The Hudson Report

EMPLOYMENT & HR TRENDS

New Zealand | January – June 2005

Part Two | Leadership Development in the Workplace

Hudson

GLOBAL RESOURCES &
HUMAN CAPITAL SOLUTIONS

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Introduction

The Hudson Report is an established and highly reputable publication, based on in-depth, nation-wide research. Released bi-annually, the Report uncovers and analyses the hiring expectations of New Zealand employers over the forthcoming six months, and provides insights into a range of human resource issues currently impacting business and the broader New Zealand economy.

While a number of surveys currently address hiring intentions and job vacancies, the Hudson Report fills the gap in market knowledge and data on broader human resource issues and trends relevant to business leaders.

The Hudson Report for the period January to June 2005 involved interviews with over 1500 employers across New Zealand. It consists of two parts:

- **Part One**: Employment Expectations for the first two quarters of 2005. Released 11 November 2004.

- **Part Two**: HR Insights. Released 16 November 2004.

Methodology

The Hudson Report has established a reputation as a key socio-economic indicator in the New Zealand market. The Report's biannual findings on permanent employment expectations are built on the premise that the expectation to increase or decrease net staffing levels represents a significant indication of employers' optimism for the growth of their organisations.

The Hudson Report frequently refers to the term 'net effect' in relation to employment expectations. The net effect figure is calculated by taking the percentage of employers surveyed that expect to increase staff levels during the quarter and subtracting the percentage of employers surveyed that expect to decrease staff levels.

The Hudson Report combines the expectations of key employment decision makers from all major industries across small (<20 employees), medium (20-200 employees) and large (> 200 employees) organisations, and extrapolates the findings in relation to other key economic indicators (ie interest rates, housing figures).

For the period January to June 2005, 1553 employers were personally surveyed by Hudson recruitment and consulting professionals. Participants were surveyed from 17 core industry groups as detailed below:

- Advertising/Marketing/Media
- Construction/Property/Engineering
- Education
- Financial Services/Insurance
- Government
- Healthcare
- Information Technology
- Manufacturing
- Non-Profit
- Professional Services
- Resources
- Retail
- Telecommunications
- Tourism & Hospitality
- Transport
- Utilities
- Wholesale/Distribution

Leadership in the Workplace

What characteristics do 'great' companies share? They exhibit **strong leadership** both internally and in their marketplace, and can demonstrate a long-term track record of growth, financial performance and delivering shareholder value[1].

The rewards are clear-cut for those who are successful. But how do highly successful companies do it?

Most researchers agree a key outcome of great leadership is superior people management.

Characteristics of Successful Companies

	Highly Successful Companies	Less Successful Companies
Clear employee goals	80%	26%
Participative style	70%	4%
Attention to development	67%	27%
Performance-based rewards	86%	30%
Encourage creativity	62%	10%

Source: D. Karvetz, The Human Resources Revolution

The costs for those who are unsuccessful are equally clear-cut. Research conducted by the Future Foundation has estimated the annual costs of 'poor' people management to be 23 billion dollars in UK and 105 billion dollars in the United States[2].

Building a performance culture and driving accountability in an increasingly complex professional landscape is of critical importance to business leaders and owners. It requires organisational leaders to find answers to the question 'how do you inspire, engage, develop and retain talented individuals?'.

In a recent article, Dr Lester Levy, CEO of the University of Auckland Leadership Institute, supports a three-dimensional view of leadership:
*   Skills
*   Perspectives, and
*   Dispositions[3].

[1] Price Waterhouse Coopers *The World's Most Respected Leaders Survey 2002*

[2] Future Foundation, *Getting the Edge in the New People Economy*, 2004

[3] Dr Lester Levy, *University of Auckland Business Review*, 2004

Leadership in the Workplace

Research by Warren G Bennis and Robert J Thomas[4] suggests that great leaders possess:

- The ability to engage others in a shared voice
- A distinctive and compelling voice
- A sense of integrity (including a strong set of values)
- Adaptive capacity – meaning applied creativity – an almost magical ability to transcend adversity with all its attendant stresses.

The effectiveness of these dimensions manifests in observable behaviour in the way leaders inspire and engage people, champion innovation and lead organisational change.

The challenges of leadership have perhaps never been more complex. This may be for no other reason than the need to lead and manage a more diverse and complex workforce that is characterised by considerable cross-generational differences in work orientations and the meaning 'work' has in peoples' lives.

Despite research suggesting that spending on Corporate Education had grown to at least $110 billion annually[5] and many companies probably spending more than ever before, the results of the Hudson survey suggest a considerable disconnect between leadership expectations and leadership effectiveness. The results raise three important questions:

1   Is the investment keeping pace with the changing expectations of employees?

2   Is the investment targeting leadership in a way that inspires, engages and develops today's employees?

3   Is there sufficient emphasis being placed on people management in selection and development?

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[4] Warren G Bennis & Robert J Thomas, *Harvard Business Review*, September 2002

[5] Accenture, *Performance Simulation: eLearning with Bottom-Line Benefits*, 2002

Leadership Success and Failure in NZ Organisations

Of the qualities included in the survey, those characteristics associated most directly with successful 'leadership' – people management, change management and innovation – ranked as the least successful aspects of New Zealand leadership.

When asked to rank the most effective attribute of their leaders, only 40% of all survey respondents ranked these qualities ahead of operational/systems management and customer relationship management. More alarming, only 17.3% ranked people management as the most effective leadership aspect with 56% ranking people management and change management as the least effective leadership attributes of their leaders.

Success and Failure in New Zealand Leadership

More respondents in the South Island thought their leaders were most effective people managers, with fewer people ranking this as the least effective attribute (34%) and more ranking it as the best (18.5%). Conversely just over 30% of respondents in the Upper North Island ranked 'people management' as the most ineffective attribute.

Whilst an issue across most sectors, non-profit fared better than most in the people-management stakes, although as bad as most in change management leadership.

If you are in the tourism and hospitality industries, be afraid, very afraid. Only 1 in 20 respondents thought people management to be the most effective leadership aspect.

The survey also suggests that others firms with the greatest opportunity and poorest leadership report cards include those in the transport, professional services, telecommunications, utilities and government sectors.

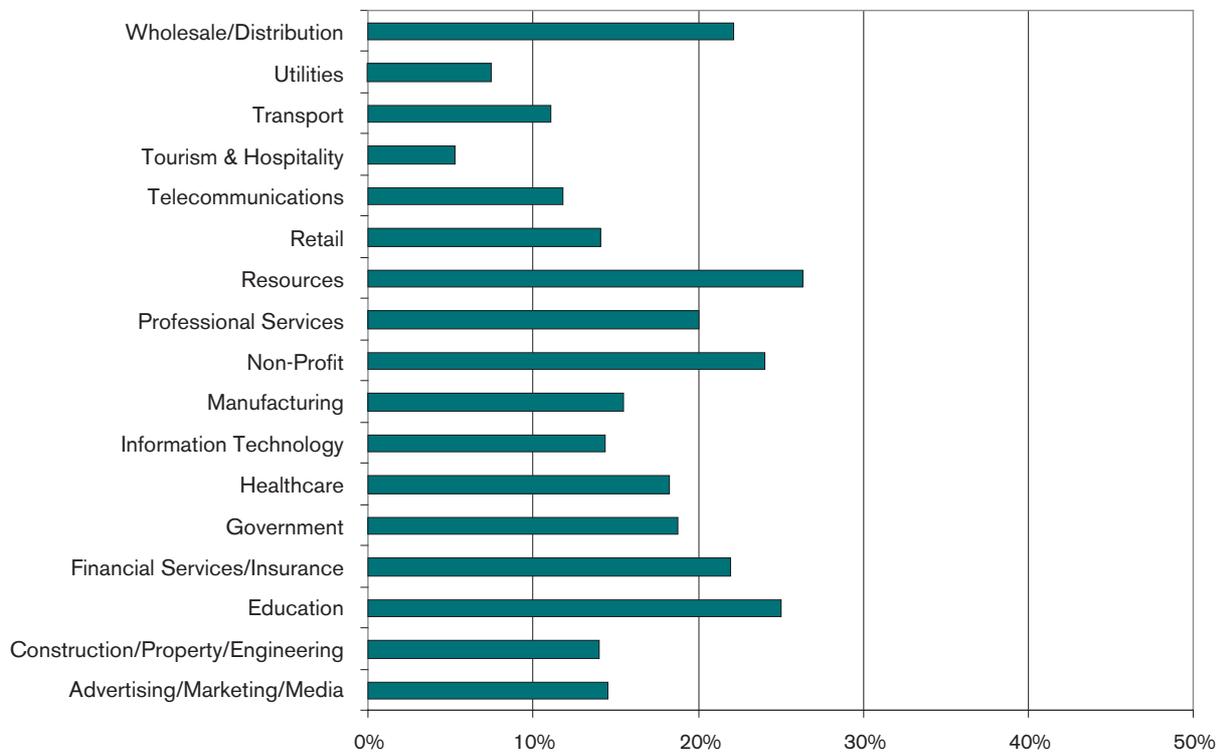# Leadership Success and Failure in NZ Organisations

People Management

Of the 17 sectors covered in the survey, the telecommunications industry ranked fourteenth in describing people management as the most successful leadership attribute – and more people in this sector ranked it as the least effective leadership attribute than did nine other sectors.

More people ranked people management as the least effective attribute than they did the most effective attribute – although this was less pronounced in medium-sized firms

suggesting more variation of perceptions within organisations of this size. This greater divergence of views was also noted across sectors including education, financial services/insurance, government, professional services and resources.

Whilst the transport sector headed the 'least successful people management' rankings, what was surprising was to find education and healthcare not far behind given they are sectors where 'people' are the core focus of their business. The survey suggests that educational leaders are better at managing systems and operations than they are their people.

Most Successful Aspects of New Zealand Leadership by Industry: People Management

Leadership Success and Failure in NZ Organisations

Innovation

Perhaps not surprisingly, twice as many respondents within technology driven or dependent sectors reported 'innovation' leadership to be the strength of their leaders compared to most other sectors. Less than 10% of respondents within people and relationship driven sectors, such as tourism, hospitality, professional services and retail, felt that this was their leaders' most effective quality. Interestingly, organisational size did not seem to matter, perhaps suggesting that capital and resources was not a major inhibiting reason.

Most Successful Aspects of New Zealand Leadership by Industry: Innovation

Leadership Success and Failure in NZ Organisations

Operational/Systems Management

The lower ranking of innovation leadership reported in the Lower North Island is perhaps explained by the finding that 22% of respondents from the government sector felt this to be the 'least successful' aspect of leadership within their workplaces. This contrasts with 45% of government respondents ranking 'systems and operational management' as the most outstanding quality of their leaders.

Most Successful Aspects of New Zealand Leadership by Industry: Operational/Systems Management

Leadership Success and Failure in NZ Organisations

Change Management

Leadership in managing change was universally seen to be the least effective attribute across all industry sectors, although those working in smaller firms ranked it only third behind operational systems and people management. At the same time respondents working in small firms didn't rate it as a leadership strength. This might suggest that smaller firms deal with less complex change, are better able to meet workers needs for information and transparency or it could also be that workers in small firms have lower expectations of change leadership.

Least Successful Aspects of New Zealand Leadership

Legend:
- Small (<20 employees)
- Medium (20-200 employees)
- Large (>200 employees)
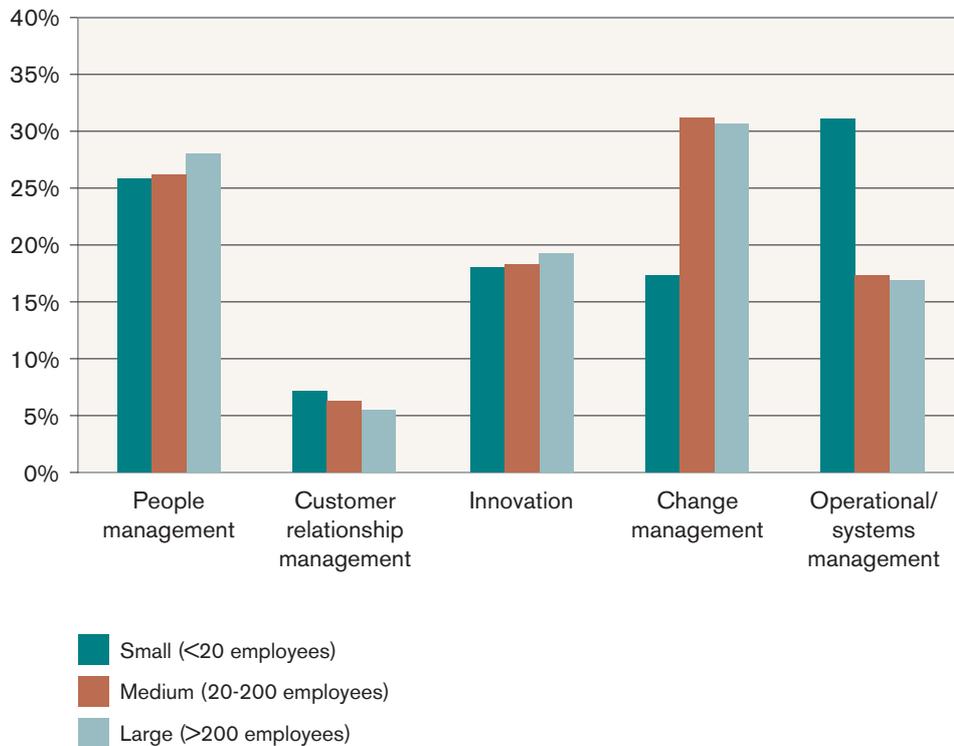
Leadership Success and Failure in NZ Organisations

Is it any wonder then that we see mountains of research showing the consequences of the disconnect between what individuals are looking for from their leaders, and what they are actually experiencing including:

*   employees four times more likely to leave a job with a manager that has poor coaching and interpersonal skills[6]
*   graduates feeling disempowered
*   20% of people not getting on with their boss and 33% of people saying they don't get helpful performance feedback[7]
*   the relationship with their direct manager as a 'top 5' reported reason for deciding whether to stay or leave[8]
*   50% of those surveyed reporting having their career negatively impacted by the quality of leadership.[9]

Perhaps it is also not surprising then that there is a perception of an increasing number of career discussions happening between workers and recruitment consultants.

[6] Cary Cherniss & Daniel Goleman, *The Emotionally Intelligent Workplace*, 2001

[7] Steve Newhall, *Should I Stay Or Should I Go?*, DDI Research Report, Spring 2004

[8] Richard S Wellins & Paul Bernthal, *Retaining Talent: A Benchmarking Study*, 2003

[9] Ed Michaels, Helen Handfield-Jones and Beth Axelrod, *War for Talent*, Harvard Business

Identifying and Developing Leaders in the Workplace: Are We Doing What it Takes?

The question of whether 'leaders are born or trained' has been long debated (much akin to the nature versus nurture issue) and varying views persist, as do descriptions of 'leadership'.

Researchers across a range of disciplines generally agree that individuals' potential differs across skills, abilities and attributes.

As an example, research in the field of genetics has led to the proposition that athletic potential/disposition can be determined genetically and is predictive of maximal potential. Of course the committed individual who trains hard well may well achieve better results than someone who may be more naturally gifted, but who does not have the same level of passion and who is less willing to train or practice.

Several researchers have found support for the proposition of a genetic basis of leadership, although acknowledge environmental and developmental influences as 'substantially important'.[10]

Marcus Buckingham, global practice leader with The Gallup Organization, a management consulting business in Princeton, NJ, says, 'In terms of managing human capital to drive the bottom line, most companies operate on two false assumptions. One is that people can be anything they want to be if they try hard enough. The second is that each person's greatest room for growth is in his or her areas of greatest weakness.'[11]

Buckingham draws a line between things that are easy to learn and things that are difficult or impossible to learn. He says, 'A skill is a technique that you can teach. For example, "here are the four questions every customer service representative needs to ask", or "here are the six steps for opening a new account in a bank".'

However, he says, it's not so easy to teach an employee how to be competitive or focused or empathetic.

This is consistent with the view of Dr Lester Levy who believes 'individuals have varying levels of headroom to develop their leadership attributes', and for some 'the concept of leadership will be elusive'.

Susan David[12] also supports that efforts to develop people management skills will fall short unless attention is paid to assessing and developing core emotional skills that increases:

1   individual understanding of their and others' feelings and needs

2   appreciation of how these influence actions and thoughts

3   understanding towards how they would like themselves and others to feel.

Improving our levels of self-insight are seen as fundamental to personal growth in our ability to manage our relationships and ourselves.

However, a large proportion of New Zealand employees in leadership roles are highly likely to experience development activity that is untargeted and generic. As a consequence, the outcomes are likely to be highly variable, as is suggested by the results observed in the Hudson survey.

For the 50% or so that undergo formal assessment of leadership potential and leadership effectiveness, it is mostly occurring through the performance review system (37%) regardless of industry type or organisational size.

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[10] R.D.Arvey, M. Rotundo, W Johnson & M McGue *HRRI Working Paper, IRC University of Minnesota*, 2002

[11] Marcus Buckingham & Donald Clifton Now, *Discover Your Strengths,* Free Press, 2001

[12] Susan David, Psychologist, BA (Hons) MA, MpsychPhD (Present)

Identifying and Developing Leaders in the Workplace: Are We Doing What it Takes?

How Leadership/Management Assessments are Being Undertaken
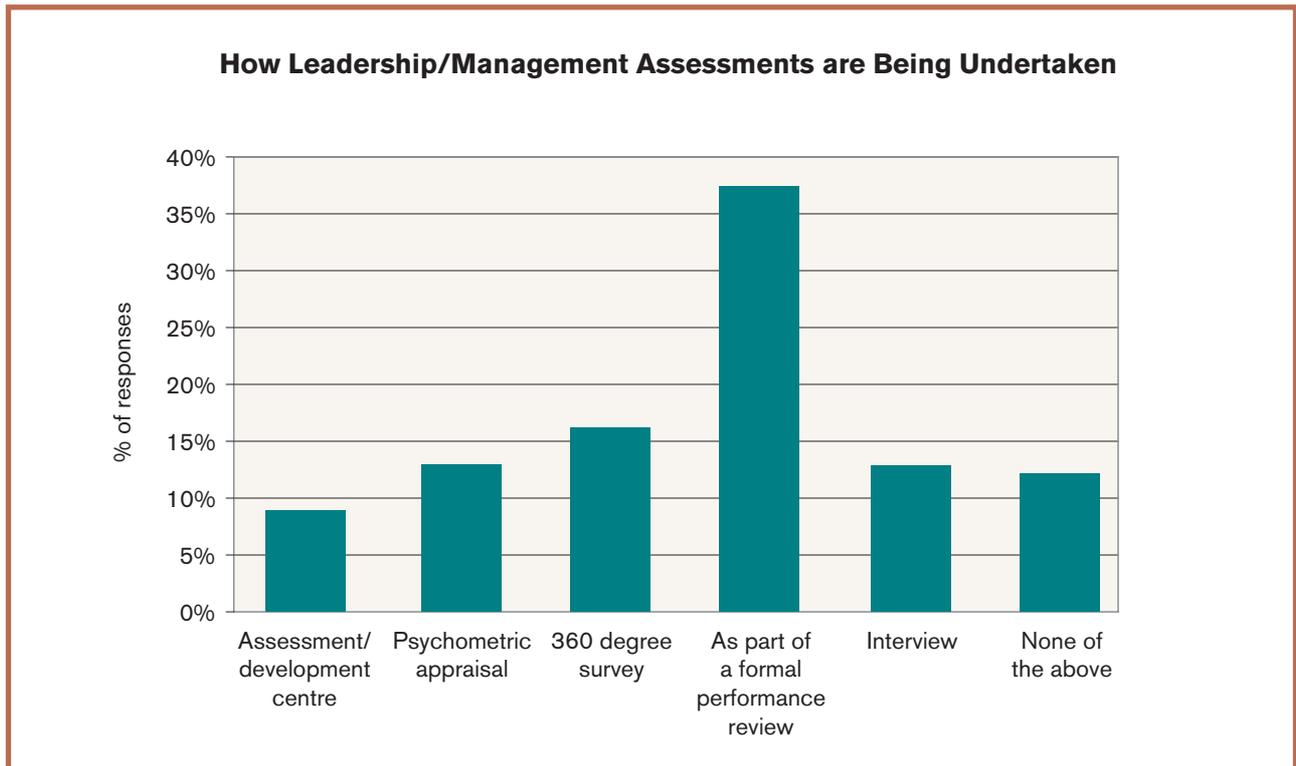
Relative to the various measures available and used, the Education, Advertising/Marketing & Media and Construction/Property/Engineering sectors are more reliant on performance reviews to evaluate leadership potential or ability than all other sectors.

Companies employing less than 20 employees are twice as likely not to engage in assessment of their leadership talent and when they do, they are half as likely as larger companies to engage in more comprehensive forms of evaluation. This suggests that they leave much to chance. One wonders whether smaller businesses are any better able to accommodate leadership failure than larger companies — we suspect not.

Identifying and Developing Leaders in the Workplace:
Are We Doing What it Takes?

**How Have You Been Formally Assessed:
By Organisation Size**

Legend:
- Small (<20 employees)
- Medium (20-200 employees)
- Large (>200 employees)
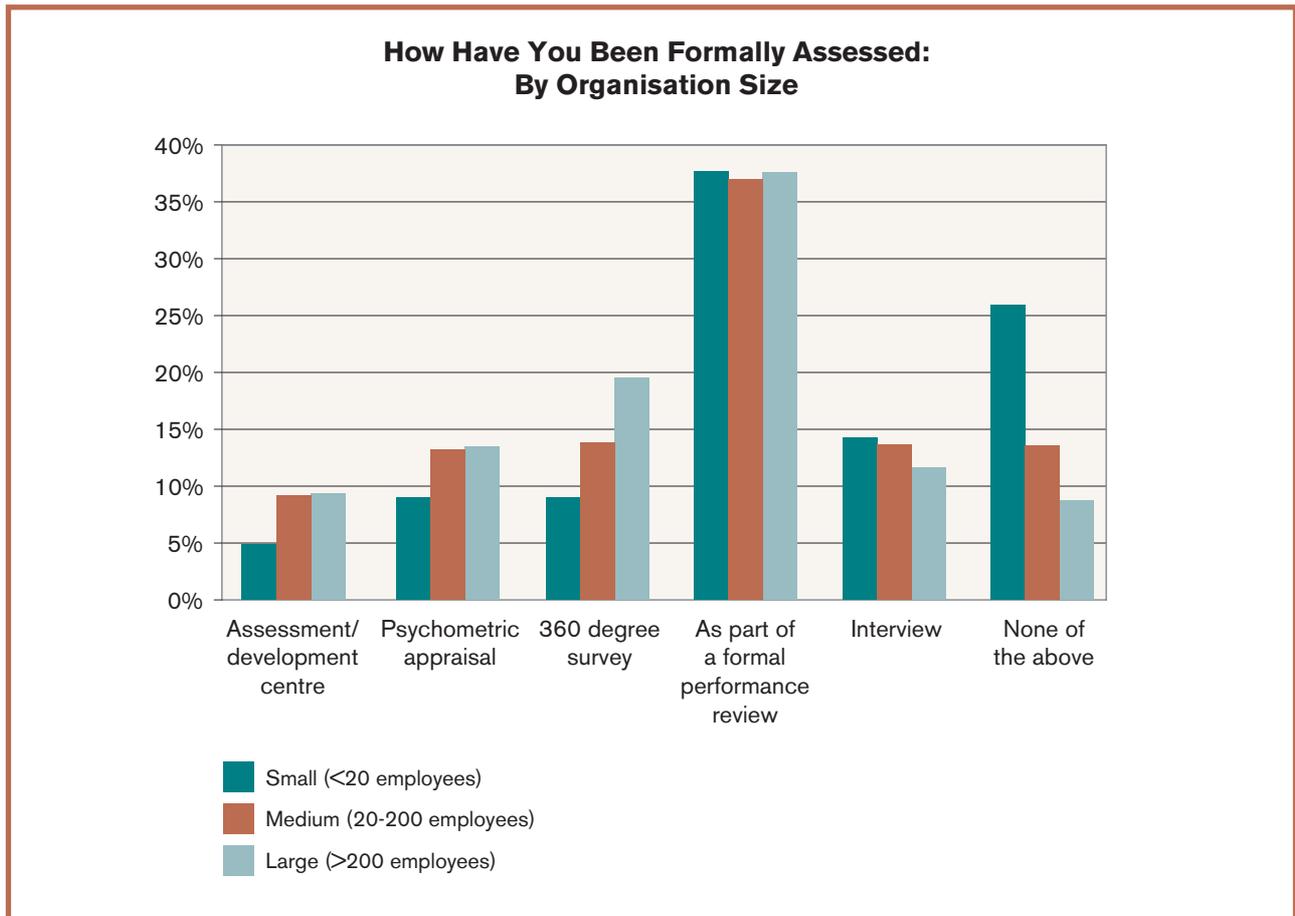
One of the major limitations of this method is that it relies on historical data and does not test for potential for higher-level leadership roles. Given the generally accepted proposition that there are differences in individual 'leadership potential', it is surprising that methods such as Assessment/Development Centres which facilitate assessment of capability against future leadership requirements are not more prevalent within New Zealand businesses. Given the dispositional dimension of leadership, it is also surprising that psychometric tools that assess emotional 'skill-sets' are not more prominent.

How Are Leaders Being Developed?

There are a wide range of developmental activities and methods available. Our research supports that organisations are providing a range of development experiences, although it should be noted that some 15% of respondents reported undertaking no development in their current organisation.

Whilst traditional classroom-based leadership training led the way (24%) a considerable level of experiential-based methods such as coaching, secondments and special assignments accounted for a further 42% of all developmental activity.

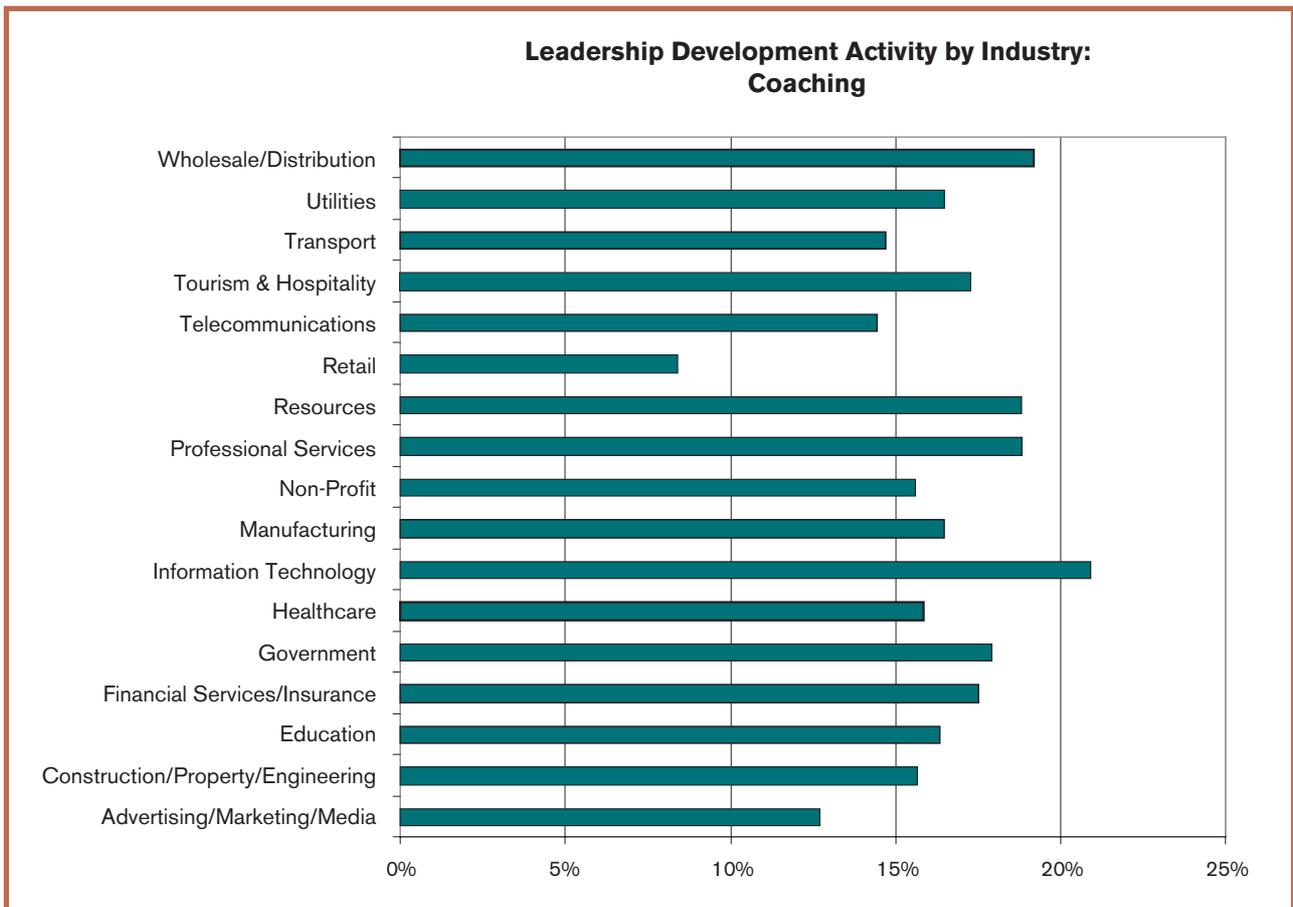**Leadership Development Activities Undertaken in Current Organisation**
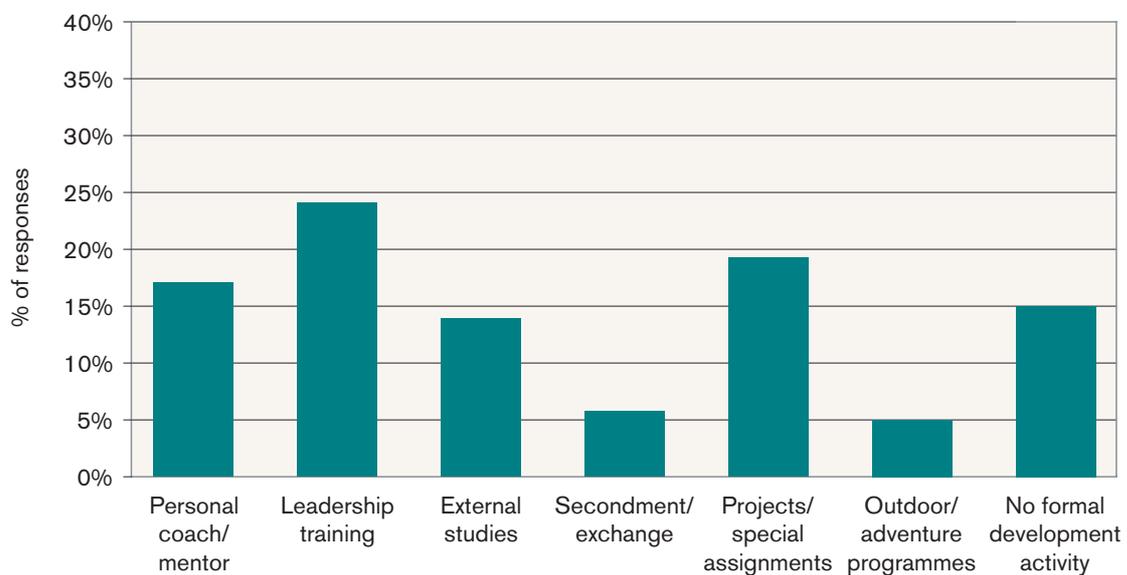
How Are Leaders Being Developed?

There is good reason for this increase – when done well. Individual behaviour change is achieved more successfully through individual interventions such as coaching or special assignments supported by a mentor to assist in reflecting and learning from the experience. Olivero, Bane & Kopelman found a four-fold increase in productivity gains when traditional classroom training was supplemented by formal, professional coaching.[13]

Redshaw found that the best performing managers have better coaching skills – a technique that caters best for individual uniqueness and which can flexibly address bad habits or unproductive thinking.[14]

The retail sector was the stand out sector with coaching being a much less prevalent activity than that reported for all other sectors. The considerable number of people ranking people management skills as the least effective leader attribute in the Advertising/Marketing/Media, Construction/Property/Engineering, Education, Information Technology, Retail and Resources sectors is perhaps not surprising given these sectors reported the lowest levels of leadership development activity.

Leadership Development Activity by Industry: Coaching

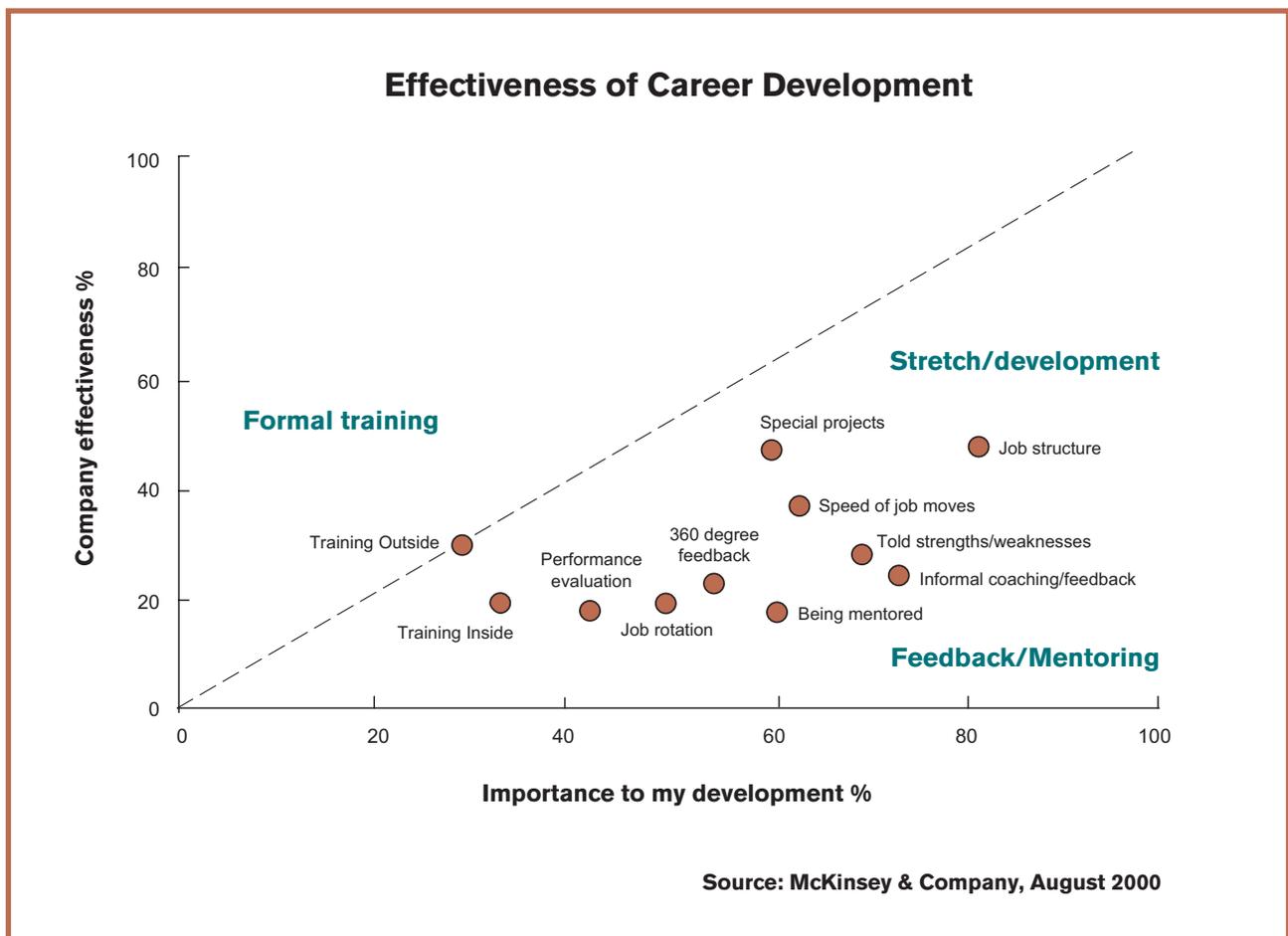| Industry	Value
Wholesale/Distribution	~19%
Utilities	~16.5%
Transport	~14.5%
Tourism & Hospitality	~17%
Telecommunications	~14%
Retail	~8.5%
Resources	~18.5%
Professional Services	~18.5%
Non-Profit	~15.5%
Manufacturing	~16.5%
Information Technology	~21%
Healthcare	~16%
Government	~18%
Financial Services/Insurance	~17.5%
Education	~16.5%
Construction/Property/Engineering	~15.5%
Advertising/Marketing/Media	~12.5%

[13] Olivero Bane & Kopelman, *Public Personnel Management*, 1997

[14] B Redshaw, *Industrial and Commercial Training*, 2000

How Are Leaders Being Developed?

McKinsey's research on the training and development spend
of leading companies found that 'sheep dip' types of
traditional internal and external training courses were the least
effective, yet these were the most common forms of
development in the Hudson survey.

Effectiveness of Career Development

Company effectiveness % (y-axis, 0 to 100)

Importance to my development % (x-axis, 0 to 100)

Formal training

Stretch/development

Feedback/Mentoring

- Special projects
- Job structure
- Speed of job moves
- Training Outside
- 360 degree feedback
- Told strengths/weaknesses
- Performance evaluation
- Informal coaching/feedback
- Training Inside
- Job rotation
- Being mentored

Source: McKinsey & Company, August 2000

How Are Leaders Being Developed?

Whilst there is no historical benchmark for the Hudson survey, it is believed that these experiential approaches are on the rise given the significant increase in corporate related coaching systems, services and experiential learning components. The survey found there to be no meaningful difference in the mix of development activity being implemented by small to large companies.

Of the types of development interventions surveyed by Hudson the only geographic difference observed across New Zealand was a slightly lowered level of coaching in the South Island.

The question remains whether, given current perceptions of leader effectiveness, the benefits available through coaching are being delivered.

According to Mannix, Smart & McDonald in an article 'Give me a C-O-A-C-H', coaching 'gurus' dispensing psycho-babble or cult-like techniques (and just about anybody who can 'hang out a shingle') have invaded the coaching space with little professional regulation. This has led to nebulous and ambiguous understanding of coaching.[15]

Dr Tony Grant from the University of Sydney's Coaching Psychology Unit has sought to establish an 'evidence-based' approach to coaching to delineate between the often sensationalised approaches based on adapted personal development and motivational programs and professional coaching which draws on solid research and theory.[16] Dr Grant strongly believes that the contribution that coaching can make to improved personal and business performance is being undermined by a lack of structure, clarity, purposeful intent and solid ethical and professional foundations.

Similar to Dr Levy's views on leadership, Dr Grant believes that most coaching skills can be taught, but not everyone can be an effective coach. Sacket, Hayes Guyatt and Tugwell believe that success from coaching interventions when the coaching system is evidence-based, 'being the intelligent and conscientiousness use of best current knowledge in the delivery of coaching and design and teaching of coach training programs'.[17]

[15] Mannix, Smart & McDonald, *U.S. News & World Report*, Feb 2004
[16] Grant, Cavanagh & Kemp, *Australian Academic Press*, 2004
[17] Sackett, Haynes Guyatt & Tugwell, *British Medical Journal*, 1996.

What Does This all Mean?

Organisations need to focus on developing the leadership skills of their people, particularly people management skills in a way that is more flexible and responsive to a workforce that is more diverse, has more complex needs and generational differences in the meaning of 'work' within people's lives. They also need to have the ability to identify future leaders and look for the qualities which most research tells us make the best managers. That requires an investment in a very structured and well considered process that enables the organisation to make informed decisions about their leaders, and to ensure the investment they make in leadership development is relevant, meaningful and cost-effective.

It is worth remembering that there will be a limit to which you can 're-programme' someone's brain and that you start with varying degrees of 'headroom' with which to develop leadership dimensions. Better to find this out up front than invest large sums of money and hope that some of the scattergun sticks and leads to changes in leadership behaviour.

Recommendations

1. Formally assess leaders for the competencies relevant to their future business success.

2. Identify particular behaviours a manager needs to develop and change. For instance, telling someone of the need to develop "people skills" is far less useful than a specific suggestion such as focusing on listening for 80% of the time when in staff meetings.

3. Use valid assessment methods to judge potential and avoid an over-reliance on retrospective methods and intuitive or subjective methods such as performance appraisals. A combination of methods is ideal.

4. Develop a database of leadership capability within your business to enable strengths and gaps to be viewed at a divisional, management seniority and organisational level. This will enable your organization to develop strategies for leadership recruitment and succession planning.

5. Where possible, use personalised, experiential approaches such as professional coaching which can more efficiently account for individual difference to foster people management skills.

Your Points of Contact

Auckland

Marc Burrage, General Manager, Service & Support Recruitment – **New Zealand**

Peter Harbidge, General Manager, Executive & Specialist Recruitment – **New Zealand**

Level 6, 137 - 147 Quay Street

Princes Wharf, Auckland

Tel: (64 9) 367 9000

Email: marc.burrage@hudson.com

peter.harbidge@hudson.com

Wellington

Cyrus D'Cruz, General Manager – **Wellington**

Level 6, State Insurance Tower

1 Willis Street, Wellington

Tel: (64 4) 473 4073

Email: cyrus.dcruz@hudson.com

Christchurch

Roman Rogers, General Manager – **Christchurch**

Level 5, PriceWaterhouseCoopers Centre

119 Armagh Street

Christchurch

Tel: (64 3) 364 5677

Email: roman.rogers@hudson.com