common responses for describing a start-up person. Creativity (31% of responses) and intelligence (22% of responses) are key traits in a start-up person's mental make-up. But having a high level of energy (24% of responses) is also very important. Optimism (18% of responses) is also an attribute that characterizes a start-up person.

Table 4 lists the most common responses for chat characterizes a non-start-up person. Reliability is listed as the most common response (18% of responses) that describes a non-start-up person. It is important to note that while this does not mean that start-up people are unreliable, it certainly seems that it is not the most important requirement in someone who can be successful in a start-up environment. In fact, risk averse is the only characteristic of a non-start-up person that is in opposition to any of the common characteristics of a start-up person, in this case, risk-taker.

Start-Up Person	% of Comments
creative/innovative	31%
energetic/high energy	24%
smart/intelligent	22%
positive/optimistic	18%
driven	12%
risk-taker	12%

Table 3: Start-Up Person Comment Breakdown

Non-Start-Up Person	% of Comments
reliable/dependable	18%
steady/methodical	16%
risk averse	13%
structured	10%
follower	10%

Table 4: Non-start-Up Person comment breakdown

Furthermore, start-up people were described by respondents as:

> "comfortable with ambiguity"
> "ability to think holistically"
> "able to communicate goals and explain courses of action to others"
> "willing to speak up if they are at odds with decisions"
> "fail brilliantly so that learning can occur"
> "a quick learner and an even better teacher"
> "able to rally others and inspire followership in a new space that is not well understood by others"
> "flexible, adaptable, versatile"
> "courageous"

Energy Thread

It's interesting to note that energy is the second most frequently used term for start-up people. This doesn't surprise us as we see energy as a key predictor of sustained growth. The challenge for organizations that want to grow is building high energy levels, high sense of urgency cultures, but doing so in a way that does not burn out employees. Balancing energy, helping managers learn to be energy directors and understanding how to optimize not maximize energy are all keys to sustainable growth.

Many firms have made it to where they are on today on the backs of leaders who are energized and who are trying to stay energized. However, the challenge for 2014 will be whether the high caliber employees who brought organizations through the recession and to where they are today are energized enough to stick it out. After reviewing the data and reading the comments from participants, we can report that this will be a challenge for most firms going forward. Below are a few sample quotes from a group of leaders in high performing firms. They are responding to a question that asked them to explain their energy levels at work.

Sample comments from managers in high performing firms:

"total overload, uneven work balance, ungrateful clients, long hours - no break in sight."

"We have different levels of negative individuals who are difficult to work with - we have several people who focus on the negative"

"I'm getting older and thinking about retirement. Our organization has reorganized several times and is now doing it again. The lack of stability is exhausting."

"New boss - don't trust this person"

"I don't see nor am I interested in the sacrifices expected within the corporate environment"

"Current environment at work is that there is so much pressure to just get tasks done that it is not inspirational -- there is not a feeling of real contribution"

"More work than time available"

"Not fully utilized"

"Dealing with bureaucracy and people that are energy drainers is hurting me"

"Losing my job"

"Need a sense of purpose"

"Uncertainty in market conditions"

There were some positive comments; however, about 70% are more in line with the comments noted above. What this tells us is that leaders / managers may be nearing a breaking point. Without a strong core, and part of it is the leadership and management team, organizations will not be able to sustain growth.

In 2014 - we suggest that organizations looking to grow spend time to understand their own environment for growth. Is your firm ready to continue putting the pressure on employees that has been there the past few years? Go into 2014 with knowledge, and that information will provide a competitive advantage.

Appendix: Sample Demographics

Company demographics are self-reported by the respondents and include company size, industry, total revenue, financial performance, and rate of change. Although self reported, we periodically collected data from public firms to verify the self report data, and we find the information collected is accurate and reliable. Also collected from respondents are personal demographics for Job Level and Functional Area. As an example, Tables 5 through 7, below, show the demographic breakdown for respondents based on Industry, Company Size, and Total Revenue respectively.

Industry	%
Accommodation and Food Services	1%
Arts, Entertainment, and Recreation	2%
Construction	2%
Educational Services	5%
Finance and Insurance	7%
Health Care and Social Assistance	5%
Information	8%
Management of Companies and Enterprises	2%
Manufacturing	14%
Mining	1%
Other Services (except Public Administration)	9%
Professional, Scientific and Technical Services	11%
Public Administration	3%
Transportation and Warehousing	2%
Unclassified Establishments	1%
Utilities	7%
Wholesale Trade	2%
Did not identify	17%

Table 5: Respondent Demographics by Industry

Number of employees	%
Less than 100	21%
100 to less than 500	9%
500 to less than 1,000	11%
1,000 to less than 2,500	10%
2,500 to less than 5,000	2%
5,000 to less than 10,000	5%
10,000 to less than 25,000	9%
25,000 to less than 50,000	5%
50,000 or more	13%
Did not identify	15%

Table 6: Respondent Demographics by # of Employees

Total Revenue	%
Under $5 million	17%
$5 million - under $25 million	11%
$25 million - under $100 million	10%
$100 million - under $1 billion	13%
$1 billion - under $5 billion	11%
$5 billion - under $12 billion	7%
$12 billion - under $25 billion	3%
$25 billion - under $50 billion	4%
$50 billion or more	7%
Did not identify	18%

Table 7: Respondent Demographics by Total Revenue

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