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Leadership Pulse™ Research Results from summer 2008 Pulse Dialogue™

Relational Capital: How it matters and why it's important to know if it's walking out the door

With insights from energy trends and HR confidence findings

Theresa M. Welbourne, Ph.D.

What’s Walking Out the Door?

If you own a manufacturing company that builds cars, you probably would not throw out the raw steel and aluminum you need to construct the exterior. If you were the president of a software company, you would likely not cut costs by deleting your proprietary code.

So why is it that when times are tough, we walk out the #1 asset that can help companies survive and even grow? That asset is not necessarily the ‘human’ that you are laying off; it is the relationships that this person owns.

Today, more than ever before, as companies downsize and change their organizations to meet the new challenges they face, relational capital is exiting, and no one even sees it strolling past them on the way out. Relationships are significant assets that are unaccounted for in most organizations and the lack of measurement and visibility means when this asset is gone, no one even notices until it’s too late.

It’s too late when customers fail to renew, when deals in the pipeline are not closed, when upsell efforts fail, when investment starts to dry up, when employees no longer want to go ‘above and beyond’ and put in the needed hours to meet deadlines, and when performance drops.

In this report we want to raise your awareness of the importance of relational capital and how it can help your organization survive and thrive. This leadership pulse report is only one data point that is part of a bigger story of why and how relationships create value in organizations.

The story is not about ‘touchy feely’ HR. We are talking about how organizations get new business, persuade clients to stay with them even when prices increase, how leaders obtain competitive information that may help drive strategy, and basically how great organizations win.

In addition to relational capital, in this leadership pulse report we also examine human resource confidence and leader energy. Below are the overall trends:

- HR department’s ability to do tactical work improved,
- Confidence in HR’s ability to do strategic work declined overall,
- C-level executive confidence in HR’s strategic work improved, and
- Leader energy declined.

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Part I: The Relational Capital Story

A series of studies on relational capital began in 1993 when I started a large-scale investigation of initial public offerings (IPOs). My research team examined cohorts of firms that went public in a given year and what made these firms grow or die. We studied organizational death because there was disagreement about which performance measure was best, so we decided "live or die" was the ultimate outcome that was not up for a lot of debate.

The IPO samples varied in number. In 1988, a total of 138 firms went public; in 1993 we saw 535 IPOs, and in 1996, which was the biggest IPO year ever about 1,000 firms, went out. We surveyed executives, coded the prospectuses, downloaded data from financial data bases and told the story of what made these organizations live and die.

About now you might be thinking that this story does not apply to you because IPOs are smaller, baby companies. That is really not the case; the samples varied significantly in size, geographic location (quite a few non-USA based firms go public in the USA), industry, and more. Thus, these were very representative samples, and the samples provided high quality research data (representative, have good archival data, etc.).

Part One: IPO Learning

What we learned was that initial stock price was higher in firms that stated they valued technology, top management, and products. But 90 days out, one year later, and after five years (when only 60% were alive), the key predictor was not these variables; it was human capital. The difference was an approximate 90% chance of survival in those firms with high levels of human capital and only 30% for those low on these measures.

We learned the lesson that <u>people matter to the bottom line</u>.

Part Two: What is it about people that makes the difference?

After the IPO research, we took the story within organizations. We started doing large-scale research with IPO and non-IPO firms to find out what it was about people that mattered. There is a very long story to what we found (book in progress), but the net result is that success is not just about people; winning is a function of the relationships people have with their peers, their boss, their customers, and even the company overall.

Part Three: The Adecco Study

In a project sponsored by Adecco, we examined the importance of both human and relational capital to a new sample of firms (papers available at www.eepulse.com). The specific emphasis of this work was to examine the roles of human and relational capital by firm size. Our hypothesis was that human capital would be more important in larger firms, and in smaller firms, relational capital would be more critical.

The results supported the hypothesis in that relational capital scores were higher in the smaller firms compared to the larger firms, and human capital scores were higher in the larger firms. However, when it comes to firm performance, in either size firm, relational capital was the key differentiator in that high performing firms has stronger relational capital than lower performing firms. This was not the case with human capital. Thus, these data led to our wanting to learn more about relational capital.

Part Four: Leadership Pulse Study

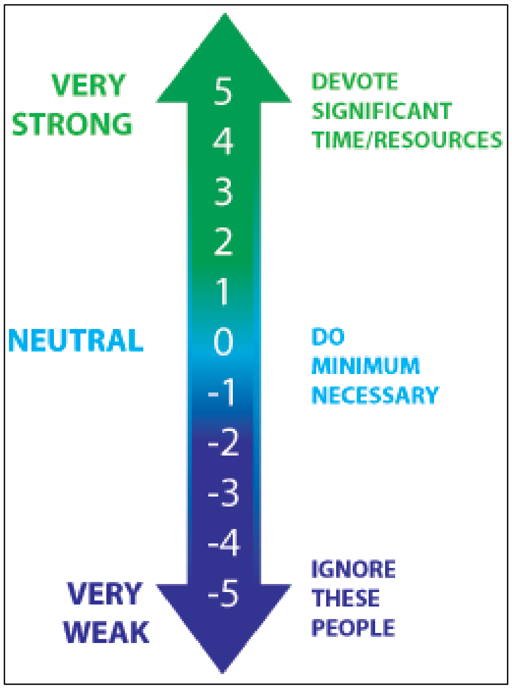
The results presented in this report pick up where the Adecco study leaves off. We focus on which stakeholder relationships are important and what firms are doing to bolster these relationships.

Relational Capital Results[1]

In order to examine this topic, we developed a set of questions and a new scale for the study. On the next page you will see the format we used for asking the questions (see figure 1). We wanted to use a response format that provided more variance than the typical 1 to 5 Likert scale would because there is so much social desirability in the question (people likely to know what the right answer should be and use that response).

[1] Data were collected using on-line data collection software and infrastructure supplied by eePulse (for information on web-based data collection see eepulse.com). The response rate was 31% or 1204 leaders. Leaders represented 22 industry sectors - based on the North American Industry Code (NAIC) 2-digit classification model. Sixty-two percent of respondents were director level or higher (i.e., VP, Senior VP, C-core or President) and lead companies ranging from "*less than 100*" (13.5%) to "*Greater than 50,000*" (25.7%).

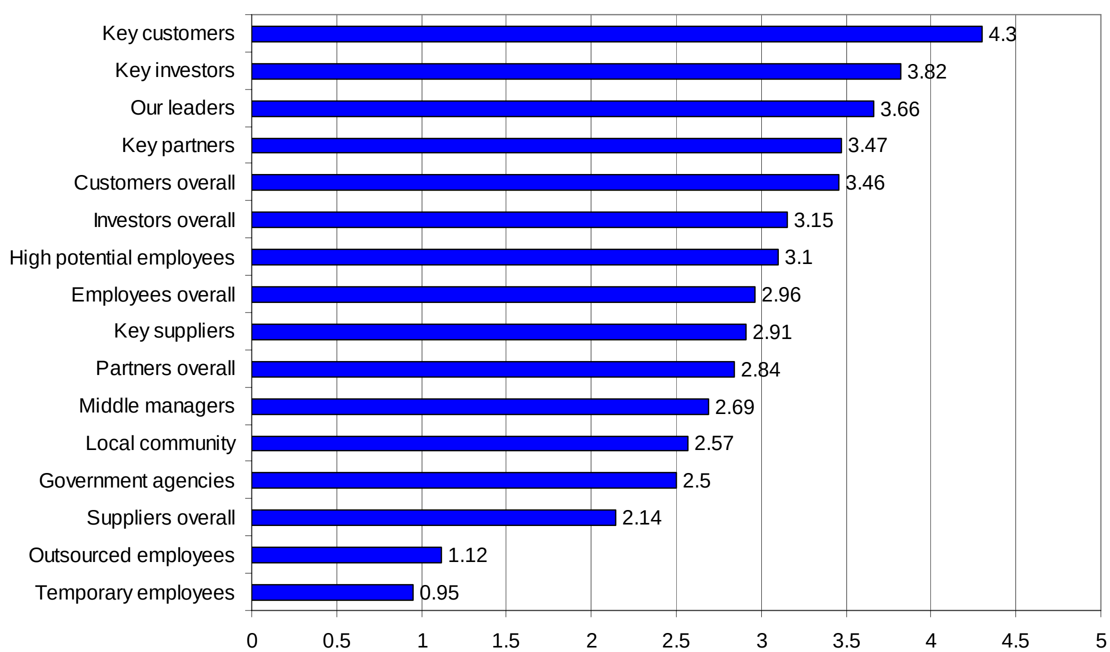
Figure 1. Relational Capital Question Scale



Looking at the scale on the left, for each stakeholder group, rate the level of relationship that you think your firm supports (what they really do vs. what they profess to do, as these may be different).

Figure 2 below displays, from highest to lowest, where leaders report their firms allocate relationship resources.

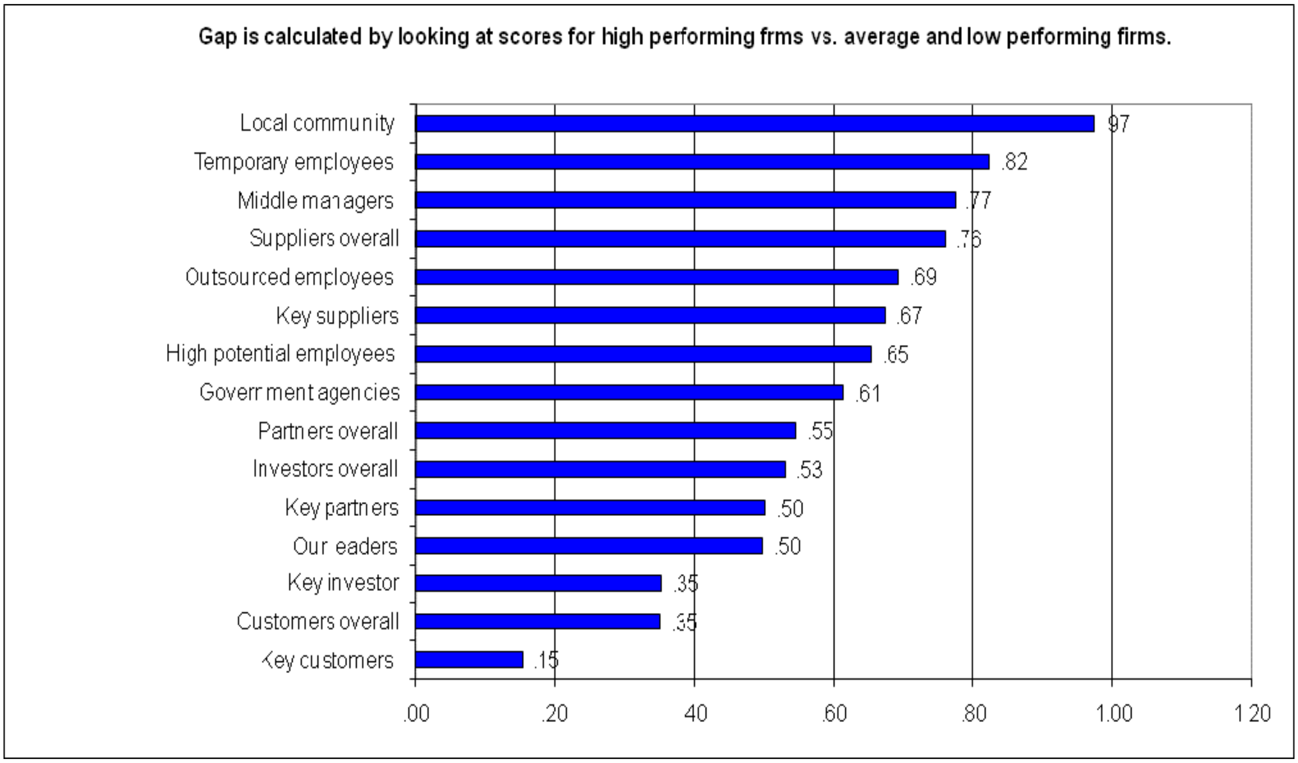
Figure 2. Leaders Rank Relationship Capital Resources (High to Low)



Respondents say they expend the most relational capital resources on key customers, key investors, leaders, and key partners. While respondents, as a group, do not report ignoring any one stakeholder, the results show that the least amount of time and resources are invested in suppliers overall, outsourced and temporary employees.

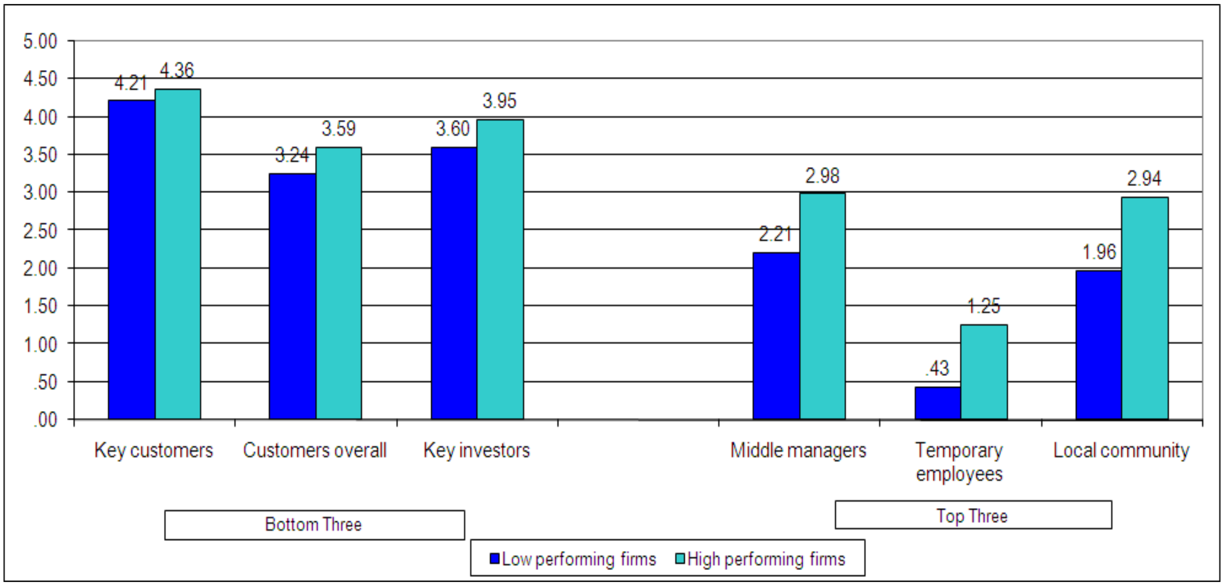
Figure 2 shows absolute average scores and ranking, but of more importance may be what form of relational capital differentiates higher performing firms from lower performing firms. In order to address this question, we calculated average scores for high performing and for low performing scores and then plotted the gap scores for each relational capital variable. Figure 3 below shows the gaps in relational capital that exist; thus, the higher gaps are for local community, temporary employees and middle managers. The direction of the gaps is such that higher performing firms have higher relational capital scores than do lower performing firms (differences are statistically significance at the .000 probability level).

Figure 3. Gap Scores for Relational Capital by Firm Performance



This view of the data shows that, although local community, temporary employees, middle managers and suppliers rank low overall (pure score as seen in figure 2), when differentiating between high and low performing firms, the relationships with these stakeholders make a positive difference. To clarify the details, on the next page you will find a graph of the absolute scores for the top 3 and bottom 3 gaps (per figure 4 on the next page).

Figure 4. Top 3 and Bottom 3 Gap Scores (Details on Absolute Scores)



The bottom three, on the left, represent the lowest gap scores, while the top three (on the right) are the stakeholders with the largest gaps between higher and lower performing firms. The results for middle managers caught my attention. This is most likely due to the overall trends we've been seeing in the leadership pulse study since we started and based on client work that I have done over the years.

Middle managers are core to the success of every organization as they are the conduit of knowledge from top management to employees and the people who directly affect employee motivation. Even though they are a critical stakeholder in all organizations, they often are the portion of the organization that gets little career help, for whom small or no budgets are available, who do not participate in bonus plans, who are left out of critical conversations, who often are underappreciated. At the same time, they are expected to over deliver, be engaged, motivate others, and respond quickly to the next wave of change their organizations experience.

In other words, middle managers are often treated in a less than ideal manner. However, the relational capital data tell a story that may cheer up those middle managers. Higher performing firms value middle managers more than their counterparts in low performing firms (gap is greater). Although I cannot say with certainly, I would like to think that building higher relational capital with middle manager leads to higher performance.

What about the other stakeholders? Higher performing firms have stronger relational capital associated with temporary employees and the community. There are multiple potential explanations for this finding. First, firms that value ALL stakeholders (including these more peripheral ones) likely gain more positive reputations; employees perceive these firms as better places to work, and the customers (who may be those same temporary workers and people who live in the community) purchase more from firms they respect. If a firm values these more distance stakeholders, then the organization has positive relational capital providing better labor pools and more support when times are tough.

In order to learn more about what the higher performing firms are doing to build relational capital with these overall lower scoring groups, below you will find a set of quotes from respondents in the higher performing firms. We asked respondents to share some activities their firms were doing to bolster relationships with stakeholders, and while most participants talk about employees and leaders, the individuals in the higher performing organizations did comment on the community, vendors, and other stakeholders that have lower overall scores; below are some sample quotes (note that I bolded and underlined the stakeholder groups that the respondents told me I forgot to include):

Sample Comments

“Community service events support the relationship with the local communities”

“We have an open door policy to all our partners, associates, suppliers, communities to the highest level in our organization if that is what they believe is required to be heard.”

“The driving value system within the company is to judge our success by the lives of the people that we touch”

“We hold a "Vendor Evening" once a year in which the vendors that we have positive relationships with are invited to set up a table in our offices. We invite all our clients to come meet, mingle with, snack, drink, and get acquainted with firms that may be able to provide them a good service/product in the future. It strengthens our relationships with both vendors and clients. Secondly, even though you didn't ask about this group, we have an **Alumni program for past employees** that invites them to special events prior to the event, keeps them abreast of what is happening in the organization, contacts them about possible referrals for new employees, etc. The purpose is to not lose their intellect, their enthusiasm for the company, their network, etc.”

“Temporary employees are treated the same as regular full time employees with the one exception being insured benefits and accrual of PTO. Their work space and equipment are identical to others in the same function and level of position. They are included in all social/community events or office wide meetings. They have shared that this is quite different from other places they have worked. Their ID badges are the same as everyone elses.”

“Community - strong community relations program and support through an employee fund owned by the employees”

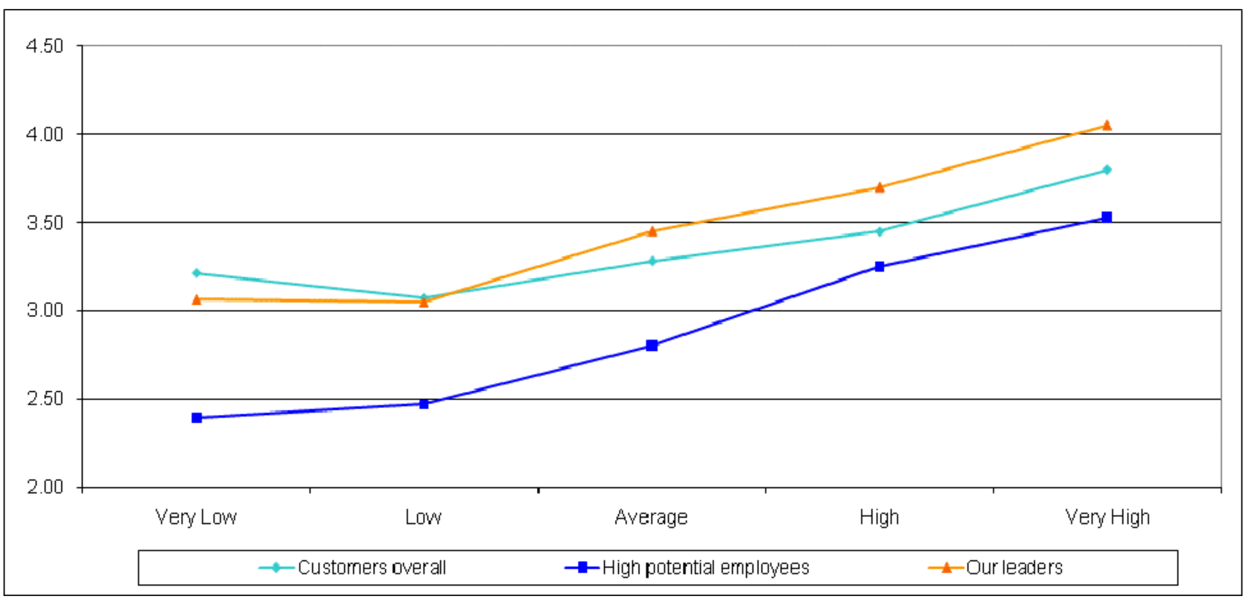
"For local community relationships, we encourage community groups to use our facilities for meetings"

"We distinguish ourselves most when dealing with community contact. After the earthquake in Gujarat, we supported rehabilitation efforts for those who lost limbs went beyond monetary sharing. After the tsunami in Tamil Nadu, employees and locals planted more than 3 million saplings on the shore. What is distinctive is that our community contact bucks immediate populism and tries to get more real with longer term contact for lasting value. When my colleague across carried a packet of rice grain grown in the tsunami hit region to a Top Management review recently, I was sure that our extension of support is not boisterous, not boastful, but genuine and long--lasting."

"For multiple stakeholders: Combination of local support for voluntarism with clear corporate focus on two key charities that have global reach. Also I think it is interesting you don't ask about **"candidates" for employment** who we think of as a critical stakeholder group"

These are just a few of the many comments we received, and you will see some additional analysis of these data in a later section of this report. Digging into the higher vs. lower performing firm data a bit more, we examined what happens as firms go from low to higher performance. Below is a graph that shows the trend for three of the key stakeholders.

Figure 5. Trending Low to Higher Performing Firms



The data in figure 5 above show that as firms move from lower to average to very high performance, relational capital increases steadily, and the gaps between these three scores, also, start to narrow. Higher performing firms, it seems, not only have higher relational capital but they differentiate less between all their relevant stakeholders.

Recommendations based on relational capital findings:

1. Measure relational capital in your organization.
2. Determine where improvement is needed.
3. Lead action with the key stakeholders that have low scores.
4. Take action to assure greater overall consistency in relational capital (there should not be big gaps between relational capital scores for various stakeholder groups).
5. Continue to measure relational capital, and hold senior executives accountable for the relational capital in your own organization.

Subcomponents of Relational Capital

For the next few analyses, we used exploratory factor analysis to determine if the individual relational capital items could be bucketed together to create a set of factors (or index scores). In other words, we examined whether the individual questions could be combined to create more overarching themes.

Results of this analysis suggest we can organize the data into four separate factors (or indexes[2], see Table 1). The color scheme is used to highlight the grouping of the individual items. The numbers in table 1 are the factor loadings; the higher the number, the stronger the one question is to the overall category (factor).

[2] Priniple components factor analysis with varimax rotation was used for this solution.

Table 1. Exploratory Factor Analysis of Relational Capital Items

Rotated Component Matrix [a]

	Component			
	Key Inputs	**Fluid relationships**	**Internal Human Capital**	**Customers**
Key investors	.844			.264
Investors overall	.785			.288
Key partners	.746	.240	.343	
Partners overall	.731	.286	.346	
Key suppliers	.535	.508	.356	
Temporary employees		.794	.359	
Outsourced employees	.101	.760	.297	
Local community	.190	.644		.397
Government agencies	.234	.620	-.135	.433
Suppliers overall	.468	.585	.378	
Middle managers	.149	.239	.813	.151
High potential employees	.191	.187	.728	.116
Employees overall		.390	.654	.278
Our leaders	.322		.652	.221
Key customers	.269		.272	.807
Customers overall	.177	.178	.343	.776

We named the various groupings based on our analysis of what these items represent (note that this is a subjective process). The results in figure 6 below clearly also show that higher performing firms report expending more relationship resources across four factors. One noteworthy example is that leaders from highest performing firms report more than twice the resources on relationships with those stakeholders defined as fluid (e.g., outsourced and temporary employees).

Figure 6. Relational Capital Factors by Level of Firm Performance

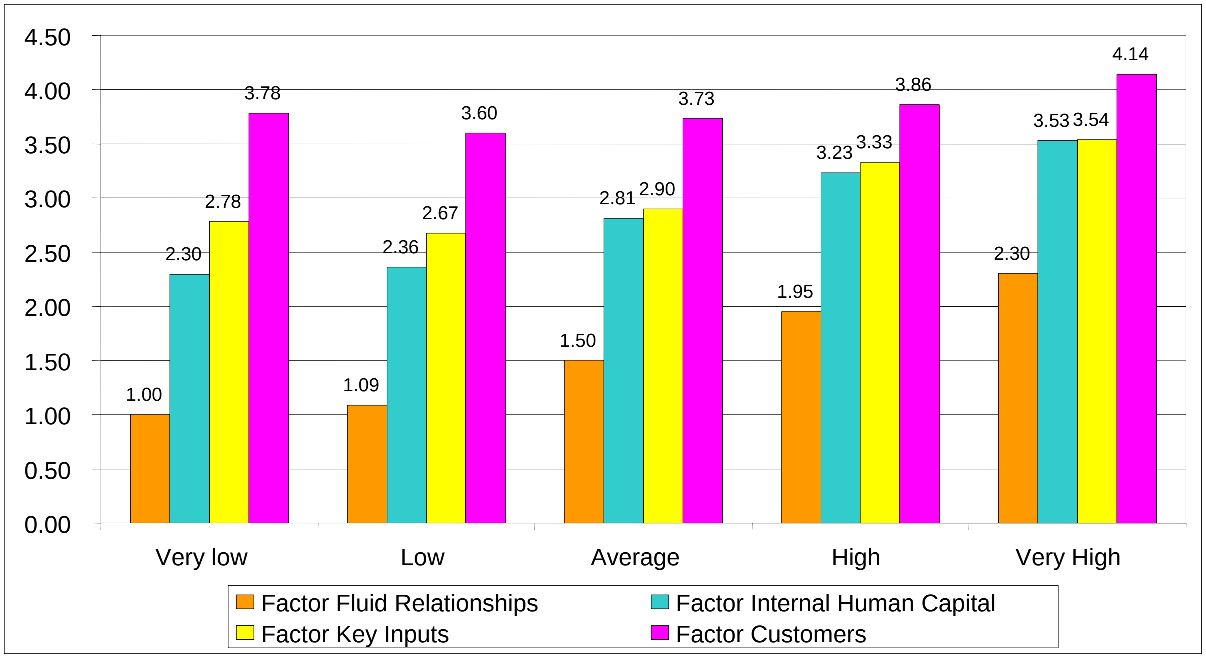
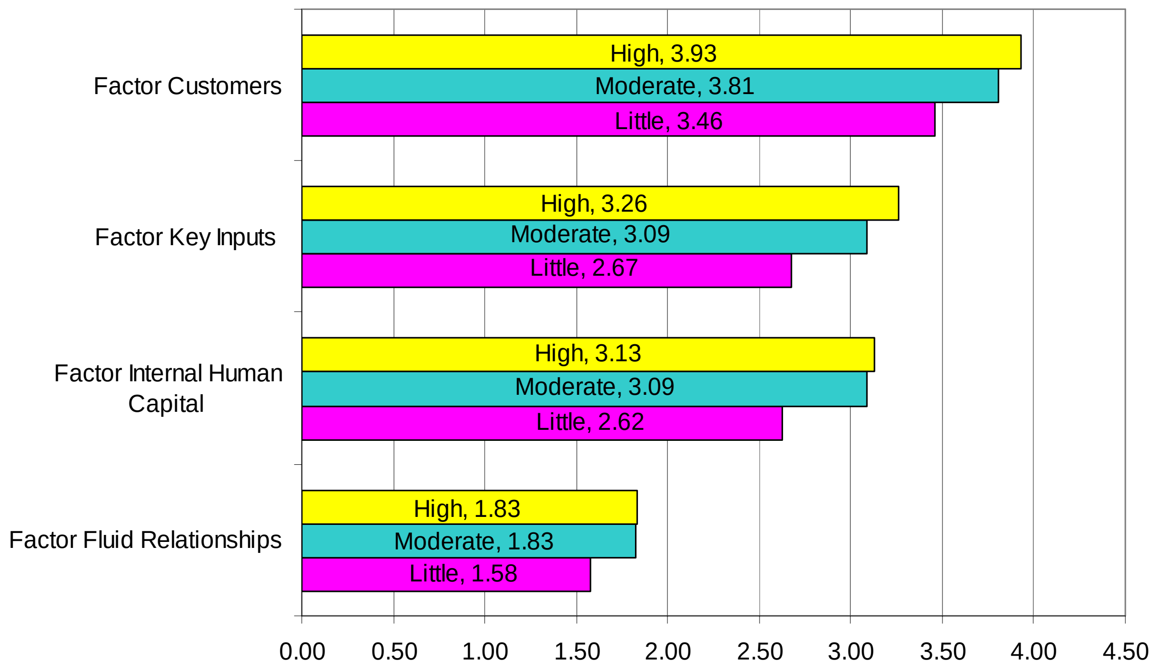


Figure 6 reflects the earlier findings. Higher performing firms report greater investment in relational capital than do lower performing firms. Second, there appears to be a consistent hierarchy in terms of relationship factors that are more important to all firms irrespective of performance. That is, regardless of performance level customers receive the most relationship building resources. Investors, suppliers and partners receive the second most relationship resources, while internal human capital (high potential employees, leaders and managers) come in third. The fluid relationship factor (temporary and outsourced employees, local community, government agencies, etc.) receives the least amount of relationship building resources.

Using the four relational capital factors we also looked at how the rate of change firms are experiencing affects the amount and type of relationship building that occurs. Given that as change escalates, firms make tough choices about how to spend valuable resources, we thought it would be useful to see what trends, if any, come out of this analysis. The results in figure 7 (on the next page) show that leaders from firms reporting a great deal of change also report expending more resources on relationship capital.

Figure 7. Rate of Change and Relational Capital Factor Scores



The results show an overall pattern of relational capital increasing as rate of change escalates. In a later section of this report, we combine rate of change and firm performance to see if rate of change, alone, has an effect or if rate of change is associated with performance; thus, these findings merely reflecting what we already know about higher performing firms. In other words, it is possible that higher performing firms also are undergoing higher rates of change.

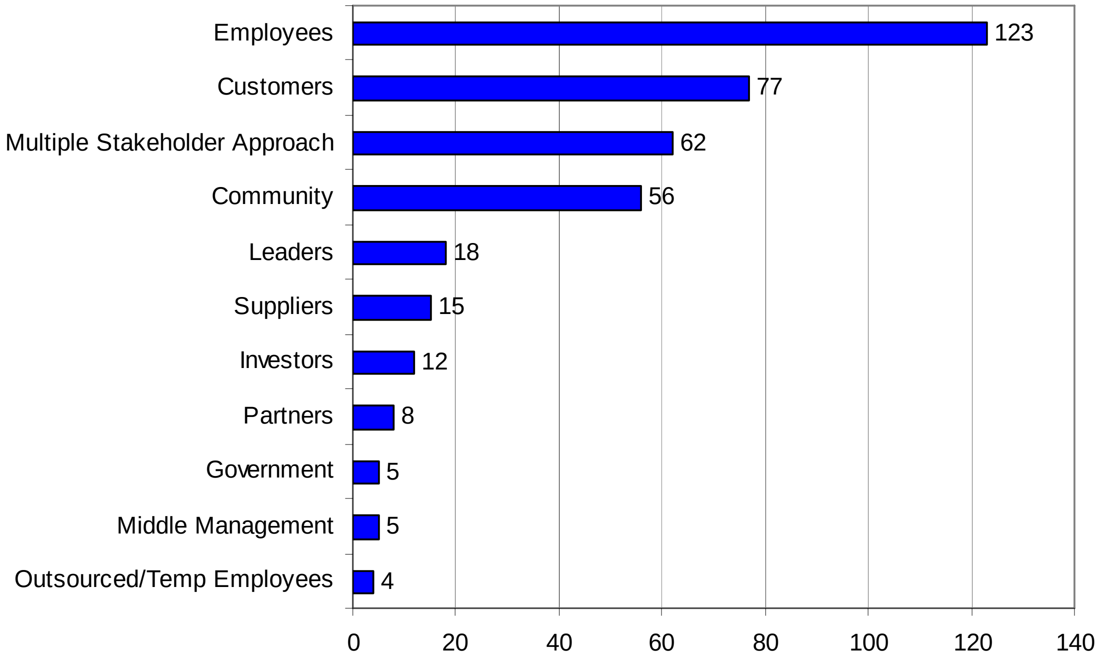
Relational Capital Comment Analysis

The following question was asked of all participants:

> *We would like to learn more about the best practices your organizations are using to create strong, lasting, and successful relationships with these various stakeholders. If you have a best practice to share for any of the above groups, please discuss in the space provided.*

Figure 8, on the next page, shows a count of the number of times a best practice comment was provided for each stakeholder group. We found that 38% of respondents shared best practices linked explicitly to employees. Twenty-four percent of comments were about customers, while 19% were related to a multiple stakeholder approach. The latter either combined several individual stakeholder best practices or described the need to view all stakeholders as important.

Figure 8. Best Practice Comments by Stakeholder



The comments may focus most on employees because that is what most of the people in the sample come in contact with the most. It is most likely that many employees responding do not have the same access to customers, suppliers, or other stakeholders, so their ability to speak about these practices is limited.

<u>Keeping and Building Strong Relationships in Tough Times</u>

I started out this report asking "what's walking out the door." Today, in early 2009, the world is facing staggering and rough economics. Every day in the news we hear and read about the next round of layoffs. As companies continue to escort their people out the door, those same employees are taking their relational capital with them, and the employer does not really know how much or what relational capital is at stake.

Thus, when business starts to pick up again, what do they do? The pattern we've seen in many organizations is that employers scramble to hire their forgotten employees back as consultants or at higher wages. This, too we have learned, is not that easy. What about a proactive way to manage the transition of relational capital? How would you go about doing that if, today, you decided it was an important effort for your organization to implement? Below are some ideas:

1. Relational capital audit: Measure relational capital so that you understand where the risk factors are before you conduct any layoffs or major changes in organization structure.

2 Work with outplacement providers: You can ask your outplacement provides to help in this effort by doing documentation and reporting on key relationships that are in jeopardy as you move employee out of the organization.

3 Keep in deep contact with stakeholders during any transition so that you minimize the inevitable risk to relational capital.

4 Make relational capital part of your score card and reporting. This means you need to cut across functional areas to develop the type of measurement needed.

Our working hypothesis is that relational capital is more than a data base (e.g. it is not a CRM or ERM system with names and addresses), and those firms that learn how best to constantly monitor, negotiate and grow relational capital will outperform their peers. Relational capital is about developing, maintaining, and cultivating positive and strong relationships with your stakeholders. It takes a lot of work to do this, but the efforts will be rewarded. Relational capital is something that must be nurtured because relationships constantly change, are always at risk, and need to a tremendous amount of attention.

There is probably more to learn from the family and mental health literature about relationships than there is to learn from business. Think about your stakeholders in the same way you think about family members. You can't say 'hi" once a year and then hope they remember you. Customer, employee, vendor, investor, and other relationships require intimacy that is backed by sincerity and 'care and feeding.'

<u>Request for Case Studies on Relational Capital</u>

If you have a case study that represents a best practice in building relational capital, particularly with broad groups of stakeholders, please contact me if you are willing to share your story. I am collecting case studies for ongoing writing, workshops and books on this topic. Also, if you want to participate in new research on this topic, also copy me to get involved in our working group on relational capital (see contact information on the last page of this report).

Part II: Human Resource (HR) Confidence

We have been measuring HR confidence as well as leader confidence since 2004. The 2008 findings and trend results for HR confidence are displayed in table 2. The results reflect the percent of respondents who are confident (or who responded 4 *Confident* or 5 *Very confident* on the survey).

Since 2004, respondents have reported the greatest amount of confidence in HR's ability to execute on tactical work and the least confidence in HR's ability to execute strategically. Second, confidence in HR's ability to execute tactically and perceptions of their overall effectiveness have rebounded from the lowest scores in 2006. However, confidence in HR's ability to execute strategically continues the downward trend.

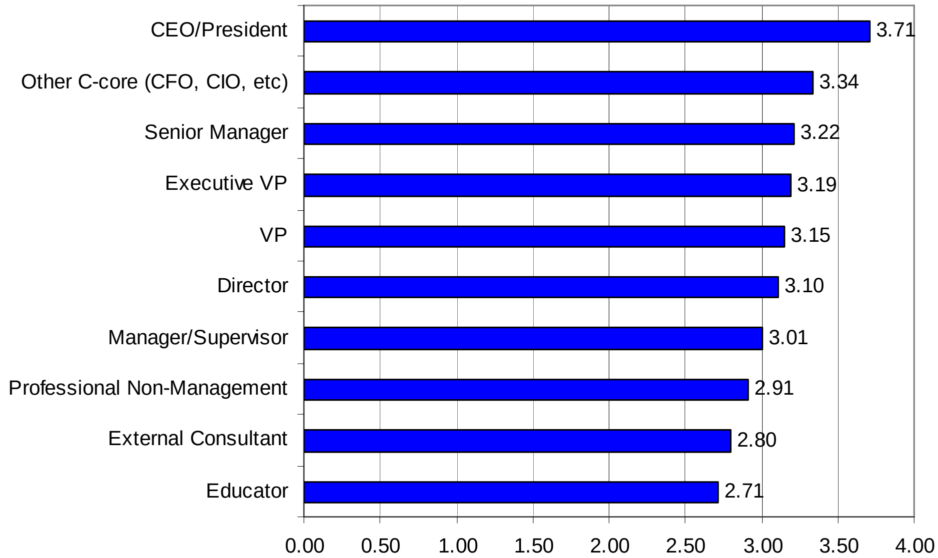
Table 2. HR Confidence Trend Data

HR Confidence Items	May-04	Dec-06	Jun-08
HR's ability to execute on tactical work	**83%**	**59%**	**68%**
Overall effectiveness of HR department	**65%**	**49%**	**56%**
HR team's ability to execute strategic work	**61%**	**46%**	**43%**

Next, we review HR confidence by job level. This cut of the data can help us understand whether leaders at various levels in an organization perceive HR professionals in a notably different light.

As noted above only 45% of respondents reported high confidence (choosing either 4 or 5 on a five-point scale) in HR's ability to execute strategically. However, this picture changes when we look at the data through a job level lens. Figure 9, on the next page, shows scores by job level.

Figure 9. Confidence in HR's Strategic Ability by Job Level

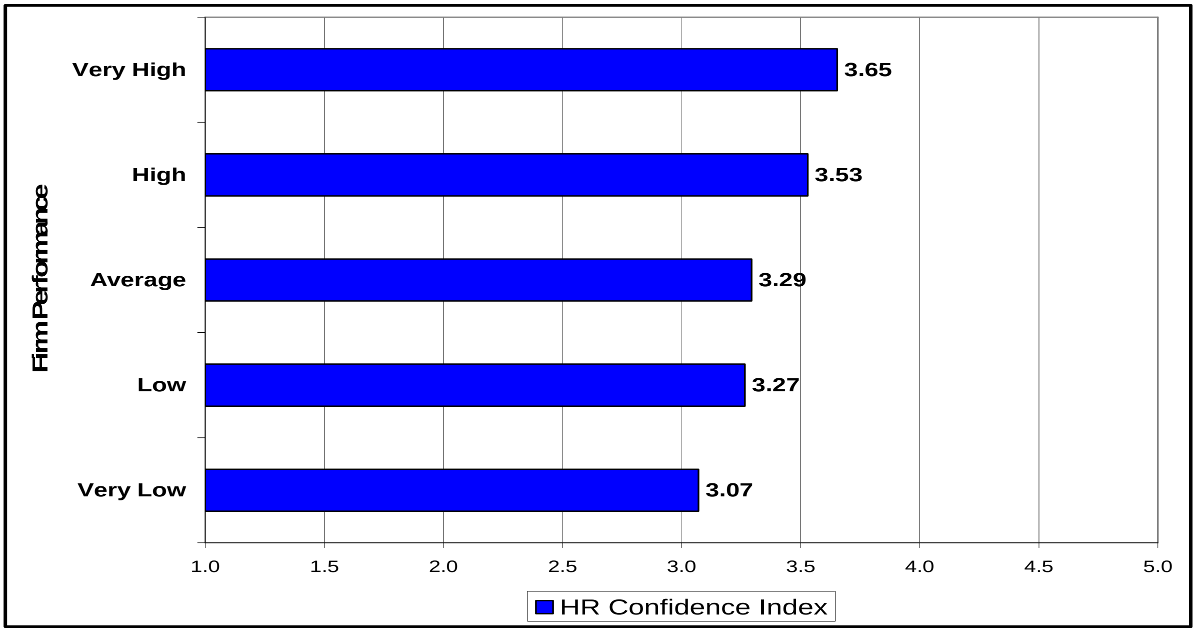


The results above show that confidence in HR's ability to execute strategically is highest at the top of the organization (i.e., C-suite), and scores drop as one moves down through the professional (in non-management position) and manager/supervisor levels. It may be that as you move to line jobs, the respondents do not know what strategic work really is, therefore, creating the lower scores.

Given these data, we examined the trend data for the CEO / President group, and we found that the scores on this question (confidence in HR being strategic) went up from an average of 3.42 in 2006 to the current 3.71 level. Thus, whatever HR has been doing for the last two years, through the lens of these CEOs and presidents, is seen as positive.

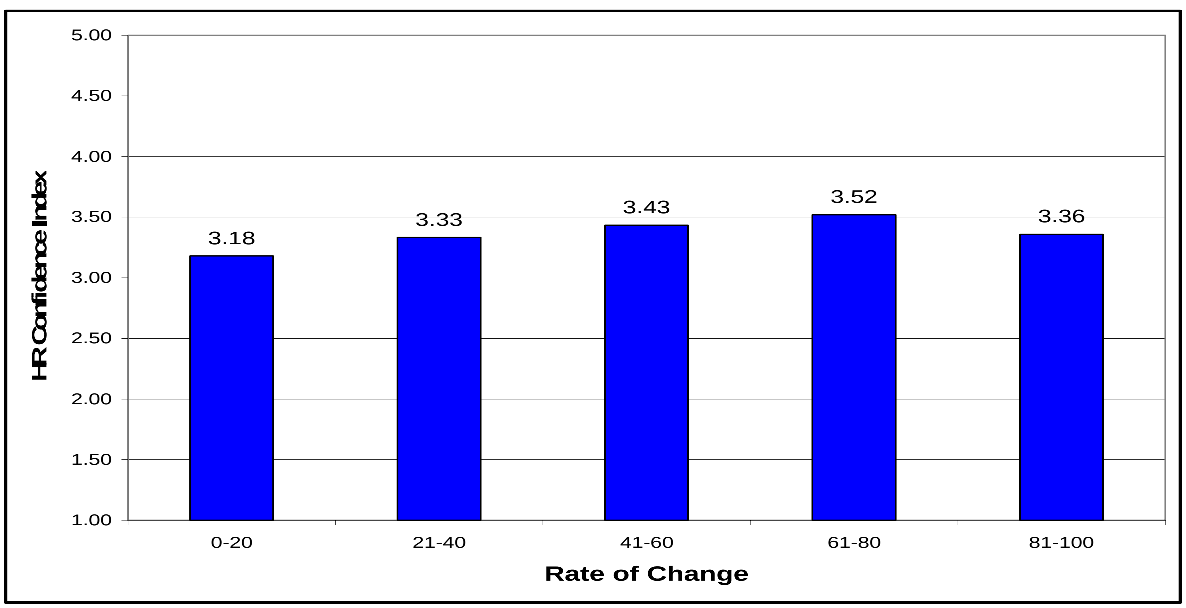
For the next set of analyses, we created an overall index with the three HR confidence questions (coefficient alpha for the scale = .85). The results in figure 10, on the next page, show that overall index score by firm performance.

Figure 10. HR Confidence by Level of Firm Performance



Next we looked at the rate of change data. We expected that the firms reporting the highest rate of change would also have the highest amount of HR confidence as mentioned above (because HR often is involved in managing change). The rate of change variable was measured using a 0 to 100-point scale, with zero indicating no change and 100 indicating very high levels of change. The results in figure 11 below provide some support for the notion that overall HR confidence is positively associated with the rate of change a firm is experiencing.

Figure 11. HR Confidence Index by Rate of Change

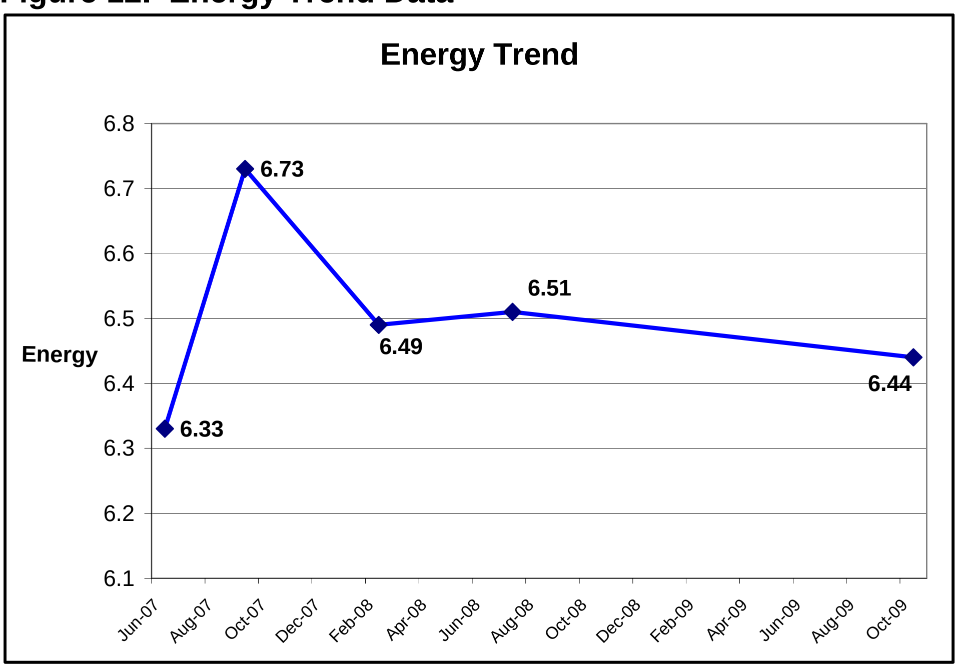


In this case, confidence goes up from 3.18 to 3.52 as rate of change goes up, but at the highest levels, confidence goes down again. This makes intuitive sense in that the highest levels of change are associated with the most uncomfortable experiences. Thus, if things do not seem to be going well, and perhaps change is excessive, employees may perceive the lack of 'managing' change as a reflection of a poor HR implementation (or at least blame HR for part of it). This work is exploratory, so the explanations are educated guesses at this point in time. It would be valuable to track confidence in these metrics as an organization undergoes a planned change initiative; only with that type of data can we start diagnosing the process that happens as rate of change escalates.

Part III: Leader Energy Falls Again

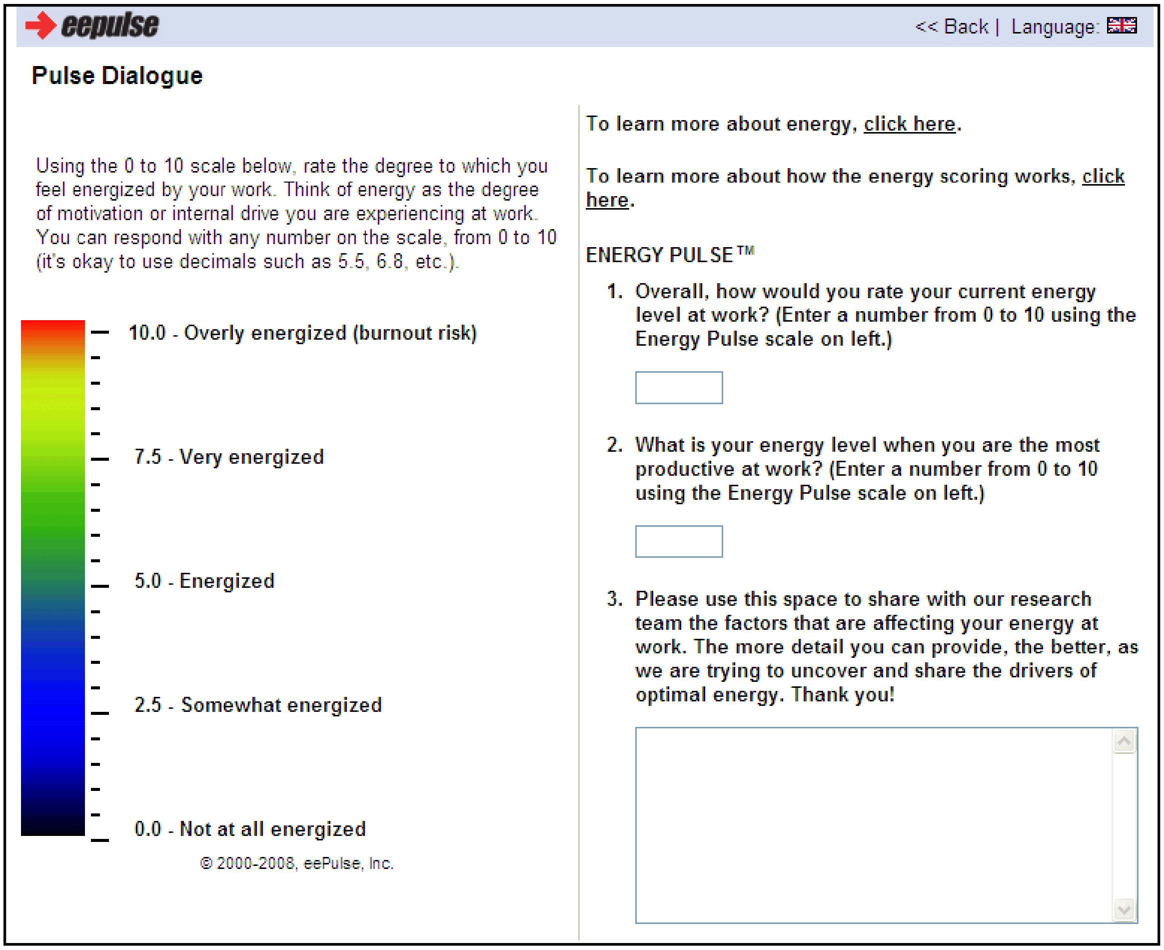
I recently read John Kotter's new book titled Sense of Urgency. I was interested in it because all of our work on energy stems from a larger body of work that I did, which is about sense of urgency and its role in change management and in organization growth. In fact, energy is one form of measuring what Kotter refers to as a positive sense of urgency (vs. a false sense of urgency). Energy, when not in the danger zone, or when optimal, predicts performance and productivity. I now have over 1 million data points on energy and over 16 years of research using this metric in various studies. Thus, tracking energy is important because the results give us a 'heads up' about where organizations are headed, and in June the data said the trend was down (see figure 12).

Figure 12. Energy Trend Data



As important as the raw energy score is, the distance of the energy score is from where the respondent says he/she is most productive is even more important. We use this distance data to create productivity zones for groups. The productivity zone is based on the average of where a group reports being most productive(see Figure 13 for a reminder of how energy is measured):

Figure 13. Energy Pulse™[3]



Note that we ask two questions : (1) at what energy level are you today, and (2) at what energy level are you most productive. These questions are important because energy is an optimization construct; performance is best when the difference between those two numbers (energy today and where productive) is low. Both numbers are then used to create group reports. Table 3 (on the next page) reports both the average energy score and what we call zone status. It is calculated by taking the average on the question asked (where are you most productive) and then going up and down by ½ standard deviation. In our research, number of weeks in the zone predicts outcomes such as customer service scores, patient satisfaction, turnover, quality and absenteeism.

[3] Energy Pulse, its measurement and reporting, are trademarked by eePulse, Inc. and Dr. Theresa Welbourne; use of the metric and reports require permission from either party.

Table 3. Energy and Productivity Zone Status

Low Energy (0.0 - 3.74)
Medium Energy (3.75 - 6.25)
High Energy (6.26 - 10.0)

Group	Energy (SD)[a]	Change[b,g]	WPC (#)[c]	Zone[d]	PLow[e]	PHigh[f]	Energy (%)		
All Leadership Participants	6.52 (2.07)	⇩ -0.11	-0.06 (305)	-1.08	7.60	8.64	11	29	60

The results reveal that leader energy is at 6.52 and 1.08 points below where respondents report being most productive (see zone column above). These results are troublesome because not only is energy declining, but the respondents are saying they are more than one point below the optimal zone. Our research shows that the probability of negative outcomes increases at 1.0 or more points out of the productivity zone (in this case 7.60 to 8.64).

Table 4 provides additional information on the industries that report they are below their own zones by more than one point. See Appendix B for details on all industries included in this report.

Table 4. Industries Out of Zone by More than One Point

Industry	Zone status
Art, Entertainment and Recreation	-1.43
Finance and Insurance	-1.50
Mining	-1.48
Other Services (except public administration	-1.42
Professional, scientific and technical services	-1.27
Public Administration	-1.42
Real Estate and Rental and Leasing	-2.23
Utilities	-1.51
Wholesale Trade	-1.34

The data in table 4 indicate that the industry at most risk is real estate, rental and leasing. Given what was occurring in the economy at this time (e.g. foreclosures, mortgage difficult), it is not at all surprising that people in this industry are reporting such low scores.

Putting it all Together: Relational Capital, Confidence and Energy

Our research team has done numerous studies on energy at work, and they conclude that optimized energy levels are synonymous with higher performance. The data predicts performance and productivity at work. Therefore, on way to put all of our data together in this study is to study how relational capital and confidence predict energy (with energy being representative of individual performance at work).

I ran two separate analyses linking the relational capital and HR confidence metrics to energy. The first regression equation predicted the overall energy mean (or average), and the second equation predicted the energy gap (gap between where energy is today and where one is most productive). Examples of gap score calculations are below:

Energy gap for person 1:

Energy today:	8
Energy where most productive:	6
Gap:	+2 (this individual is 2 points above optimal)

Energy gap for person 2.

Energy today:	4
Energy where most productive:	8
Energy Gap:	-4 (this score is 4 points below optimal)

Our prior work shows that the bigger the energy gap (absolute size of the gap), and the more persistent the gap over time, the lower one's performance. All else being equal, we also found that positive gaps (being above where most productive) are less harmful than negative gaps.

The regression analyses included three steps. The first step added a set of control variables to predict both energy and the energy gap. Control variables were both individual and firm-level (all self report data):

Firm-level control variables:

- Industry
- Firm size
- Degree of change firm is going through now

Individual level control variables:

- Functional area (e.g. marketing, finance, IT, etc.)
- Job level (e.g. director, VP, C-level)
- Age
- Gender
- Race

Using a stepwise regression technique, we found that the total amount of variance in energy explained (R^2) by entering the control variables was 6% (statistically significant at the $p \leq .000$ level). An examination of the individual items shows that the following items were significant in predicting energy:

Age:	Older respondents had higher energy levels
Firm performance:	Respondents in higher performing firms had higher energy levels

In the second step, the HR confidence questions were added. This step improved the equation by adding 7% explained variance. In this set, the following variables were significant:

Confidence in HR doing strategic work:	Positive, more confidence led to higher energy
Confidence in HR doing tactical work	Positive

In the last step, we added the four factors that make up relational capital. In this step an additional 4% of variance was explained. Two of the four factors were significant, and both were in a positive direction.

Fluid relationships:	Temporary workers, outsourced employees, **government**
Internal relationships:	Employees

The analysis was repeated with the energy gap score. The pattern of the results was identical. Smaller gap scores were predicted by the variables listed above: age of respondent, firm performance, confidence in HR's ability to do strategic and tactical work (with strategic being the higher predictor of the two) and relational capital focused on fluid and internal sources.

Helping Leaders and Managers

The data provide hints about how to energize your leadership teams, managers and other employees. Control variables aside, it seems people are more energized (with lower gaps, meaning they are more productive), when their HR departments are providing strategic and tactical support and when their organizations place high value on employees and the stakeholders in the fluid relationships bucket.

The most surprising result is the finding about fluid relationships. However, think about what this signifies to employees. High relational capital scores on fluid relationships demonstrate concern for the community, fairness to employees who are not part of the core team, and a willingness to contribute beyond the obvious purely market-based goals of most organizations. Also, these individuals are consumers, who when treated well, will not only purchase the organizations goods and services but recommend the firm in their communities and networks.

In another study that I did in conjunction with the Big Brothers / Big Sisters Association in New York City, I found that employees across 30 different organizations were more energized and productive when they volunteered for this organization and when their firm supported the volunteer work. Thus, these stakeholder groups with lower overall scores seem to be a source of critical competitive advantage.

What about firm performance?

Let’s take another spin at this data and see what predicts firm performance rather than an individual-level outcome.

Significant predictor	**Direction**
Size of firm	Negative
Rate of change	Negative
Fluid relationships	Positive
Internal relationships	Positive

In this analysis, I included the same control variables then added the relational capital and HR data. Here we see the consistent theme that fluid and internal relational capital drive performance, and we also see size of firm and rate of change as having negative relationships with overall firm performance. This means that as firms grow in size and as rate of change escalates, performance is lower (all else being equal, given these data).

Recommendations based on the complete story

1. Invest in the bottom of the stakeholder pyramid. Times are tough; most people don't have a lot of money to spend on elaborate commission, bonus, or motivational schemes. However, our data show that organizations that spend time and resources on what we labeled the fluid relationships help motivate employees and drive performance. Focus on the groups that no one is paying attention to today.

2. If you do #1, then make sure to let your employees know because you need to communicate in order for employees to know the story.

3. Measure your relational capital and track these data. If you do invest in the fluid relationships, know when things improve and provide the links between efforts and results. Show and tell your story.

Conclusions

These data present opportunities for all of us. If we use the data to start dialogues with leaders, then we can develop strategies for improving firm performance. People are more confident in firms where they have positive relationships with their stakeholders, and we know that being with customers, peers, and others increases energy in a positive way.

Small things can inspire confidence and improved energy. One of the most compelling interventions is communication. That's why we suggest that you use the data to have conversations about confidence, energy and the state of the business with your leaders.

APPENDIX A: Leadership Pulse Study Background and Current Sample

A total of 1,204 leaders participated in the current Leadership Pulse. Below are sample demographics:

Company size

➢ Less than 100 employees	(13.5%)
➢ 101- 500 employees	(5.5%).
➢ 501 – 1000 employees	(3.9%)
➢ 1001 – 2,500 employees	(7%)
➢ 2,501 – 5,000 employees	(8%)
➢ 5,001- 10,000 employees”	(8.4%)
➢ 10,001 – 25,000 employees	(9.9%)
➢ 25,001 – 50,000 employees	(12%)
➢ More than 50,000 employees	(25.7%)
➢ Did not provide company size demographic data	(6.4%)

Their jobs

➢ CEO/President	(9.1%).
➢ Other C-core (CFO, CIO, etc.)	(5.7%)
➢ Senior or executive VP	(10%)
➢ VP	(19.3%)
➢ Director Level	(23.3%)
➢ Senior manager	(9.4%)
➢ Manager/supervisor	(8.7%)
➢ Professional in non-managerial role	(5.9%)
➢ External consultant	(2.6%)
➢ Did not provide job level demographic data.	(5.4%)

Their industries

Twenty industry sectors were represented in the current sample. The following industries represent the top 5 industry sectors for the current sample. For a complete list of industries please see appendix B.:

➢ Manufacturing	(28%)
➢ Professional, Scientific and Technical Services	(13.9%)
➢ Finance, insurance, and real estate	(11.1%)
➢ Health care and social assistance	(7.1%)
➢ Other Services (Except Public Administration)	(6%)
➢ Information (5.6%)	

APPENDIX B: Energy by Industry Details

Low Energy (0.0 - 3.74)
Medium Energy (3.75 - 6.25)
High Energy (6.26 - 10.0)

Group	Energy	(SD)[a]	Change[b,g]		Zone[d]	PLow[e]	PHigh[f]	Energy (%) Low	Energy (%) Medium	Energy (%) High
All Industries	6.52	(2.07)	↓	-0.09	-1.08	7.60	8.64	11	29	60
Accommodation and Food Services	7.38	(1.45)	↑	0.61	-0.36	7.74	8.60		25	75
Administrative and Support and Waste Management and Remediation Services	NA			NA	NA	NA			NA	
Agriculture, Forestry, Fishing and Hunting	6.79	(2.67)	↓	-0.64	-0.71	7.50	8.64	14	29	57
Arts, Entertainment, and Recreation	6.69	(2.03)			-1.43	8.12	8.90	6	38	56
Construction	6.73	(1.85)	↓	-0.56	-0.92	7.65	8.26	9	18	73
Educational Services	6.30	(1.94)	↑	0.23	-0.80	7.10	8.31	7	41	52
Finance and Insurance	6.24	(2.20)	↓	-0.23	-1.50	7.74	8.82	17	27	55
Health Care and Social Assistance	6.67	(2.03)	↑	0.30	-0.81	7.48	8.59	12	23	65
Information	6.81	(2.05)	↑	0.53	-0.91	7.72	8.83	10	21	69
Management of Companies and Enterprises	7.20	(1.73)	↓	-0.76	-0.80	8.00	8.75	4	25	71
Manufacturing	6.59	(1.93)	↓	-0.10	-0.86	7.45	8.51	9	30	61
Mining	5.89	(2.42)	↓	-0.06	-1.48	7.37	7.85	11	56	33
Other	6.17	(2.34)	↓	-0.36	-1.24	7.41	8.55	14	33	52
Other Services (except Public Administration)	6.34	(2.27)	↓	-0.48	-1.42	7.76	8.78	15	22	63
Professional, Scientific and Technical Services	6.43	(2.21)	↓	-0.12	-1.27	7.70	8.67	12	27	61
Public Administration	6.00	(2.46)	↑	0.41	-1.41	7.41	8.03	22	33	44
Real Estate and Rental and Leasing	5.90	(2.22)	↓	-2.52	-2.23	8.13	8.67	20	20	60
Retail Trade	7.06	(1.94)	↑	0.28	-0.47	7.53	8.76	9	20	71
Transportation and Warehousing	6.77	(1.54)	↓	-0.34	-0.57	7.34	8.37	4	36	61
Unclassified Establishments	6.43	(2.26)	↑	1.76	-1.61	8.04	9.03	14	29	57
Utilities	6.21	(2.38)	↑	0.03	-1.51	7.72	8.50	14	36	50
Wholesale Trade	6.47	(1.80)	↓	-0.91	-1.34	7.81	8.82	6	56	38

The first column includes a list of all the industries sampled. An NA indicates that there were no responses from that industry during this particular Pulse Dialogue.

The second column heading, energy, is the average energy score for each industry. SD is the standard deviation of energy. The smaller the SD, the more similar are the scores of the respondents from that industry.

The third column shows overall change from the last time we ran the energy question. The associated arrow indicates whether the energy score has increased, decreased, or remained stable. The color of the arrow represents the amount of change

The forth column, zone, represents the area in the energy distribution where leaders are most productive. Energy scores that fall between the upper and lower productively boundaries are considered “in the zone” (research shows being in the zone positively predicts performance outcomes). Thumbs up is an indicator of being in the zone; blue and minus sign is below, and red and positive sign is above the productivity zones.

The fifth and sixth columns represent the lower and upper bounds of the productivity zone.

Note that no industry sector is currently reporting energy levels that fall into their productivity zone.

APPENDIX C: Run the Leadership Team Pulse Study in Your Company

If you are currently not part of the Leadership Pulse study group, and you wish to participate (or sign up leaders within your organization), you can register at http://www.leadershippulse.com. If any organization wants to run this study please contact us at: info@eepulse.com.

NEWS FROM THE LEADERSHIP PULSE

Leadership Team Pulse is a unique, no-cost opportunity for you to receive real-time benchmarking data for your management team. Any Leadership Pulse member can add up to 100 people from their leadership / management teams and receive reports for their group compared to their industry and the overall sample. What's in it for you?

- **On-line reports for your own management team**, showing your results and trend data (the group overall scores).
- Your data compared to your industry (**real-time benchmarking**).
- Individual participants from your management team will receive **personal reports** showing their own scores vs. their group score for the management team and their score vs. their industry score.
- Access to **all technical reports and regional reports** as they start to become available (we will provide regional reports when we have enough organizations in a given region to warrant that reporting).
- Web-based learning events and invitations to conferences and other networking events.

Invite other leaders in your network to join.
Tell them about the Leadership Team Pulse.

To learn more, go to: www.leadershippulse.com. To sign up or obtain more information about the Leadership Team Pulse write to info@eepulse.com and ask for information about the leadership team pulse project.