Leadership Pulse™

Leader Energy and Confidence Ring Alarm Bells

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Theresa M. Welbourne, PhD
Justin Glenn

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It's true that leaders don't know everything in the organization. However, if you want the story of how a business is doing, and if you need to get a picture of the trajectory or potential of a firm, certainly it's a good bet that talking to the senior leaders and managers will provide you with some deep insights. These are the people talking to customers, managing the employees, looking out for the future of the business and creating the strategy that others follow.

So when those leaders tell you that their personal energy at work is suffering, and their confidence in themselves, their leadership team, their strategy, their ability to execute their vision and their ability to change are all declining, I'd say it's time to take notice. That's exactly what we learned in the Leadership Pulse data, collected in March, 2014.

Why do we care about leader energy?

Using a classic definition from physics, energy is the ability to do work. Leaders are telling us, in their responses to the Leadership Pulse, that their ability to do work is suffering. That's just not good.

Why does confidence matter?

When consumer confidence goes up, individuals buy more. The same thing happens with leadership confidence; when it goes up, individual employees provide more to their organizations. Employees are not purchasing from their organizations, but they are giving their time, commitment and energy to their firms. When confidence is low, employees give less, and they start seeking jobs elsewhere; they give less than 100 per cent at work, and as a result, firm performance spirals downhill.

We learned in the last Leadership Pulse that both energy and confidence are trending in ways that are alarming. It doesn't necessarily mean negative things will happen, but just like consumer confidence, if something is not done, the trend foresees less than ideal outcomes for businesses.

What is the Leadership Pulse?

Taking a step back, let's examine the Leadership Pulse. For those of you new to the process, the Leadership Pulse started in 2003, and it is an ongoing short survey (we call it a Pulse Dialogue-short and meant to engage the participants in dialogue that drives learning). This short Pulse goes out to a sample of leaders around the globe; however, the majority are still in North America. We ask the leaders to respond to a short set of questions, and each time period we ask them about their energy at work. We also select a second topic, which varies during the year. The March, 2014 pulse, which is the subject of this report, focused on energy, confidence and direction.

How the Leadership Pulse works:

- Short Pulse Dialogue sent out to sample (takes about 3 to 5 minutes to complete)
- Kept open for 3 to 4 weeks
- Pulse stopped
- Reports released to all participants. Each person in the Leadership Pulse receives a personal report, showing his/her own scores vs. the benchmarks for the industry chosen
- Webinars provided soon after the survey closes to review basic findings
- Deeper analysis done, findings reviewed and technical report prepared (this document is the technical report)
- Another set of webinars and discussions roll out
- We hope the participants take action – by learning through data, there is a chance to learn and make changes to improve performance
- That's what we're all about – data-driven leadership learning from a group of peers who are running businesses and who want to engage in change

What's in this report

On the next pages you will find results from the Leadership Pulse study. The Pulse Dialogue process was conducted in late March, early April 2014.

Call to action

We are worried about leaders and managers. When they say their personal energy at work is nearing what we call the danger zone, this should cause alarm. When leaders tell you that their situation is bad enough that it's reducing their confidence to deliver, then yes, something should be done.

What amazes me about business today is the amount of money being spent on things like leadership development and employee engagement, and very few people seem to have an understanding of a key concept like employee energy. We've been studying energy in detail since 1996 because it matters to bottom-line performance.

What we know, with millions of data points, is that when you do something to improve human energy at work, you take action to improve the organization. We have seen organizations make dramatic turn-arounds by focusing on energy at work.

Energy = ability to do work

High performance, growth and innovation come from OPTIMIZING AND DIRECTING human energy at work. The secret to success is all about energy conversion – converting potential to moving energy and then directing that energy at firm objectives.

Scientists know how to measure energy overall – they look at what it takes to transform potential energy to kinetic or moving energy. What does it take to increase temperature by one degree, for example?

We are examining what it takes to move leaders to their best energy – and we don't stop there. For firms to succeed, optimal energy levels are not enough – energy needs to be directed and redirected in order to achieve desired goals.

Key learnings about energy at work

When we investigate energy in organizations, we learn that energy, in most organizations, is in a suboptimal state because 70% of respondents say they are lacking direction.

Direction is critical – and direction is NOT strategy. Direction is all about what I am supposed to do today. Why is this a problem? Because in the last week, someone somewhere probably dumped a significant number of new projects on you, and that person failed to take something away. How long can we keep adding to the scope and type of work (not just amount of work) and think employees, leaders or managers can just keep on converting that potential to moving energy befor running out of potential energy?

If you are driving your car, you know you have to refill the gas tank to keep moving forward. Manufacturing experts recognize that preventative maintenance is critical to success. Athletes who work out don't just push as hard as they can and never stop; they aim for a target heart rate and they carefully plan their exercise routines.

At work we just keep dumping more work on people. And the environment keeps on changing. Managers are having a tough time keeping up.

Just for a moment – forget employee engagement – stop talking about commitment – and start diagnosing the energy of your leaders and managers. These things all matter, but they indirectly affect performance through employee energy. So why not spend time to understand the direct line variables?

Energy matters – it's the ability to do work – it has a DIRECT LINE to performance.

Rather than measuring and focusing on things that may, sometime in the future, affect energy and then performance, start with the real stuff --- energy.

The March / April, 2014 Leadership Pulse focused on three areas, energy, leadership confidence, and direction. A total of 540 people responded to the Leadership Pulse. There have been over 5,000 respondents since May of 2011 and 9,500 different individuals who have participated since the inception of the Leadership Pulse in 2003.

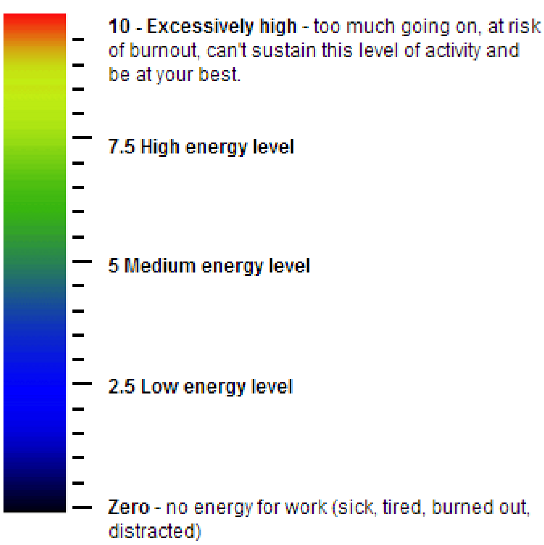
Energy

Energy is measured by asking two numbers; it's all about the way employees convert potential to moving energy. Based on large studies at the organization level, we learned that energy is a key differentiator of long-term performance. Energy predicts outcomes such as survival and stock price growth when other metrics do not. The measurement of energy at work was derived from this larger-scale research.

We learned early on that energy fluctuates; therefore, making energy measurement simple to do and then creating results that are easy to understand were both key for helping managers take action with the data. Participants are asked (1) to rate their energy level at work today and also (2) to rate the level at which they are at their best. The difference between these two numbers, or gap, predicts performance, and variance over time also is predictive.

Energy is an optimization construct. Therefore, if one is in a situation with too much stimulus, energy can be raised to a dangerously high level. Thus, optimizing energy so it is near where one is at his/her best is the ideal energy level.

Below is the energy measure used in the March/April leadership pulse:



1. **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.)**
2. **What is your energy level where you are at your best at work? (Enter a number from 0 to 10 using the Energy Pulse scale on left.)**
3. **Please share the factors that are affecting your energy at work. The more detail you can provide, the better, as we are trying to uncover and share the drivers of optimal energy.**

The average energy on the 0 to 10 scale for the entire leadership sample was 7.00. Figure 1, below, shows that the overall average energy of leaders is holding steady since reaching an all-time high of 7.01 in September 2013. Leader Energy reached a low of 6.18 in September 2010, but then rose consistently for 3 years. Remaining at this high energy level might be seen as positive; however, knowing that energy is about optimization, the trend data only tell part of the story.

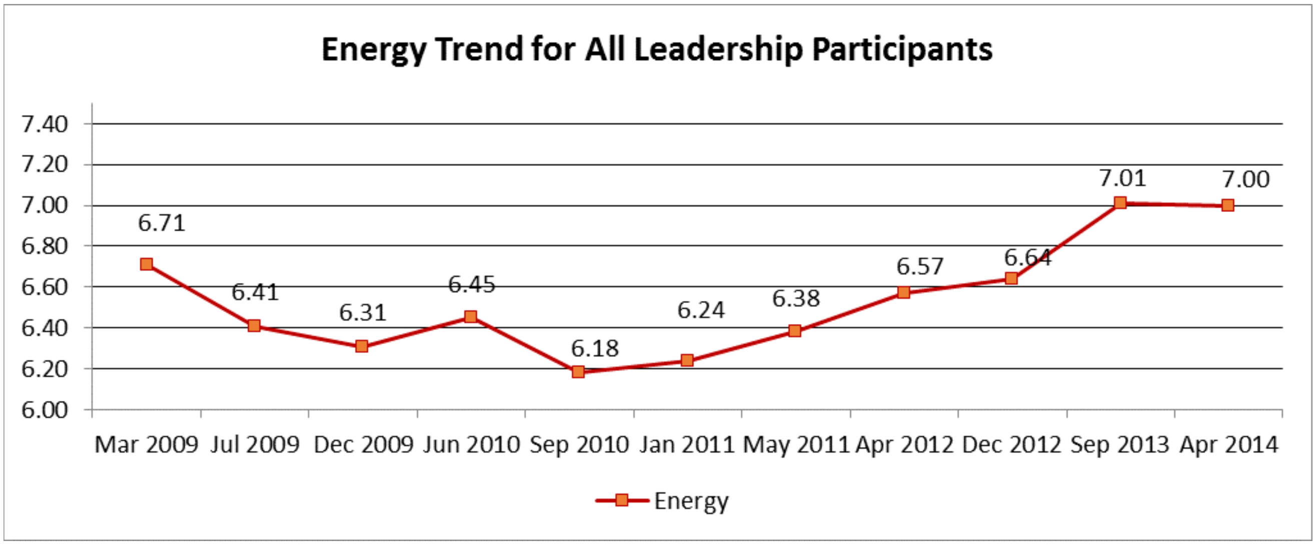


Figure 1: Energy trend for all Leadership Pulse participants

Table 1 below shows changes in energy by industry from the September 2013 Leadership Pulse. There were several industries with energy changes over 1 point. In all these changes except for mining, the change had a positive effect on the energy gap for that industry.

Change in energy by industry

Industry	Apr 2014	Sep 2013	Change
Accommodation and Food Services	8.07	9.25	-1.18
Arts, Entertainment, and Recreation	7.39	6.17	1.22
Construction	6.12	5.88	0.24
Educational Services	6.63	6.46	0.16
Finance and Insurance	6.36	6.89	-0.53
Health Care and Social Assistance	6.94	7.63	-0.69
Information	7.22	7.01	0.21
Management of Companies and Enterprises	7.42	7.00	0.42
Manufacturing	7.11	6.83	0.28
Mining	6.47	7.83	-1.36
Other Services (except Public Administration)	7.40	7.02	0.38
Professional, Scientific and Technical Services	6.84	6.63	0.21
Public Administration	6.62	5.57	1.05
Retail Trade	7.33	7.33	
Transportation and Warehousing	7.06	7.63	-0.56
Utilities	7.34	7.50	-0.16
Wholesale Trade	7.40	6.25	1.15

Table 1: Change in energy by industry

Energy is up but not necessarily good for business

While tracking the average energy for leaders is a good starting point, it is also important to know how the working energy (energy today) compares to optimal energy (or energy level where they are at their best). The energy gap is used for this assessment; it is calculated by the following equation:

(Energy today – Energy at your best) = Energy Gap

Aggregating the gap scores, one can visually plot the risk for a given team or company. In figure 2, below, the risk levels for the entire leadership pulse population are described. Our research indicates that a gap of one point indicates high risk of lower performance (note that the gap can be positive or negative so this graph includes the absolute value of the gap).

While 26.5% of respondents are at their best energy or within half a point or less from their best energy, 52.2% of respondents were more than a full point from their best energy. This 52.2% is defined as "team energy risk", and it is the percentage of individuals who are at risk of poor performance due to factors causing them not to work at their best energy.

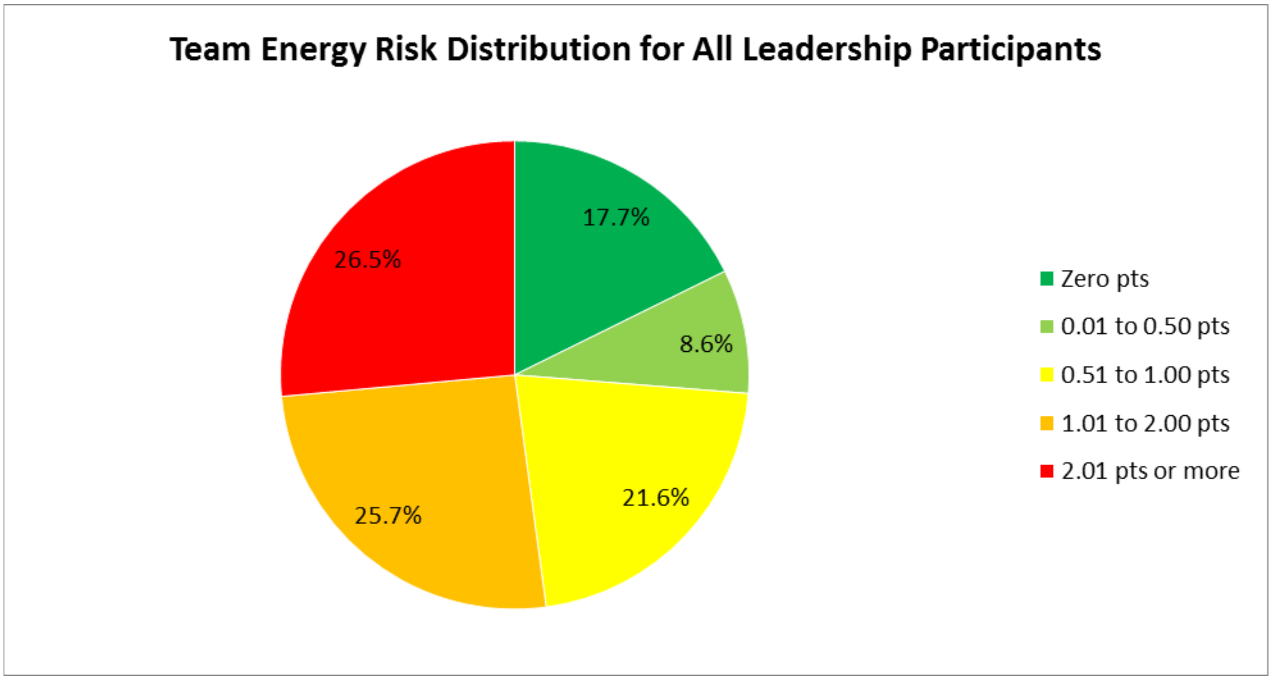


Figure 2: Team energy risk ditribution for all Leadership Pulse participants

Team Energy Risk Change

While the average energy was essentially unchanged from September of 2013, the Team Energy Risk did have a slight drop of 1.4% from 53.6% in September 2013 to 52.2% in April 2014.

Team Energy Risk by Functional Area and Job Level

Figure 3, below shows a heat map for the team energy risk by the functional area of the respondents. The areas of research and development, marketing, finance and accounting, public relations and general administration all have a team energy risk that is a third or less of the respondents being more than one point away from their best energy level. However, sales at 63.7%, human resource management at 67.6%, and engineering at 71.4% all have substantial team energy risk.

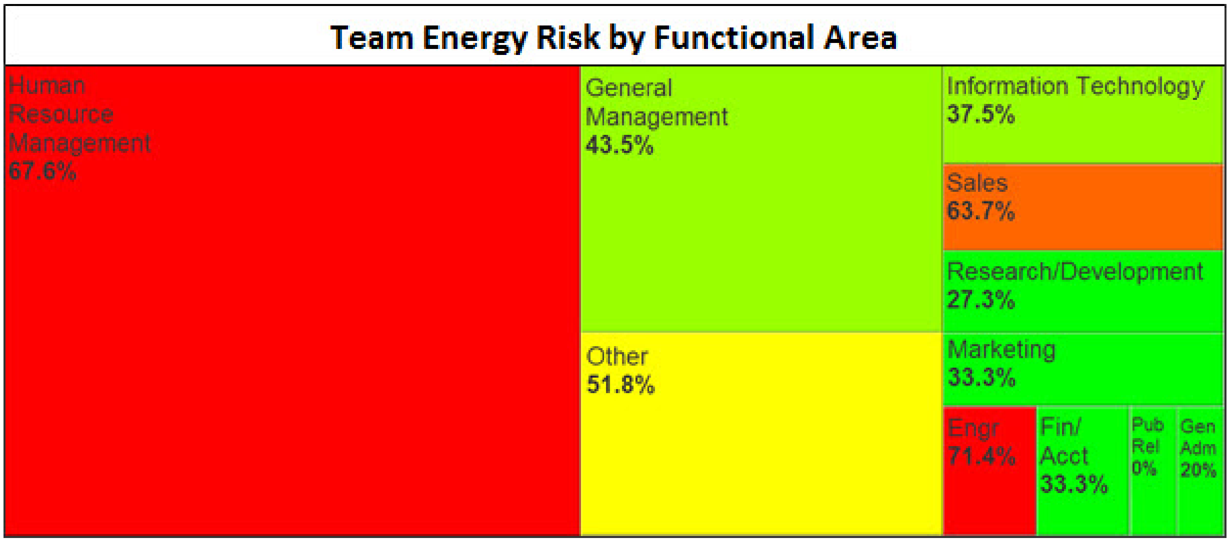


Figure 3: Team energy risk by functional area

Sample comments from HR and engineering

- free fall, self absorbed leaders completely out of touch
- self centered selfish idiots as leaders
- Leadership seems to be reactive rather than predictive. Those strategies that we are implementing to not seem well thought out.
- We are in process of a full org redesign and shift to digital focus which will be a mindset shift
- Low motivation; no feedback that the work I do matters or is important to the organization
- Uncertainty, Lack of accountability, Poor leadership

Figure 4, below, shows a heat map of the team energy risk by the job level of the respondents. What is of note is the comparison of the team Energy risk of those in the top levels of organizations with those in middle levels of organizations. CEO/President, Other C-Core, and Senior VP or Executive VP all had a team energy risk below 40%. Meanwhile, Senior Manager, Director, and Manager/Supervisor had team energy risks of 59.1%, 61.9% and 69.2% respectively.

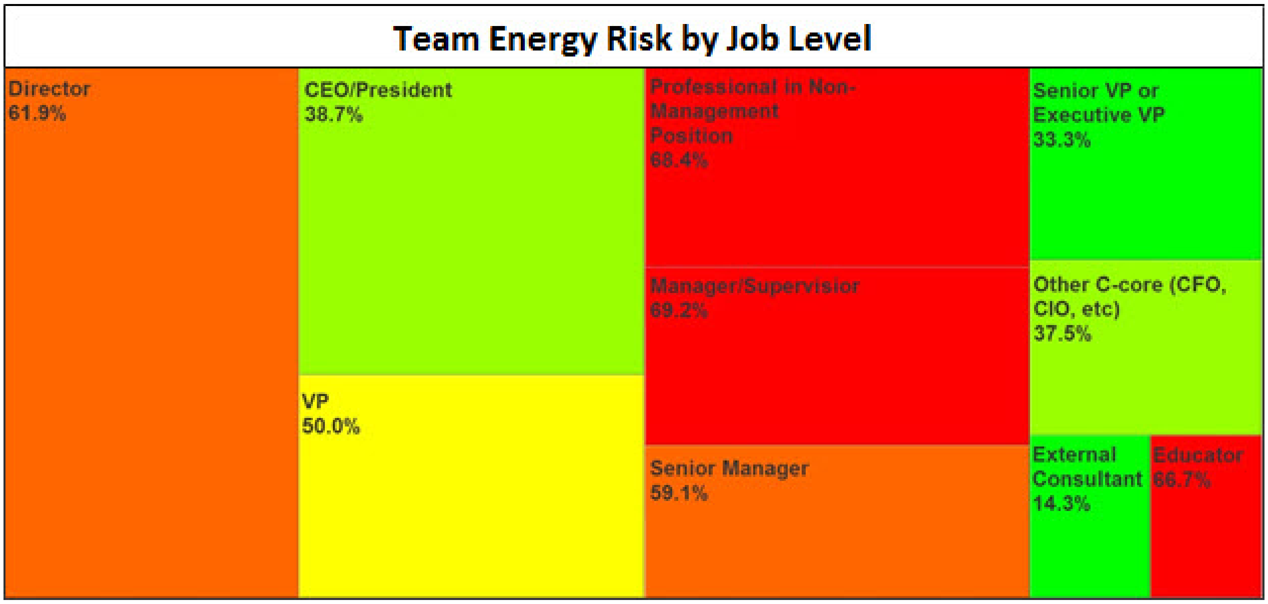


Figure 4: Team energy risk by job level

CEO's, other C-level and VP's have lower energy risk. This is as expected and hoped for. However, numbers in the 30's for energy risk are still high for the senior leaders who need to help their employees manage their energy for peak performance.

Sample comments from senior leaders:

- We're going through a transition period that has some economic discomfort. Doing some soul-searching and questioning of how we got to the current place
- The company is going through rapid growth/change and entering new markets. Our workforce needs to change quite significantly to support our efforts.
- With all of the changes in the economic situation, it is difficult to determine the needs of our clients making strategic management a little more difficult. I am confident that we will succeed, but not overly so.
- need to delegate; too many irons in the fire, working on training others to take on some of my tasks
- The direction of the economy keeps me awake at night sweating.
- As the CEO and business owner, I sometimes get a bit pessimistic about our ability to change as necessary...including me. Puts a drain on my own energy.
- Lack of planning & alignment; silo'd organization & decision making;
- Too many projects, not enough time

Change in energy risk

Public administration, transportation and warehousing and wholesale trade all had large improvements in their energy risk, while mining had a large increase in energy risk.

Change in team energy risk by industry (a negative change represents moving to a lower energy risk)

Industry	Apr 2014	Sep 2013	Change
Accommodation and Food Services	29%	50%	-21%
Arts, Entertainment, and Recreation	56%	67%	-11%
Construction	67%	75%	-8%
Educational Services	62%	57%	5%
Finance and Insurance	75%	67%	8%
Health Care and Social Assistance	66%	50%	16%
Information	44%	60%	-16%
Management of Companies and Enterprises	23%	40%	-17%
Manufacturing	55%	54%	1%
Mining	57%	0%	57%
Other Services (except Public Administration)	43%	57%	-13%
Professional, Scientific and Technical Services	49%	48%	1%
Public Administration	40%	86%	-46%
Retail Trade	47%	47%	
Transportation and Warehousing	25%	75%	-50%
Utilities	50%	37%	13%
Wholesale Trade	30%	75%	-45%

Table 2: Change in team energy risk by industry

Leadership Confidence

Leadership Confidence has also been measured since 2003. Leaders are asked to rate their confidence in seven items:

- their leadership team
- their personal leadership skills
- the economic climate for their organization
- they have the right people and skills
- their ability to change as needed
- their ability to execute on their vision
- their strategy making process.

The Leadership Confidence Index is the average of the responses to these 7 items, scored on a 1 to 5 scale where 1 is Not at All Confident and 5 is Very Confident.

Figure 5, below, shows that a slight decline in the Leadership Confidence Index to 3.58 after reaching a plateau of 3.61. This plateau followed a larger decline since March of 2009 where the Leadership Confidence Index was 3.71. The continuing decline in the confidence of leaders is a large concern, and it is important to get an idea of what is causing this decline.

Figure 5: Leadership confidence trend for all Leadership Pulse participants

Confidence trends tell a story of leaders who are feeling more positive about the input to their businesses and less confident about their ability to take action on those inputs.

Table 3, below, shows the change over a 2 year period in the percent of leaders who are confident or very confident in each of the Leadership Confidence items. While confidence in the economic climate and their organization having the right people and skills showed slight increases, there were some noticeable drops. A 9 point drop in leader's confidence in their strategy making process shows waning confidence in strategy making processes that are often inflexible and slow to implement when they need to be responsive and agile to compete. This is also reflected in a 3 point confidence drop in their organizations ability to change as needed. Combine that with a 4 point confidence drop in the leadership team, a 3 point confidence drop in leader's personal leadership skills, and a 3 point confidence drop in their ability to change as needed indicates that while they may understand where they are at now and where they want to be, they are unsure of how to get there.

Change in % Confident of leadership confidence items

Leadership Confidence Items	April 2014	April 2012	Change
Leadership Team Overall	69%	73%	-4
Economic Climate	59%	57%	2
Right People and Skills	57%	56%	1
Ability to Execute on Vision	59%	60%	-1
Ability to Change as Needed	51%	54%	-3
Personal Leadership and Management Skills	86%	89%	-3
Strategy Making Process	52%	61%	-9

Table 3: Change in % confident of leadership confidence items

The Relationship between Energy and Leadership Confidence

Even though Leadership Confidence decreases while Energy stayed relatively unchanged, there is a relationship between Energy and Leadership Confidence. Using the same 0 to 10 scale used for the Energy question, leaders were asked to give their best Energy level. The Energy gap, or difference between individual's Energy and best Energy, was correlated to the Leadership Confidence Index and each item in the index.

As detailed in Table 4, below, each correlation was found to be significant at a 0.01 level (2-tailed). And the negative correlation means higher confidence scores correlate to smaller Energy gaps. The strongest correlation of Energy gap to the individual confidence items were found for the leadership team overall and the strategy making process. Therefore we can expect those with a smaller Energy gap to have higher confidence in their leadership team and their strategy making process, and those with a higher Energy gap to have lower confidence in these items. Also interesting is that the index itself, the average of all seven items, has a stronger correlation than any single item.

Correlations between an individual's confidence and absolute energy gap

Leadership Confidence Index and Items	Change
Leadership Confidence Index	-.32
Leadership Team Overall	-.30
Economic Climate	-.14
Right People and Skills	-.23
Ability to Execute on Vision	-.25
Ability to Change as Needed	-.23
Personal Leadership and Management Skills	-.23
Strategy Making Process	-.29

These correlations are all significant at 0.01(2-tailed). Negative correlation means high confidence scores correlate to small energy gaps.

Table 4: Correlations between an individual's confidence and absolute energy gap

Leadership Confidence Patterns for Financial Performance and Rate of Change

Table 5, below, shows the percent confidence leaders have as a function of their organizations' reported financial performance. There is a very clear pattern with leaders in organizations which reported low to very low financial performance having the lowest confidence, leaders in organizations which reported high to very high financial performance having the highest confidence, and leaders in organizations which reported average financial performance having confidence levels between the other two groups. The exception is confidence in personal leadership skills. It is important to note that the highest performing organizations do not have leaders that have the highest confidence in their personal leadership skills. Aside from this item, however, there is clearly a link between these measures of leadership confidence and financial performance.

Leadership confidence Items by financial performance (% confident)

Leadership Confidence Items	Low to Very Low Financial Perf.	Average Financial Perf.	High to Very High Financial Perf.
Leadership Team Overall	33%	62%	80%
Economic Climate	24%	43%	76%
Right People and Skills	31%	49%	64%
Ability to Execute on Vision	20%	51%	73%
Ability to Change as Needed	36%	41%	59%
Personal Leadership and Management Skills	78%	90%	86%
Strategy Making Process	22%	49%	59%

Table 5: Leadership confidence items vs financial performance

The strategy making process and the ability to change as needed are two questions scoring low. This means leaders may want to consider implementing Extreme Strategizing suggested by Dr. Welbourne in her article in the Spring 2009 issue of Leader to Leader. Leaders need to "reach out to a key stakeholder group on a frequent basis and use the data obtained to make changes in strategy on a regular, ongoing basis. Thus the first step in implementing extreme strategizing is to devise a model of obtaining regular, ongoing data from employees and then feeding that data into a dialogue process about direction and strategy. This extreme strategizing process emphasizes the feedback loop as critical in the short term, not just in the long run."

"Two things happen when employees see a disconnect between their firm's strategy and reality:
•• The right problems or opportunities are not pursued, as they are not in synch with the official strategy. Leaders look bad to employees because they are doing work and making decisions that are not on target.
•• Leaders realize the strategy is off and they initiate change, and that effort results in lower confidence. Confidence is reduced under the second option (even though it was the right thing to do) because leaders spent so much money making strategy that when they change their minds,

others in the organization lose confidence in the leaders' abilities. The conclusion is that leaders were wrong; thus, they must not have been too bright in the first place. My working hypothesis is that leadership confidence is being driven down, in part, due to a broken strategy-making process that uses outdated models, methodologies, and tools."

A moderate rate of change supports higher leadership confidence.

Table 6, below, shows the percent confidence leaders have as a function of their organization's reported rate of change. In this case, leaders in organizations that have a moderate rate of change have the highest confidence levels on each item. Leaders in organizations with low rates of change have the lowest confidence in their leadership team, economic climate, ability to change as needed, and strategy making process; leaders in organizations with high rates of change have the lowest confidence in ability to execute on their vision, personal leadership skills, and their organization having the right people and skills.

Leadership confidence items by rate of change (% confident)

Leadership Confidence Items	Low Rate of Change (0-40%)	Moderate Rate of Change (41-80%)	High Rate of Change (81-100%)
Leadership Team Overall	55%	72%	65%
Economic Climate	43%	62%	57%
Right People and Skills	55%	58%	45%
Ability to Execute on Vision	58%	61%	55%
Ability to Change as Needed	32%	53%	49%
Personal Leadership and Management Skills	87%	88%	78%
Strategy Making Process	42%	52%	51%

Table 6: Leadership confidence items vs rate of change

Direction Index

Questions around priorities, goals, and objectives were also asked on the Leadership Pulse, and have been aggregated into a Direction index. While individuals may have confidence in their leaders and the internal and external factors that affect their organization, they may not have clarity of their priorities and goals or see how they tie in with the overall business strategy. Also expending Energy on the wrong priorities or on priorities that don't seem to tie in with the overall business strategy can leave an individual underproductive and de-energized.

The Direction index is fairly high, with a score of 3.94 on a 5 point scale. Overall, there was a slight decrease in Direction, dropping from 4.01 in April 2012 to 3.94 in April 2014. It is interesting to note that while there has been a modest drop in Direction, there was a substantial increase in Energy over this time period, increasing from 6.57 in April 2012 to 7.00 in April 2014.

Direction Items

Table 7, below, shows the change in Direction items between April 2012 and April 2014. In April of 2014, most respondents felt that their own goals, priorities, and objectives were clear to them, they did not feel that their team's goals, priorities, and objectives were as clear to everyone of the team, with a 0.38 point difference between the two Direction items. In contrast, leaders not only were clear on their own priorities, but knew how they linked to the overall business strategy, both with a measure of 4.07 on a 5 point scale.

Individual's priorities being linked to their organizations business strategy did not change between April 2012 and April 2014. Clarity in both an individual's priorities and team priorities dropped between April 2012 and April 2014, with clarity around a team's priorities showing twice the decline, down 0.14 points, as clarity around an individual's priorities, down 0.07.

Direction Items	April 2014	April 2012	Change
My individual work priorities, goals and objectives are extremely clear to me.	4.07	4.14	-.07
My team's overall priorities, goals and objectives are clear to everyone in the team.	3.69	3.83	-.14
I can clearly see how my priorities link to the overall business strategy.	4.07	4.07	.0

Table 7: Change in the direction index and direction items

Direction by financial performance

Figure 8, below, shows the scores for the direction questions by financial performance. A few observations emerge from this data.

1. Very high performing firms score highest on all direction questions.
2. Comparing high performing firms to average or below average shows high performing scoring lower on individual and team scores but higher on linking individual priorities to business strategy.
3. This data indicates that direction is the link to higher performance and that linking individual priorities to business strategy may be the most important element in driving high performance?

Direction Items	Average or below Average	High	Very High
My individual work priorities, goals and objectives are extremely clear to me.	4.05	4.04	4.25
My team's overall priorities, goals and objectives are clear to everyone in the team.	3.60	3.66	3.86
I can clearly see how my priorities link to the overall business strategy.	3.97	4.01	4.36

Table 8: Direction by financial performance

Direction by job level

Figure 6, below, shows the scores for the direction questions by job level. A few observations emerge from this data.

1. Senior leader positions have the highest scores on direction.
2. The higher the position the higher the score on direction, except for the CEO.
3. CEO's are the lowest scoring for senior leaders. Does this indicate CEO's do a better job of providing direction to their teams than the board of directors provides to the CEO?
4. If direction drives performance, then there is a high cost for direction scores falling as you move down the company hierarchy. This suggest performance improvement can be achieved by additional directional communication at the lower levels of the hierarchy.

Figure 6: Direction index by job level

Figure 7, below, plots clarity of individual priorities and goals versus clarity of team priorities and goals for job level and financial performance. This shows senior management and very high performing firms have clear team and individual direction. If we learn to move this clarity to lower level positions in the hierarchy and if low performing firms spend more time on direction clarity, we would expect to see higher performance as a result.

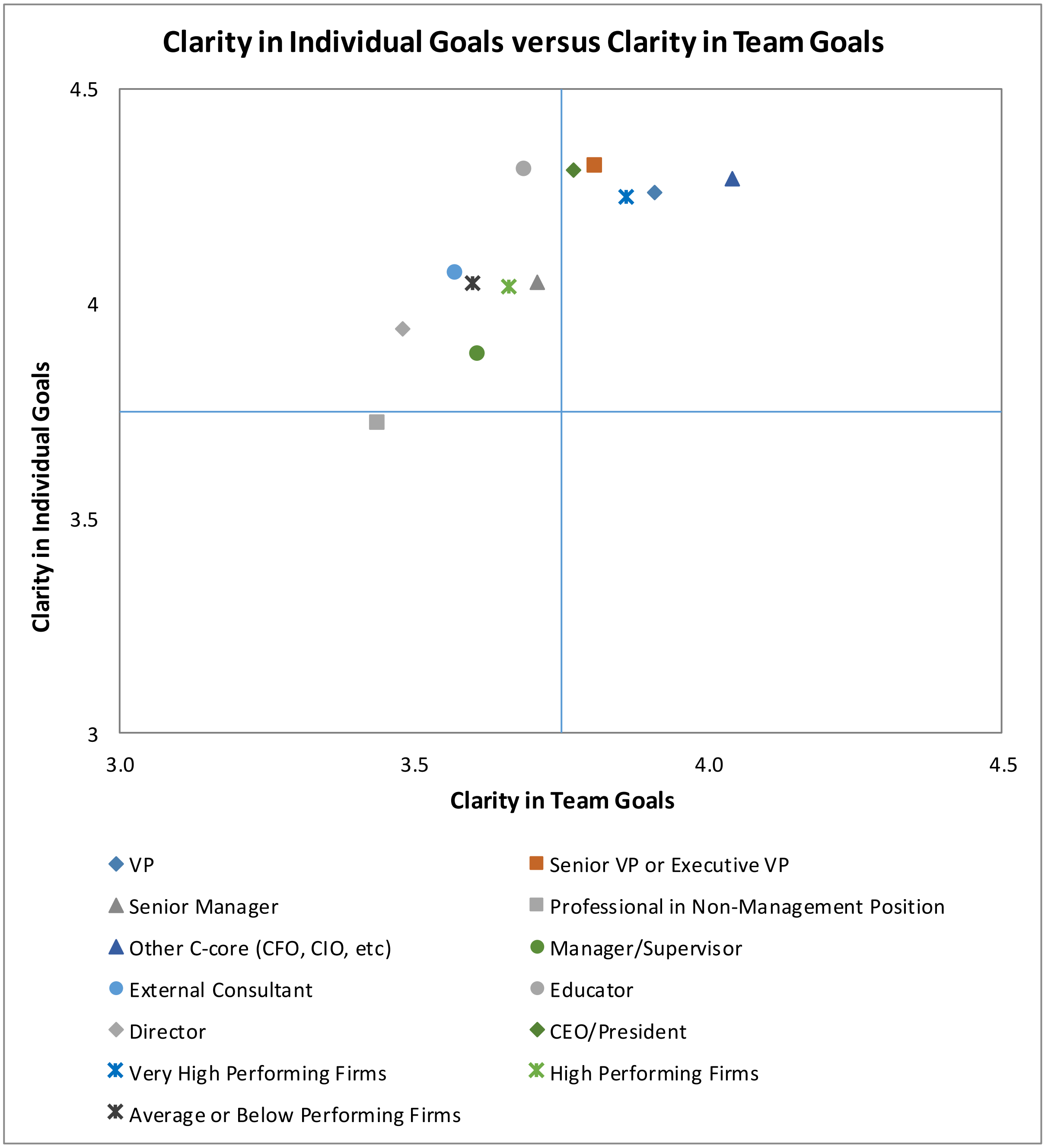


Figure 7: Clarity in individual goals versus team gaols

Summary

- Energy has stabilized at 7 out of the10 point scale and is at its highest level since we began reporting in 2003.
- Overall, energy is still below where leaders say they are most productive and over 52% of the respondents are more than one point away from where they say they are at their best. This group is at risk of low performance.
- Leader confidence dropped slightly to 3.58 after being stable for the last three years at 3.61. The biggest drops in confidence were in the strategy making process (-9) and the leadership team overall (-4).
- Direction dropped from the prior survey. The data indicates direction is a key component in driving high performance, so this drop is troubling.
- There continues to be a high opportunity cost indicated by a continued high energy gap, lower leader confidence and a drop in direction. This opportunity cost may result in organizations being less agile and unable to act on opportunities or weather financial or regulatory challenges.
- Actions for energizing leaders and non-leaders, improving communicating direction especially at lower levels of the organization should reduce this opportunity cost.

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.

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

For more information:

www.eepulse.com

www.leadershippulse.com

info@eepulse.com

+1-734-429-4400