

November 1, 2007

Study Shows Corporate Leadership is Failing to Focus on Factors Necessary for Long-Term Survival and Competitiveness

Study Sponsors:

Iacocca Institute, Lehigh University
BetterManagement
Greybeard Advisors LLC

This White Paper Prepared by:

Robert A. Rudzki, President, Greybeard Advisors, LLC

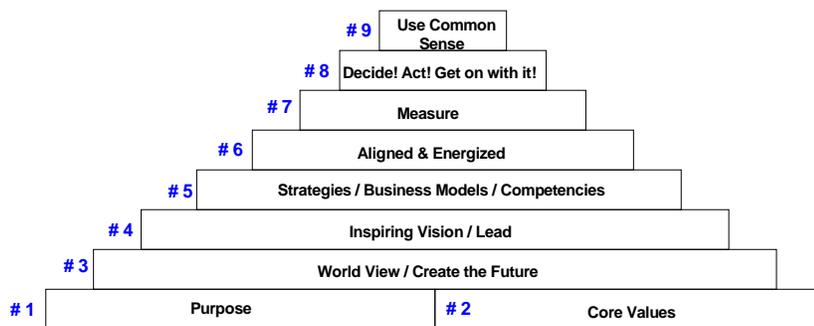
EXECUTIVE SUMMARY

Are corporations truly sustainable over the long term?

Various independent studies have suggested that the sustainability of corporations is a challenge and that the "life expectancy" of corporations is less than 50 years. This study solicited input from a broad pool of executives and managers from around the world, and representing most industries. The study was based on the corporate health assessment framework presented in the book Beat the Odds: Avoid Corporate Death & Build a Resilient Enterprise (BTO). The study used a significant portion of the BTO diagnostic survey to draw conclusions about the attention that management is paying to nine core principles, and also to draw conclusions about the underlying health of organizations around the world. Over 700 executives and managers participated in this study.

The nine "Beat the Odds" principles provided a framework for the survey (see the Appendix, or p.14, for a brief description of each principle).

The Nine Beat the Odds Principles



*Respondents views are influenced by the current age of their organization.*

*The study suggests underlying unhealthy conditions exist at organizations represented by almost half of the respondents.*

*The foundation principles (#1 and #2) were generally the strongest, followed by the principles which relate to establishing a view and a strategy for the future (#3 and #5). Weakest were the principles relating to translating those ideas and executing.*

*The highest possible BTO score is a “5” and the lowest possible rating is a “1.”*

Among the main findings of the survey:

- Respondents did not have a good understanding of the “life expectancy” of corporations in general. Respondents working for young organizations (e.g. under 25 years of age) typically indicated that the life expectancy for all organizations was less than 25 years, while respondents employed by more mature organizations tended to believe that the life expectancy of all organizations was much longer. Almost 40% of those from organizations over 100 years old indicated that they believe the life expectancy of corporations *in general* was over 100 years of age.
- The respondents’ views of their organization’s performance across all nine BTO principles painted a rather sobering picture:

Overall BTO Score (out of 5.0 possible)	% of Respondents
4.0 or higher	19%
3.5 to 3.99	33%
3.0 to 3.49	<b>22%</b>
less than 3.0	<b>26%</b>
Total	100%

} 48%

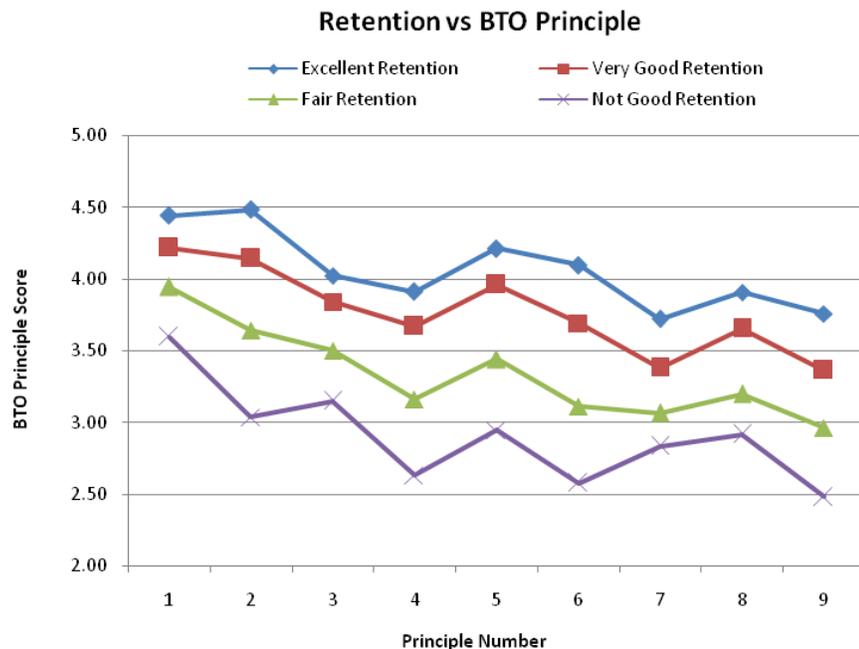
- With respect to respondents’ views of their organization’s attention and follow-through on each of the nine principles, a cascading pattern emerged:

Relative Strength		
High	Principle #	BTO Score
Purpose	1	3.9
Core Values	2	3.8
Moderate		
World View / Create Future	3	3.5
Strategy/BM/Competencies	5	3.5
Weak		
Vision, Leadership	4	3.3
Align & Energize	6	3.3
Measure	7	3.2
Decide! Act!	8	3.3
Common Sense	9	3.0

- More than half of all respondents rated their organization’s ability to retain employees as Fair or Not Good, while less than half were in the Excellent or Very Good categories.

*Talent management issues, such as retention and morale, were strongly related to an organization's BTO scores.*

- The study shows a relationship between the overall BTO score for an organization and respondents' rating of their organization's current Retention of Employees.
- The study shows a relationship between the overall BTO score for an organization and respondents' rating of their organization's current Employee Morale.



*Industry rank and financial performance are also related to an organization's BTO score.*

- The study shows a relationship between the overall BTO score for an organization and the respondent's view of that organization's current industry rank (Top Tier, Middle of Pack, Struggling).
- The study shows a relationship between the overall BTO score for an organization and the respondent's view of that organization's current financial performance, and likely financial performance.

*Respondents identified their greatest concern as one which relates to one of the BTO core principles.*

- Participants in the study were provided the opportunity to "write in" the factor that worries them most about ensuring their organization's long-term viability. Most of the responses related to one or more of the nine principles. The predominant concerns (in order of priority based on the number of respondents):
  - Creating the Future and Innovation (relates to Principle 3)
  - Leadership effectiveness, Enterprise Vision and Clear and Consistent Communication from leadership (relates to Principle 4)
  - Competencies (retention and development) – a portion of Principle 5
  - Aligning and Energizing the workforce (relates to Principle 6).

*Corporate executives and Boards endanger their organization's long-term health by not paying continuous attention to the nine core principles.*

Interestingly, this is consistent with the respondents' collective view that foundation principles 1 and 2 (Purpose and Core Values) are reasonably strong.

The study demonstrates a clear relationship between an organization's overall BTO score and key corporate longevity issues such as employee retention and morale, industry rank and financial performance. The study also suggests a significant number of organizations possess underlying health issues relating to the nine principles.

In *Beat the Odds*, it is noted that corporate leaders are often consumed by managing the day-to-day complexity of their businesses. In this challenging environment, corporate executives and Boards endanger the long-term health of their organizations if they fail to pay continuous attention to core principles.

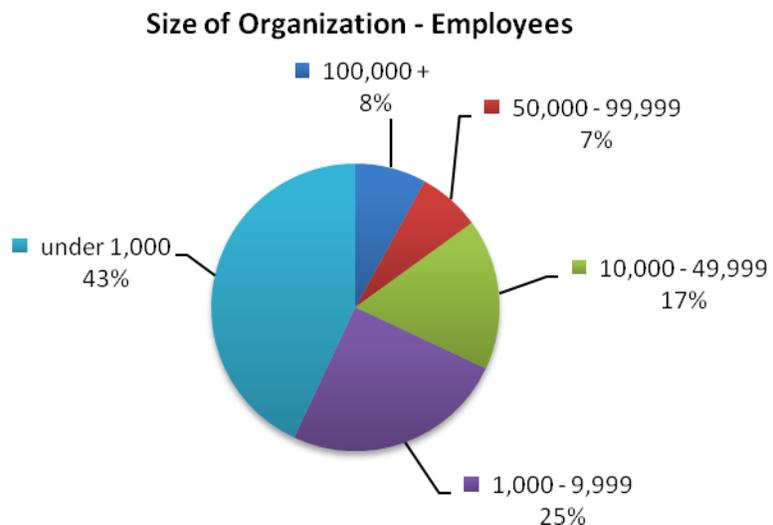
Moving from remedial corporate health care to pro-active health maintenance starts with a comprehensive health assessment for your organization, and then requires follow-through on the learnings.

## PARTICIPANT PROFILE

Invitations to participate in the study were extended to members of BetterManagement and Iacocca Institute, who count among their users/clients thousands of professionals and executives from around the world. BetterManagement and Iacocca Institute extended the invitation to participate to their unscreened distribution lists.

More than 700 participants completed the survey. The respondents come from a wide range of company size (Figure 1).

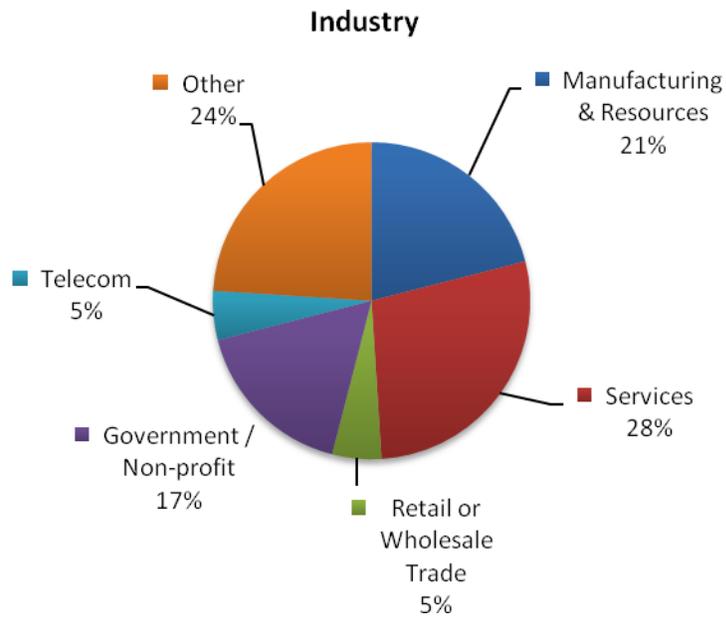
*The study generated interest from employees at organizations of all sizes.*



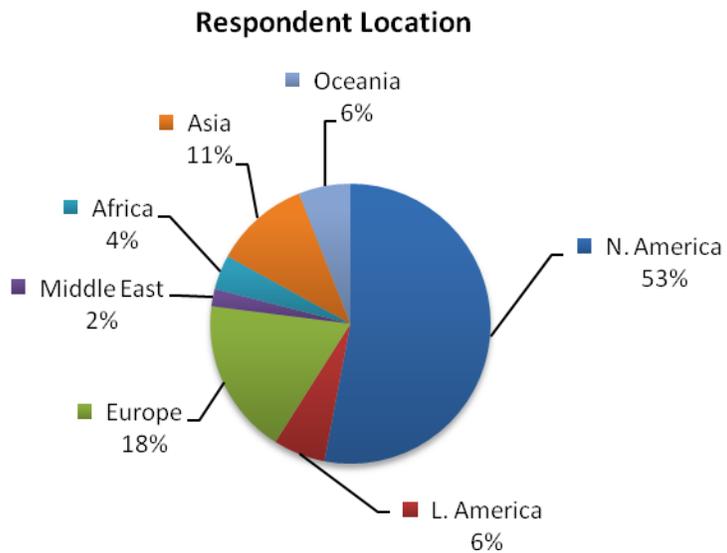
**Figure 1**

Industry participation was diverse (Figure 2), and respondent location also reflected a wide representation (Figure 3).

*The study enjoyed participation from around the world, and from many industry sectors.*



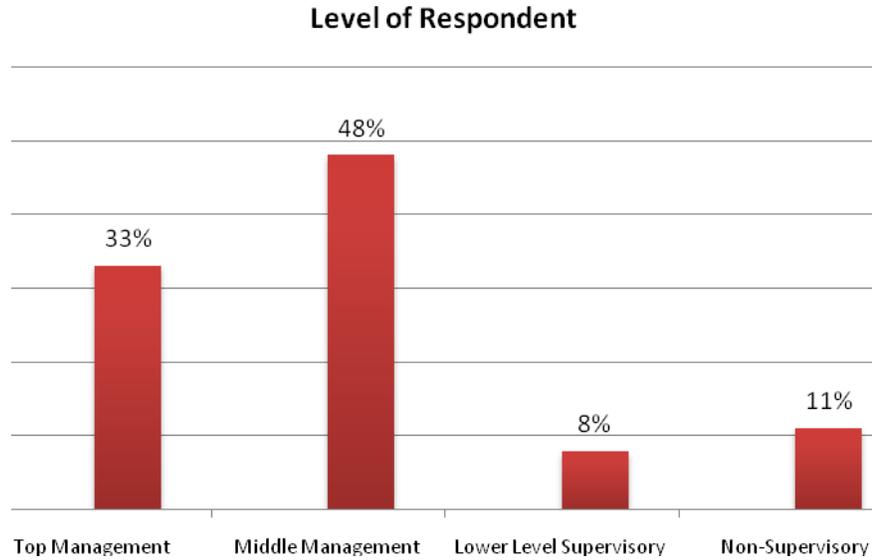
**Figure 2**



**Figure 3**

Approximately one-third of the respondents are from “top management” (defined in the survey as the top two levels of their organization’s management), almost half are “middle management” (levels three and four in the organization), and the balance represent lower level supervisory and non-supervisory employees (Figure 4).

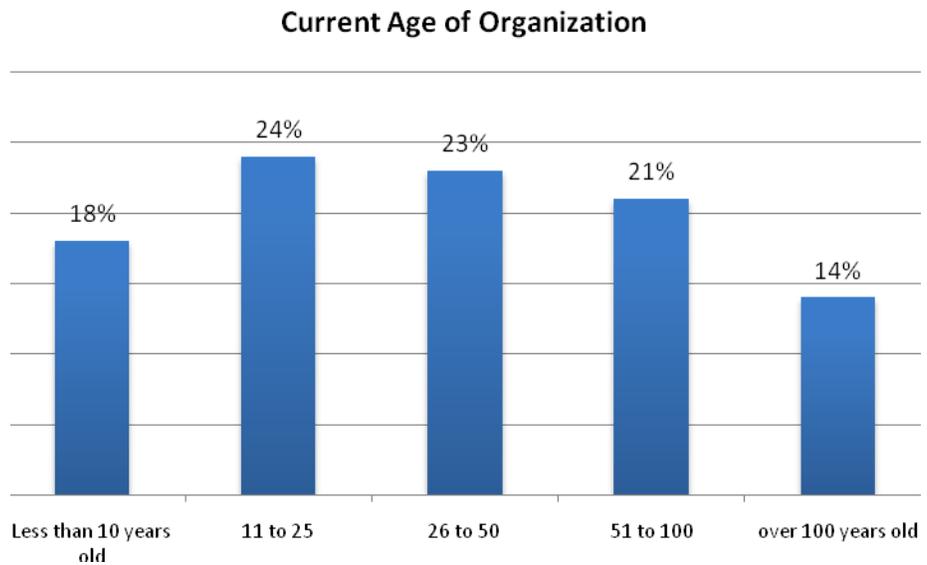
*Four levels of respondents participated in the study.*



**Figure 4**

The survey respondents work for organizations that represent a full spectrum of “corporate lifespan” – from relatively young organizations (18% were from organizations in existence less than 10 years) - to very long-lived organizations (14% were from organizations over 100 years old) (Figure 5).

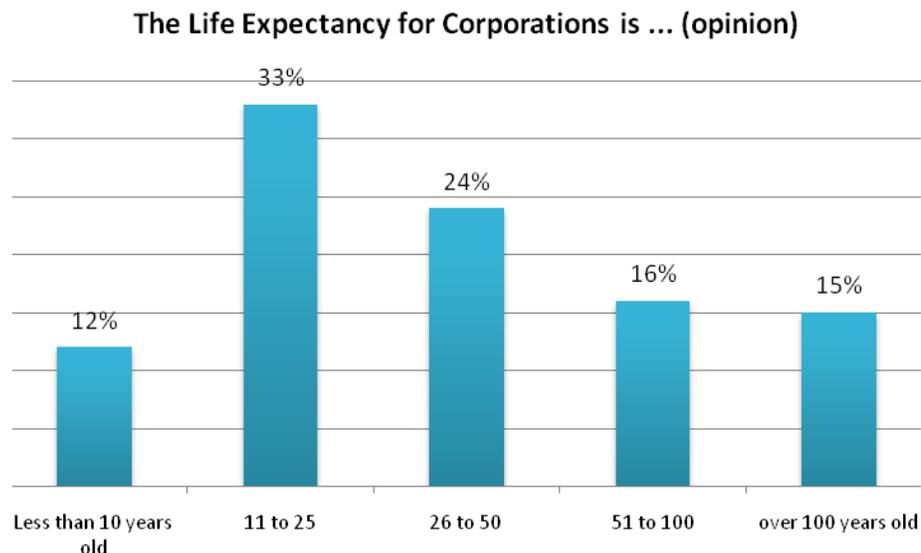
*The respondents represented young, middle-aged, and relatively old organizations.*



**Figure 5**

On average, the survey respondents brought a realistic point of view to the study. Approximately 70% believe that the “life expectancy” of corporations is 50 years or less (Figure 6).

*Approximately 70% of respondents believe that the “life expectancy” of corporations is 50 years or less.*



**Figure 6**

However, the current age of the organization appeared to influence respondents’ answers to the “life expectancy” topic. For organizations described as either less than 10 years old, or 11 to 25 years old, approximately 60% of the respondents indicated they believed the life expectancy of corporations in general was less than 25 years. The opinions tended to trend with the current age of the organization. Almost 40% of those from organizations over 100 years old indicated that they believe the life expectancy of corporations *in general* was over 100 years of age – a remarkable, incorrect view!

*However, views on longevity appeared to be influenced by the current age of a respondent’s organization.*

This raises at least one question: Does historical success make it more likely that managers and companies eventually become overconfident and complacent? As Aristotle once said, “He who the gods want to destroy, they will give 40 years of prosperity.”

If so, what is the wakeup call? How might organizations avoid this fate?

## RESULTS OF THE STUDY

### A. General Learnings about the Respondents’ Organizations

Approximately 40% of all respondents characterized their organization’s current rank in its industry as “middle of the pack” or “struggling,” with the balance falling into the “top tier” or “most admired company” category.

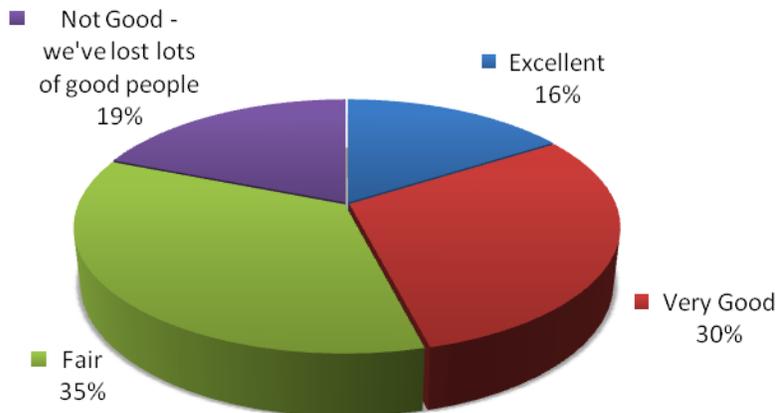
Approximately half of all respondents described their organization’s recent financial performance (last 3 to 5 years) as one in which their Return on Equity (ROE) or Return on Invested Capital (ROIC) exceeded their corporate cost of capital (Kc).

Approximately 60% of the respondents believe that their organization's ROE or ROIC would exceed the corporate cost of capital in the next 3 to 5 years.

In spite of this optimism regarding near-term financial performance, more than half of all respondents rated their organization's ability to retain its employees as Fair or Not Good (Figure 7).

*Many respondents indicated that their organization has serious issues with employee retention - a possible leading indicator of future performance problems.*

### Rate Your Organization's Ability to Retain Employees



**Figure 7**

There was a noticeable difference in views regarding retention, based on the job level of the respondent. Approximately 40% of top management rated their organization's ability to retain its employees as Fair or Not Good. That percentage rose to 60% and higher for the other three levels of respondent.

With regard to employee morale:

- approximately 40% of all respondents indicated that their top management's morale was Fair or Not Good,
- approximately 50% of all respondents indicated that their middle management's morale was Fair or Not Good, and
- approximately 60% of all respondents indicated that their non-supervisory personnel's morale was Fair or Not Good.

*Many respondents indicated serious issues with employee morale – at all levels.*

Interestingly, when asked to rate employee morale among top managers, about 70% of those who identified themselves as top management indicated morale in their category was Excellent or Very Good.

When asked to rate employee morale among middle managers, less than 40% of those who identified themselves as middle management indicated morale in their category was Excellent or Very Good.

When asked to rate employee morale among non-supervisory employees, only about 30% of those who identified themselves as non-supervisory employees indicated morale in their category was Excellent or Very Good.

## B. Basic Analysis

With the exception of the foregoing “demographic” data, each of the topics included in the survey was presented as a positive statement and the survey participant was asked to rate his or her degree of agreement or disagreement based on the following choices:

- Strongly Agree
- Agree
- Neither Agree nor Disagree
- Disagree
- Strongly Disagree

Numerical ratings were assigned to each response, to facilitate analysis. Strongly Agree was assigned a “5,” Agree a “4,” Neither Agree nor Disagree a “3,” Disagree a “2,” and Strongly Disagree a “1.” The results which follow are based on this numerical assignment.

Each respondent’s response profile was converted to an overall numerical score, representing his or her characterization of their own organization across ALL NINE *Beat the Odds* principles. The results (Figure 8) suggest an underlying generally unhealthy condition at the organizations represented by almost half the respondents.

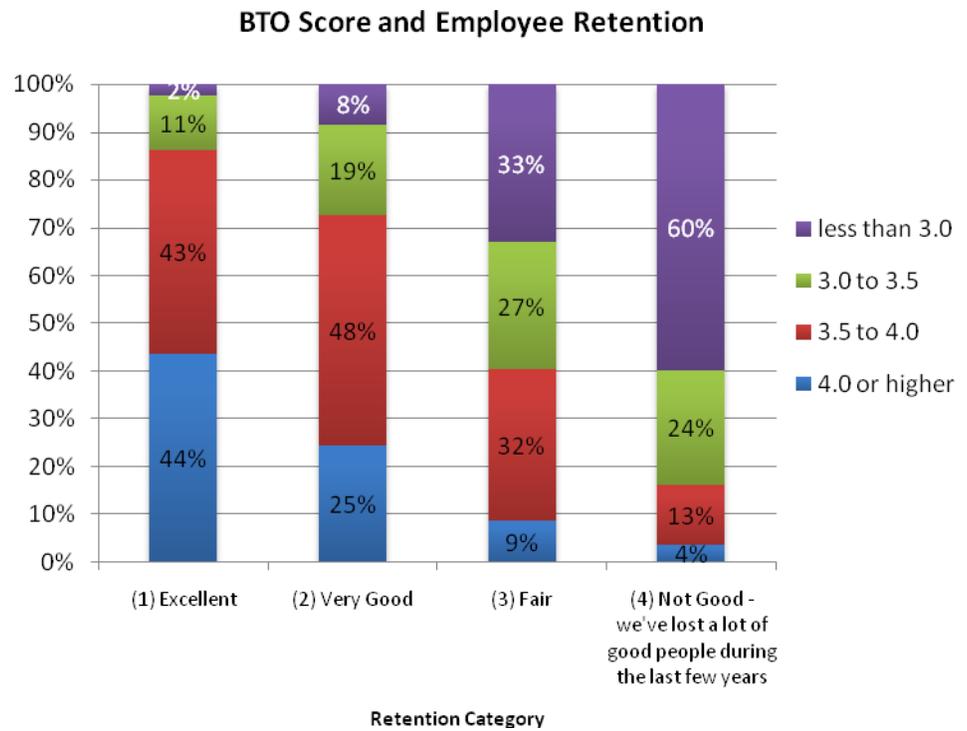
*The survey results suggest underlying unhealthy conditions at organizations represented by almost half of the respondents.*

Respondent Views of Their Organization's Performance - All Nine Principles		
BTO Score	%	Study Comment / Interpretation
4.0 or higher	19%	Currently very healthy
3.5 to 3.99	33%	Currently in good health, with some minor issues
3.0 to 3.49	22%	Some serious health issues
less than 3.0	26%	Unhealthy
Total	100%	

**Figure 8**

*The overall BTO score for an organization was related to the degree of employee retention.*

The relationship between the overall BTO score and current Retention of Employees is highlighted in Figure 9. For those respondents who described their organization’s employee retention as Excellent (far left column in Figure 9), 87% assessed their organization’s overall BTO score as 3.5 or higher. On the other end of the spectrum, for those respondents who described their organization’s employee retention as Not Good (far right column in Figure 9), 84% assessed their organization’s overall BTO score as less than 3.5.



**Figure 9**

The relationship between BTO score and Retention was further illuminated by examining the scores for each of the nine principles, for each category of respondent to the Retention topic. Figure 10 highlights the differing BTO profiles depending on each Retention category. Across all nine principles, respondents who indicated their organization had Excellent employee retention assessed their organization’s BTO score higher than the Very Good retention category; which in turn assessed their organization’s BTO score higher than the next retention category (Fair retention), and so forth.

Figure 10 also highlights a general trend downward from early principles to later principles – consistent with the idea that later principles are built upon (and can only be as good as) the underlying foundation that has been established.

The profile across all nine BTO principles was distinctive – with better employee retention organizations consistently characterized by better BTO scores across all principles.

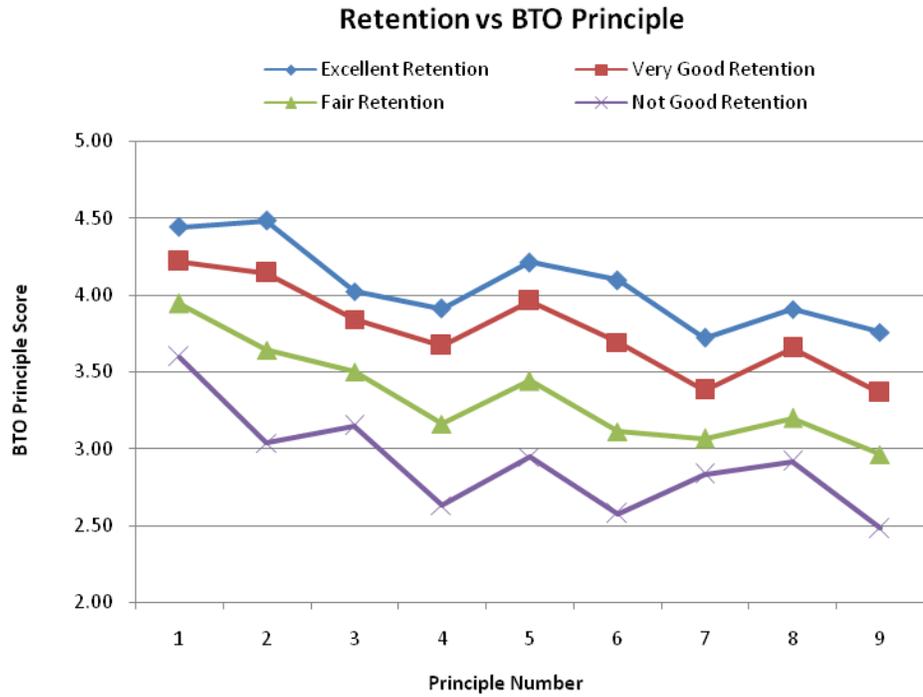


Figure 10

Figure 11 shows the relationship between BTO scores on all nine principles, and the categorization of the organization’s current industry rank by the respondents.

These figures, and those which follow, show a general downward trend from early principles to later principles. This is consistent with the concept that later principles are built upon (and can only be as good as) the underlying foundation that has been established.

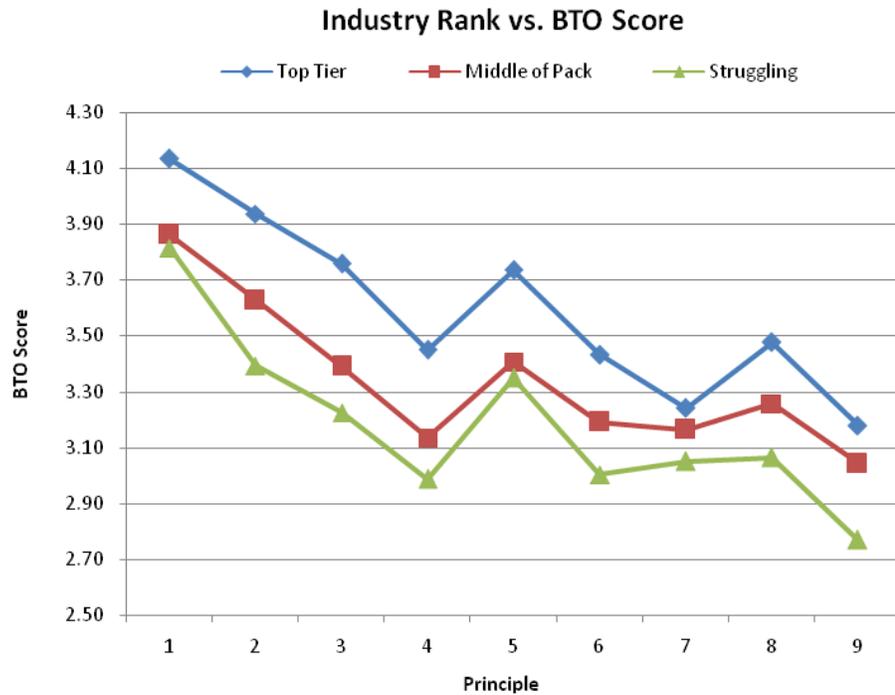
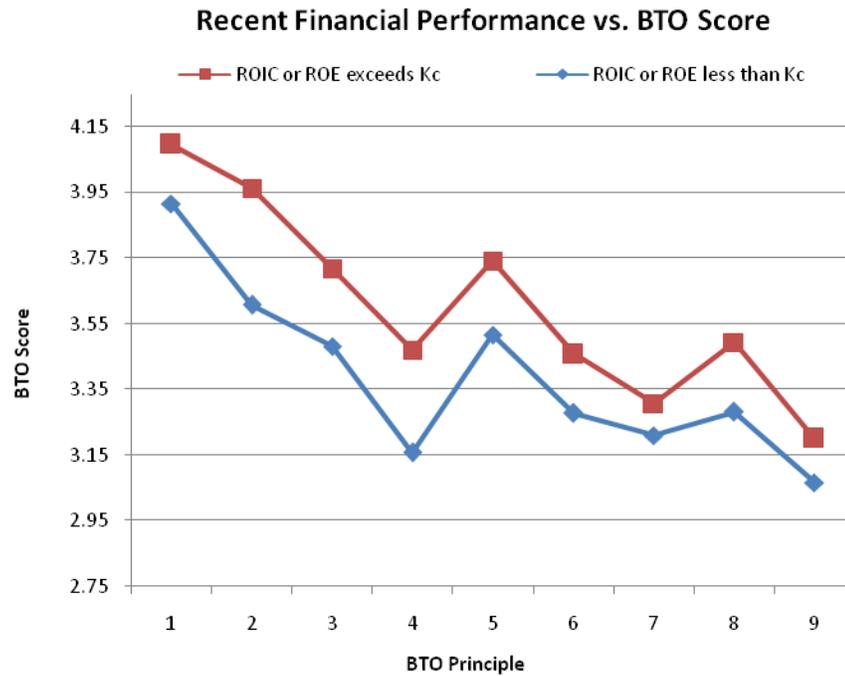


Figure 11

Figure 12 shows the relationship between BTO scores on all nine principles, and the recent financial performance of the respondent’s organization.

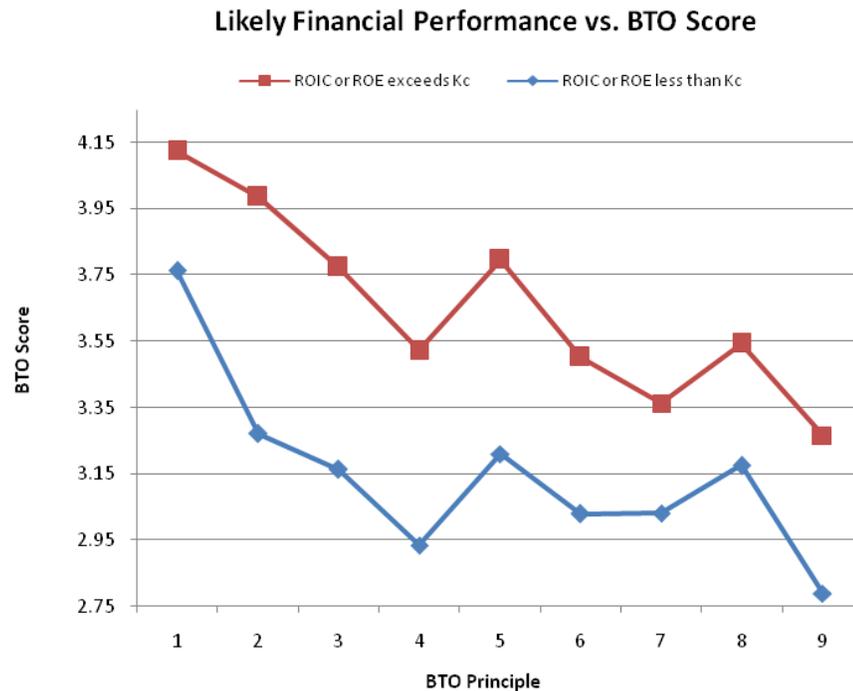
*Respondents were asked to characterize their organization's financial performance in terms of ROIC or ROE exceeding the corporate cost of capital ( $K_c$ ).*



**Figure 12**

Figure 13 shows the relationship between BTO scores on all nine principles, and the respondent's view regarding the **LIKELY** financial performance of their organization.

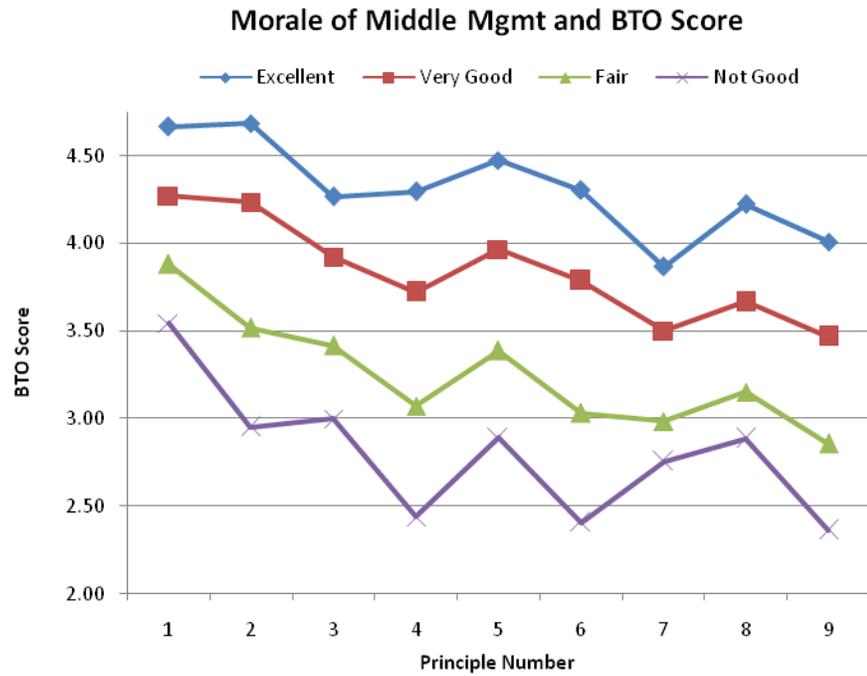
*Both recent financial performance, and expected financial performance, demonstrated the now-familiar pattern across all nine principles.*



**Figure 13**

Morale was another interesting topic to evaluate. As one example of a pattern that emerged, Figure 14 shows the relationship between BTO scores on all nine principles, and the respondent's view regarding the morale of middle management in their organization.

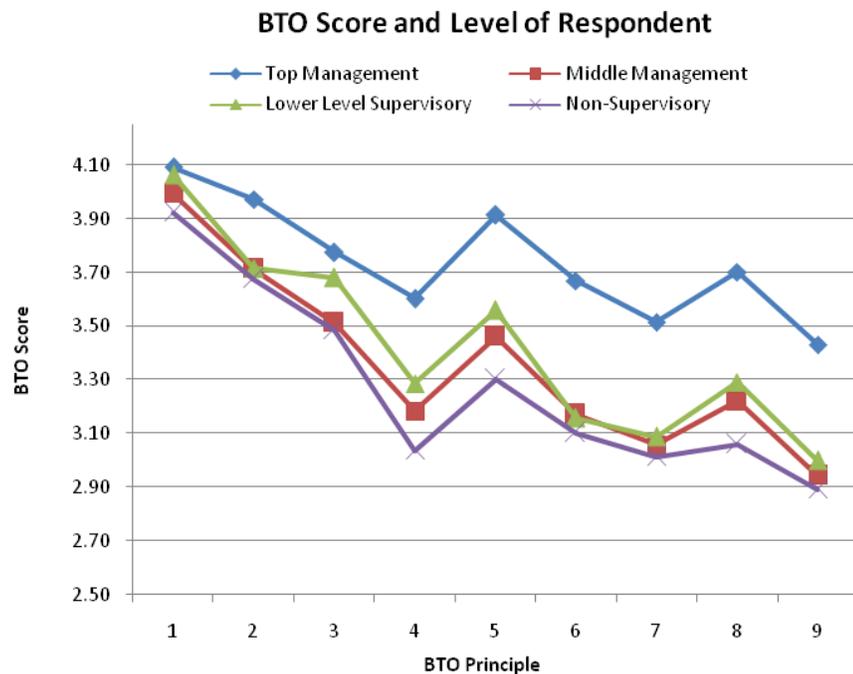
*BTO scores were also related to employee morale.*



**Figure 14**

As a final observation, there was a difference in the perspective of top management, compared to the perspectives of the other three levels in the study (Figure 15), across all principles.

*This chart highlights why it is important – when conducting a comprehensive health assessment for your organization – to go beyond the views of top management and solicit input from all levels of the organization.*



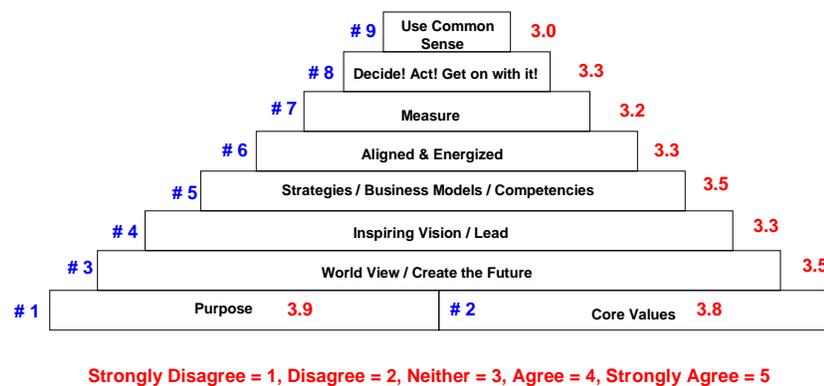
**Figure 15**

On an individual company basis, understanding the differences in perspectives, and the underlying reasons for those differences, can be valuable in constructing a plan of action and communication.

### C. Analysis by Principle

The average score for each principle – across all respondents - offers a fascinating view of where the respondents believe their organizations are strong, and where they are weak (see the red numbers in Figure 16).

#### Survey Averages for Each BTO Principle



*The foundation principles were generally the strongest, followed by the principles which relate to establishing a view and a strategy for the future. Weakest were the principles relating to translating those ideas and executing.*

**Figure 16**

The respondent pool viewed Purpose and Core Values (which are foundation Principles 1 and 2) to be the strongest of the nine principles. In the next category of relative strength – but by no means strong - are Principle 3 (Acquire a World View, and Create the Future), and Principle 5 (Strategies, Business Model, and Competencies). All other principles (Leadership and Vision, Aligning and Energizing, Measurements, Action) were quite weak, with the weakest being Principle 9 (Common Sense and Decision Making).

Respondents were asked to write in their response to the following open-ended statement:

*The single most important factor that worries me about ensuring our organization's long-term viability is...*

Over 90% of the respondents provided an answer to that statement. The responses were evaluated to determine whether they applied to any of the nine principles (and, if so, which ones), or if they related to other factors. Examples of “other factors” include cash flow, budgets and liquidity. More than 75% of the respondents identified their primary concern as one which could be mapped to one or more of the nine principles.

*Respondents identified their greatest concern as one which relates to one of the BTO principles.*

The predominant concerns (in order of priority based on the number of respondents):

- Creating the Future (Principle 3)
- Leadership effectiveness, Enterprise Vision and Clear and Consistent Communication from leadership (Principle 4)
- Competencies (retention and development) – a portion of Principle 5
- Aligning and Energizing the workforce (Principle 6).

In retrospect, this is not surprising, since Principles 1 and 2 were assessed as being fairly strong, as noted above. Thus, logic would suggest that the next priorities would be principles 3, 4, etc. in the BTO “pyramid” of principles.

## IMPLICATIONS FOR CORPORATE LEADERSHIP

In spite of the respondents’ general optimism about the near-term financial performance of their organizations, their responses indicate that they are generally concerned about some of the fundamental underpinnings of their organizations’ health.

*Moving from remedial corporate health care to pro-active health maintenance starts with a comprehensive health assessment for your organization, and then requires follow-through on the learnings.*

The study’s results are a “wake up call” to organization leaders regarding the importance of continual diagnosis and attention to core principles. In the current, dynamic business environment, it is easy to become consumed with daily emergencies and managing complexity. Senior leadership of organizations must set aside time to focus on periodic and comprehensive health checkups for their organizations, and also pay attention to core principles on an ongoing basis. It is not a matter of choosing between the short-term and the long-term. Managing complexity, and leading into the future, both deserve attention and resources.

Ensuring a long-term future for your organization requires being pro-active, candidly assessing the underlying health of the organization, and then acting on the diagnosis.

For more information about, or help in, conducting a comprehensive corporate health assessment for your organization, visit [www.BeatTheOddsBook.com](http://www.BeatTheOddsBook.com), or follow the recommendations in the book *Beat the Odds: Avoid Corporate Death & Build a Resilient Enterprise*.

## ABOUT THE SPONSORS

Iacocca Institute: Empowering the leaders of today and tomorrow, the Iacocca Institute focuses on developing programs and activities critical to global and local leadership. The Iacocca Institute was jointly formed in 1988 by Lee A. Iacocca and Lehigh University. We are dedicated to cultivating the potential of individuals and to increasing the global competitiveness of organizations. For more information, see: [www.iacocca-lehigh.org/](http://www.iacocca-lehigh.org/)

BetterManagement: BetterManagement provides articles, webcasts, and conferences addressing Performance Management, Financial Management, Business Intelligence, IT management, and other critical business management issues. For more information, see: [www.BetterManagement.com](http://www.BetterManagement.com)

Greybeard Advisors LLC: Greybeard Advisors is a strategic advisory firm that helps organizations substantially improve their near-term financial performance, as well as improve their long-term viability. Unlike most conventional consulting firms, Greybeard is comprised entirely of deep-experience leaders and managers from industry. The President and founder of Greybeard Advisors is a former corporate senior executive, a frequent public speaker, and the author of several books, including *Beat the Odds: Avoid Corporate Death & Build a Resilient Enterprise*. For more information, see: [www.GreybeardAdvisors.com](http://www.GreybeardAdvisors.com), and [www.BeatTheOddsBook.com](http://www.BeatTheOddsBook.com)

## APPENDIX – Short Descriptions of the Nine “Beat the Odds” Principles

Principle	Short Description
1. Establish a Purpose	The fundamental reason-to-be underlying the organization’s existence. The reason society would say the organization should continue to exist and prosper. Explains “what” you are seeking to accomplish, from the society/customer perspective. “Making money” is not a purpose.
2. Live and Defend Your Core Values	The moral and behavioral guideposts for the organization. Explains “how” you will conduct yourself, and what you value.
3. Acquire a World View / Create the Future	Comprehensively and continuously monitor and assess developments that could affect your industry or activity (current reality, and trends). Envision the future possibilities, and work toward making an attractive future happen. Avoid captive mindsets.
4. Articulate an Inspiring Vision / Lead at All Levels	Communicate - in a manner that employees understand and are excited about - “where” the organization is heading. Build excitement, alignment and energy around the direction. Provide necessary information so that employees at all levels can contribute to Principle # 5. Lead into the future.
5. Develop Strategies/Business Models/Competencies Consistent with the Foregoing, and Linked to Each Other	Following from the first four principles, develop strategies and business models to achieve the vision/future, and address changing customer priorities in a manner that is profitable for the organization. Provide the necessary competencies (in-house or in association with others) to support future activities.
6. Assure the Organization is Aligned and Energized	Provide simple structures, processes, rewards/consequences, to align the entire organization with the behaviors and direction desired. Energize the organization as well, to build excitement and commitment.
7. Measure What You Want to Achieve and Nothing Else	Focus everyone’s attention on a few key leading indicators (areas that are predictive of future performance). Monitor a few key lagging indicators as well (areas that reflect what just happened).
8. Decide! Act! Get On With It!	Display and encourage an action-oriented culture. Make things happen, consistent with the foregoing.
9. When in Doubt, Use Common Sense	In the final analysis, when in doubt use common sense. Refer back to the purpose you adopted, the values you live by, and the vision you articulated. Act as if everything you do will be subjected to the “Light of Day.”