# Do our chief executives have their finger on the pulse?

By Ken Parry and Sarah Proctor-Thomson

## How important is an accurate understanding of organisational culture, leadership, human resource capability and the external environment in effective organisational planning and strategising? Most would answer, "Critical."

New Zealand business leaders, however, seem to see things through rose-tinted glasses when it comes to understanding the leadership and cultural dynamics of their organisations.

Our nationwide survey suggests that chief executives' assessments about these issues are significantly more positive than those of lower-level managers. These optimistic tendencies appear to range across perceptions of organisational culture, organisational effectiveness, environmental turbulence, levels of role conflict, morale and productivity, and the leadership capabilities within organisations.

The chief executive role includes a wide range of symbolic and practical functions – as figurehead, leader, resource allocator, negotiator, planner and as one who develops and implements strategy.

Central to many of these functions is the insightful use of accurate and relevant information about the internal and external situation of the organisation. It has long been acknowledged, however, that the vision or information that a chief executive uses in decision-making is limited by practical concerns such as time and availability of information.

Usually the information used by senior managers to make their decisions is filtered. There are many examples of industrial disputes or company failures where that process of information gathering and filtering may not have been entirely fruitful. The issue then becomes: what information is required and what information might be missed during the filtering process?

The leadership research reported here uncovered incongruence between the perceptions of CEOs and others in New Zealand organisations. Such incongruence could have far-reaching ramifications.

# CEOs see organisational culture as being high in transformational leadership and low in transactional leadership

## THE RESEARCH

We conducted a large-scale survey of leadership capabilities in New Zealand organisations. Our sample was drawn from membership lists of both the New Zealand Institute of Management and the New Zealand Institute of Public Administration.

Usable surveys were returned by more than 1300 managers. This is a substantial data set to work with. We had a low response rate (20 per cent), but analysis suggested that non-respondents were probably little different from respondents in their attitudes, perceptions and beliefs.

In contrast to much of the previous research in this area, respondents were asked to rate their most immediate subordinate involved in a management or potential management role. If they had no subordinate, they were asked to rate the peer with whom they work most closely.

We did this because we wanted to focus on the capabilities and potential of rising leaders, or the leaders of the future in New Zealand public- and private-sector business.

The survey also measured indicators of organisational culture, perceived organisational effectiveness and perceptions of the future environment as factors that impact upon leadership and leadership capability.

The respondent managers worked in the full range of industries across New Zealand, in both the public and private sectors. Most respondents were "middle management", "senior management" or "CEO" level, although "supervisory management" and "process/clerical" people were adequately represented.

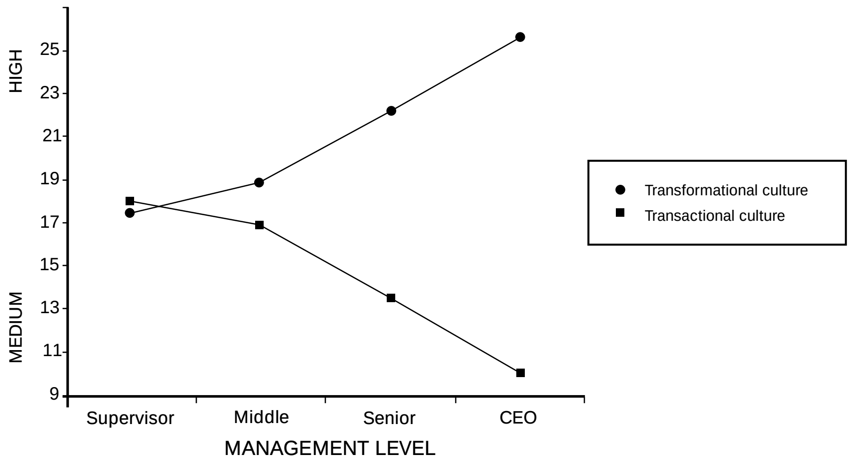
## WHAT ARE THE DIFFERENCES?

CEOs see their organisations more favourably than their lower-level managers in five ways.

First, CEOs see organisational culture as being high in transformational leadership and low in transactional leadership. Their supervisors and middle-level managers see

FIGURE 1

Differences in culture ratings across organisational levels (scale 0-28)




Note: CEO perceptions are significantly different from those of managers at all other organisational levels, p<0.01.

TABLE 1

Management level and perceptions of organisational culture

| Transformational culture (scale 0-28) | | | Transactional culture (scale 0-28) | | |
|---|---|---|---|---|---|
| CEO | 25.4 | | CEO | 10.1 | |
| Senior | 22.2 | 13% *less* | Senior | 13.6 | 35% *more* |
| Middle | 18.9 | 25% *less* | Middle | 16.9 | 67% *more* |
| Supervisor | 17.4 | 31% *less* | Supervisor | 18.1 | 79% *more* |
| Process | 17.1 | 33% *less* | Process | 15.1 | 50% *more* |

it as being medium in both dimensions.

Transformational and transactional organisational culture are measured by the Organisation Description Questionnaire developed by Bass and Avolio. Transformational culture includes effective cultural attributes such as encouragement and support for innovation, space for open discussion of issues and support for people to go beyond their self-interests and strive toward organisational goals.

On the other hand, within a transactional culture all conduct is either explicitly or implicitly framed as part of a contractual relationship. In such a culture, all actions hold a certain value or set price. Individualism is very strong and, therefore, self-interest rather than organisational interest is promoted.

Other characteristics are internal competition for resources and the fact that discretionary behaviour is limited by rules and procedures. Further, because employees in this type of culture do not identify well with the mission or vision of their organisation, commitment is often short-term, existing to the extent of rewards provided by the organisation.

The most effective organisational cultures are those that have a moderate level of constructive transactional culture, augmented by high levels of transformational culture. Such cultures are sometimes called "leadership" cultures. Ehrenberg and Stupak believe that without the identification and understanding of organisational culture, it becomes very difficult to predict the impact of organisational change.

**Figure 1** shows that chief executives, more so than other managers, consider their organisations to have the ideal leadership culture. In contrast with their managers, these top-level leaders believe more transformational and less transactional leadership is present in their organisational cultures. Senior managers are less enthusiastic, middle managers less enthusiastic again, and supervisory level managers are quite scornful of the leadership cultures of their organisations.

In **Table 1**, we measure transformational leadership culture on a scale of 0-28. CEOs rate their organisations at 25, while middle and supervisory management rate them at less than 19. The disparity with regard to transactional culture is even bigger. Middle and supervisory management believe their organisations to be considerably more transactional than their chief executives believe.

The second way in which CEOs see their organisations more favourably than their managers is in the area of perceived organisational effectiveness. Process and clerical workers think the organisation is considerably less effective than CEOs. Supervisors and middle managers think likewise.

TABLE 2

Decreasing perceived organisational effectiveness as rater level decreases

| Management level | Perceptions of effectiveness |
|---|---|
| CEO | 2.14 (scale 0-3) |
| Senior | 8% less than CEO |
| Middle | 18% less than CEO |
| Supervisor | 29% less than CEO |
| Process | 42% less than CEO |

All differences are significant, p<.05

On a scale of 0 (not at all) to 3 (exactly), measuring agreement with statements about the perceived effectiveness of the organisation, even senior managers provide an average score of less than 2 (very much), compared with the average CEO score of 2.14 (see **Table 2**).

**The more senior the person, the better their sense of the effectiveness of their organisation, whether true or not**

Chief executives agree that statements of effectiveness describe their organisation “very much” to “exactly”. Respondents at other organisational levels are less sure, believing that their organisation is “somewhat” to “very much” effective.

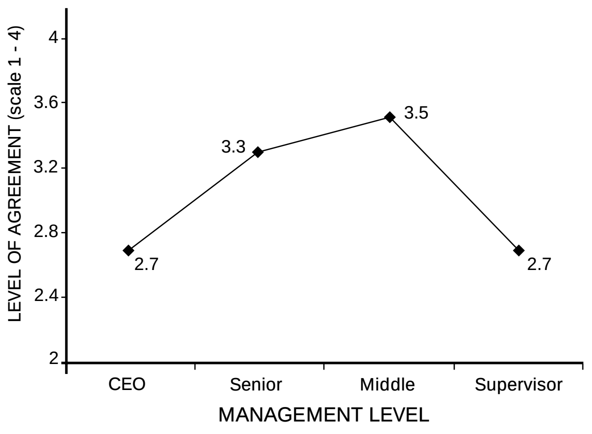
This is not to say that CEOs are wrong and other managers are right. These are perceptions only. It might well be that CEOs use different criteria to measure their implicit feelings about the “effectiveness” of their organisations.

Chief executives might evaluate effectiveness based on organisation-wide goal achievement or a set of external relationships to which lower-level managers are not privy. Middle managers might evaluate based on the more immediate effect of organisational systems and processes on the perceived psychological contract and employee motivation and commitment.

However, these differences do not change the fact that the more senior the person, the better their sense of the effectiveness of their organisation, whether true or not.

FIGURE 2

Perceptions of future turbulence and uncertainty




Note: CEO perceptions are significantly different from perceptions of those in senior or middle management, $p<0.05$.

Third, senior managers think, on average, that the future organisational environment will be 22 per cent more turbulent than CEOs think it will be. Middle managers think the future will be even more turbulent again (see **Figure 2**). Interestingly, supervisory managers have the same beliefs as CEOs about the turbulence and uncertainty of the future organisational environment.

For this item, results from process and clerical workers were too small to generate significant findings. The scores given by respondents for issues such as this are not as important as the fact that middle and senior managers see much more turbulence and uncertainty in the future than chief executives see.

The fourth way that CEO perceptions differ from those of managers is in the area of role conflict. Our research found that middle and senior managers experience more role conflict than chief executives. Because of smaller numbers of supervisory and process/clerical people, significant differences in role conflict could not be ascertained.

Role conflict is typified by such problems as having contrasting commands from multiple authorities, working concurrently with very different groups, receiving incompatible requests from different sources, and having shortages of resources and personnel. We found it to be a particularly important issue for managers in the public sector.

Role conflict can have a negative impact on performance. Individuals in positions that involve much role conflict are likely to experience stress, become frustrated and dissat-

FIGURE 3

Differing perceptions about characteristic of the work unit (scale 0-4)

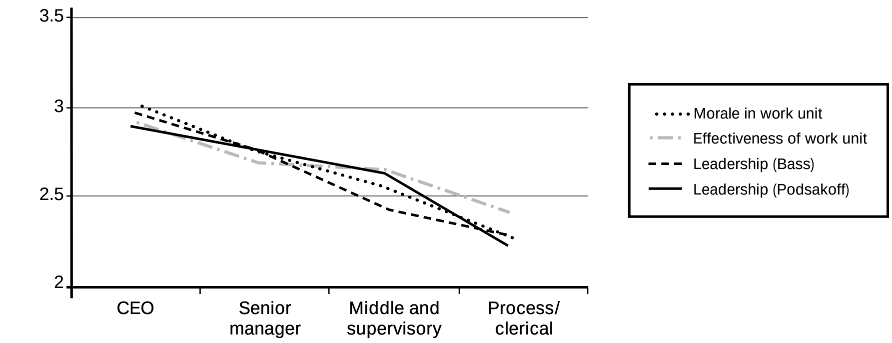
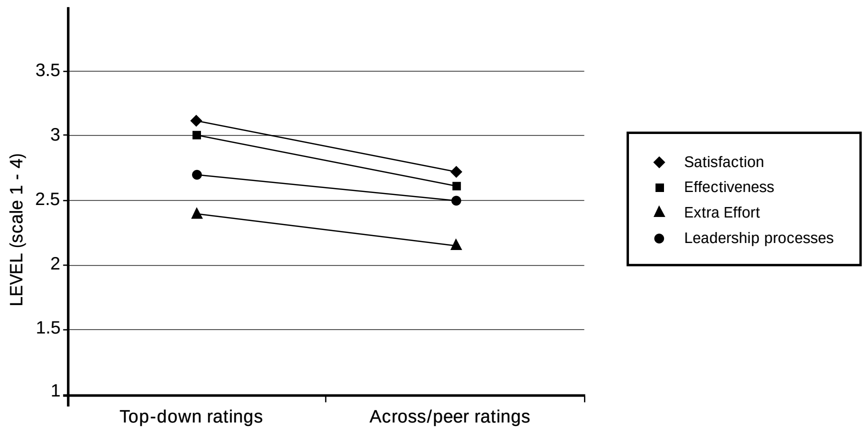



FIGURE 4

Perceptions of leadership outcomes of focal leaders, by rater level




Note: Significant difference of ratings, $p<0.01$

isfied, and will ultimately become less effective in their work.

Role stress has also been related to decreased effort and job withdrawal, resulting in reduced organisational performance. We found that role conflict was minimised in organisations characterised by high levels of transformational culture and moderate levels of transactional culture.

Finally, in contrast to the beliefs of CEOs, managers believe their immediate work units to have lower morale and lower work unit effectiveness, with lower levels of leadership being exhibited. **Figure 3** indicates that on a scale of 0-4, other managers believe these indices of performance to be up to 25 per cent lower than their chief executives do.

We should also note that top-down ratings of the leadership of individuals were found to be more lenient than were ratings of peers at the same level (see **Figure 4**). This pertains to measures of leadership behaviours, leadership processes going on in the workplace, and the outcomes of leadership.

The top-down leniency is a relatively well-known phenomenon, certainly as it pertains to leadership. Senior managers are loathe to be critical of their “own” people, while people are

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more likely to be critical of those for whom they are not “responsible”, namely their superiors or those at the same level.

On the one hand, this phenomenon helps to explain our findings. On the other hand, it affirms that the experience of organisational life can vary considerably as one moves up or down the organisational ladder.

All of the above findings show that managers have more negative perceptions about their organisations than chief executives do. In virtually every case, as you go down the hierarchy from the chief executive, the perceptions get worse. The question is begged: what is the problem presented by these findings?

## WHAT IS THE PROBLEM?

The first implication is that chief executives may not have their finger on the “pulse” of organisational life. The pulse of the organisation flows around a range of different people in different jobs at different levels of authority. That pulse seems to be less positive or constructive than what CEOs are picking up.

In politics, perception is reality and we know that organisational politics is a very real issue in our organisations, in both the public and private sectors. In any case, negative perceptions lead to negative performance, so the reality of those perceptions is something CEOs must be tuned in to.

More particularly, if the CEO thinks things are fine, they quite possibly are not! It is the managers, supervisors and process workers who do the operational work of the organisation. Their perceptions are the ones that impact upon the actual human performance of the organisation.

Third, the CEO probably does have more accurate data than the lower-level managers. Therefore, the question becomes not whether the organisation actually is performing ineffectively, or has too transactional a culture, or is facing greater turbulence. The perceptions of lower-level managers are their reality and those managers seem to be shielded from the realities about the actual performance of their organisations.

The findings from our research are critical (a) if the CEO wants to know the perceptions of the troops; and (b) where perceptions affect performance.

Let’s face it, if people think morale is low, then morale IS low; if people think they are experiencing high role conflict, then they ARE experiencing high role conflict. Performance suffers accordingly.

Fourth, because of differing perceptions, employees may treat chief executive protestations about the health of the organisation with disdain. The troops often simply don’t see it the way the chief executive sees it.

Top-level protestations about being “people-driven” just don’t jell with people who are experiencing role conflict, who experience bureaucracy and self-interest, or who don’t see leadership being displayed. Chief executives risk being out of touch with their followers.

In this case, CEOs may have a credibility problem. Credibility is a backbone of leadership. Kouzes and Posner have found that when CEOs lose credibility, employees and colleagues are less likely to be influenced and perform in the way that their chief executive intended.

Fifth, if perceptions are disjointed between the chief executive and the rest of the organisation, CEOs may be allocating resources inefficiently and inappropriately. For example, if the chief executive believes one part of an organisation is “effective”, but the people who work there are experiencing role conflict and low morale, much-needed resources might not be diverted to that very deserving part of the organisation.

Those resources might include the time spent in simple negotiation or some organisational development interventions, but if the CEO is not aware of the need for such interventions, they are unlikely to be carried out. Similarly, if the CEO is out of touch with the culture of the organisation, the changes that are needed to empower and free up the workforce are not made.

Likewise, if chief executives are unaware of perceptions about the turbulence in the outside environment, that turbulence might sneak up on them and catch them by surprise.

It is better to be anticipatory than reactive in times of turbulence and change. Therefore, the perceptions of the workforce about such issues need to be understood by chief executives. In so doing, they can get a more plausible perspective on the environment and how it is moving and then act accordingly.

CEO credibility in the eyes of followers is a big issue raised by these findings. Just the fact that perceptions are so different in so many areas means the credibility of many CEOs must be at risk.

## IN DEFENCE OF CEOs

In defence of chief executives, the above findings are probably quite understandable for four reasons.

- Managers are more affected by the bureaucracy and rules of the organisation than are the CEOs. After all, the chief executives make most of the rules. It is natural to expect that the people who are subject to rules, systems and processes will feel the impact of them more acutely than the people who make the rules. Therefore, we would expect that the people lower in the hierarchy will feel the organisational culture is more bureaucratic and transactional than will the main decision-makers.
- The CEO has the primary external role or focus. Therefore, the CEO can see the turbulence of the external environment. Managers, on the other hand, are more internally focused and so are more reactive to the external environment, by and large. Consequently, the middle managers are concerned about what they cannot "see" and feel more threatened as a result. That is understandable.
- While the chief executive role is more complex and demanding and the stakes are higher, the role is more straightforward. Managers are more likely to receive contrasting, even incompatible demands from a range of their senior managers and from other internal and external stakeholders. They are also likely to run short of resources, in contrast to the CEO, who has ultimate control over resource allocation. Therefore, the chief executive is less likely to experience role conflict than his or her managers. Also, the chief executive is better able to create her/his role, whereas the manager's role is largely determined by the CEO. Therefore, one would expect lower-level managers to experience more role conflict than chief executives.
- An age-old maxim in the study of organisational behaviour states that problems are attributed to others, not to oneself. The

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> CEO thinks the organisation is his or her "baby", so it is reasonably effective. On the other hand, in the mind of the manager, particularly the low-level manager, the organisation is someone else's baby, so it is less likely to be seen as effective.

It is not hard to explain away the findings from this research. That still does not alter the fact that many CEOs are feeling a very different organisational pulse from that of their managers.

Nor does it alter the risk that those CEOs are facing a credibility gap that is putting organisational performance at risk. What can they do about it?

## WHAT CAN CHIEF EXECUTIVES DO ABOUT IT?

Several possible courses of action are available. First, chief executives could gather data about perceptions on these issues from all levels of the organisation – not just from the top echelon.

Remember that perception is reality when it comes to motivation and commitment, so CEOs should gather information about the reality of the organisational experience for all managers and workers. Variances between those perceptions can explain variation in performance across work units.

Needless to say, the data on perceptions should be as accurate as possible. The CEO's perceptions of the perceptions of others are not good enough. A more formal process of gathering 360° ratings on organisational performance is needed. This will include more upward and sideways appraisals as well as the more traditional downward appraisals.

We stress that we are talking about appraisal of the performance of the organisation, not appraisal of individuals. Such appraisal will include regular organisational culture assessments from right across the organisation. Those ratings must be compared and contrasted with the ratings given by the senior management team.

The question then becomes: what to do with those perceptions? The focus should be to develop a balance of the transformational and transactional qualities required in effective organisations.

The first part of this focus should be in improving the systems, procedures and behavioural norms that reflect the culture of the organisation. The second part should be on the leadership displayed by individuals in organisations.

First, organisations need to examine practices, procedures and systems that might reflect the corrective, rule-based, transactional aspects of organisational life and alter them accordingly.

One question, for example, is whether deviation from standard operating procedures without authorisation gets one into trouble? If you are the chief executive, you would no doubt answer "no". But your managers and workers might answer "yes".

If they believe this to be so, then perhaps operating procedures, or the enforcement of procedures, may need to be relaxed. Perhaps both, in conjunction with greater promulgation throughout the organisation of the reasons and rationale for the operating procedures and what they are designed to achieve.

Also, if procedures and decision-making in an organisation are characterised by "bargaining", "competition" and "precedent", then they need to be freed up. If rules, procedures and levels of authorisation are perceived to limit discretionary behaviour, those limitations may need to be removed. Such changes would provide the culture of "empowerment" that many chief executives espouse as being desirable in their organisations.

The details of the related issues associated with transformational and transactional organisational culture are too numerous to list here and each organisational case must be examined individually.

The second part of the focus should be on individual leadership. The Centre for the Study of Leadership has had success, since 1999, in training people to display more transformational leadership, and the display of transactional leadership is brought back to manageable and sustainable levels.

This increased display of leadership by individuals has been found to have a positive impact on perceptions about the culture of the organisation. It is necessary at all levels of the organisation, not just at the chief-executive level.

Be that as it may, leadership does start at the top, as is the popularly accepted view. Some ideas can now be suggested on what constitutes better individual leadership.

Training helps individual leaders to greet new ideas with enthusiasm. Such enthusiasm is positive and infectious. It also makes employees feel they are less restricted by a culture that is not resistant to changing old ways of doing things.

Managers who demonstrate better leadership are able to articulate perspectives about how the turbulence and uncertainty of the future can be accommodated by individuals and by the organisation as a whole.

They are better able to articulate in symbolic and visual language. Such language is better understood by a wider range of people. It is a universal language. The message, therefore, is promulgated throughout the organisation more effectively.

Managers who are better leaders also have a greater presence around the organisation. Especially for CEOs, less time in the office and more time in the "frontlines" would have two benefits:

- They would be better able to appreciate the culture of the organisation and empathise with the perceptions of the troops.
- There would be a heightened leadership profile throughout the organisation.

We have found from research that a lessened organisational leadership profile from managers reduces the extent to which they are perceived to have integrity.

These are some of the ways that individuals can demonstrate leadership. And people can be trained to adopt these characteristics.

Finally, therefore, by being better leaders, CEOs will reduce the role conflict those crucial middle and senior managers are feeling. This will lead to higher morale and extra effort from those managers, as well as from their employees.

Managers and employees will believe the future will be less turbulent and uncertain than they presently believe. They will also perceive their organisation to be more effective than they would otherwise think.

**By being better leaders, CEOs will reduce the role conflict those crucial middle and senior managers are feeling**

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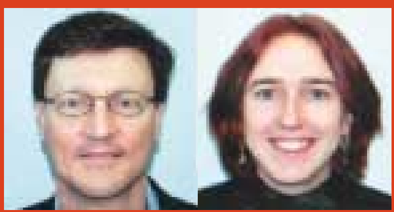


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