

# THE “HARD” SIDE OF DIVERSITY AND INCLUSION: *How Effective Managers Drive Better Business Results*

## ABSTRACT

**T**here is not a more frequently written-about topic in the business press than leadership. And, yet again, we venture into this oft-charted territory—but with a slightly unique compass. By analyzing the results of leadership effectiveness assessments on thousands of managers, the authors discover compelling implications about what a difference “extraordinary” leaders can make in real business outcomes. In addition to general findings that may impact how we think about the general topic of leadership development, a significant finding emerges in regard to the topic of inclusion—it really does matter. The level of inclusiveness of managers is a strong predictor of their overall effectiveness. This finding bolsters the argument for continued effort in this arena and raises questions about how data can be structured in the future to characterize organization/managerial effectiveness as well as the impact of interventions.

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## RESEARCH OVERVIEW

As an extension of the research performed for Jack Zenger and Joseph Folkman’s recent book *The Extraordinary Leader*<sup>1</sup>, the authors discovered that aspects of inclusion figure prominently in a new view of leadership effectiveness. In partnership, the Novations Group’s Leadership and Diversity/Inclusion practices have collected data for over 20 years on some 25,000 leaders. The information on these managers came from questionnaires completed by their subordinates, peers, bosses, and the managers themselves (i.e., 360 assessment). The process created a reliable and valid picture of the individual managers’ behavior. The Novations database contains over 225,000 such instruments, averaging 10 questionnaires per manager. In short, it is voluminous, statistically valid, and (we think) raises some compelling implications.

As the analysis began, we were looking to describe what (if any) impact

leaders have on specific outcomes, i.e., profitability, customer satisfaction, turnover, etc. The field of organization and leadership development has long held that more effective managers drove better results, and we were looking for empirical, statistical validation of this view. We found that careful analysis of the volume of survey information on leaders provides useful insights about what makes great leaders. We compared the top 10% (as measured by the overall positive response on their 360 feedback) with the overall aggregate of 25,000 managers. We also compared this group of “high performers” with the bottom 10% of managers showing the lowest overall scores. In many cases, we had data from the companies that allowed us to compare this managerial feedback with actual performance measures the firm tracked. The group was largely middle and upper-middle managers. They came from most industry sectors and were mainly North American, though some were international leaders.

In examining the relationship between leadership effectiveness and desirable outcomes, the consistent finding in all of the research and analyses was the significant impact of the best and worst leaders on achieving (better or worse) bottom-line results—with a special eye to the notion of “inclusion” as a critical skill set.

In a mortgage bank, we collected data on net profits for a series of leaders. Figure 1.a shows the results of our study. The poor leaders actually lost money for the company. One might conclude that their performance actually drove customers away. The good leaders, on the other hand, made a reasonable profit for the company. Their performance compared with the poor leaders represented a substantial change. However, the great leaders nearly doubled the profit generated for the company by the good leaders. This finding alone was important.

While as statisticians we love broad measures of effectiveness (such as 50-item, entire 360 assessments), a core measure of a manager's inclusiveness and willingness to involve a broad range of people in her work group demonstrates almost precisely the same correlative power as overall managerial effectiveness (see Figure 1.b). It should be noted that this is not the case with those classic items we have all completed on our peers that mention things like "punctuality to meetings" or our favorite "maintains eye-contact while listening...". The message: one of the truly core skills for effective leaders is to include, involve, and gain trust from (all) their people.

Turnover costs companies millions of dollars every year. While there are many reasons for turnover, our research consistently bears out that the relationship an employee has with his or her manager substantially influences an employee's decision to stay with a company or

move on. Figure 2.a shows the results from a study conducted at a large insurance company. Leadership effectiveness was determined and matched up with yearly turnover rates within each leader's group. In

this study, higher turnover (19 percent per year) was created by leaders at the bottom third in terms of their leadership ability as seen by their subordinates and peers. Apparently, these leaders did nothing to force people to leave, but their style and approach did not encourage them to stay. A better achievement came from good leaders who experienced a 14 percent turnover. Great leaders, however, cut the average turnover rate in their

groups by another 5 percent. Reduced turnover had a direct impact on profitability, customer satisfaction, and claim resolution speed. Once again, there is a subplot inside this story (as represented in Figure 2.b). A manager's inclu-

siveness is an excellent barometer of his overall leadership effectiveness, and, hence, turnover in his group. Given this clear consistency, it is not a giant leap to say that these same managers who experience the highest turnover are likely driving away people who are different from them at an even greater clip than the overall group.

In another study with a high tech communications company, we looked at the relationship between leadership effectiveness and intention to stay with or leave the company within the coming year. (These results were extremely consistent with the organization's actual turnover data.) In this study, low scores indicated a greater intention to leave while high scores indicated a greater intention to stay. As is appar-

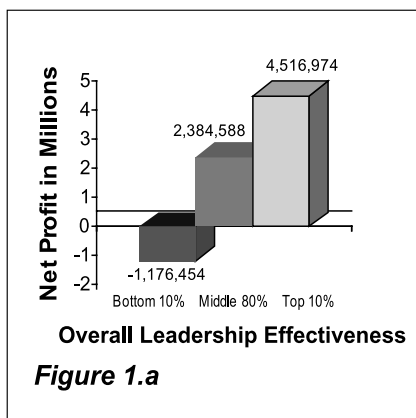


Figure 1.a

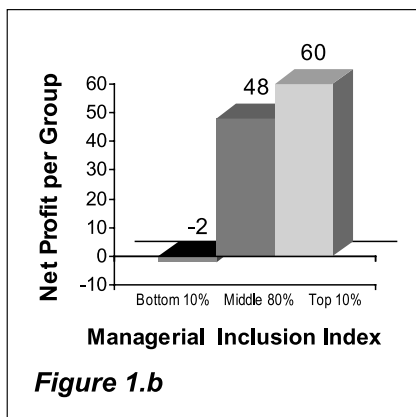


Figure 1.b

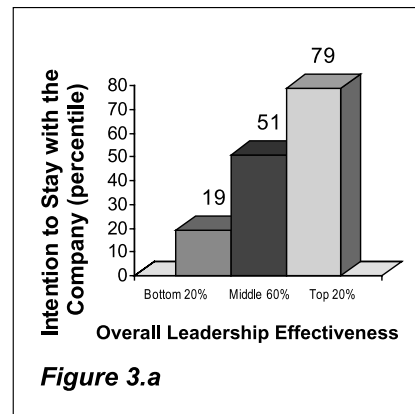


Figure 3.a

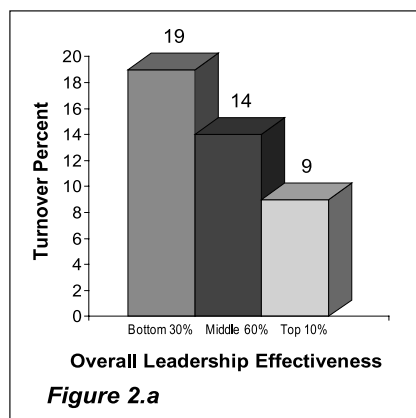


Figure 2.a

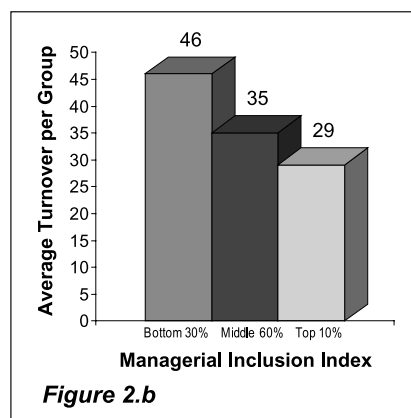


Figure 2.b

ent from Figure 3.a, the employees of the great leaders were significantly more committed to stay with the company. The intention to stay then translated into lower turnover for those who work with the best leaders.

Figure 3.b demonstrates the findings from a parallel study on employee attitudes. In this example, employee attitudes were measured as to how included, involved, and engaged they felt in their work and the team. A clear trend can be seen.

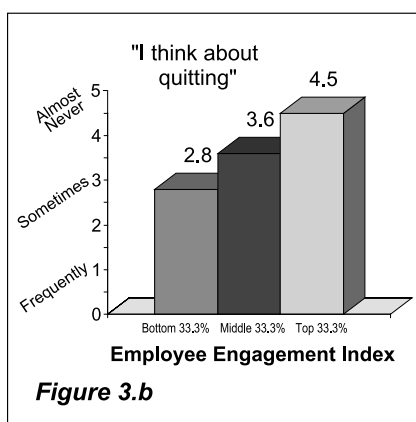


Figure 3.b

The leader sets the tone for the team (and the best leaders create inclusive, energizing environments) and the employee's intent to leave or stay is directly impacted. The teams where people felt most included showed significantly greater commitment to staying with the company.

In a study done with a high-tech communications company, we looked at the relationship between leadership ability and customer satisfaction (Figure 4.a).

Once again, great leaders have substantially better ratings on customer satisfaction. In this study, high scores indicate higher customer satisfaction. Again, we assume that the leader did not have direct contact with most customers, but it was the leader's influence on the level of commitment of the frontline employees that made the dramatic differences in customer satisfaction. It is also relatively safe to assume that man-

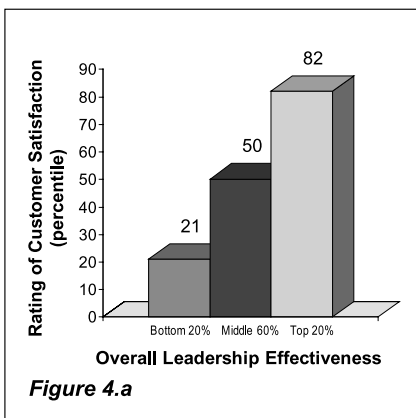


Figure 4.a

These studies clearly demonstrate the significant difference a great (inclusive) leader makes on bottom-line results. Poor leaders also have a substantial influence on an organization's success. They will consistently achieve less-effective results, create greater turnover, discourage employees, and frustrate customers. Good leaders will achieve good results, with less turnover, higher profitability, and more employee commitment.

agers who created a more inclusive, involved team were most successful at engaging their people in delivering the chosen value proposition to the customer (see Figure 4.b).

## SUMMARY/ CONCLUSIONS

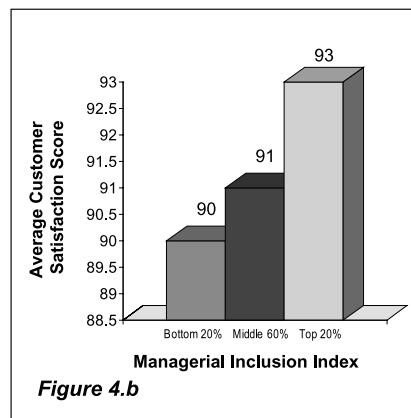


Figure 4.b

Incremental improvements in good leaders will not, however, show up in improved bottom-line results. The next jump does not occur until the 70th, 80th, or 90th percentile. Great leaders will consistently achieve results that far exceed the good leaders. They create even less turnover, motivate employees to a much higher

degree, and satisfy customers to a much higher level.

## IMPORTANT IMPLICATIONS

In addition to the stark difference that "extraordinary" leaders make, there is a very clear connection between overall leadership effectiveness and a manager's point of view, skills, and behaviors in regard to inclusiveness. At its most basic, this empirically confirms what many have intuitively known for many years. At its most significant, this new research may lead to an entirely new investigation of inclusion, diversity, and the link to managers. Heretofore, many of the "inclusion" interventions in organizations have focused on raising the awareness of managers to such things as stereotypes of certain groups and how humans respond to natural differences with others. More complete measures of inclusion in managers could lead

to meaningful changes in HR practices (such as Succession Planning and Compensation), trend analysis of an organization's overall inclusiveness, selection and hiring models that target openness, etc. Wherever

these implications lead, we believe the notion of real, meaningful, trend-based, business-focused measures is a welcome addition to the practice of Human Resources leadership—for all groups and people.

<sup>1</sup> John H. Zenger, D.B.A., and Joseph Folkman, Ph.D., *The Extraordinary Leader: Turning Good Managers into Great Leaders*, McGraw-Hill, New York, 2002