



# HR STRATEGY TOPS PRIORITY LIST FOR 2022

Leadership Pulse 2021 Business Drivers – Technical Report

## LEADERSHIP PULSE™ TECHNICAL REPORT, JANUARY 2022

# YOUR ORGANIZATION IS MADE UP OF MORE THAN ONE ASSET

Organizations, whether small or large, global or local, old or new – are not simple. They are not made up of just one type of asset. For example, your organization is not made up of only financial assets; however, the way we study organizations lends itself to a simple measurement process. Leaders tend to focus on one asset at a time, maybe because the people who report to them manage individual groups of assets. One person leads finance, another focuses on human resources and yet one more individual manages customer relationships. This silo approach tends to help people focus, but when it comes to understanding a business, it can be dysfunctional or at the least misinform leaders.

The Business Drivers Pulse attempts to correct this problem. Rather than focus on just one business driver, we put together the core assets each company manages into one study. This work has been done by our team for numerous years and in many different settings. We have run the study in the Leadership Pulse, and we used this analysis in client organizations. Lastly, it has been a core piece of work in my work on initial public offerings, providing me with the ability to study how these assets combined predict short- and long-term business outcomes such as stock price growth, revenue growth and long-term firm survival.

**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).

**Diversity, Equity, and Inclusion (DEI):** This year we added something new to the study. We included DEI as an additional asset category. Given the changes happening in the DEI area, we thought it was worth studying as a unique and separate asset area. Thus, in this research we asked leaders to tell us how important all these different assets are to their company's performance. This allows us to study DEI not as a single piece of research, but instead, as one of a bucket of assets and allow leaders to think about DEI compared to things like cash, technology, leaders, people overall and more.

**Why Study all Assets at the Same Time?** You may wonder why take on this approach or why am I suggesting this methodology is better or at least different from how you would normally approach a study. The reason is because leaders are making decisions about which assets to pay attention to all the time – which asset classes get more money, which get more time, which get more people. Leaders compare one asset to another, so we think the more potentially useful approach to studying assets is to evaluate them together. That is what we do in this project. Over the years we have been able to show which assets lead to short vs. long-term gains and which assets are flashy but not necessarily helpful in driving many organizational outcomes. I welcome you to review this work, and if you are part of the study, you will receive your own personal reports to review how you responded compared to the benchmark data. If you did not participate and are interested in learning more, please contact me or the eePulse team.

**Strategic HR May Win the Culture vs. Strategy War in 2022:** Over the years we've seen the business drivers data support the culture eats strategy notion, but then in subsequent studies the data suggested that strategy was more important or "eats" culture. This year is an interesting mix. When we ran the analysis plotting the business drivers against firm performance, we found that strategy again won, but it was strategic HRM. The data suggest that focusing on strategic HR as a priority may have the biggest impact on improving firm performance in 2022. We also uncovered that diversity, the newest entry to the study, is showing high potential to also impact firm performance as well as individual employee energy, which is a measure of employee productivity and wellness.

*Theresa M. Welbourne*

# INTRODUCTION TO THE BUSINESS DRIVERS™ ASSETS

The business drivers were originally derived via numerous interviews with senior executives. We asked them what assets were important to them and then created a list of questions to explore the assets. Our first studies were part of two projects, one was studying leaders of initial public offerings (IPOs), which are not all new, young companies. For example, firms like Goldman Sachs, General Motors, Visa, Travelers, and AT&T conducted IPOs. The second project was within organizations that were going through high change, and our research was done via surveys with employees and leaders in those firms. As a result of these earlier studies we validated a core group of assets or what we call business drivers and a way of measuring them. Below is a list of the core assets studied.

<b>TABLE 1:</b>	
<b>CORE ASSET OR BUSINESS DRIVER CATEGORIES</b>	<b>SHORT DESCRIPTIONS</b>
<b>CULTURE OF OUR COMPANY</b>	Organization's approach to employees overall, commitment, overall culture, sense of ownership, way employees work as a team and ability of employees to speak up.
<b>DIVERSITY FOCUS (NEW IN 2021)</b>	Employees can bring their best selves to work, culture of inclusiveness, diverse customer base, equal opportunities, inclusion and belonging, strategic integration of DEI goals into strategy, leadership team's focus on diversity.
<b>ECONOMICS</b>	Ability to manage cash flow, control costs and profitability, cost of product or services, financing availability and general economic conditions.
<b>EMPLOYEE ENERGY</b>	Overall energy at work, sense of urgency, way employees go above and beyond to get things done, employee engagement and focus on priorities.
<b>MARKETING AND SALES</b>	Brand and reputation, quality of client relationships, level of customer service, way organization listens and learns from customers, marketing, and sales expertise.
<b>OFFERING NICHE</b>	Product or service differentiation, ability to innovate, quality of offering, the organization's technology, unique product, and service characteristics.
<b>PEOPLE</b>	Employees overall, expertise of employees, skills and knowledge of employees and top management team.
<b>REWARDS</b>	Compensation program for all employees, way employees are rewarded, promotion process and way top performers are rewarded.
<b>STRATEGIC DIRECTION AND LEADERSHIP</b>	Ability to be agile and change quickly, internal HR strategy, organization's long-term business strategy, strategic planning process, short-term strategy and willingness to take risks.
<b>STRUCTURE</b>	Advice and consulting from outside experts, internal technology solutions, way organization is organized and structure overall (hierarchy levels, reporting relationships).

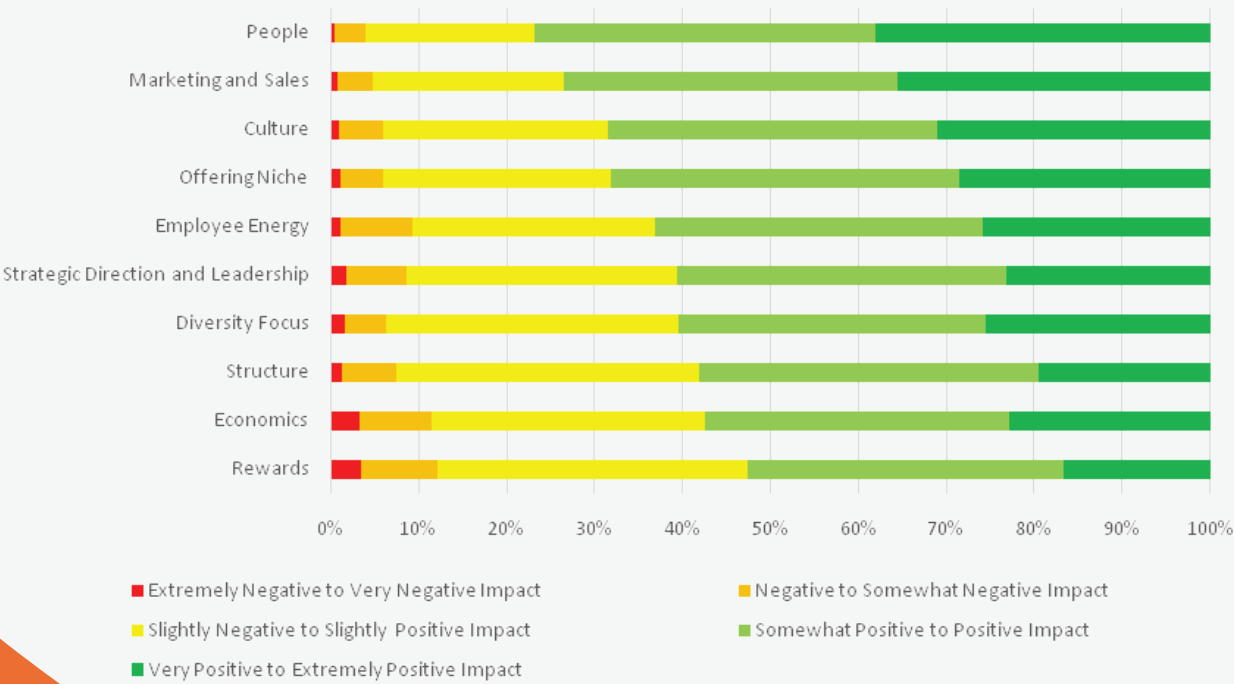
The response scale used is somewhat unique in that we combine the importance of the driver to the organization’s performance as well as the degree to which it is important. See the response scale below; it ranges from +5 to -5.

## FIGURE 1: RESPONSE SCALE FOR BUSINESS DRIVERS

Using the scale above, the responses from about 150 leaders in the 2021 project reported the following data in Figure 2. The indices are sorted high to low based on overall mean scores (means are reported in Table 2).



FIGURE 2: Business Driver's Impact Indices



## MEASUREMENT FINDINGS FOR THE INDICES

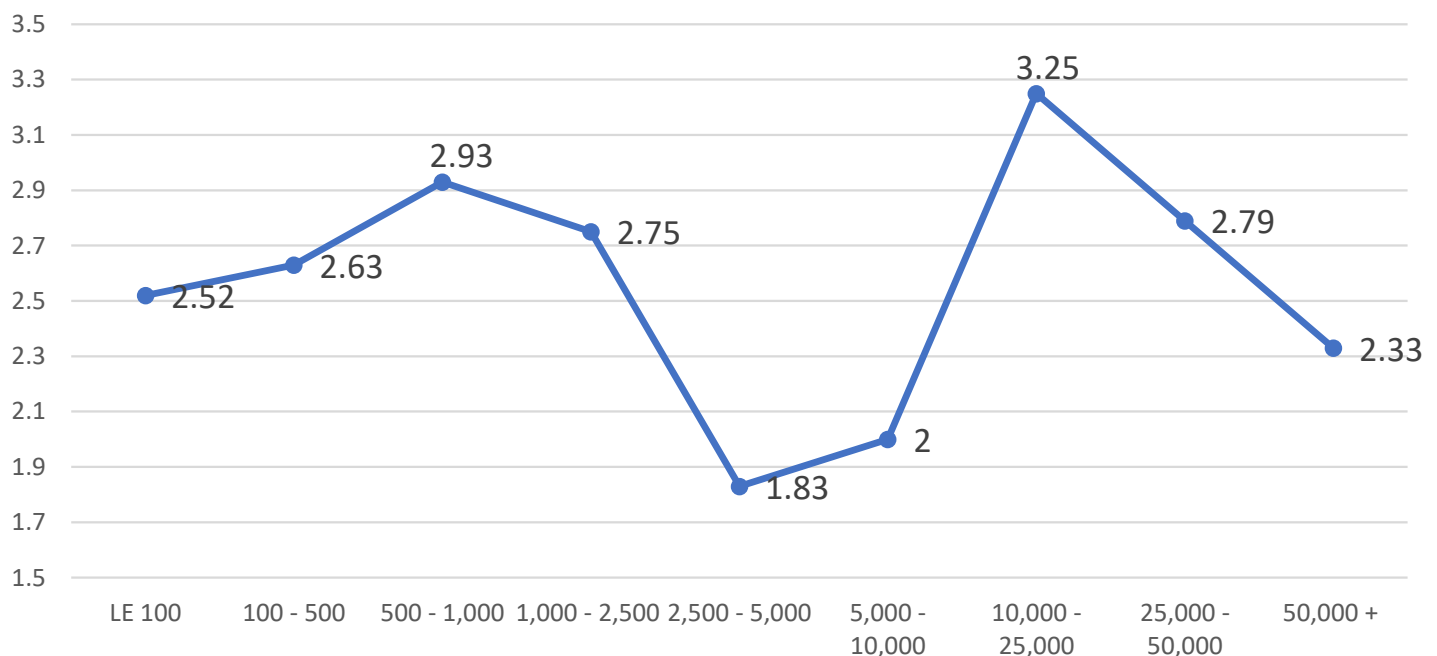
All of the index or scale scores had reliability coefficients above .70, ranging from a low of .79 for Structure to a high of .92 for diversity. In additional analysis we examined whether diversity was indeed unique and different from the related constructs of people and culture. In several different analyses, the diversity construct held up as an independent measure, uniquely different from the other HR-related constructs such as people, rewards, energy and culture.

# DEEPER DIVE ON PEOPLE – DOES SIZE MATTER?

Overall, the people group of questions ranked highest in importance to the organization, and rewards was lowest. Looking at the people index by company size, there appeared to be two categories where people was highest. The first is for firms from 100 to 1,000 employees, and the second is for those reporting 10,000 to 25,000 employees. Figure 3 shows the importance of people by company size category (using number of employees to assess size).



**FIGURE 3:** Importance and Impact of People Index by Size (number of employees)





To further explore one of the categories, 10,000 to 25,000 employees (with the highest people score), we looked at the overall pattern of results for that category and the overall sample. As can be seen in Tables 2 and 3, the 10,000 to 25,000 employee category rated all the items higher than what is seen in the overall sample. Maybe this size category was the 'sweet spot' for companies going through a global disaster, which has been the case with the people who answered this survey during the COVID-19 pandemic. The comments seem to tell a story that firm size played a role in life during a pandemic. It seems that smaller firms were having a very tough time surviving, while in the very large firms, employees reported feeling somewhat taken advantage of, being asked to work long hours and assume risks without necessarily being given anything in exchange. The comments may lead one to ask whether in larger firms' employees expect more of them in terms of what the employer gives.

Comparing the pattern of results for the overall sample vs. size category 10,000 to 25,000 employees. Even though the scores on the people index are higher for this size of firm, all the scores are higher.

<b>TABLE 2: Business Driver Categories – Overall Sample (sorted high to low based on mean scores)</b>	<b>Average or Mean Scores</b>
People	2.62
Marketing and Sales (customer service, client relationships, brand)	2.48
Culture	2.20
Offering Niche (innovate, technology, product)	2.17
Employee energy	1.92
Diversity focus	1.91
Strategic Direction and Leadership	1.80
Structure	1.67
Economics	1.54
Rewards	1.32

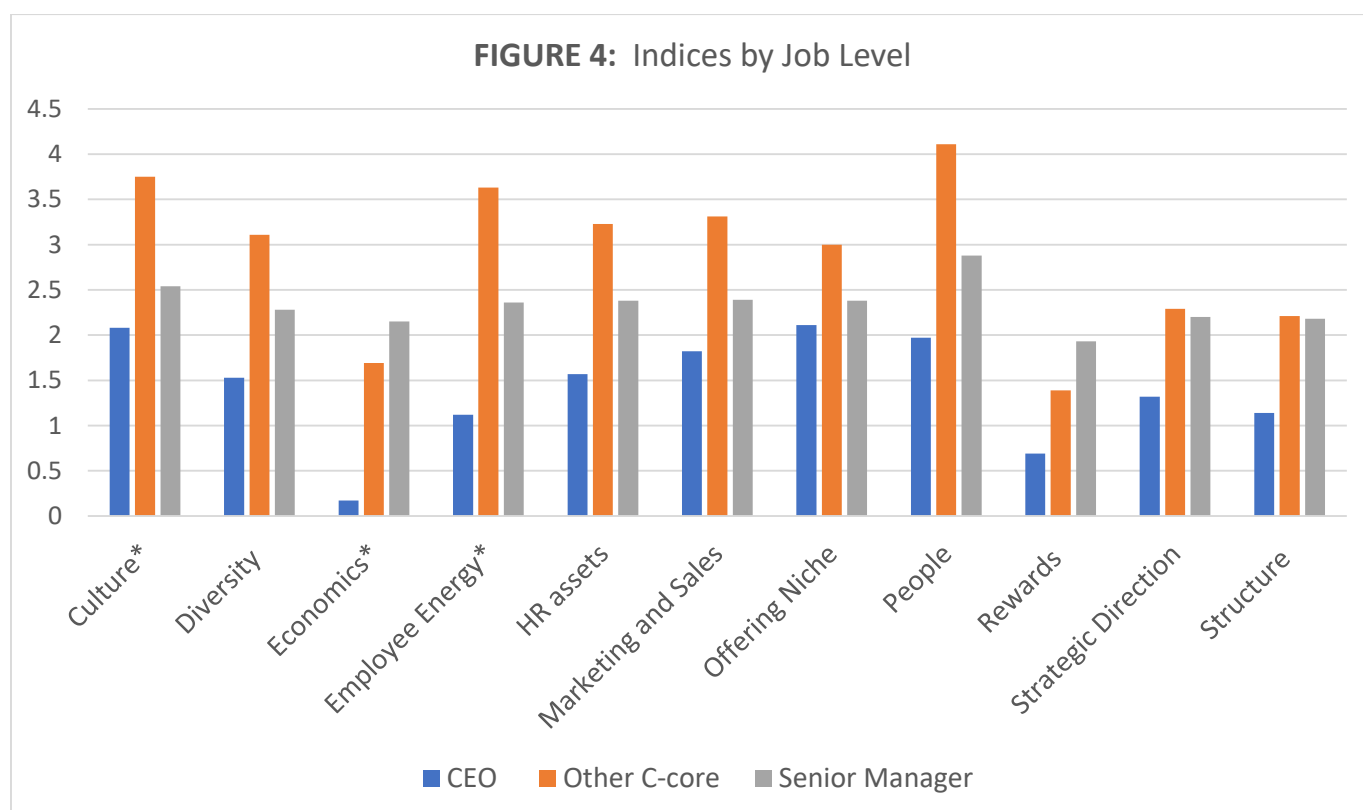
<b>TABLE 3: Business Driver Categories – Sample of Firms with 10,000 to 25,000 employees</b>	<b>Average or Mean Scores</b>
Marketing and Sales	3.73
People	3.25
Offering Niche	3.03
Culture	2.94
Diversity Focus	2.94
Employee Energy	2.9
Strategic Direction and Leadership	2.58
Structure	2.5
Economics	2.44
Rewards	2.33

## CASH FLOW – ANOTHER FIRM SIZE DIFFERENTIATING FACTOR IN 2021

Reviewing the percent of respondents in each scoring category shows how using the data can provide insights about what leaders are thinking. We examined 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 in the smaller firms while only neutral and positive in the larger organizations. Firms with less than 100 employees had an average score on this question of .95, while those with 50,000 or more employees had an average score of 2.89. A review of open-ended comment data supports the financial insecurity of smaller firms during the pandemic.

## DOES JOB LEVEL MATTER? A LOOK AT CEOS VS. OTHER C-CORE JOBS AND SENIOR MANAGERS

When looking at the data by job level, there were significant differences between 3 job categories, the CEO job, other C-core jobs (Chief financial, technology, information, human resources, etc. officers) and Senior managers. Below is a chart summarizing the data. Three index scores were statistically significantly different: culture, economics, and Employee energy. In all cases, the CEOs' scores were the lowest. The very low CEO score for economics would suggest that at this level they are directly seeing the impact of the external environment on their companies, while perhaps the other job levels are more focused on what they are hands-on daily controlling, internal assets.

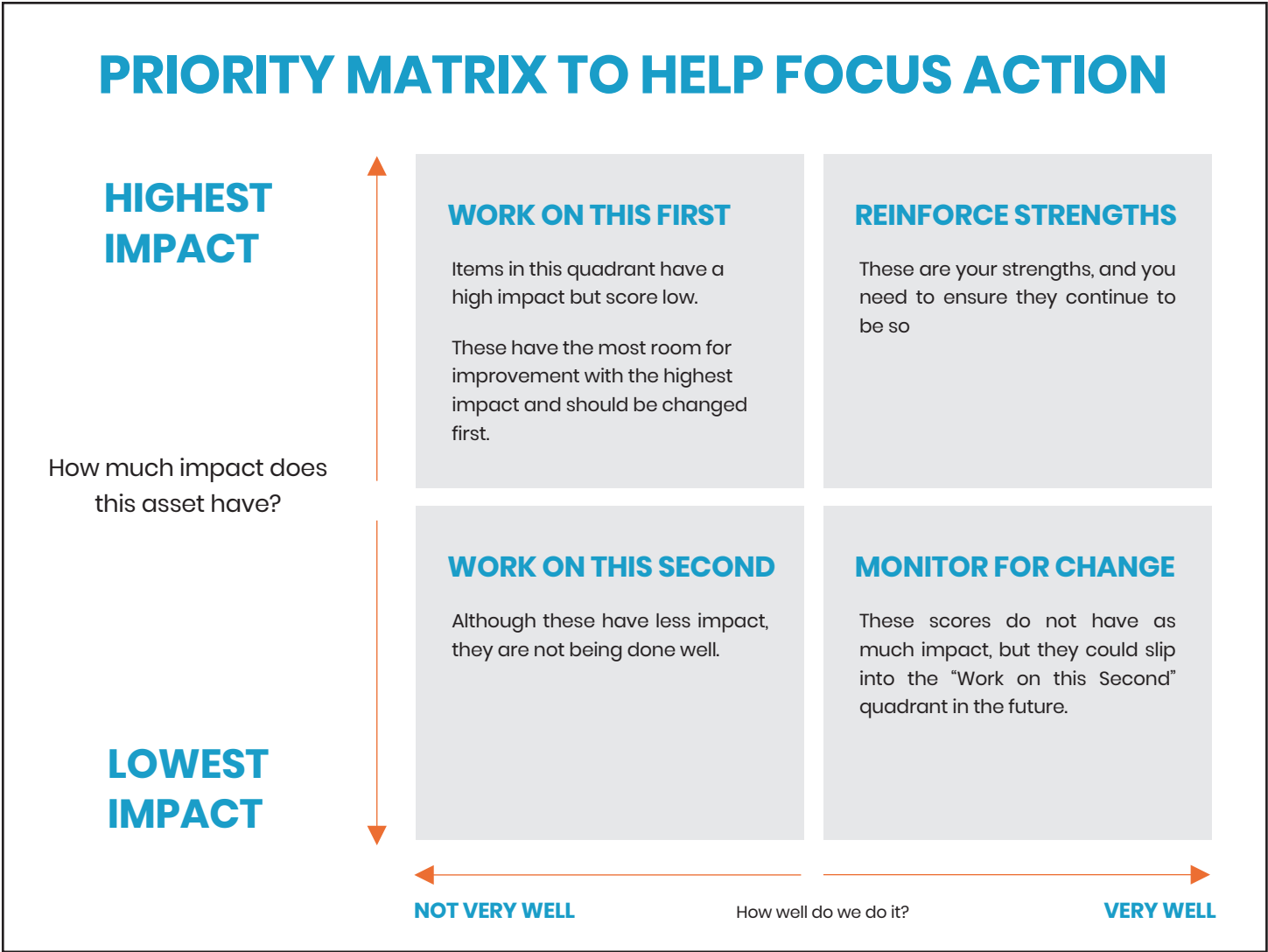


# DRIVERS OF FIRM PERFORMANCE

The analysis examines the correlation to financial performance for each question. The question level analysis helps provide a roadmap to understanding what actions can be taken to improve, in this case to enhance firm-level performance. When doing this the questions fall in the four quadrants of the Priority Matrix shown in Figure 5. Those with a high correlation to financial performance and that also scored low should be the focus for fastest and most impactful improvement. Those fall in the upper left quadrant labeled “Work on this First.”

We used self-reported levels of financial performance. On a regular basis, we ask respondents to add the ticker symbol of their companies if they are in a publicly traded firm. We then run analyses comparing self-reported data to the actual reported financial data. We have found significant correlations when this work is done. Also, the method of self-reporting of financial performance has been found to be highly reliable in published studies.

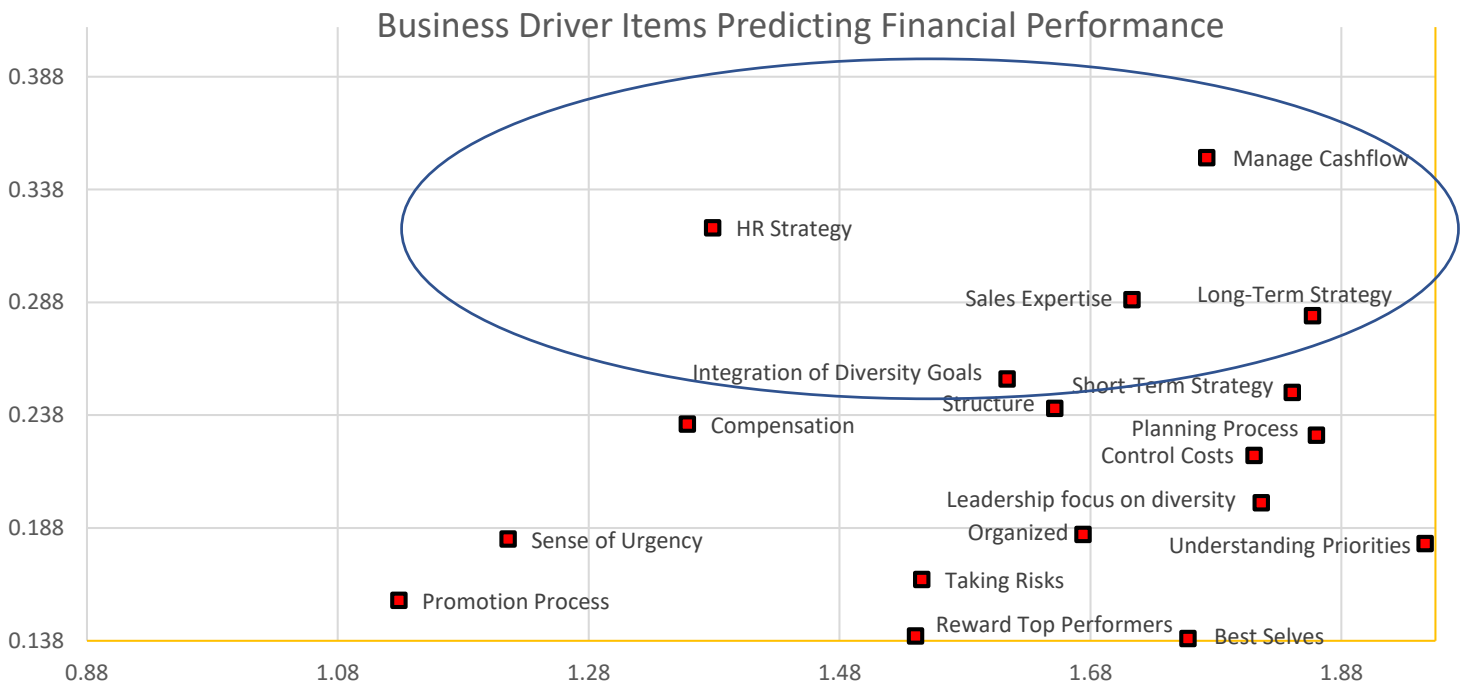
FIGURE 5: PRIORITY MATRIX





Based on our analysis the items that will have the highest impact on financial performance are shown in Figure 6. Survey scores run on the bottom of the report (horizontal axis), and the correlation with financial performance (vertical axis) is on the far left. Thus, the “Work on this first” quadrant shows the questions that were scored low relative to others (farther left are lower) and are also ranked as important in driving firm performance. The list below the graphic shows the rankings of importance based on the analysis (vs. only the visual spotting of the questions).

**FIGURE 6: FIX FIRST QUADRANT REPORT**



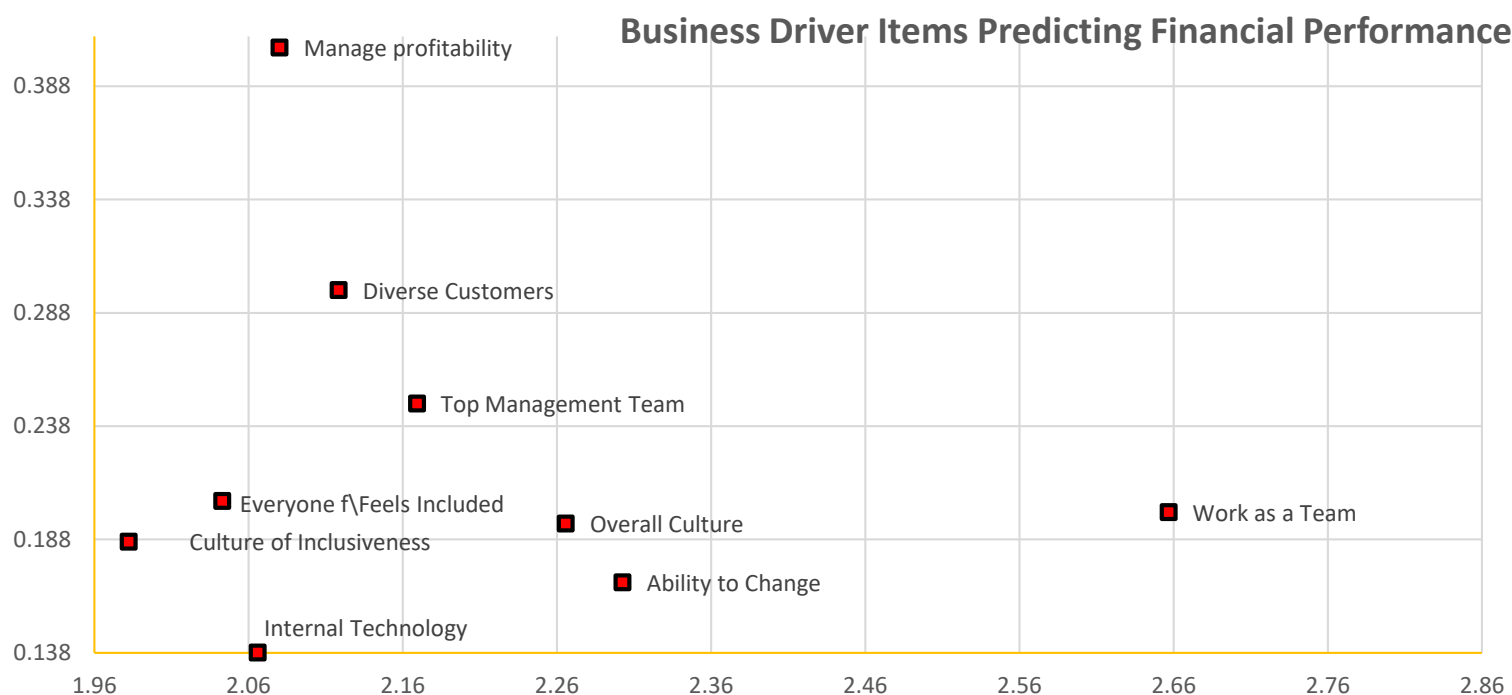
The analysis indicate that internal HR strategy is the most important factor in driving firm performance in 2021. The items below round out the top five. When accommodating an extensive list of business assets (53 in total) into the analysis, it is interesting that two of the top five are related to people and that the new asset we included this year, diversity, also shows up in the top five.

**FIRST RANKINGS**

1. Internal HR strategy (way we select, reward, develop people).
2. Ability to manage cash flow.
3. Our marketing and sales expertise.
4. Our organization's long-term (3 years or more) business strategy.
5. Our organization's strategic integration of diversity goals into overall organizational goals.

The section in the Figure 7 shows the overall strengths from the data; it lists which questions were rated high and important in driving firm performance.

## FIGURE 7: REINFORCE STRENGTHS—FINANCIAL PERFORMANCE



## STRENGTHS RANKINGS—FINANCIAL PERFORMANCE

1. Ability to manage profitability
2. The way we pursue and support a diverse customer base.
3. Our top management team.
4. The way employees work as a team.
5. The efforts we all make to assure everyone feels included and that they belong in our organization.
6. The overall culture of our organization.
7. The organization's culture of inclusiveness.
8. Our ability to be agile and change quickly.
9. Internal technology solutions (how we use technology to get work done); think about communications, project management and other software solutions.

Any strategy for 2022 should include not only a focus on what items need work or improvement but also how to focus time, energy, and resources to sustain the assets that are positively driving firm-level performance (keep doing items) Considering the amount of flexibility companies needed in 2021, ability to be agile and technology round out the top items. Also, two of the new diversity items are in this list. The data continue to show that diversity, as an independent asset, should be considered as any part of an initiatives to drive firm performance.

# ASSETS DRIVING EMPLOYEE ENERGY

In addition to studying how the assets drive performance, we also examined how those same assets predict individual employee energy. Energy, as we study it, is a measure of employee productivity and wellness. We have numerous studies that show, using longitudinal data, that energy predicts important outcomes such as unwanted turnover, customer satisfaction, safety, performance appraisal scores and sales. We teach employees how to manage energy, and as a result, we see significant improvement for individuals. Thus, in 2021 employee energy has been an important and critical personal outcome to optimize. Figure 8 shows the results of the analysis for the priority matrix, focused on items that are overall low (relative to other assets) and that highly correlate with employee energy. This is the suggested “fix first” category because improving these items has a high probability to improve energy at work.

FIGURE 8: WORK ON THIS FIRST QUADRANT REPORT–ENERGY

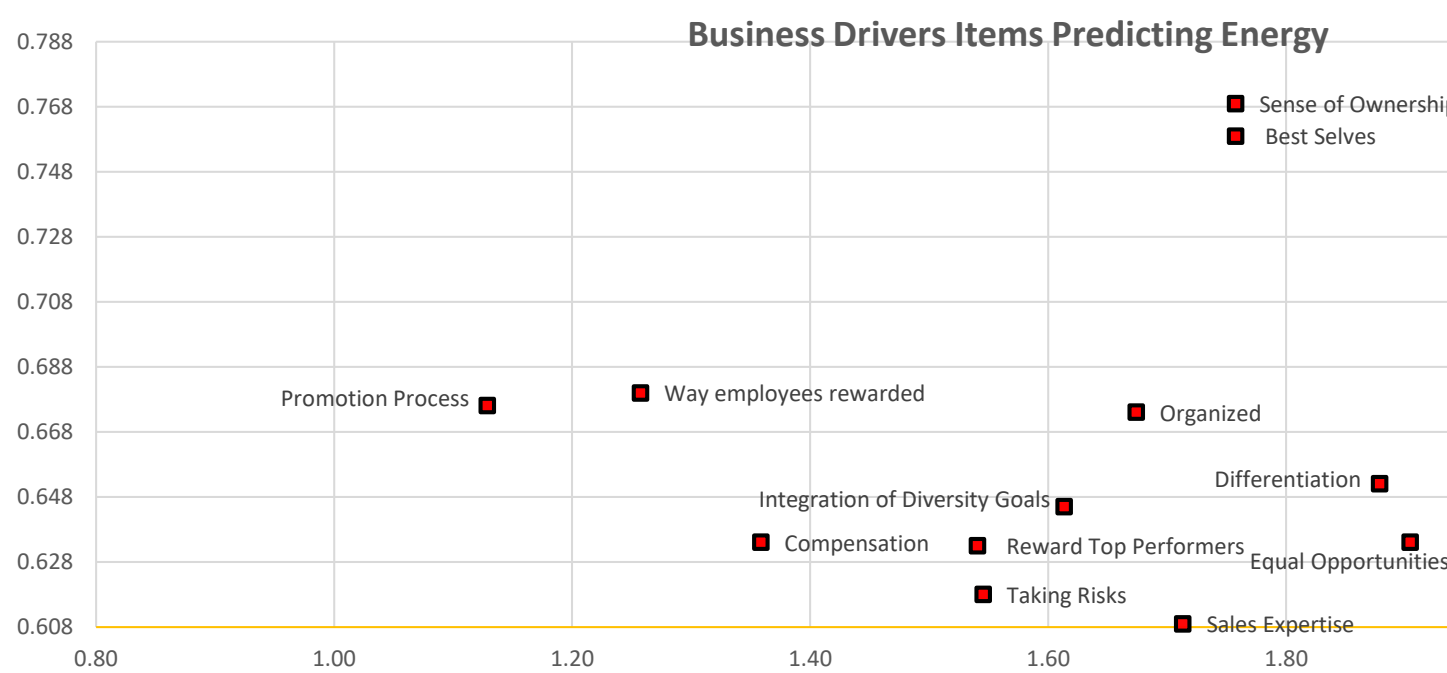
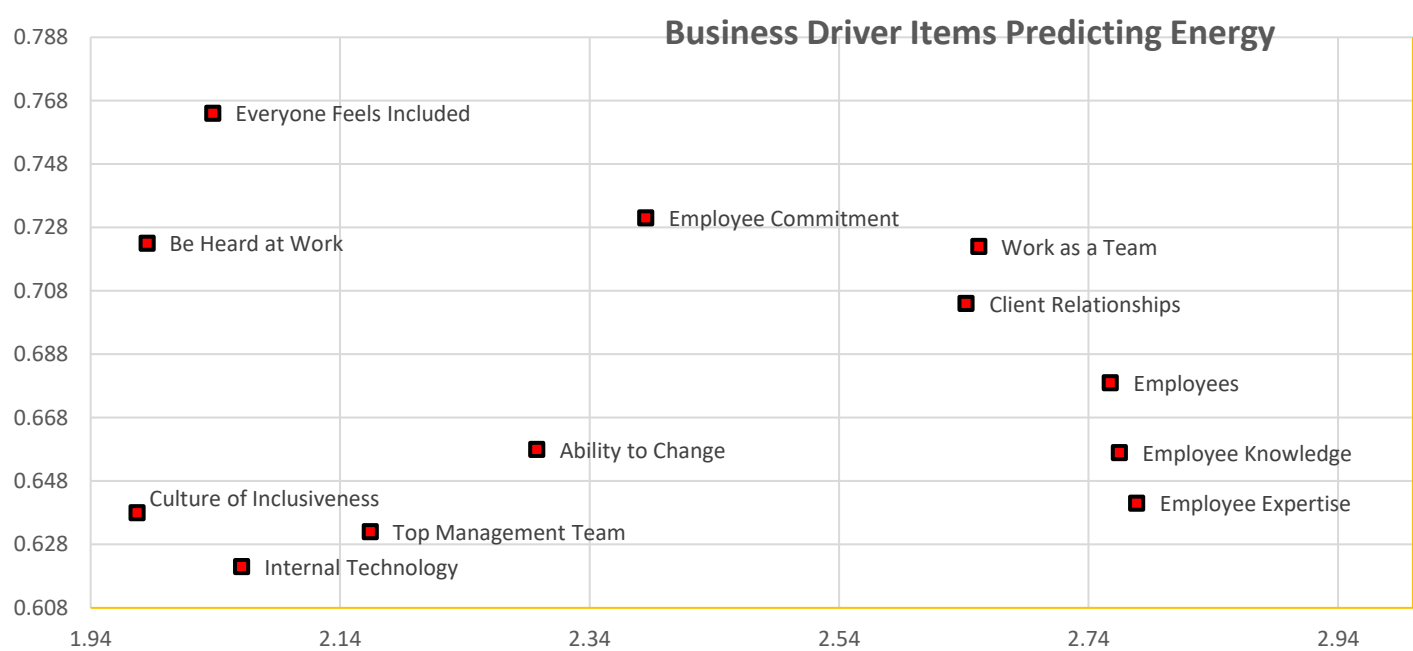


Figure 9 (on the next page) indicates which items should be reinforced because they score higher than others and are positively and more highly correlated with employee energy.

FIGURE 9: REINFORCE STRENGTHS–ENERGY



Below is a summary of Figures 8 and 9, using the ranking process for the top items.

FIRST RANKINGS–ENERGY

1. The promotion process (way people are moved to new or higher-level jobs in our organization)
2. The way employees are rewarded.
3. The sense of ownership that employees have in the organization.
4. Our company’s focus on making sure everyone can bring their own and best selves to work.
5. The compensation program for all employees.

STRENGTHS RANKINGS–ENERGY

1. The way employees work as a team.
2. Commitment of our employees.
3. Quality of client relationships.
4. The efforts we all make to assure everyone feels included and that they belong in our organization.
5. The employees.

All these core items focus on employees, ranging from HR processes that are part of the HR strategy noted as important for firm performance to ways employees work together and as part of the organization. These data may shed some light on what is now being called the “Great Resignation” as perhaps many companies, due to the constraints in 2021, may have cut back on things like promotion and rewards and at a time when employees were likely working more hours, under more stress and being in situations (like working at home) where recognition of even what they were accomplishing was difficult.

## UPDATE TO THE STRATEGY VS. CULTURE DEBATE

Over the years, we have seen the important predictors of firm performance vary, initially focused on culture more than strategy and then strategy vs. culture.

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). In our last report on this topic, we noted that “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.”

This year presents an interesting evolution of the strategy vs. culture debate. We found that strategic HR and items that could be considered part of strategic HR (promotion, rewards) ended up as being the categories that show the higher potential for driving future firm performance and employee energy. Energy, in our over 25 years of research, has been proven to predict not only individual performance outcomes but firm-level outcomes (including firm survival in studies of multiple organizations). Thus, the blending of firm performance and employee energy provides a solid road map for thinking about priorities for 2022.

## ACTIONS TO IMPROVE

The methodology that I use when teaching is called the DDAR model (Data, Dialogue, Action, Results™). My suggestion is to use this report and data to engage your team in dialogue. To what extent does your team think these findings parallel what has happened in your organization? If you don’t know, then extend the dialogue to other leaders, managers, or employees. Based on what you learn in the dialogue, create an action plan. Then continue the dialogue and measure your results. In 2022, we are seeing many signs that uncertainty will continue to plague our organizations. A data-driven strategy can aid any organization in prioritizing, measuring, and reprioritizing when needed.

If you were part of the Leadership Pulse study, you have access to personal reports. You can go into the system and see what you scored when you took the pulse, and then compare that to the benchmarking data.

If you did not take this Leadership Pulse and are interested in the topic, there is an opportunity to run the study within your company.

## 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](http://www.leadershippulse.com). On this site you can learn about digital badges associated with the program, read reports and articles and add your team member so that they can benefit from the program and you, as a leader, can receive not only your own personal reports but a group report for your team. Also, stay tuned for upcoming webinars on the Leadership Pulse data and learning.

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