Raising the bar

Why better leadership is the key to improving performance in Australia and New Zealand.
About Korn Ferry

Korn Ferry is the preeminent global people and organisational advisory firm. We help leaders, organisations and societies succeed by releasing the full power and potential of people. Our nearly 7,000 colleagues deliver services through our Executive Search, Hay Group and Futurestep divisions.

Korn Ferry Hay Group helps you align your organisation and people; developing, engaging, and rewarding them to achieve new goals. Visit kornferry.com for more information.
Introduction

Businesses in Australia and New Zealand are falling behind the rest of the world. They’re not as productive, efficient, or effective as they need to be to compete in the global economy. In Australia, for example, Deutsche Bank recently cited poor earnings as one of the reasons why the country now sits near the bottom of Asia-Pacific equity markets.1 Meanwhile one of the latest reports from the World Economic Forum shows that both countries fall short in a variety of areas, including innovation, competitiveness, and business sophistication.2 These are just some of the many proof points that illustrate that performance improvements are needed across Australia and New Zealand.

At Korn Ferry Hay Group, we believe that the key to achieving improvement is through better leadership. The logic underpinning that belief is simple: High-performing leaders create better organisational climates. That in turn results in more productive employees and greater company performance.

If we accept that one of the best ways to drive performance improvements is by fostering better organisational climates, then our focus should be on enabling our leaders to create them. We need to make sure that managers are able to use the right leadership styles at the right time to help them successfully manage the many different challenges their teams face each day.

However many Australian and New Zealand leaders don’t create healthy climates within their teams and are ill-equipped to deal with different situations and different types of employees.

We need a better way of making sure that our leaders are adept at using a variety of leadership styles to create the right organisational climates. That is why in addition to providing a snapshot of the state of leadership in Australia and New Zealand, this report concludes with the five practical steps that leaders and organisations need to take to start turning things around.

The bottom line is that there’s a tremendous opportunity to improve performance in Australia and New Zealand. The key to doing this is to sharpen our focus on developing our leaders and reinforcing the critical role leaders play in delivering high performance.

Wendy Montague
Director and Talent Practice Lead
Korn Ferry Hay Group

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The impact of organisational climate on performance

A company’s organisational climate is a reflection of how employees feel working for their managers. It is based on how these leaders use specific behaviours and leadership styles to motivate, develop, and communicate with the people they lead. Great leaders are capable of using a variety of styles and switch between them as needed given the situation. In doing so, they’re able to foster more positive organisational climates where individuals can do their best work and ultimately help deliver better results.

The proof is in the metrics

Employees who operate in positive organisational climates create better results, adding up to 30 per cent or more to the bottom line thanks to their extra discretionary effort. Belron is the world’s leading vehicle glass repair group whose businesses in Australia and New Zealand have been working with Korn Ferry Hay Group for more than ten years to develop their leadership capability to drive business performance. As Figure 1 illustrates, by increasing the percentage of leaders who create high performance and energising team climates, Belron has seen a dramatic impact on financial results.

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If we accept that one of the best ways to drive performance improvements is by fostering better organisational climates, then our focus should be on enabling leaders to create them. Given how a leader leads can dictate up to 70 per cent of organisational climate, making sure that managers are adept at using a variety of leadership styles is critical to helping them successfully manage the many different challenges their teams face each day.

Most leaders gravitate toward the style that they feel most comfortable using based on their own values and motivations and how they view themselves and the situation that they’re facing. In contrast, the best leaders select the style or styles that will most effectively energise and engage their team given the situation, what needs to be accomplished, and the individuals involved. These leaders are able to use a broad range of leadership styles, rather than simply relying on the ones they’re most comfortable with.

This is where many of Australia and New Zealand’s leaders tend to fall down. They simply don’t use the variety of leadership styles necessary to lead successfully and drive performance. Plus, as we’ll see, sometimes the ones they use most don’t foster positive team climates over the long-term.

About the research

In the pages that follow, we provide a snapshot of the state of leadership in Australia and New Zealand. Our focus is on leadership styles and the resulting implications for organisational climates. This report is based on our work with more than 20,000 professionals, including over 5,000 leaders, across Australia and New Zealand. Our findings have led us to five recommendations to help companies strengthen their leaders and ultimately close the performance gap.

Before we turn to that snapshot and our recommendations, however, let’s first take a closer look at the relationship between leadership styles and organisational climate.

“Korn Ferry Hay Group suggests that leveraging leadership development can lead to 30 per cent more discretionary effort. Even if they are wrong by half, 15 per cent is too large a figure to ignore in this competitive environment.”

Gary Lubner, CEO, Belron

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6 Self-report and assessment of more than 20,000 employees in Australia and 2,000 employees in New Zealand.
About styles and climate

For decades, Korn Ferry Hay Group has studied the relationship between leaders and their engagement with their employees, to understand the impact that leadership styles have on organisational climate from both an individual and organisational perspective. Those leadership styles fall into six main categories.

The six leadership styles

1. Directive – A command and control style that is critical to use in emergencies and when performance is lagging. However, used over the long-term, this style can lead to inflexible and disengaged employees.

2. Visionary – Leaders using this style, focus on the greater vision for the work, connecting that vision to the everyday efforts of their team and providing feedback to ensure that the team stays on track. This style is effective with most types of employees and in most situations, with the exception of emergencies.

3. Affiliative – With this style leaders demonstrate more concern for their relationship with team members than the work that needs to be done and its outcomes. This style is effective when building a new team or when an employee has a personal emergency. Leaders who depend on this style tend to avoid feedback and performance-related discussions for fear of causing problems within the team.

4. Participative – With this style leaders invite others to generate new ideas and build consensus for a new idea or way of working. It’s effective with experienced team members who know their work.

5. Pacesetting – Leaders employing this style have high standards for their work and personally demonstrate this level of excellence. In fact, they may even take over others’ work if it’s not up to their standards. Using this style can raise the standard of work in the short-term, but can also make employees feel inferior over the long-term.

6. Coaching – When using this style, leaders are concerned with helping employees to develop their strengths and address their areas for improvement. It’s effective with employees who want to develop, but ineffective for those who are resistant to change.

Effective leaders are able to use the leadership style best suited to the given situation to create an environment where engagement and performance are high. These leaders set the purpose or vision for their work and the standards at which that work is to be performed. They also provide feedback and coaching on how well the team is performing the tasks associated with that work.
Six dimensions that characterise climate

The relationship between leaders and their employees is critical to the amount of commitment and effort those employees bring to their work. Our research has found six dimensions of organisational climate that are directly related to the performance outcomes of teams:

1. **Flexibility**
   - There are no unnecessary rules, procedures, policies or practices; new ideas are accepted easily.

2. **Responsibility**
   - Employees are given authority to accomplish tasks without constantly checking for approval.

3. **Standards**
   - Challenging but attainable goals are set for the organisation and its employees.

4. **Rewards**
   - Employees are getting the quality and specificity of feedback that enable them to grow and succeed.

5. **Clarity**
   - Everyone knows what is expected of them and how it relates to the larger goals and objectives of the organisation.

6. **Team commitment**
   - Employees are proud to belong to the organisation and trust that everyone is working toward a common objective.

To measure climate, we ask employees to react to statements related to each of these six dimensions. For example, we might ask them to rate how strongly they agree with a statement like “People in my team are working toward a common objective” given their current work environment. We would then ask them to rate how strongly they would agree with the statement if they were working in ideal conditions. The gap between the reality and the ideal state show the level of satisfaction or frustration within the team.

When the gap on any climate dimension exceeds 20 per cent, there is evidence of a loss of discretionary (motivated) effort on the part of the team. Significant gaps are often an indication that a leader is creating a de-motivating climate for his or her team.
Leadership styles and climate in Australia and New Zealand

According to our research, more than half of leaders in Australia and New Zealand are creating de-motivating climates for their teams. As a result, they’re missing out on opportunities to connect with and engage their employees and ultimately inspire them to contribute greater levels of their discretionary effort. In fact, according to our research, in both countries less than 20 per cent of leaders are successful at creating motivating, high-performance climates where people can be expected to work beyond their job requirements.

This is in large part due to the leadership styles they use and their impact on organisational climate. Let’s look at each of those pieces of the puzzle individually.

In Figure 2, we see the impact that each of the six leadership styles has on organisational climate in Australia and New Zealand. Based on our analysis, we have found that the most effective leadership style for creating a positive, engaging organisational climate is the visionary style, followed by the affiliative, participative, and coaching styles.

Figure 2
The impact of leadership styles on organisational climate.
For organisations in Australia and New Zealand:

Coaching: 50%
Pacesetting: -34%
Participative: 55%
Affiliative: 56%
Visionary: 66%
Directive: -32%
The reason why the visionary style is the most effective in creating a positive climate is its strong relationship to delivering business performance by making the critical link between business vision and strategy and the day-to-day work of the leader’s team. Use of this style has a significant impact on all six dimensions of organisational climate.

By contrast, the directive and pacesetting styles have a negative impact on organisational climate in both countries. It’s important to point out, however, that despite their negative impact on organisational climate over the long-term, used at the right times and in the right contexts, they can be extremely useful and effective.

**Breadth of leadership styles in Australia and New Zealand**

As Figure 3 shows, more than 60 per cent of leaders in Australia and New Zealand use an average of just one or two leadership styles. This reflects poorly on these leaders’ leadership capabilities and may be a major cause for the high number of de-motivating environments reported in both countries.

![Figure 3: The breadth of leadership styles.](image)

For leaders in organisations in Australia and New Zealand:

- **Narrow**, leaders rely on one style or show no strong leadership style (40%)
- **Limited**, leaders use at least two styles regularly (21%)
- **Wide**, leaders use at least three styles regularly (16%)
- **Extensive**, leaders use at least four styles regularly (23%)
Leadership development and hierarchy

You might think that one explanation for the limited number of leadership styles used by leaders is that the data are skewed by new managers, who would naturally have a narrower range of leadership styles given that they have less experience to draw upon. Unfortunately, as shown in Figure 4, our research doesn’t support this. In fact, in Australia and New Zealand, senior leaders tend to use fewer leadership styles than their first line and mid level counterparts.

Ideally, managers will exhibit more diverse leadership styles as their job grade or position rises up the ranks of the organisational hierarchy. However in Australia and New Zealand, the more senior leaders are, the more they tend to rely on the pacesetting leadership style and the less they rely on others. This suggests that in many cases managers have been moved up to the next level based on their technical expertise rather than leadership capabilities.

The data also suggest that senior leaders in Australia and New Zealand are under immense pressure to deliver at a high standard and may not have (or think they have) the time to set the vision for and coach their employees. Current leadership development strategies may not be addressing the fact that leadership is an evolving set of behaviours that must continually be honed for leaders to bring the best out of their people.
The significant use of the pacesetting style at higher levels in organisations may be one of the most critical factors affecting the motivation in teams. As shown in Figure 2, it has the most negative impact on organisational climate of any leadership style. Leaders who use this style too often can have a devastating impact on their employees. That’s because when leaders use this style their sole focus is on delivering the best possible work in the short-term. They set the bar so high that they may even take over the work themselves to ensure their desired outcome. In the process, they often leave their people feeling inadequate in their ability to meet their manager’s expectations.

Meanwhile at the entry level, leaders most often depend on the affiliative style. This style focuses on creating harmony, establishing warm relationships within teams, and recognising the whole person. It’s about the relationship rather than performing the task at hand. This style is effective when building new teams, dealing with conflict, and working in difficult environments. However, leaders who depend solely on the affiliative style tend to avoid providing the performance feedback their employees require to realise their potential and deliver their best work.

Leadership and gender - female leaders get better results

Across Australia and New Zealand, women are making a greater impact as leaders. That’s in large part because more of them use the visionary, affiliative, participative, and coaching leadership styles than their male counterparts do. They also use a wider range of leadership styles than men, with an average of 2.4 leadership styles compared to 2.0 styles, respectively.

Of note is the fact that women in Australia and New Zealand use the directive style more often than their male counterparts. Interestingly enough, however, when they use this style it doesn’t have as negative an effect on climate (-17 per cent) as when their male counterparts do (-21 per cent).
Better performance through better leadership in five steps

So what does all of this mean for your organisation and its leaders? We’ve synthesised our findings into five important recommendations - for individual leaders and organisations.

Recommendations for leaders

1 Stop being so affiliative

Across Australia and New Zealand, the affiliative leadership style predominates more so than anywhere else in the world. While that may seem like a good thing at first since it fosters positive organisational climates, in reality that’s not necessarily the case. Many leaders adopt this style from their own managers, but subsequently never learn other leadership styles as they progress through their career. Female leaders in particular are at risk of over using the affiliative style to be liked by their team.

As a result, these leaders often lack the ability to modify their style, particularly when dealing with under-performance within their teams. Plus, they may not set the clear goals and vision that are necessary to motivate their people. These omissions ultimately have a negative effect on organisational climate and, as a result, on overall performance.

2 Trust people to deliver

Pacesetting is widely used throughout Australia and New Zealand, particularly among senior leaders. While using this style helps drive higher quality and better overall standards in the short-term, when used over the long-term it has the most negative impact on organisational climate and thus performance. That’s because it can be demotivating. It makes employees question their own capabilities and feel as though they are incapable of meeting their managers’ high standards.
Be more visionary

Being a visionary leader is easier said than done. Many leaders don’t fully understand their organisation’s vision themselves, in terms of where the business is going and how they fit into it. Yet helping your people see the connection between their daily work and the greater vision for the business and the organisation is absolutely critical. It helps ground employees while also making the biggest positive impact on organisational climate of any leadership style.

Adopting the visionary style doesn’t mean that you have to be the next Nelson Mandela or Richard Branson. However it does mean investing time into genuinely appreciating where the organisation is headed overall, and how your team will play a role in this. Don’t assume that others will simply absorb this information through osmosis. You’ve got to make the effort to tell them the story on a regular basis.

Embrace more ‘female-like’ leadership

Female leaders in Australia and New Zealand tend to create better climates for their employees. That’s because they have more leadership styles in their repertoire, using an average of 2.4 styles versus the 2.0 that their male counterparts use. Plus the styles that female leaders use most — visionary, affiliative, participative, and coaching — tend to have the most positive overall effect on organisational climate.

For these reasons, we need more leaders — both male and female — who can do the same and create better organisational climates for their teams and, in doing so, improve the overall performance of their people.
Recommendations for organisations

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Re-think the leadership development journey

The current way of developing leaders results in them using on average just two leadership styles. To tackle this issue, companies need to rethink their approach to leadership development, incorporating the best practices that top leadership development focused organisations employ. These include:

Creating programs that are leader led and considered a priority.
Your senior leaders need to be involved in your organisation’s broader leadership development efforts. That includes helping to develop the relevant content, teaching the program, and communicating successes to others. In addition, they should integrate leadership development with talent management and use it as a mechanism to accelerate talent development.

Start early with a common standard for all levels.
The best organisations provide leadership development early in their managers’ career so that they can benefit, learn, and grow. They also use a common set of tailored leadership standards or competencies in all people practices that defines what leadership looks like in the context of the organisation’s desired culture and strategy. This framework provides the backbone for assessing and measuring leadership in the organisation at all levels.

It’s hardwired into goals with a focus on key roles.
Organisations need to bake leadership into their goals to hold leaders accountable for establishing and maintaining a high-performance climate for their employees. In addition, they should identify key job roles and tailor programs to ensure the skills needed for these roles are being cultivated.

The way forward

There is a tremendous opportunity to improve performance in Australia and New Zealand. The key to doing so is fostering positive organisational climate through more effective leadership. In this report, we’ve offered five high-level recommendations to help you get started. Of course, it takes more than a few best practices to develop great leaders.

Fortunately, Korn Ferry Hay Group is uniquely positioned to help you with this by providing a full range of services from co-creating your leadership development strategy to benchmarking your leadership effectiveness and supporting the development of leadership at all levels.
How Korn Ferry Hay Group can help

**Leadership Effectiveness Audit**

Our ‘Leadership Styles and Climate’ set of online tools helps you gain an accurate picture of how leaders in your organisation demonstrate their leadership - how they impact the way their employees feel about working for these leaders and their ability to do their best work. This powerful combination of feedback, benchmarked against one of the world’s most extensive leadership databases, gives you insights that allow you to narrow your focus for development. It enables leaders to refine their behaviour, impact the performance of their teams and ultimately improve their bottom-line results.

**Focus on the Frontline Program**

First line leadership is the critical linchpin for organisations to deliver their day to day mission. Generally, this is the first leadership role for many. ‘Leadership impact for frontline managers’ is a powerful combination of blended learning that empowers your frontline in order to support focus on development. It enables frontline managers to adjust their behaviour, improve the performance of their teams and deliver better bottom-line results.

**Top Team Leadership Effectiveness Program**

Understanding the impact the CEO and executive team have on their direct reports, provides a platform for setting the direction and tone for leadership throughout the organisation as well as the foundation for building a highly effective executive team. This program provides a combination of feedback and workshops built on research into what makes a high performance team. Building the executive team’s capability to set the scene for engagement, motivation and performance and increase individual and team capability to deliver business results.

**Leadership Development Check-up**

Compare your current leadership development practices and strategies to the worlds’ best companies for leadership. Learn how your leadership development strategy compares and the extent to which you are maximising results from your efforts. Receive practical recommendations on how to get a better ROI of your leadership development investments.

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