

Uncovering the secret of higher performance

How central European
managers lead
their teams and what
results they get



Leaders in the Czech Republic, Hungary, and Slovakia are sitting on vast reserves of untapped performance. At a time when organizations are looking for the next growth opportunity, their leaders are not getting the most out of their people.

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“What is the return on your leadership investment?”

About the research

- Hay Group's research was conducted between 2005 and 2010
- The sample covers 12 business sectors in three countries: the Czech Republic, Hungary and Slovakia
- The sample across 101 organizations consists of managers from all managerial levels and their direct reports
- The respondent group includes 1,084 managers and their 7,045 direct reports
- Managers and direct reports completed two diagnostic tools: the inventory of leadership styles and the organizational climate survey

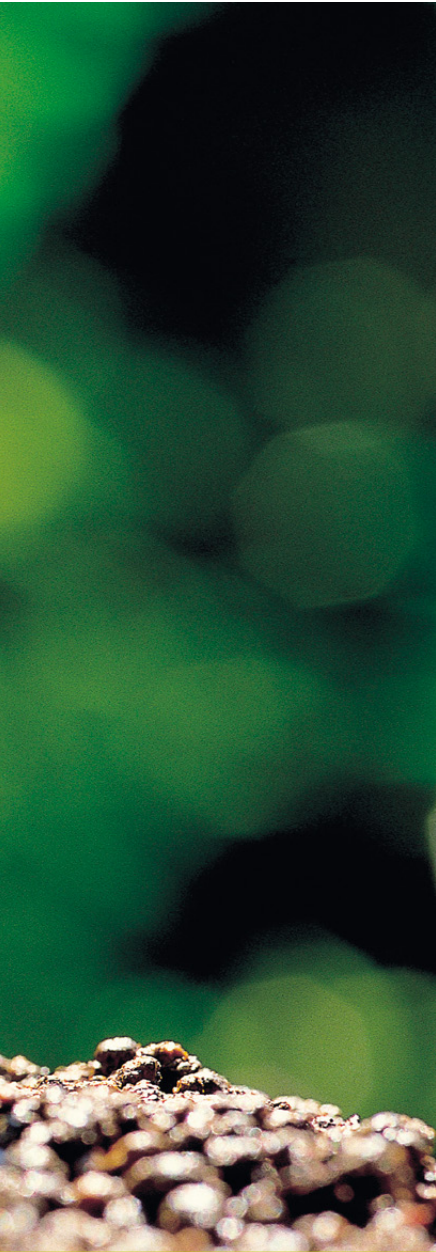
Return on leadership investment

Managers in the Czech Republic, Hungary and Slovakia (hereafter CHS) are treated well by their organizations. According to Hay Group compensation surveys, managers in CHS attend 6,5 training days annually and on average earned 66,000 Euros in total cash in 2010. If organizations

invest this much, what is their return on investment? How can a company measure the quality of its managers in a systematic way over time? Hay Group's research into this Central European region reveal that there is great potential for business growth that is hidden in the quality of its leaders.







Executive summary

- Hay Group studied 1,084 managers and their 7,045 direct reports in three countries: Czech Republic, Hungary, and Slovakia
- Leadership styles displayed by managers largely determine the climate experienced by the teams they lead
- Organizational climate is how it feels to work in a particular team
- Organizational climate has up to 30 % impact on bottom-line performance of a team
- 65 % of CHS managers do not engage their teams
- Over 82 % of teams with leaders who have 2 leadership styles or less are experiencing a demotivating climate
- 67 % of managers use less than three dominant leadership styles
- Only 20 % of managers create highperforming climates in their teams and release discretionary effort
- The good news is that leadership is not an art, it is an ability that can be learned and applied
- Leadership development can, and should, drive business performance

Climate matters

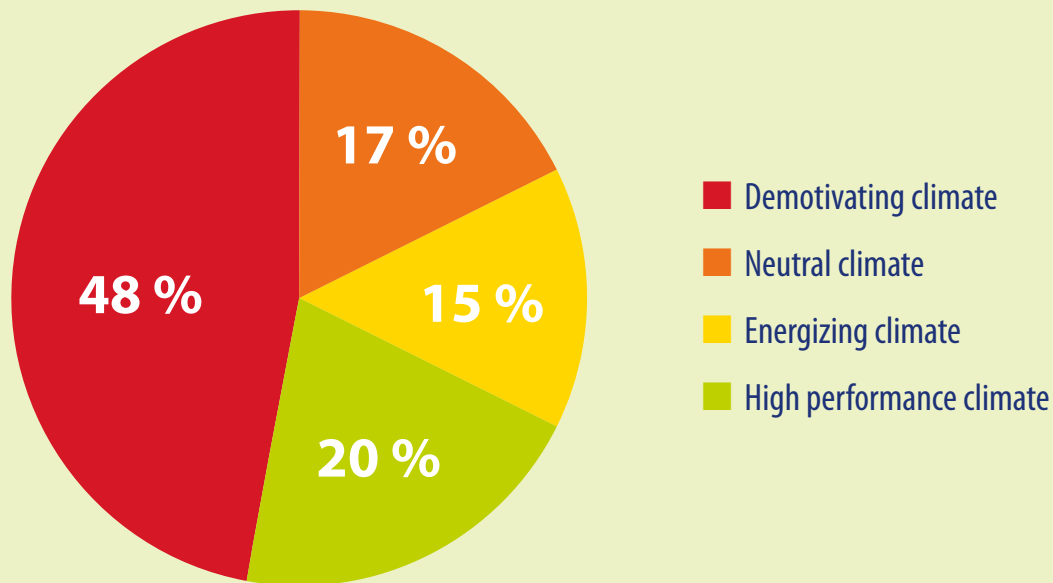
As the saying goes, “people don’t leave companies, they leave their boss.” Our data shows that during the economic crisis of 2008–2010 the average voluntary employee turnover was 12 per cent in CHS. Looking at CHS managers’ results from our research on the climate they create in their teams, there is a clear risk of losing talents since 48 per cent of managers in CHS create demotivating climates and hence weaken their teams’ performance. At the same time, only 20 per cent create high performing climates in their teams. Put

bluntly, our data shows that the majority of managers may actually destroy potential through their behavior as leaders. Our research is based on a gap analysis of employees’ ideal working climate and the climate they are actually experiencing day-to-day from their leaders. Decades of Hay Group research shows that the right climate can increase bottom line performance by up to 30 per cent as well as reduce absenteeism rates and staff turnover. So improving an organization’s climate can have a huge impact on business results.

“ **48 % of managers**
in CHS create demotivating
climates in their teams ”

Climate created by CHS managers

Number of respondents 3,725



The power of climate

- In one study with a international IT firm we analyzed the performance of 33 new global account managers responsible for the top 100 accounts. We focused on profit margins over a single year. We found that those global account managers who created high performance climates outperformed their peers who created demotivating climates by 37 per cent in profit.
- In a similar study of leaders within a shared service center we found that managers creating high performance climates led their teams to surpass their peers in sales by 22 per cent. They also had substantially lower absence rates and 33 per cent lower staff turnover resulting in significant savings.

Leadership styles

What makes the difference between a leader who creates a demotivating climate and a leader who creates a high performance one? Our research shows that the difference is mainly in leadership styles. Backed up by 40 years of research we have identified the six leadership styles that have the biggest impact on team climate: Visionary, Affiliative, Participative, Coaching, Directive and Pacesetting. There is no right or wrong leadership style; the most effective style depends

on - and varies according to - the task, people, and situation to be managed. What is critical to a leader's effectiveness is his or her ability to diagnose the demands of the situation at hand, and to make use of the full array of styles, rather than to rely on only one or two styles to deal with all situations. A typical leader has a toolkit which consists of 'dominant' styles – those that come naturally – and 'back-up' styles – those they need to make a conscious decision to use.

HayGroup's 6 leadership styles

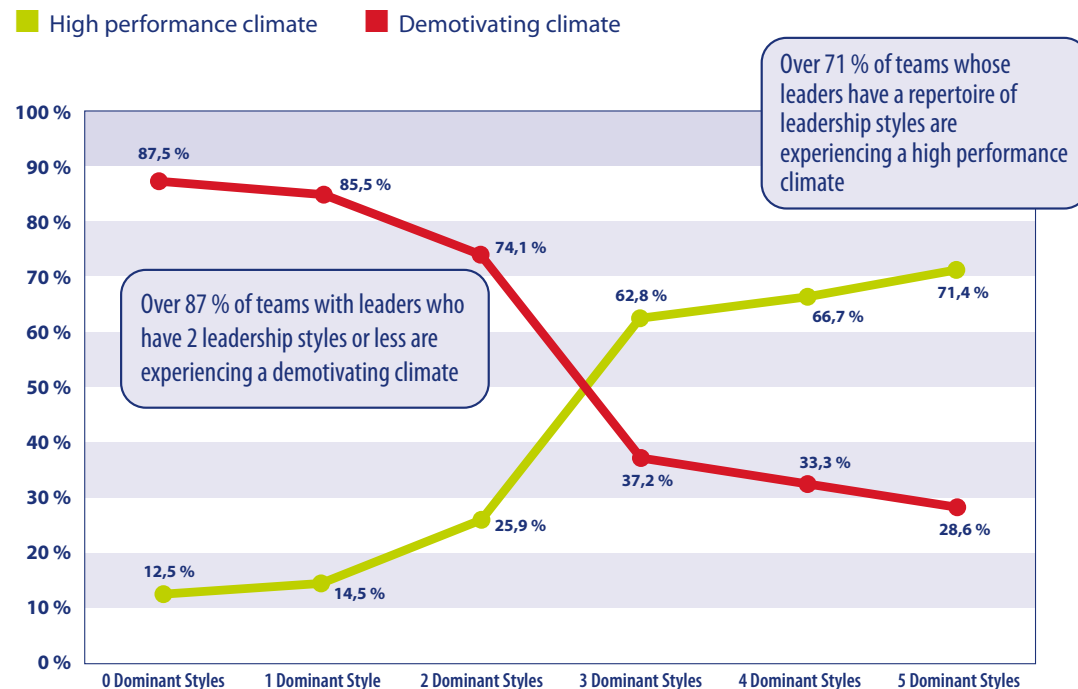
■ Directive	"Just do it the way I tell you to."
■ Visionary	"Let me tell you where we're going as a team."
■ Affiliative	"People first, task second."
■ Participative	"Let's decide together."
■ Pacesetting	"If you can't do it right, I'll do it myself."
■ Coaching	"What did you learn? What would you do differently? What can we improve upon?"

Leadership in CHS

Our research reveals that 67 per cent of CHS leaders use less than three dominant styles. Furthermore, our findings show that amongst leaders who use only one leadership style, 81 per cent of the time the one style they use is either the directive or the pacesetter style. On the other hand, only one third of CHS leaders are using a broad range of leadership styles (three or more styles).

Our research also shows that the more of these leadership styles a leader has under their belt, the better climate they create within their team. The vast majority of CHS leaders creating demotivating climates are using a maximum of two leadership styles. By contrast, the majority of leaders creating high-performance climates are consistently using three or more leadership styles.

CHS leaders, climate created by number of dominant styles



Looking closer at the data, there is a clear link between what styles CHS leaders use and what climates they create. The leaders making the most positive

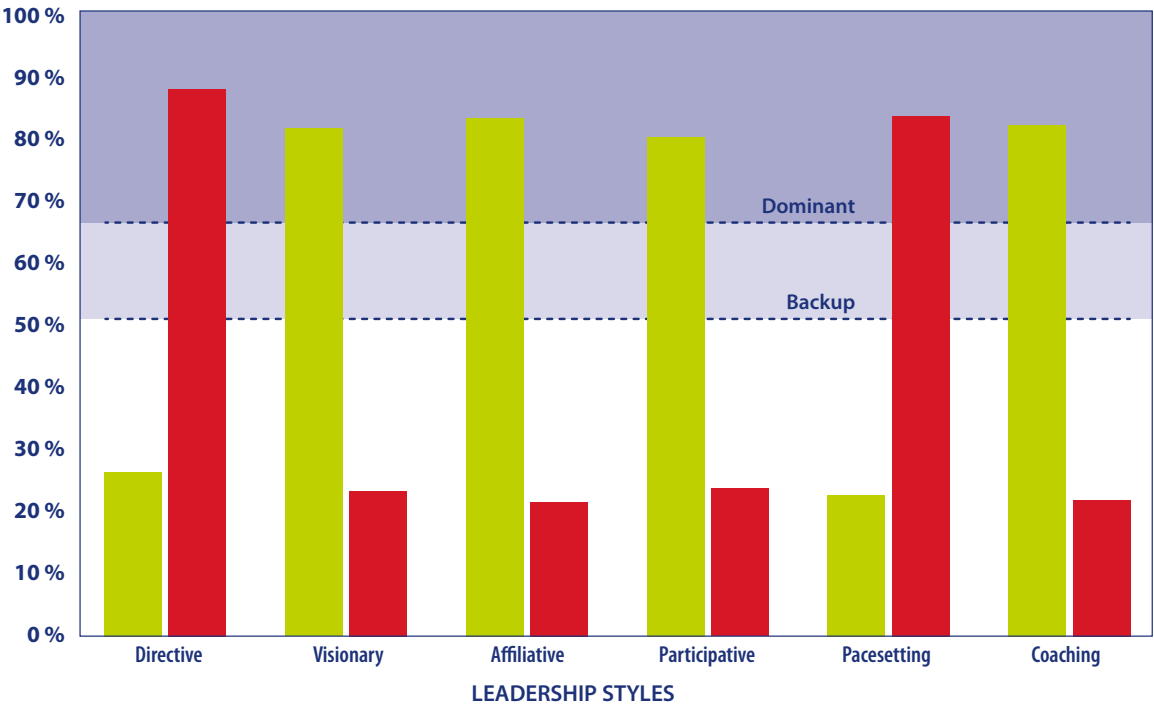
impact on the performance of their teams drew on a much broader range of styles, principally visionary, affiliative, participative and coaching.

What do leaders actually do?

The typical leadership styles profile

■ High performance climate

■ Demotivating climate



These styles demonstrate a longer term approach taken by these leaders. They engage their teams' discretionary effort by explaining the 'why' behind the 'what', showing an interest in their team as people, and understanding what motivates them. In addition, they involve their team in the decision-making that supports the team's objectives, and build capability to enable effective delegation and trust. In contrast, leaders who have a negative impact on performance

rely too heavily on one style or approach. Their style of leadership tends to be either directive, pacesetter or both. These styles show a focus on the task in the short-term at the expense of the bigger picture. As a consequence, the direct reports of these leaders perceive unnecessary constraints to innovation, are unclear both on the overall company's direction and on their expected contribution, and receive little if any meaningful performance-based feedback.

“ The leaders making the most positive impact on performance use visionary, affiliative, participative and coaching leadership styles ”

Jan's story

As the general manager of one of the most important business units in a production company, Jan (not his real name) was shocked when he received his first set of leadership styles and climate data. It showed he was relying heavily on two leadership styles: directive and pacesetting. The result, unsurprisingly, was that he was creating a demotivating climate for his team.

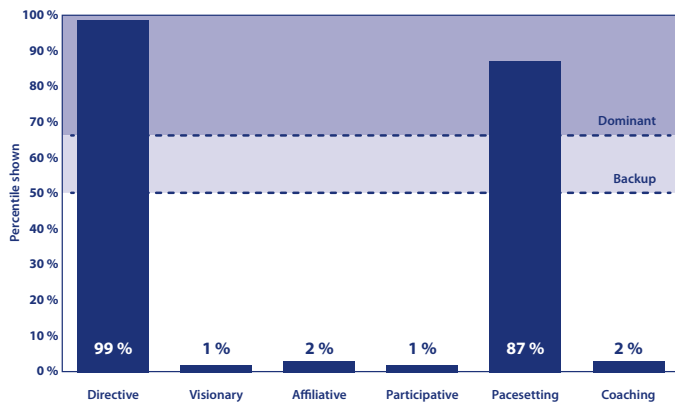
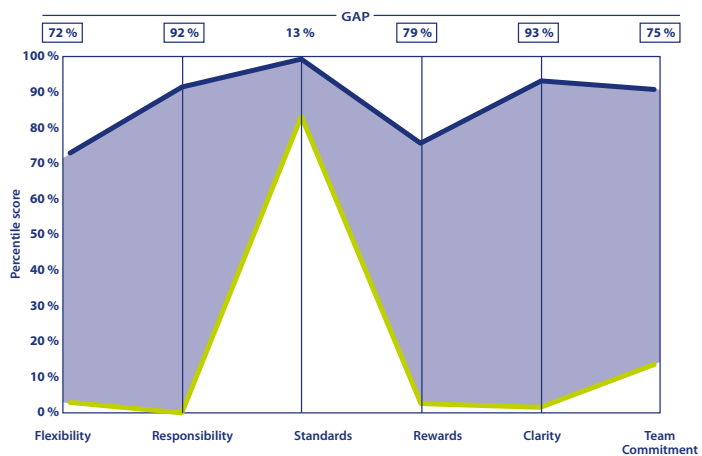
So Jan set a two-year plan, working with his line manager (the CEO) and a professional coach, to change his behavior in a way that would drive a positive climate. Two years after his initial feedback, Jan retook his

leadership style and climate survey again with rather different results (see graph). This time it showed a significant swing in his leadership style to the three dominant styles that link to high performance – visionary, participative and coaching – with the directive and pacesetting styles diminishing to a background level. Moreover, the climate created by these styles was high performing, with no significant gaps between what the team needed in order to perform and what they received from Jan. What is even more important, the operating profit of Jan's unit increased from 3,1 to 4,8 million Euros.

“ **Improving climate**
increased the operating profit
of Jan's unit by 55 % ”

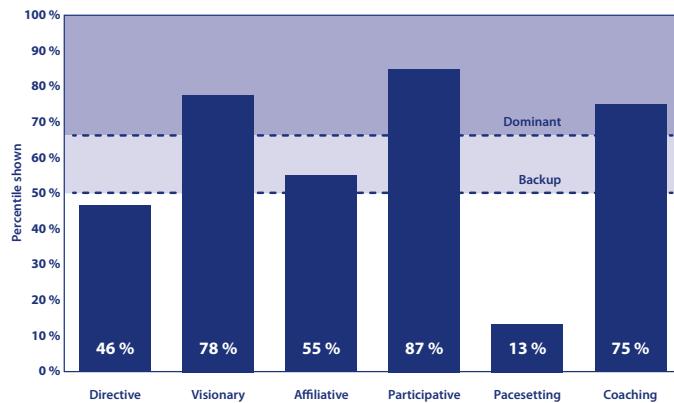
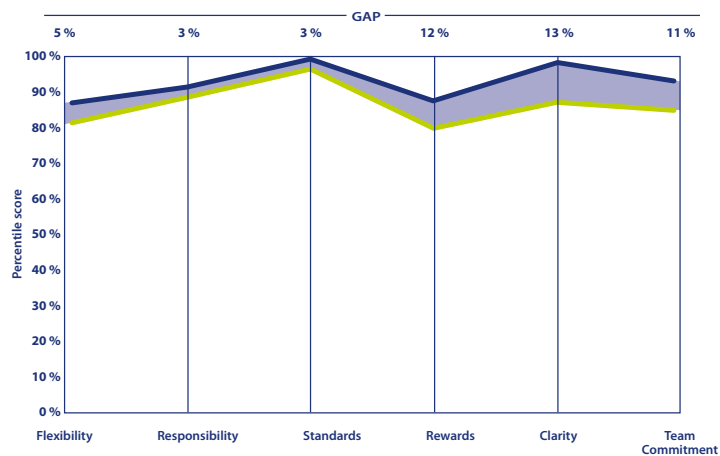
2005

■ Ideal ■ Actual



2007

■ Ideal ■ Actual



Jan's business results

2005

2007

■ Sales € m

36,4

55,4

■ Profit € m

3,1

4,8

“ **More than half
of CHS leaders are
not engaging those they lead.** ”

Making better leaders

Managers create high-performing teams by increasing their range of effective leadership behaviors. Great leaders use their leadership styles flexibly and appropriately by doing and saying the right thing, in the right measure, with the right people and at the right time.

The decision to invest in defining and developing leadership behavior is founded on the link between what managers do, the team

climate they create and their impact on business performance. Our research in CHS paints a disturbing picture. More than half of CHS leaders are disengaging those they lead and failing to get the most from their teams. The good news is that it is possible for organizations to make great leaders. Leadership is not an art, it is an ability that can be learned and applied, as the preceding real story from one of our clients shows.

Conclusions

The key to making better leaders is to invest in leadership programs that can deliver highperformance climates, and then measure results, using feedback data, to help leaders understand the impact of their behavior. In the most successful companies people measure their leadership impact, take responsibility for it, act upon their feedback and take full advantage of

the challenge and support they are offered to broaden their leadership repertoire. As a result, leadership development drives business performance. What is crucial, however, is that investing in people is the opposite of, say, major change management projects - upfront costs are lower but the business impact in the long-run is comparable.



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