# The Story of Data- and Dialogue-Driven Leadership

*Theresa M. Welbourne, Ph.D.*

Did you know the human brain is actually set up to handle information on a narrative level? Turns out it's not just that facts are more interesting and engaging when they're embedded in a story — we're actually hard-wired to organize and understand information better when it's delivered in a context that includes progression of thought and memorable key points.

Presented with the challenge of explaining the meaning and methodology behind the data- and dialogue-driven model of effective leadership, I decided weaving abstract concepts, factual elements and research findings into a narrative sequence of events was the ideal way to disseminate the information.

## The Beginning: Life and Death of a Company

The story begins years ago, when I worked as an HR generalist for a Boulder, Colo., start-up company that grew from 100 to 1,500 people over two years. The company went public while I was there, and the culture changed quickly. At the core of the fast growth and success was employee voice. The interplay of ideas and information was fluid and fast, and this interaction led to the success of the firm.

When the company went public, the level of bureaucracy increased, and the voice of the employee became lost. Top executives had too many voices bombarding them (investors, accountants, media, etc.), and the flow of information was altered. When employee voice was lost, the company's performance declined. Eventually, this company went out of business.

This experience led me down a new career path in research. I signed up for a doctoral program, graduated and joined the faculty at Cornell University. It was there I started a large-scale research project designed to discover whether the lessons I learned at that Colorado start-up applied to other organizations.

### Research that Grew from the Death Experience

What I learned from the research provides the content for the next chapter. In 1993, I started collecting data from thousands of firms, examining the factors that predicted long-term performance. My focus was on initial public offerings (IPOs), which I like to call the "fruit flies of management" — they represent a large variety of industries, they are young and old, they are all over the world, and they live and die quickly.

I started the IPO studies in an effort to understand what predicted outcomes such as stock price growth, earnings per share growth, sales growth and survival. I chose survival because I knew the financial community would argue the right or wrong of other measures, but "alive or dead" would be unequivocal.

## in practice:

### Leading with Data at New Century Mortgage Corp.

In "The Art of War," Sun Tzu writes, "Fighting with a large army under your command is nowise different from fighting with a small one. It is merely a question of instituting signs and signals." As with much of the sixth-century text, this principle can be applied to the 21st century with little imagination.

One modern version of "signs and signals" leaders use is a data-driven management style, which serves to unify an organization by operating under the same system, as did Tzu's original purpose. A data-driven style essentially is collecting facts and figures, often from employees, sometimes in subjects that aren't traditionally tracked.

Tony Meola, New Century Mortgage Corp. executive vice president, implements this style based on his idea that the most important personal attributes in determining happy and productive employees aren't easily quantified.

"While there is emotion and passion in business, they're even greater assets when there's data to back those feelings up because you can have a rich discussion when you're dealing with data," Meola said. "What a data-driven style allows us to do is get in touch with our employees in ways that you generally don't address on a daily basis. One is the morale of the organization, and two is the readiness or state of operation."

Leaders often have to hypothesize about employee readiness and the state of operation. With a data-driven style, such information is always at your fingertips, and it is updated constantly.

Meola said there are some unique challenges to this method, however. For example, the data-driven style forces leaders to be flexible because independent, fair-minded results often suggest actions leaders would rather avoid.

"You're a little bit vulnerable because sometimes the data is telling you things your intuition says can't be right — the data can tell you a market that you really want in the mix is not performing as well as it has to in order to stay in the mix," Meola said. "So, there's leadership in this because you've got to be vulnerable as a leader and open to various suggestions and/or directions that you might not have thought of or you might not sometimes like, quite frankly."

A data-driven leadership style isn't decided and implemented overnight. Rather, it's an evolutionary process that must be tailored to the company to which it's being applied.

Certainly, employees won't be happy about answering questions concerning company morale at the end of their days with no prior discussion. With patient execution, however, as well as clear benefits for both employees and the company, a data-driven style can put everyone on the same page and create a results-driven workforce.

"When people can all get around an independent analysis, it certainly creates alignment," Meola said. "Everyone's looking at the same data, drawing the same conclusions — you get alignment among employees. They understand why you may be going in a certain direction.

"It establishes true benchmarks and creates a recognition-and-reward culture that's very valued. When you do achieve something, the numbers scream that you've achieved it, and that really gives people a sense it's a fair and equitable organization. People are more on their game in that environment."

Time is the key element to tailor a data-driven style to fit a company's needs. Meola said it can take up to six months not only to get accurate, helpful responses but to narrow the subjects down to the most helpful ones, as well. Once the actionable information is known and asked, it can be woven into the daily process of the organization.

Meola said this is a main concern for the data-driven leader because being tempted to try to receive feedback on erroneous topics quickly can become annoying and time-consuming to the employee.

"You just want to pick the five to 10 forward-looking and decision-making indicators that will demonstrate and achieve success," Meola said. "You don't want your employees to have analysis paralysis. The key is less is more."

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Assisted by a small team, I studied the prospectus of all firms going public in multiple years from 1988 to 2000. We coded more than 300 variables from each prospectus, including factors the financial community considered important to performance, as well as our "people management" items, and we sent surveys to the executives. We tracked which firms lived and died and how they died. We added financial performance measures to the database. Our first discovery was that the most powerful predictor of long-term performance was what we called "HR value": the degree to which a firm valued people vis-à-vis other assets.

### One Discovery Leads to Another

When the findings hit the press, lots of people had opinions about it. The critics came out in force, and we extended the research to studies within organizations. The second phase of the research focused on this question: "What is it about valuing people that really makes a difference?"

We found valuing people alone was inadequate for success, but firms that valued people under conditions of high urgency outperformed their peers. The plot thickened — we found that as urgency increased, firms that matched urgency levels with practices aimed at valuing people succeeded. It was this balance that led to success.

### The CEO Challenge

Once CEOs started getting interested in the story, they asked more from the team. They wanted to know how we could help them improve the performance of their organizations. They challenged us to turn the research into something tangible.

Our first project was for the CEO of Indus International, which was launched with a very long employee survey. The data helped us refine our measures, but it didn't thrill the CEO — it was too much data, too late and not focused on his present needs. The upshot was an ultimatum: Provide more value or lose Indus' participation in the study.

At the time, we knew the following:

- Winning companies balanced high sense of urgency and valuing employees.
- Valuing employees was the easier part of the equation for most firms (their HR teams were set up to deal with issues that affected value, consultants knew how to help, and there were ample ways to affect value).
- Valuing employees did not change that much over time (our measurement proved this point). Programs used to enhance value were big (rewards systems, training, etc.) and did not change much during the year.

- Sense of urgency, however, was a variable that was not being studied and that most firms did not actively seek to influence, probably because they had no way to measure it.
- Sense of urgency fluctuated. Annual measurement of sense of urgency was not helpful.

I still thought data was the key to our next step in this work, but I could not conduct long surveys. Thus, I had to make some choices. Given what we knew, our focus became sense of urgency, measured via survey questions and by studying rates of change in organizations.

Our research led us to the insight that sense of urgency at the firm level could be operationalized at the individual level as employee energy. Energy — which is a more employee-friendly word than "urgency" — reflected what we were studying as sense of urgency at the enterprise level. Energy, at its core, is basically motivation (in fact, our theoretical models come out of the motivation literature). The unique nature of our measurement of energy, however, found you can have too much of it — you can be overly energized, which can be likened to too much energy sent to a light bulb or exercising at a level above your target heart rate.

## Turning the Page on Our Data Strategy

The use of energy and the discovery of the importance of variance led us to propose changing our data strategy. In 1996, we conducted our first "pulse survey" using only two questions. We asked employees to rate their energy at work and then comment about what affected their energy.

Here's what we learned from these early studies:

- Energy predicted performance, using longitudinal research, control variables and outcomes such as student grades at the end of the semester, turnover at the organization, amount of money people elected to put into the stock-purchase plan and 360 ratings of performance done on all employees.
- Variance in energy, however, was more important than energy alone.
- Energy is an optimization scale. There are individual differences where people are most productive.
- Energy helped identify trends, and the reports could be used like a weather map, allowing us to help management focus its efforts on the groups in the most need.
- The energy metric alone, however, did not tell us what to really do.
- Open-ended comment data produce incredibly powerful inputs for the design of interventions.

We also came to know that the measurement process we developed to deal with the frustrations of a CEO and management team at Indus led to an intervention that affected the two keys to firm-level success we discovered in our research.

Our data-collection process focused on measuring sense of urgency (via energy). The data process shed light on what was affecting energy, so managers could make swift and tactical changes to keep sense of urgency at the right level. At the same time, the act of talking to employees about the data, taking action based on the data and engaging in dialogue made people feel more valued.

The data and dialogue process that grew from our research gave employees voice in a way that led to immediate positive changes in the organization. The use of data and dialogue affected sense of urgency and value and led to improved performance.

## The Conclusion: Art Meets Science in Data- and Dialogue-Driven Leadership

This story started in 1976. It is now more than 30 years later, and what began as an insight about employee voice led to a journey that ended with the development of data- and dialogue-driven leadership methodology. Since doing the original studies, I have worked on developing technology to support the data and dialogue processes, created training programs to help managers learn to use data and dialogue in their daily work and conducted more in-depth studies with firms going through mergers, IPOs, acquisitions, etc.

The advancement of technology provides an opportunity to take the data and dialogue processes and tools to a new level, where managers not only are engaging in dialogues with their employees but where employees share data and use their own dialogues to innovate, improve performance, advance their own knowledge and careers and more.

We've also learned, however, that even with all the technology available, the dialogue part of the model is the most powerful. This means teaching managers how to have meaningful conversations remains a critical skill.

The art of dialogue, combined with the science and technology of data, promises to help improve organizational performance in any industry, anywhere in the world. ■

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