



Business Drivers Technical Report June 2019

The Leadership Pulse started in 2003 by Dr. Theresa M. Welbourne. The Leadership Pulse helps managers learn from each other, in real time, using Energy Pulsing and executive learning with the Center for Effective Organizations.

Leadership Pulse™ Technical Report

Theresa M. Welbourne, PhD

May 5, 2019

What Business Drivers Teach us about Strategy Eating Culture in 2019

The Leadership Pulse project is a study that started in 2003. The goal is to provide leaders with real-time data so that they can learn from their peer thought leaders. The latest Leadership Pulse focused on business drivers.

This topic is an area of work spearheaded by Dr. Theresa Welbourne, Affiliate Research Scientist at CEO, Professor at The University of Alabama and President, CEO of eePulse, Inc. Her work on business drivers, which are factors or assets managed by companies, has shown what drivers are important (which means they usually receive more financial resources), and which are shown to drive individual and firm-level performance. Over the course of several years of studies within individual companies and over large samples of firms over time, one big learning has been the disconnects between what executives **think** is important and what are critical when predicting things like firm survival, stock price growth, earnings growth and more.

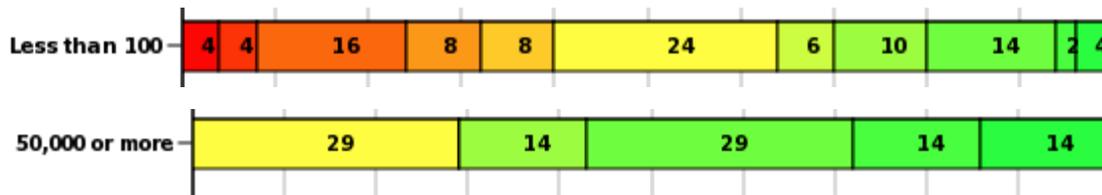
In this latest Leadership Pulse a small version of the larger business drivers survey was used. A total of 200 leaders from firms around the world answered the pulse, and of those 25% of the sample are C-level executives while another 25% represent executive levels that report to the C-suite (e.g. senior VP, VPs). The remainder of the sample are senior managers and some educators / consultants.

Business Drivers: The business drivers study covers a range of organizational assets or areas of strength, from ability to manage profits and cash flow, to brand and pricing strategy, strategic planning process, employees, culture, leaders, internal technology and more. The business drivers uniquely focus on multiple assets vs. doing a deep dive on just one line of inquiry (e.g. study of just leadership issues).

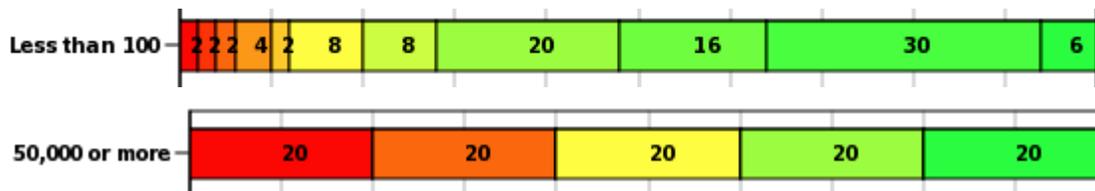
Unique to the business driver work is the way people can respond. Each item can be positive or negative in affecting the firm, and in addition it can be strong or weak. A unique combined scale is used in this validated questionnaire:



Reviewing the percent of respondents in each scoring category shows how using the data can provide insights about what leaders are thinking. Below are sample distributions for firms with less than 100 employees and those with 50,000 or more people on ability to manage cash flow. Not surprising, there are more low scores (red and orange) in the smaller firms while only neutral and positive in the larger organizations.



Below is the same reporting for company culture, which is generally something smaller firms emphasize as an important asset.



As seen above, results for an item like “the way we manage cash flow” can be negative or positive and a respondent can answer the degree (slightly to extremely). In this short version of the business drivers assessment we asked about 20 items. The top 3 of those that were rated as positive and powerful in driving company performance were (in order from high to low):

- 1) Quality of offering
- 2) Quality of client relationships
- 3) Brand and reputation

The bottom three items, or those that were rated as having a negative impact on the firm’s overall performance are:

- 1) Ability to manage cash flow
- 2) Internal technology solutions
- 3) Ability to manage profitability

The results for all questions (from high to low), reported by percent positive scored, are in the next table:

Question	Overall Mean	Overall Percent Positive	Overall Percent Negative
Quality of our offering	2.47	82	8
Quality of client relationships	2.37	79	12
Our brand and reputation	2.35	84	11
Level of customer service	2.29	82	11
Skills and knowledge of our employees	1.89	75	13
Unique product characteristics	1.85	68	11
Culture of our company	1.83	73	16
Long-term business strategy	1.66	69	23
Leadership team	1.57	71	19
Our organization's approach to employees	1.46	75	23
Our organization's ability to innovate	1.35	73	22
Level of employee engagement	1.23	68	27
Short-term (12 months) business strategy	1.19	63	24
Cost of our product(s)	1.01	58	25
The strategic planning process	0.98	61	28
Internal HR strategy (way we select, reward, develop)	0.97	61	26
Ability to be agile and change quickly	0.77	60	33
Ability to manage profitability	0.62	50	33
Internal technology solutions	0.53	52	36
Ability to manage cash flow	0.47	46	32

Next, we looked at the various demographics in the sample and examined where statistically significant differences existed. Two areas of interest came out of this analysis: 1) comparison of C-level executives vs. the levels that report to them and 2) the data by firm performance.

Firm level financial performance

Firm performance is self reported in the survey; however, for a subset of companies that are public we have their ticket symbol. Periodically, we run analyses to determine the validity of the self report data, and consistent with other researchers we find strong and positive relationships with the self report data and the more objective measures of performance. Therefore, although certainly not perfect, we have come to have high confidence in the self report measures of financial performance in the Leadership Pulse. Below are average survey scores for the items where statistically significant differences were found between the high and lower performing companies.

Average scores are reported per question per group along with the gap score (high/very high minus low/very low). The table is sorted by gap (high to low).

Question	High/Very High	Low/Very Low	Gap High/Low
Culture of our company	2.29	0.18	2.11
Ability to manage cash flow	1.59	-0.44	2.03
Ability to manage profitability	1.31	-0.67	1.98
Our brand and reputation	2.94	1.00	1.94
The strategic planning process	1.63	-0.24	1.87
Long-term business strategy	1.98	0.17	1.81
Short-term (12 months) business strategy	1.72	0.28	1.44

The biggest gap is on results dealing with culture, with high performing firms scoring much better than the lower performing companies. All the other significantly different items are focused on important parts of running a successful business (e.g. managing cash and profitability, planning process, etc.).

C-level vs. groups that report to the CEO

In the search for statistically significant differences based on various demographics, the gap between the C-level executives and the levels of individuals below their level raised questions. As can be seen in the table below, the C-level executives have significantly more positive responses to all the questions noted other than the very last item, the strategic planning process. The gaps are most pronounced in the first four items (all have gaps more than 1.5). These items are all tied to very popular initiatives and programs a lot of C-level executives have been paying for and bringing into their companies. The question one must ask is if they are indeed working, given that the group (SVP/Director) most likely in charge of implementing these types of initiatives (e.g. agility, change management, engagement) are scoring them so much lower.

C-suite employees vs. those who report into the C-suite

Average scores per question for items that are statistically significant (per group) and the Gap score (C-level minus Senior VP) Sorted high-low by gap.

Question	C-Level	Sen. VP to Director	Gap
Ability to be agile and change quickly	1.86	-0.10	1.96
Our organization's ability to innovate	2.23	0.46	1.77
Leadership team	2.25	0.65	1.60
Level of employee engagement	1.95	0.44	1.51
Our organization's approach to employees	2.18	0.77	1.41
Culture of our company	2.58	1.39	1.19
Unique product characteristics	2.25	1.19	1.06
Skills and knowledge of our employees	2.38	1.37	1.01
Internal technology solutions	0.84	-0.08	0.92
The strategic planning process	0.51	0.67	-0.16

The only two items that overlap with the analysis done on firm performance are culture and the strategic planning process, and the data show that for those two items, higher performing firms have higher scores (see highlighted rows on each table).

Predictive work with index scores

The individual questions can be aggregated up into overall index scores (using factor analysis). When we did this analysis, we found six different indices. Below is a table identifying each with the mean scores (sorted high to low based on average).

Index	Index Scores Average or Mean Scores
Marketing and Sales (customer service, client relationships, brand)	2.29
Leadership and Employee Knowledge	1.72
Offering Niche (innovate, technology, product)	1.54
Employee Focus (HR strategy, approach to employees, culture, engagement)	1.36
Strategic Direction (short and long-term strategy, agility)	1.13
Financial Model (managing cash, profits)	0.68

Strategy’s time has come around in 2019

In order to put together the results and understand which of the index categories predicts outcomes of interest, we ran regressions predicting employee energy and overall financial performance of the firm.

What predicts leader energy?

The questions related to the strategic direction index are the only ones significantly predicting employee energy. That is interesting in that questions / indices more directly related to employees (employee focus, leadership) are not predictive. Although this may seem counter intuitive, it is consistent with a lot of our interview and company-specific work. The definition for employee energy we use as our guide for measurement is “the ability to do work,” which is from physics. The energy measure focuses on how close employees are to their ideal (most productive) energy level (like taking your body pulse when you assess where you are in comparison to your target heart rate). The measure used for the regression analysis is the absolute value of the gap score (current or working energy minus optimal energy). Large gaps are negative; as the gap increases, productivity decreases (note that we have done studies showing this relationship predicting sales, retention, customer satisfaction and other performance-related outcomes).

Our company and leadership pulse data have shown for some time that most leaders are scoring below where they are at their best on energy, and the reason is due to constant interruptions and not having time to focus on what is really the most important task at their jobs. In fact, in many cases they don’t know what the most important work is; thus, it’s not surprising that the data tell us that employees who think their strategic planning process is working have better personal energy at work. Perhaps they are

better at directing their energy to drive higher firm performance because they have a clearer line of site between their work and outcomes via their strategy.

What predicts financial performance?

The key metric here is focused on the financial model – whether the firm is managing profits, costs and cash flow effectively. We looked at another measure of firm performance, total revenue, and two things were predictive – both the financial model index and strategic direction.

Culture may be done eating strategy

In 2006 the saying “culture eats strategy for breakfast” was attributed to Peter Drucker by Mark Fields (who served as the CEO of Ford). Later, a book titled “Culture Eats Strategy for Lunch” was published (in 2013). Perhaps culture has been munching and eating a bit too long, and it’s time for strategy and core business levers like managing cash and profitability.

Even though our data show that the questions related to strategy are not rated at the top of any lists, they do seem to be important in predicting individual and firm-level outcomes. Taken with the significant differences in scores between C-suite executives and respondents in the level below the C-level participants, it appears to be a good time to take stock and clearly understand the attention being given to various business drivers and whether there is synergy in what’s needed for high performance today.

Perhaps when the economy is strong and unemployment is low, change is faster and new competitors can quickly disrupt a market, the role of strategy is more critical than it was in the past. Also, with such competitive environments, one might ask if culture / engagement and other related items are really creating a competitive advantage. Consider that most companies are doing the same thing when it comes to engagement (using the same vendors, the same survey questions, identical interventions, etc.). They are not creating competitive advantage but basically copying the competition. Thus, today, perhaps strategy eats culture because culture is not very different from company to company.

Understanding business driver disconnects

Members of the Leadership Pulse receive their own data in addition to the benchmarking information. This kind of study is important because it allows the leaders to use the results to engage their teams in high quality dialogue. Consider the C-suite vs. the next level of leaders. In many ways, it doesn’t matter who is right and who is less correct. What really matters is that the leadership team gets on the same page. Why? Decisions about what gets funded, which projects are allocated resources (e.g. not just money but people, equipment, etc.), are made based on what the decision makers think is important. If the C-suite does not have enough information to understand why their direct reports think what they are investing in is not making a difference (or at least a positive one) in their firms, then chances of success of those same initiatives go down because the people reporting to the C-level executives are the ones tasked with implementation. Also, if certain business drivers are working and the next level of executives is unaware, they could be focusing on the wrong driver creating opportunity cost and perhaps even financial losses.

Use Data to Learn

We started the Leadership Pulse to transform how companies use employee survey data. Our goal is to provide real-time learning to leaders on topics that are important for their personal success and the growth of their firms. Anyone interested in becoming part of this learning community can learn more at www.leadershippulse.com.

The Leadership Pulse is a registered trademark of eePulse, Inc. www.eepulse.com