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Kyle T. Webster

ORGANIZATION PRACTICE

Three steps to building a better top team

Michiel Kruyt, Judy Malan, and Rachel Tuffield

When a top team fails to function, it can paralyze a whole company. Here's what CEOs need to watch out for.

Few teams function as well as they could. But the stakes get higher with senior-executive teams: dysfunctional ones can slow down, derail, or even paralyze a whole company.

In our work with top teams at more than 100 leading multinational companies,[1] including surveys with 600 senior executives at 30 of them, we've identified three crucial priorities for constructing and managing effective top teams. Getting these priorities right can help drive better business outcomes in areas ranging from customer satisfaction to worker productivity and many more as well.

1. Get the right people on the team . . . and the wrong ones off

Determining the membership of a top team is the CEO's responsibility—and frequently the most powerful lever to shape a team's performance. Many CEOs regret not employing this lever early enough or thoroughly enough. Still others neglect it entirely, assuming instead that factors such as titles, pay grades, or an executive's position on the org chart are enough to warrant default membership. Little surprise, then, that more than one-third of the executives we surveyed said their top teams did not have the right people and capabilities.

The key to getting a top team's composition right is deciding what contributions the team as a whole, and its members as individuals, must make to achieve an organization's performance aspirations and then making the necessary changes in the team. This sounds straightforward, but it typically requires conscious attention and courage from the CEO; otherwise, the top team can underdeliver for an extended period of time.

That was certainly the case at a technology services company that had a struggling top team: fewer than one in five of its members thought it was highly respected or shared a common vision for the future, and only one in three thought it made a valuable contribution to corporate performance. The company's customers were very dissatisfied—they rated its cost, quality, and service delivery at only 2.3 on a 7-point scale—and the team couldn't even agree on the root causes.

A new CEO reorganized the company, creating a new strategy group and moving from a geography-based structure to one based on two customer-focused business units—for wholesale and for retail. He adapted the composition of his top team, making the difficult decision to remove two influential regional executives who had strongly resisted cross-organizational collaboration and adding the executive leading the strategy group and the two executives leading the retail and the wholesale businesses, respectively. The CEO then used a series of workshops to build trust and a spirit of collaboration among the members of his new team and to eliminate the old regional silo mentality. The team also changed its own performance metrics, adding customer service and satisfaction performance indicators to the traditional short-term sales ones.

Customers rated the company's service at 4.3 a year later and at 5.4 two years later. Meanwhile, the top team, buoyed by these results, was now confident that it was better prepared to improve the company's performance. In the words of one team member, "I wouldn't have believed we could have come this far in just one year."

2. Make sure the top team does just the work only it can do

Many top teams struggle to find purpose and focus. Only 38 percent of the executives we surveyed said their teams focused on work that

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truly benefited from a top-team perspective. Only 35 percent said their top teams allocated the right amounts of time among the various topics they considered important, such as strategy and people.

What are they doing instead? Everything else. Too often, top teams fail to set or enforce priorities and instead try to cover the waterfront. In other cases, they fail to distinguish between topics they must act on collectively and those they should merely monitor. These shortcomings create jam-packed agendas that no top team can manage properly. Often, the result is energy-sapping meetings that drag on far too long and don't engage the team, leaving members wondering when they can get back to "real work." CEOs typically need to respond when such dysfunctions arise; it's unlikely that the senior team's members—who have their own business unit goals and personal career incentives—will be able to sort out a coherent set of collective top-team priorities without a concerted effort.

The CEO and the top team at a European consumer goods company rationalized their priorities by creating a long list of potential topics they could address. Then they asked which of these had a high value to the business, given where they wanted to take it, and would allow them, as a group, to add extraordinary value. While narrowing the list down to ten items, team members spent considerable time challenging each other about which topics individual team members could handle or delegate. They concluded, for example, that projects requiring no cross-functional or cross-regional work, such as addressing lagging performance in a single region, did not require the top team's collective attention even when these projects were the responsibility of an individual team member. For delegated responsibilities, they created a transparent and consistent set of performance indicators to help them monitor progress.

This change gave the top team breathing room to do more valuable work. For the first time, it could focus enough effort on setting and dynamically adapting cross-category and cross-geography priorities and resource allocations and on deploying the top 50 leaders across regional and functional boundaries, thus building a more effective extended leadership group for the company. This, in turn, proved crucial as the team led a turnaround that took the company from a declining to a growing market share. The team's tighter focus also helped boost morale and performance at the company's lower levels, where employees now had more delegated responsibility. Employee satisfaction scores improved to 79 percent, from 54 percent, in just one year.

3. Address team dynamics and processes

A final area demanding unrelenting attention from CEOs is effective team dynamics, whose absence is a frequent problem: among the top teams we studied, members reported that only about 30 percent of their time was spent in “productive collaboration”—a figure that dropped even more when teams dealt with high-stakes topics where members had differing, entrenched interests. Here are three examples of how poor dynamics depress performance:

- **The top team at a large mining company** formed two camps with opposing views on how to address an important strategic challenge. The discussions on this topic hijacked the team’s agenda for an extended period, yet no decisions were made.

- **The top team at a Latin American insurance company** was completely demoralized when it began losing money after government reforms opened up the country to new competition. The team wandered, with little sense of direction or accountability, and blamed its situation on the government’s actions. As unproductive discussions prevented the top team from taking meaningful action, other employees became dissatisfied and costs got out of control.

- **The top team at a North American financial-services firm** was not aligned effectively for a critical company-wide operational-improvement effort. As a result, different departments were taking counterproductive and sometimes contradictory actions. One group, for example, tried to increase cross-selling, while another refused to share relevant information about customers because it wanted to “own” relationships with them.

CEOs can take several steps to remedy problems with team dynamics. The first is to work with the team to develop a common, objective understanding of why its members aren’t collaborating effectively. There are several tools available for the purpose, including top-team surveys, interviews with team members, and 360-degree evaluations of individual leaders. The CEO of the Latin American insurance company used these methods to discover that the members of his top team needed to address building relationships and trust with one another and with the organization even before they agreed on a new corporate strategy and on the cultural changes necessary to meet its goals (for more on building trust, see “Dispatches from the front lines of management innovation,” on mckinseyquarterly.com). One of the important cultural changes for this top team was that its members needed to take ownership of the changes in the company’s performance and culture and to hold one another accountable for living up to this commitment.

Correcting dysfunctional dynamics requires focused attention and interventions, preferably as soon as an ineffective pattern shows up. At the mining company, the CEO learned, during a board meeting focused on the team’s dynamics, that his approach—letting the unresolved discussion go on in hopes of gaining consensus and commitment from the team—wasn’t working and that his team expected him to step in. Once this became clear, the CEO brokered a decision and had the team jump-start its implementation.

Often more than a single intervention is needed. Once the CEO at the financial-services firm understood how poorly his team was aligned, for example, he held a series of top-team off-site meetings aimed specifically at generating greater agreement on strategy. One result: the team made aligning the organization part of its collective agenda, and its members committed themselves to communicating and checking in regularly with leaders at lower levels of the organization to ensure that they too were working consistently and collaboratively on the new strategy. One year later, the top team was much more unified around the aims of the operational-improvement initiative—the proportion of executives who said the team had clarity of direction doubled, to 70 percent, and the team was no longer working at cross-purposes. Meanwhile, operational improvements were gaining steam: costs came down by 20 percent over the same period, and the proportion of work completed on time rose by 8 percent, to 96.3 percent.

Finally, most teams need to change their support systems or processes to catalyze and embed change. At the insurer, for example, the CEO saw to it that each top-team member's performance indicators in areas such as cost containment and employee satisfaction were aligned and pushed the team's members to share their divisional performance data. The new approach allowed these executives to hold each other accountable for performance and made it impossible to continue avoiding tough conversations about lagging performance and cross-organizational issues. Within two years, the team's dynamics had improved, along with the company's financials—to a return on invested capital (ROIC) of 16.6 percent, from –8.8 percent, largely because the team collectively executed its roles more effectively and ensured that the company met its cost control and growth goals.

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Each top team is unique, and every CEO will need to address a unique combination of challenges. As the earlier examples show, developing a highly effective top team typically requires good diagnostics, followed by a series of workshops and field work to address the dynamics of the team while it attends to hard business issues. When a CEO gets serious about making sure that her top team's members are willing and able to help meet the company's strategic goals, about ensuring that the team always focuses on the right topics, and about managing dynamics, she's likely to get results. The best top teams will begin to take collective responsibility and to develop the ability to maintain and improve their own effectiveness, creating a lasting performance edge.

[1] For the purposes of this article, we define "top teams" as groups of executives responsible for either an entire corporation or a large business unit or division, but not boards of directors or supervisory boards.

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Michiel Kruyt is an associate principal in McKinsey's Amsterdam office, **Judy Malan** is a principal in the Johannesburg office, and **Rachel Tuffield** is an alumnus of the Sydney office.