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HayGroup

How to make your top team great.

Introduction

The days of the 'heroic chief executive' who sweeps in, steps up, and single-handedly leads the organization to greatness are over. Chief executives are increasingly relying on teams of proven and effective leaders to consult, coordinate, and make decisions in a volatile, constantly-changing marketplace. But with only one in four CEOs succeeding in putting together an effective top team, what is it that makes a top team great?

Meet Martin, the Chief Executive Officer of a global pharmaceutical company. Martin (not his real name) is a 15-year veteran of the firm, a consistent high performer personally and an undisputed leader. His colleagues describe him as hard-hitting, driven and charismatic. The company's share price jumped eight percent the day he was named CEO. However, as we will see, despite his many attributes he is an *ineffective* executive team leader.

Martin's top team has 15 members, including all the global business-unit heads and several functional leaders. The group gathers monthly for a full-day meeting, sometimes at headquarters, often at one of the company's many worldwide locations.

Martin kicks off today's meeting with a joke, then lays out a packed 17-item agenda. First to speak is the head of the Asia/Pacific division, who updates the group on her numbers and answers Martin's questions. After her two-hour presentation, the other team members each deliver a similar "silo briefing."

Almost no one pays attention. Vibrating mobile phones—"No *ringing* mobile phones!" the CEO has decreed—alert several team members to calls, which they excuse themselves to take. Others read faxes and memos. No speaker is offended because the real dialogue is between Martin and the presenter; team members rarely comment. In fact, they have tacitly agreed that no one will ask challenging questions. *If you don't make me look bad, I won't make you look bad.*

Performance.

- 21%
- 37%
- 42%

Increase in capability over time.

- 24%
- 33%
- 43%
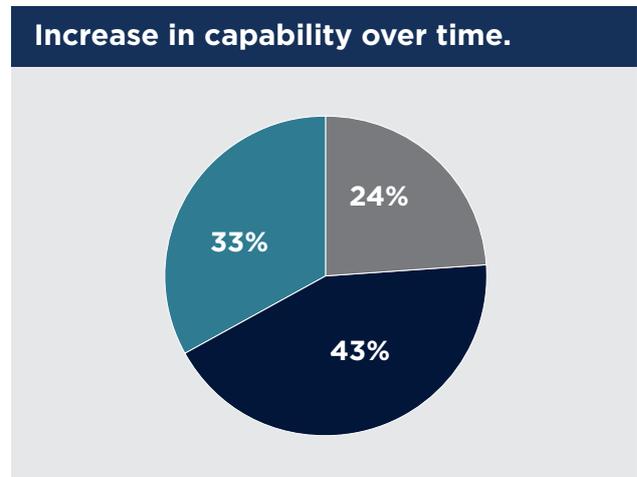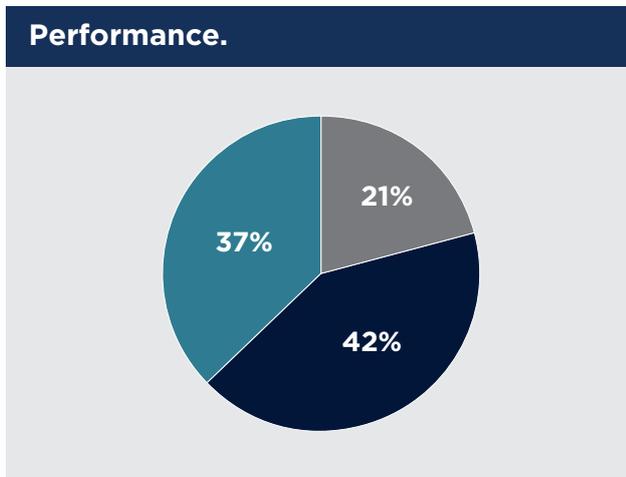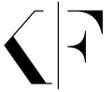
■ Outstanding
■ Mediocre
■ Poor

When a team member says something Martin likes, his face radiates approval: *Now there's a team player*. When someone disagrees with him, his body language says it all: *I need to talk to that guy in private and straighten him out*.

Martin is unsettled when the meeting breaks at 11 in the evening. *It was the same bloodbath as always on capital expenditures. All they care about is "How much of the Cap Ex budget am I going to get?" What about the big picture?*

Team members, jet-lagged and running out of energy, also feel frustrated. *I flew 16 hours for this? What little I contributed today could have been done by phone or email. The strategic issues I care about were buried on the agenda and we never even dealt with them. And I still don't know what piece of the Cap-Ex pie I'm going to get!*

Perhaps you recognize Martin. Then again, hopefully you don't. His top team is not really a team at all. And whatever results Martin gets from his senior people could be better—a lot better—if he understood the dynamics of executive teams.

Unfortunately he is not alone. Korn Ferry Hay Group studied 120 senior teams in 11 countries across a range of business sectors over a ten year period and found that only one quarter were doing an outstanding job. Three quarters were mediocre to poor.

With so much at stake for CEOs (two out of every five (40%) fail in the first 18 months (Ciampa 2005)), why do so many falter with their top teams? The answer is that planning, assigning, launching and coaching a team of proven leaders is fraught with pitfalls. It must be done right, with the same urgency, precision and courage a chief executive demonstrates when tackling big, external issues.

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The benefits of effective top teams.

The most critical resource the CEO has is the executive team. They set the business strategy and drive its execution.

They ensure the ready supply of top leadership talent and an engaged, performing culture. Armed with a clear remit, the right mix of capabilities, and fueled by an enterprise mind-set, the top team offers a critical competitive advantage.

- Arturo Barahona, CEO of AeroMexico, credits his top team for several major accomplishments after he took the top job in 1999. In a turbulent airlines market during his first year, Barahona's team carried out his directive to institute company-wide cost-cutting procedures. They ended up slashing costs two percent, an exceptional feat at a time when fuel price hikes were increasing costs significantly at other airlines. The team also increased revenues by 12% during that first year.

- To implement an aggressive growth initiative, the CEO of a major UK telecommunications company reorganized and revitalized his executive group. As a result the company increased its market capitalization from 10 billion pounds to 30 billion pounds and increased its customer base several-fold within three years.

- Growth had stalled at an international specialist chemical company, so the CEO mandated cost-cutting measures to increase profits. Acting independently of each other, the strategic business unit heads felt they had driven out all unnecessary costs from their operations, improving profits slightly. The CEO was unsatisfied and refocused his executive team on an interdependent goal. Together, the team was able to chase out even more costs, making cuts that eventually doubled profits.

- The common theme in these success stories is getting individual team members to move out of their silos and function as an interdependent team, one that can advance the leader's agenda quickly and switch gears when market changes require it. "The seven VPs on our executive team traditionally had worked very independently," says AeroMexico's Barahona. "If they had continued to work that way, we could never have accomplished what we did."

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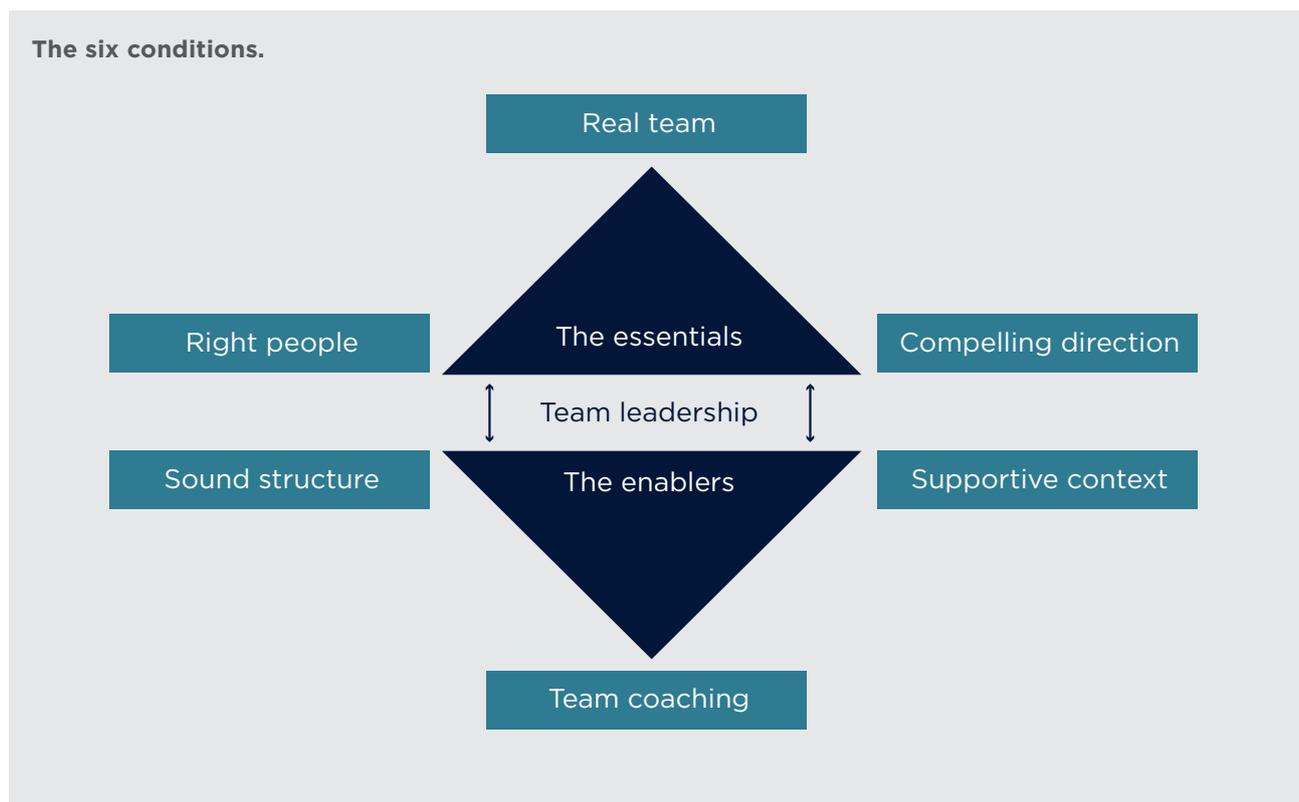
Six conditions for effective top teams.

In our study we set out to discover why some teams work and some don't. We looked at the key challenges facing every CEO putting together a top team and identified six conditions that create an effective team.

These can be broken down into three essential conditions and three enabling conditions.

Essential conditions are the basic building blocks for a team. The three elements work together and by changing one, the other two will also need to be addressed.

Enabling conditions accelerate progress, improve effectiveness and help the team achieve great results. The enabling conditions should not be addressed until the essential conditions are in place.

In this whitepaper, we look at each challenge and condition in turn.

The six conditions.

	Real team	
Right people	The essentials	Compelling direction
	Team leadership	
Sound structure	The enablers	Supportive context
	Team coaching	

Challenge 1
Do I need a team?

Martin's executive team in the opening vignette is a reporting group, not a team. Its main purpose is to share information. Thousands of such reporting groups now operate in companies worldwide. And most, if not all, mistakenly believe they are teams. So what constitutes a real team?

Condition 1
A real team: bounded, stable, interdependent.

Real teams have clear boundaries; everyone knows who is a member and who is not. It seems obvious but, of the 120 teams we studied, only in 11 did everyone agree on the number of people in the team. The outstanding CEOs in our research, clarified these boundaries. They also made sure that membership was relatively stable so the team had time to hone their ability to work together.

Real teams are also interdependent. They rely on one another's skills and expertise in the work they do together and they share responsibility for achieving a collective goal.

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The research identified four major types of top teams.

Informational leadership teams.

Gather to exchange important information and meet with the chief executive to hear about the organization's direction and its strategies. The main purpose for these groups—the most basic of the four types of teams —is to keep individuals informed and points of view aligned.

Consultative leadership teams.

Are typically small groups of senior leaders brought together periodically to advise the chief executive on key enterprise-wide decisions. Consultative team members don't make decisions—they provide information and insight; they debate the issues; and they act as sounding boards in helping chief executives make the call. They are often scheduled prior to board meetings or analyst calls with the purpose of preparing the chief executive.

Coordinating leadership team.

Members come together to coordinate their activities as they executive strategic initiatives. The purpose of a coordinating team is to manage operations across the organization's various units. Team members are interdependent; they have shared responsibilities and must work together frequently to accomplish their shared ends.

Decision-making leadership teams.

Assemble to make important enterprise-wide decisions. These are an organization's most complex and most dynamic team, and often most in need of a compelling direction, a sound structure, contextual support, and coaching.

Challenge 2
What's the purpose of the team?

We've worked with several organizational leaders who communicate a clear, compelling mission brilliantly and who get their employees to buy in to the company's goals. But when it comes to leading their executive teams, many of these same leaders assume there is no need to provide direction. One such leader was taken aback when we suggested he determine if all his team members could identify the team's purpose. "Of course they can," the team leader insisted. "These are smart people. I don't want to insult their intelligence."

Unfortunately, this attitude is widespread. A boss at an oil refinery agreed to give his team a quick quiz, one in which each member was asked to write down the team's number one priority. This manager was stunned when the 10 team members listed four different top priorities, including cost-cutting, safety, environmental compliance and seeking new markets.

"For goodness sakes," exclaimed the team leader. "Don't you guys realize that if we can't cut our refining costs by three pennies a gallon, they're going to shut us down?" "Is that all you need us to do?" replied the incredulous team members. Galvanized by the discovery of what their leader really wanted them to do, the team members reduced costs by five pennies per gallon over the following year.

Many team leaders hesitate to thrust their vision on their team members. Vickie Tillman of Standard & Poor's was one such leader. She says: "I had just gone from being a peer to being the boss, and I wanted people to buy into my vision, but I didn't want to force it." But a survey she conducted of the team members revealed that they wanted her to articulate her vision for them. "I was surprised," Tillman says. "It showed me that teams, even ones with high level people who are leaders themselves, really want a leader. They need a framework of ground rules to operate in."

Condition 2
A compelling direction: purpose-driven, challenging, clear.

The purpose of a top team identifies the unique added value the team brings to advancing the strategy. It's not the same as the goals of the organization and it's not just, "This is the strategy: execute that."

Our research shows that the purpose of an outstanding team is:

- **Clear:** Team members are able to see, from the outset, what their successful efforts will yield.
- **Challenging:** It's a stretch of the capability of the team to achieve the purpose but not impossible.
- **Consequential:** It has an important impact on the success of the organization and work of others.

Developing the purpose of the team should be the CEOs role. We have yet to work with an outstanding leadership team that collectively set its purpose.

AeroMexico's Arturo Barahona worked alone on his team's purpose over a two week period. Once he had a draft, he met with each of his seven vice presidents in private to discuss his ideas, but also to get them to buy into his plans. One month after he became CEO, Barahona held his first top team meeting, where he—and he alone—spoke for four hours. "I was putting my stake in the ground," Barahona recalls. But once he had set the direction, Barahona backed off. "The people on a top team are very successful, ambitious people who have a lot of energy," he says. "If you give them a strong challenge, they will do what it takes to succeed."

Challenge 3
Who should be on my team?

There are many reasons why a CEO ends up with the wrong people on their team. The natural tendency to appoint all of his, her direct reports or to make sure that there is a representative from every area of the business or the pressure to ensure that the star performers in the business have a seat. But no one should be appointed just because of their job title or their performance.

Condition 3
The right people: conceptual thinkers with proven integrity.

When building their top team its vital that CEOs appoint individuals with an enterprise perspective who can work collaboratively. They should be willing and able to put things on the table that affect the whole business and not make these decisions on their own. They should be people with integrity who will behave in line with the company's values even when it's personally risky to do so. And they should be able to abide by team decisions, avoid political maneuvring, and, when under stress, not forsake shared accountability.

Equally as important as picking the right people is removing leaders who are not willing to demonstrate the right behaviors. The research uncovered a number of derailers in people that can kill a top team. They include undermining others, exhibiting a lack of integrity and being unable to see others' perspectives. One CEO of a large healthcare organization we worked with credited his success to removing the head of the largest and most profitable hospital from his top team. He dominated meetings, never listened to others and lacked empathy. When he was removed from the team he left the company "But it was worth it," the CEO said. "He was a smart guy and a great performer, but in the end he was holding me and the rest of the team hostage. An individual like that can destroy a top team."

That said, no one should expect a top team to be a smooth, harmonious place to work. Discussions should be robust, passionate and, at times, even heated on important issues affecting the enterprise. But the discussion should facilitate a decision being reached not inhibit it and debates should not get personal.

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Challenge 4
Members think meetings are a waste of time.

Martin's story at the beginning of the paper sums up this challenge. It's all too common for members of leadership teams to see meetings as a waste of time because the group is too large; the meeting purpose is ill-defined; the agenda has too much on it; the issues being addressed are too trivial; and the meeting is poorly structured.

On one team we observed, the CEO allowed the meeting agenda to begin with tactical items and end with strategic ones. Not surprisingly, meetings got bogged down on the early items while strategy —the real purpose of the team—almost always got short shrift.

Another CEO had his team begin its executive meeting at 4:00 in the afternoon and let it go on until 11 in the evening. As a result, after about 9 o'clock no one dared raise an important issue for fear it would ignite a discussion and prolong the meeting.

> There is no universal set of norms that apply to all teams, it's something that the CEO and the team set together.

Condition 4
A sound structure: a small team with meaningful tasks and clear norms of conduct.

Although there is no optimum number of team members in a senior leadership team, a good rule of thumb is to keep it small (under ten members). More members means more competing interests, more personality clashes and a greater risk that factions will form.

A sound structure also means that team members are performing vital tasks that link directly to the organization's strategy. These tasks should be far more than a list of duties that can quickly be addressed and then checked off. Instead, the tasks should be defined in the context of the team's purpose and in the context of what it means to be an enterprise leader.

Finally, a sound structure means having a set of operating norms of conduct. These are shared expectations about behaviors that are, and are not, tolerated; rules governing what may and may not occur during and outside meetings. These can be as simple as not being allowed to make phone calls during meetings or as complex as how teams should debate opposing points of view. There is no universal set of norms that apply to all teams, it's something that the CEO and the team set together. While initially down to the CEO to enforce, once they are embedded team members will hold each other to account and induct new members into the group.

Our research shows that norms are the single biggest differentiator between outstanding teams and their peers.
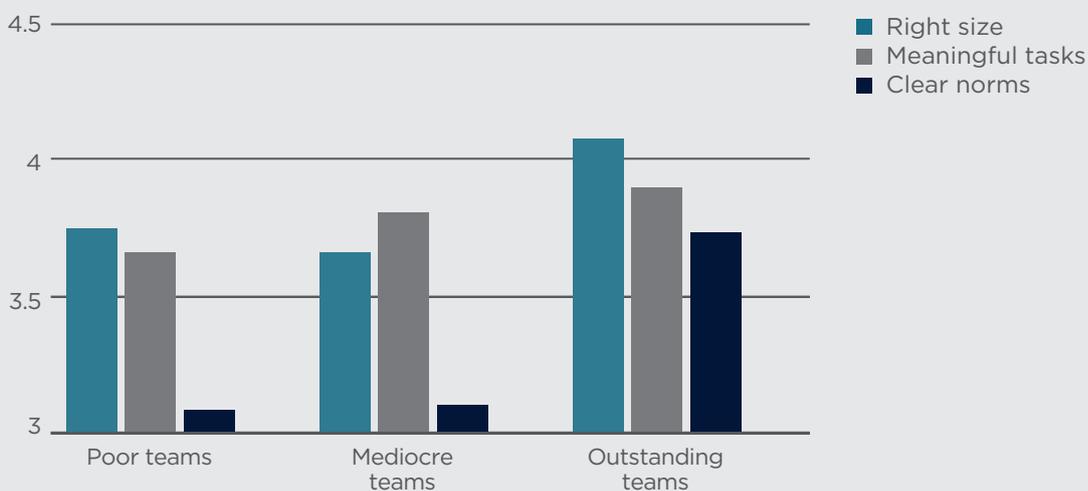
Challenge 5
The group is not productive together.

A number of years ago we worked with a national restaurant company. When we attended their leadership team meeting we noticed that everyone carried a three ring binder to every meeting. But no one opened them or referred to them. Curiosity got the better of us and we asked what was in the binder. One executive said it was the sales information for every dish in every restaurant across the country for the month. There was no summary or trend data. So despite the massive amount of information available to them the team relied heavily on anecdotal data, such as "I visited five of our restaurants and when I was there it looked like our new meat dish was selling well…"

This is a good example of one of the factors that can undermine the effectiveness of a team—poorly designed information systems. Other factors include a lack of resources and, crucially, rewards that undermine collaboration and bring about a feeling of unfairness or a lack of trust.

Condition 5
A supportive context: necessary skills for effective participation.

Our research showed that CEOs who want outstanding teams must arrange to provide them with strong organization support by providing their members with sound data and forecasts. CEOs must also see to it that team members get training and that their efforts are adequately rewarded.

It is especially important for a CEO to set compensation that is appropriate, but also encourages top team members to buy into the goals set by the team. Doing so delivers a strong message about what a company values. Compensation can also be a powerful tool for accomplishing top team goals.

At a major financial institution we studied, the CEO and the executive committee decided that for strategic reasons the company's European division would operate in maintain mode rather than growth mode during the next year.

That meant that the division would get no increase in its capital expenditures budget. The head of that business unit was unhappy about the decision. After all, he had to go home and deliver bad news to his troops and he left the meeting torn between his role as a business unit head and his role as an executive team member.

Because all executive team members effectively wear two hats, there is no way to eliminate this conflict completely. But imagine if the CEO at this financial institution had set a variable compensation system that included bonuses and long-term incentives for helping the company as a whole attain its corporate goals. The head of the European unit still would have gone home wounded—but could have looked forward to rewards to help salve those wounds.

In teams characterized by outstanding integrity, members recognize that they must subordinate their narrow interests to those of the group.

Challenge 6
The team is stuck.

It's not unusual for top teams, even successful top teams, to plateau at a certain level of performance. One telecoms company we worked with had all the conditions in place and the team had worked well together for some time but, when discussing his team with us, the CEO said, "I don't understand why my team is not getting better. I have an executive coach and I got one for each of my direct reports who are on the teams."

Condition 6
Expert team coaching: not just for individual members.

Our research shows that, surprisingly, teams do not improve markedly when members receive individual coaching. Of course, individual coaching will develop their personal strengths and leadership skills but for a team to improve they need to be coached as entities in real time. This can, and is often, done by the CEO. But it's difficult to do this and be a participant in a meeting. This is why many outstanding teams bring in external coaches to support them.

Conclusion

Creating and sustaining teams is hard work. Top teams are organic units. Effective CEOs will take care to nourish and renew them as they would any living organism.

A CEO will never let the team tell itself, "We have arrived." Yes, leaders should take pride when their efforts create exceptional levels of harmony and focus, bring out the best in people and generate breakthrough thinking. But, external conditions, as well as the complexities of interpersonal relationships on top teams, will conspire to erode whatever harmony and focus the CEO has brought about. And CEOs—will have to earn their pay once again.

But the hard work is worth it. Effective top teams execute the CEOs agenda faster, have an improved responsiveness to market changes and higher perceived valuations from institutional investors.

As Arturo Barahona of AeroMexico said, "On top teams you have very talented individuals who demand a lot of themselves, but who also have the team demanding more and more of them.

People feel tremendous pressure from the group. So you get results that you wouldn't get from individuals only acting for themselves. That's the real richness of teams."

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