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Developing high performance in the top management team

by **Richard M Rosen**, Partner, Leadership Consulting

CEOs look constantly for areas where they can improve performance. Yet many overlook one of the richest and most readily available targets for improvement: their own top management teams. The solution: a proven model of top management team effectiveness and a disciplined, engaging approach for achieving it.

No organization can prosper with a poorly performing top management team (TMT). Unfortunately, the CEO, who is best positioned to address the problem, often doesn't realize it exists. That's the startling finding of a two-year global study of CEOs and other top executives that Heidrick & Struggles conducted in conjunction with the Center for Effective Organizations at the University of Southern California. While CEOs give their teams consistently high marks for overall effectiveness, team members reported that their teams perform poorly in such critical areas as formulating and implementing strategy, creating organizational alignment, and leading large-scale change.

Worse, boards of directors often respond to continually declining organizational performance by replacing the CEO or other top executives. But by directing action in a realm they oversee but often overlook – TMT performance – boards can address organizational shortfalls with the far less traumatic and potentially more effective step of improving TMT dynamics. At the same time, CEOs, by investing in improving team performance, can broaden their personal impact, increase their job security and, most importantly, improve the business performance on which their tenure depends. However, because CEOs are often more satisfied than their top team colleagues with TMT functioning, the issue simply goes unaddressed.

What can CEOs and team members do to overcome these hidden obstacles to high performance? They can start by:

- Understanding the distinctive differences that characterize top management teams.
- Considering the attributes our research has determined are most critical for top management team effectiveness.
- Undertaking a deliberate, disciplined approach for improving and aligning these attributes for maximum impact on business performance.

In our experience, companies that take these simple but profoundly productive steps can significantly improve the teamwork and effectiveness of TMTs, avoid churn in the CEO role, and take on broader strategic and competitive ambitions.

The nature of TMTs

Not all teams are created equal, of course, and most organizations expend significant effort at every level on improving team effectiveness. However, while many companies try to improve the effectiveness of their top management teams, they frequently rely on experience with shop-floor, middle-management, and creative task-force teams – lower-level groups with a single task and limited authority. TMTs differ from other organizational teams in several important ways:

- TMTs have overarching strategic responsibility for the enterprise. For example, their decisions to enter new markets and make key acquisitions uniquely affect corporate structure and the bottom line.
- TMTs are involved in a wide range of operational activities and they must tend effectively to all of them. For example, they are responsible for implementing strategy and driving results, while also leading change and promulgating corporate culture.
- TMTs have responsibility for institutional leadership, which entails representing the company in a range of external settings, as well as setting policy and ensuring compliance internally.
- In addition, individual team members must maintain a complex balance between enterprise and individual unit/functional concerns. They must both work as corporate citizens to drive enterprise success, and lead teams that have more narrowly defined missions. They

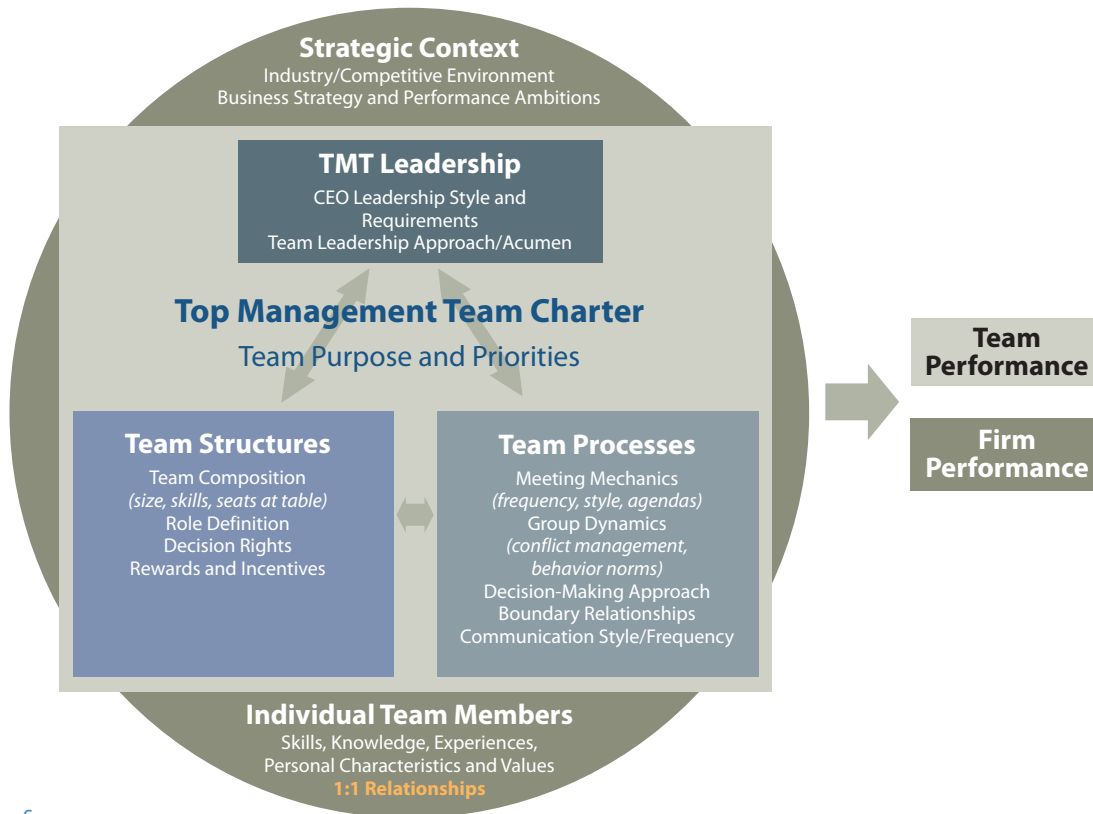


figure 1

A model of TMT effectiveness

must represent their areas' interests at the top table, and also drive alignment through their areas as a result of top-down direction-setting.

- Finally, the C-suite is the playing field for executive ambition, where colleagues compete with each other, in ways that are more implicit than overt, for the brass ring of corporate leadership.

The complex interplay of these forces makes the top leadership group the most difficult unit in the organization in which to engender effective teamwork. In truth, the stories of failed collaboration and team play at the top are as diverse as the composition of the various teams. Nonetheless, our research and experience has shown that there are four major elements of TMT design and operation that drive performance, and a thoughtful approach to design and implementation can create a top management team that beats the odds (figure 1).

- TMT leadership includes the CEO's leadership approach and style but also leadership provided by members of the team to complement the CEO's approach and move the team forward.

- Top management team charter covers the team's purpose and priorities – essentially the team's opportunity (and requirement) to define the domain of its activities.
- Team structures encompass the design choices that guide and constrain behavior in the group, including such variables as composition, team roles, decision-making authority, and reward systems.
- Team processes are the way the group works together, including its meeting dynamics, communications, conflict-resolution, decision-making processes and behavior norms, as well as its meeting calendar and how information flow is controlled.
- Conditions that affect all of these factors include the company's strategic context and the attributes and capabilities of individual team members.

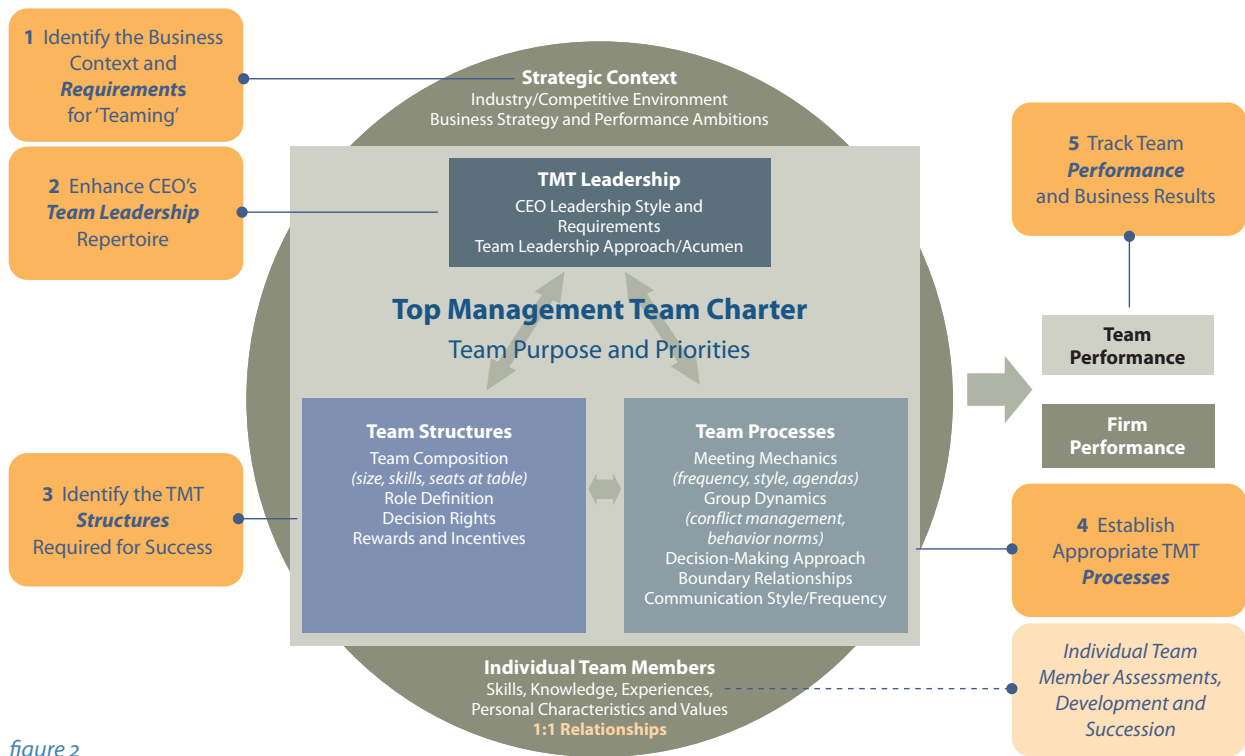


figure 2

TMT development process

Improving TMT effectiveness

Based on recent research and years of experience working with top leaders in developing effective executive teams, Heidrick & Struggles has developed a straightforward process for improving TMT effectiveness. This process enables leadership to identify and focus on key levers for improvement and make important changes to teaming effectiveness, while continuing to run the business and deliver required results. Experience shows that the best way to start is to develop a fresh, composite picture of the contextual, structural, and process variables currently driving the top team's performance as a leadership team.

Through confidential executive interviews, targeted TMT observation, and facilitated group discussion, it is possible to create understanding and insight through each step of the process and help the executive team see how their current practices affect their ability to serve customers, innovate, meet competitive challenges, and deliver

business results. The team can then identify the most important changes to TMT design and behavior they must undertake to improve team functioning, and establish a leadership game plan for their teaming that complements and safeguards accomplishment of their strategic business plan.

The process has five-plus-one steps, built around our model of TMT effectiveness (figure 2).

1 Identify the business context and requirements for 'teaming'

Before assessing TMT effectiveness, it's essential to understand what the team's unique business context demands in terms of team collaboration and integration. Because the amount and form of executive teaming required varies greatly from business to business, the first requirement for TMT design is to clarify the extent to which, how, and when top management needs to operate as a team. To make this determination, a team needs to understand:

- The demands of its current business environment – how its strategy addresses the company’s unique challenges, and the degree of organizational change required to deliver on that strategy.
- How much effort is required by TMT members, as they pursue individual missions, to stay aligned strategically with each other.
- How much sharing of information about, and access to, customers is required.
- How much executive collaboration is necessary and under what circumstances
- To ensure that the C-suite contains individuals with the right mix of competencies: “What are capabilities the organization needs in its leaders to meet its current and emerging challenges?”
- To define the team’s function and agenda: “What is the team’s truly value-added work – that is, what are the essential tasks that only the senior team can do?”
- To make sure people understand their roles and responsibilities: “How will decision-making rights be established and executed?”
- To make sure key parts of the organization are aligned: “Who needs to be sitting at the table?”
- To make sure TMT members’ actions are aligned with the team’s function and agenda: “What goals do we share, and what rewards do we all risk in accomplishing them?”

2 Enhance the CEO’s leadership repertoire

Experience shows that the character of a TMT almost always flows from the style and agenda of the leader of the executive team. We find that many CEOs understand how to leverage individual talent at the top of the organization, but far fewer understand how to lead through a team so that they tap the potential inherent in the collection of individuals they’ve assembled. Our analysis of the CEO’s leadership impact, often including a confidential assessment of the CEO’s team leadership competencies, provides a CEO with the impetus and information needed to expand his or her leadership repertoire. This understanding enables engagement of the full TMT in complementing the CEO’s leadership with what the team needs, rather than criticizing the CEO for what the team lacks. CEOs can then lead the team to new ways of working, together providing the leadership the company needs to accomplish its goals.

3 Identify the TMT structures required for success

Once the company’s unique challenges and strategy have been identified, and expanding the CEO’s leadership repertoire is underway, focus then falls on the structural characteristics of an effective TMT. These include: appropriate team diversity (demographics, experience, skills, and education mix), the team’s charter and purpose, the design of its reward system, and allocation of roles and accountabilities. This work entails answering a set of critical questions:

4 Establish appropriate TMT processes

Once structural elements have been redesigned to optimize the frameworks within which the TMT operates, it’s necessary to examine and refine TMT work processes. Top management teams can benefit from what we call ‘serious team-building.’ ‘Serious’ because experience shows that what a TMT needs is less a weekend together in the wilderness than open, shared, and tough-minded discussion to set and confirm the organization’s business priorities, and joint identification of what is impeding the TMT’s ability to address them. Alignment on priorities and obstacles permits a focus on the nuts and bolts of effective team administrative processes – the timing of meetings,

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agenda-setting, pre-meeting communications, and after-meeting tracking – which can significantly improve team functioning.

Taking an equally rigorous approach to redesigning TMT discussion and decision-making processes is a necessary companion piece, and has impact on intramural competition within the TMT. Explicitly defining decision rights and providing tools for identifying and managing conflicts can significantly improve team and overall business performance, even in companies that seem to suffer from intractable silo-ing.

Once processes have been designed to accompany the structural elements, the challenge is implementing them so behavior and performance actually change. A formal team charter that captures the team's core structures and processes provides a useful mechanism for ensuring that good ideas about team effectiveness become reality. Charters start with the purpose and priorities of the TMT and the areas where collaboration is most critical. Charters also include team membership, meeting structures, the process for agenda-setting, processes for follow-up and accountability, and a set of agreed-upon operating principles.

Creating shared commitment to clearly defined team operating principles and behaviors, which can then be reinforced by building feedback on team behavior into the executive performance review process, yields great benefits in team performance. Once the benefits of increased coordination and cooperation are fully documented and communicated, and team members are rewarded for accomplishing team goals in addition to individual goals, their behavior changes dramatically.

5 Track team performance and business results

Feedback on team behaviors and effective team processes should be incorporated into an overall TMT dashboard that tracks and reinforces progress. The feedback should also include business indicators as well as metrics for tracking progress on the strategic and organizational initiatives that the TMT is driving. It is all about results – teaming-for-teaming's-sake is an unaffordable luxury. The metrics for team effectiveness should measure both the quality of

focused collaboration in the areas where it is essential for driving enterprise results, as well as the progress made on those results.

Plus one: Individual team member assessments, development and succession planning

The top management team is arguably the most prominent arena where the leadership capability of individual members is demonstrated. It's where the right sets of competencies can make a difference, and where getting focus on the critical few individual development needs can remove key impediments blocking team progress. For CEOs who want to adopt best practices in talent management, individual team member assessments that evaluate both leadership competencies and teaming skills provide an indispensable tool for in-depth understanding of the capabilities of the people on the team, and the developmental leverage points for helping individuals improve the team.

Structured peer reviews can be a part of assessments and can also be an extremely effective tool to help team members become even more committed to supporting each other's success and development. Confidential one-on-one time between peers to both appreciate strengths and contributions and 'peel the onion' on cutting edge challenges and development needs can help to further establish the kind of support and peer relationships required to take a team from good to great.

The unique nature of top management teams also requires CEOs to pay special attention to development and succession planning, particularly to the competitive aspects of the internal 'horse races' that can undermine teamwork. Best practices in the development of TMTs include regular individual reviews and career planning sessions with the CEO, and clear communications from the CEO to all TMT members on their performance and prospects. When done in the context of consistently applied leadership-competency and talent-assessment frameworks, the systematic reinforcement makes continuous improvement of TMT performance more likely.

Getting started on the TMT development process

The five-plus-one-step process described here provides an initial road-map for the challenging but rewarding journey CEOs can undertake with their TMTs. In our experience, support for the process requires an outside perspective to help give it shape, provide confidential guidance to the CEO as well as to help identify team issues and improve the performance of each TMT member. As our research on ‘how CEOs and top management team members really see their performance’ demonstrates, the CEO is not getting the full story, and outside consultants can develop the trust to get that story heard.

Key characteristics to look for in outside support include:

- Right fit with the CEO and the ability to establish a true partnership. ‘Fit’ with the CEO includes meshing with their style and personality, while still being able to nudge them out of their comfort zone. It begins and ends with trust. CEOs need someone who clearly ‘gets’ what has made them successful and can help them to build on their success – and raise their game to the next level. The true partnership approach extends beyond the CEO to include the CHRO, and other team process resources (sometimes a chief of staff). A co-planning approach to off-sites and other key team meetings is essential so that the CEO is continually making informed choices about how best to proceed.
- A group-dynamics ‘scientist’. Understanding what makes teams click also means understanding individual leadership excellence and the role of the CEO and, without being academic, focusing on what this TMT in this business situation needs to do to be successful.
- The tact and experience to help close the gap between the CEO’s perception and the team’s performance. Knowing where and when to step in, guide, create development structures, bring in other resources, elicit candor from all parties and activate the group’s insight is an art-form that few have mastered. So is the art of

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knowing when to step out. It is the CEO’s team and the role of an outside resource is to support the CEO’s team leadership – not become the team’s full-time facilitator.

Anchoring the relationship and getting the most out of consulting support can take several cycles. The one-shot workshop or off-site can help unfreeze a team, but deeply ingrained TMT behaviors tend to spring back to life. Making change stick in the C-suite takes information, awareness, and commitment, as well as constant vigilance. Genuinely long-lasting impact comes from support that is highly active up front, and then over time is linked to the team’s metrics with timely, episodic reviews to take stock and make course corrections. And long-lasting impact with the TMT translates into long-lasting impact on company performance. ■

To find out how Heidrick & Struggles can help you improve the performance of your top management team, contact:

Richard M Rosen
Partner, Leadership Consulting
rrosen@heidrick.com



HEIDRICK & STRUGGLES

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