

# The power of many

How companies use teams to drive superior corporate performance



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## About this report

This report draws on a survey of 821 business executives conducted for EY by Longitude Research in April and May 2013. Respondents represented 14 countries around the world across Asia-Pacific, Europe and the Americas. Approximately 50% of the respondents were board-level or C-level executives and just under 50% represent the human resources function. Companies surveyed varied in size, with 30% earning in excess of US\$5b in revenues each year and the remaining 70% earning between US\$250m and US\$5b.



# Executive summary

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## **The composition of teams is changing.**

Almost 9 out of 10 companies surveyed for this report agree that the problems confronting them are now so complex that teams are essential to provide effective solutions. To achieve superior performance, companies need to tap into the full range of skills and expertise at their disposal. More than 6 out of 10 respondents say that their companies' teams have become more diverse in the past three years and 55% say that their teams are more geographically distributed. Respondents from China and India are particularly likely to report an increase in geographical distribution.

## **There is a correlation between diversity and corporate performance.**

Our survey finds that companies that say they are good at ensuring that teams are composed of individuals from diverse backgrounds and experiences tend to have higher EBITDA growth rates. We find a similar association between companies that have increased the geographical distribution of teams in recent years and high growth rates. Although this is only a correlation, and does not imply causation, it does suggest that an emphasis on diversity can, if managed effectively, lead to superior corporate performance.

## **Culture influences how much time executives allocate to team activities.**

Although most respondents in our survey spend more than half their time on team-related activities, there are differences depending on culture. Respondents from China spend the most time on team activities, at 65%, while those from South Africa spend the least, at 47%. Other BRIC countries also score highly in terms of the amount of time they spend on team activities, whereas Anglophone countries, including the US and Canada, tend to be more individualistic in how they allocate their time.

## **Culture influences the way in which teams collaborate and structure themselves.**

Across cultures, workers differ in their preparedness to collaborate and voice opinions, and in their comfort with ambiguity. For example, Anglophone countries, such as the United States, the United Kingdom and Australia, are least likely to see clarity of roles and responsibilities as an important feature of a high-performance team. This suggests that these countries are more willing to be spontaneous in their team-related activities than those countries where a more rigid structure is preferred.

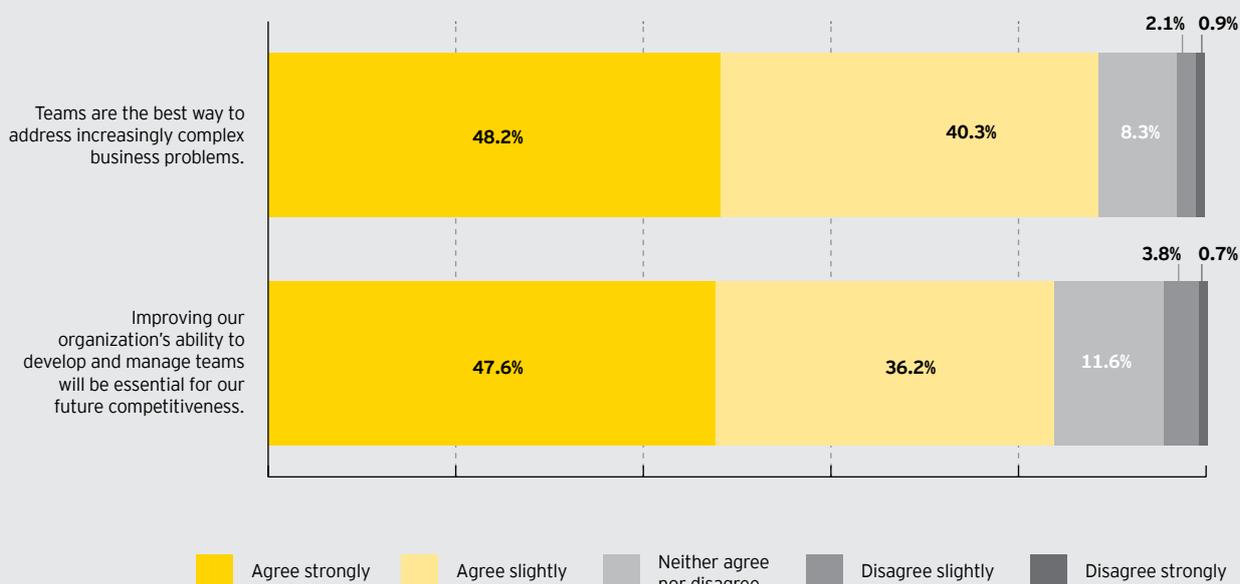
# Section 1:

## Teams and performance

Not every business issue or challenge requires a team-based approach. There are many activities where individuals can complete work more effectively and where teams could slow down progress or lead to suboptimal decisions. But certain problems, and particularly more challenging ones, demand a team-based approach. And increasingly, a company's ability to form, lead and nurture high-performance teams will be critical to its long-term success.

Among the 821 senior executives surveyed for this report, an overwhelming majority think that their organization's ability to develop and manage teams will be essential for their future competitiveness. They also agree that teams are the best way to address increasingly complex problems (see chart 1).

Chart 1: Please indicate whether you agree with the following statements.



### Characteristics of high-performance teams

In their seminal book, *The Wisdom of Teams*, Jon Katzenbach and Douglas Smith define a team as "a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable." High-performance teams, they continue, "typically reflect strong extensions of the basic characteristics."<sup>1</sup> Our research supports their thesis, showing that teams that possess three broad characteristics are more likely to achieve the high performance for which companies are striving:

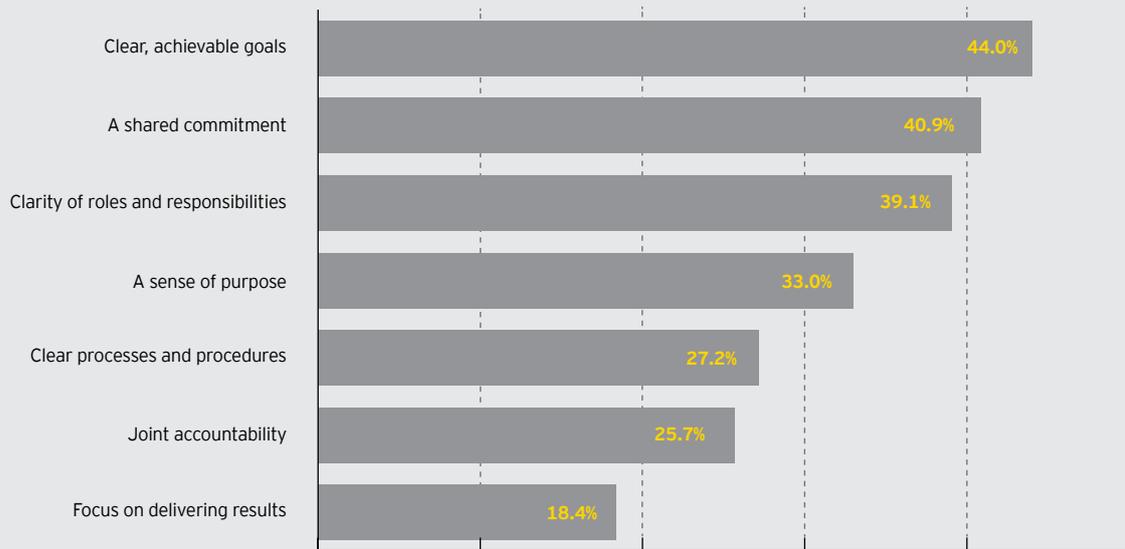
- ▶ A shared vision
- ▶ The right mix
- ▶ Commitment to quality and results

### Shared vision

Asked about the attributes that they think are most important to a high-performance team, respondents point to clear achievable goals as the number one factor (see chart 2). With a clear goal in mind for the team as a whole, individual members are able to establish a clear line of sight between their specific day-to-day responsibilities and the broader, long-term objectives of the business.

<sup>1</sup> Jon R. Katzenbach and Douglas K. Smith, *The Wisdom of Teams* (Collins Business Essentials, 1993).

Chart 2: Which of the following do you consider to be the key attributes of a high-performance team?



Respondents also point to the need for a shared commitment among the team. Karl-Heinz Oehler, Senior Vice-President of Global Talent Management at The Hertz Corporation, believes that the tight-knit cohesion of the best teams overrides any personal differences that may arise. “Teamwork not only means demonstrating a unified commitment around an elevated goal, but also building and sustaining a genuine desire by all team members to collectively achieve that goal,” he says.

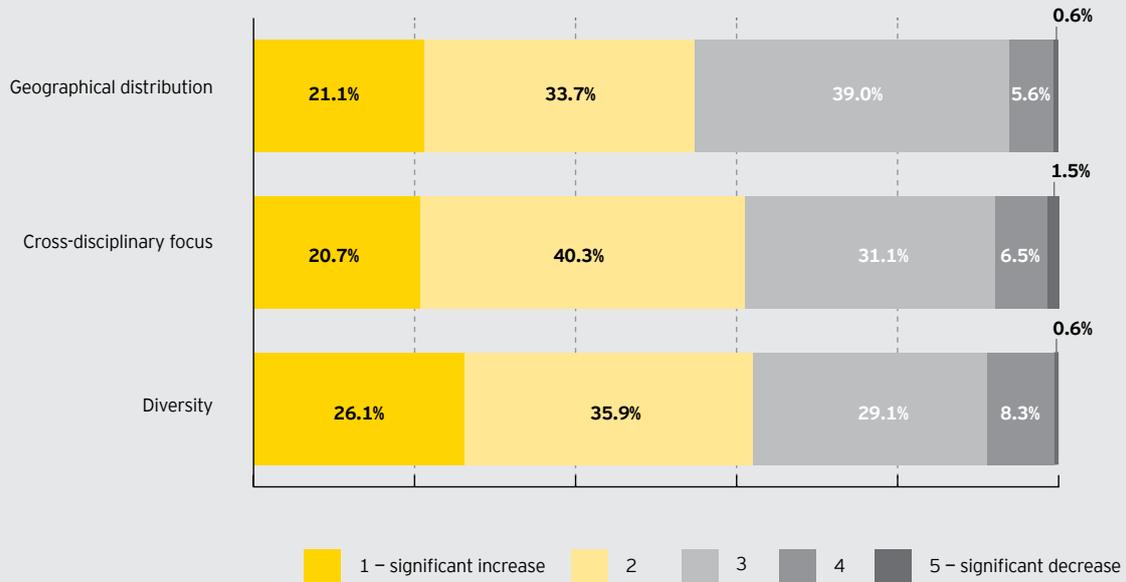
This is particularly important in teams that are geographically distributed or that span functional boundaries. “It’s very important in a dispersed team to have a common view of what the task is and what the problem is to solve,” says Ola Rantatalo, who managed a large cross-border team at TeliaSonera, the Nordic and Baltic telecommunications company. “You need to establish that in an early stage so that everybody can run in the same direction without having to check constantly what needs to be done.”

### The right mix

Dealing with today’s complex business problems requires companies to think more broadly about team composition. Today, technology and globalization have encouraged companies to look further afield by recruiting members from different organizational functions and geographical regions of the world.

Among our respondents, 61% say that teams have become more cross-disciplinary in focus over the past three years and 55% say that they have become more geographically distributed. Respondents from China and India are particularly likely to report an increase in geographical distribution. A further 62% globally say that they have become more diverse in composition – where diversity refers to diversity of background and experience, as well as culture and gender (see chart 3).

**Chart 3: Over the past three years, how have the characteristics of teams in your organization changed?**



Although many companies clearly recognize the benefits of diversity, experts interviewed for this report argue that it can be difficult for companies to realize these gains. “Research tells us that more diverse teams actually do worse on average than less diverse teams because they are much more likely to degenerate through conflict,” says Henrik Bresman, Associate Professor of Organizational Behavior at INSEAD. “On the other hand, the very best-performing teams tend to be the more diverse teams. If you do manage to harness the promise of diversity, you can benefit a great deal from more information and a wider range of views.”

In addition, says David Thomas, Professor of International Business in the School of Management at the Australian School of Business at the University of New South Wales, individuals in cross-border teams tend to be more sensitive to the way colleagues are thinking and feeling, once a basic cultural awareness has been achieved. “We are usually in semiautomatic mode, not thinking how we interact with others,” he says. “But if I am in a team with a Sri Lankan and a Bolivian, I am more likely to think of the process of interaction and I want to make sure that everyone gets a chance to express their views.”

The flourishing of cultural diversity within business teams has prompted an equivalent diversity of opinion about how to manage these teams. Franco Ongaro, Director of Technical and Quality Management at the European Space Agency, thinks that ignoring differences, and pretending everyone is the same as you, is a recipe for trouble. “People from some cultures are very open and direct; others can say yes when they don’t mean it; still others like to build a consensus before proceeding,” he says. “You need to take those differences into account and you cannot simply ignore them.”



### Cultural differences

On average, respondents globally say that they spend more than 50% of their time on team-related activities. But the proportion of time spent on teams varies from country to country. It is highest in China where, on average, respondents spend 65% of their time in teams. The other BRIC economies all appear in the top 6 out of the 15 countries studied. Anglophone countries, including the US, Canada and South Africa, spend the least time on team activities (see chart 4).

Several management theorists have sought to develop frameworks that can explain the main differences between cultures, thus helping managers to anticipate and solve any problems that might arise. Geert Hofstede, a Dutch academic, composed the most widely known of these frameworks, based on his study of IBM employees in more than 70 countries.

One of the dimensions he uses measures individualism versus collectivism, or the extent to which a society values individual achievement against long-term adherence to a collective group. The findings from our survey correspond fairly closely to Hofstede's work. China, the country where team-based work is most prevalent, according to our survey, is a very collectivist nation in character. At the other end of the spectrum, the US and Canada tend to be much more individualistic, and so spend less time in teams.

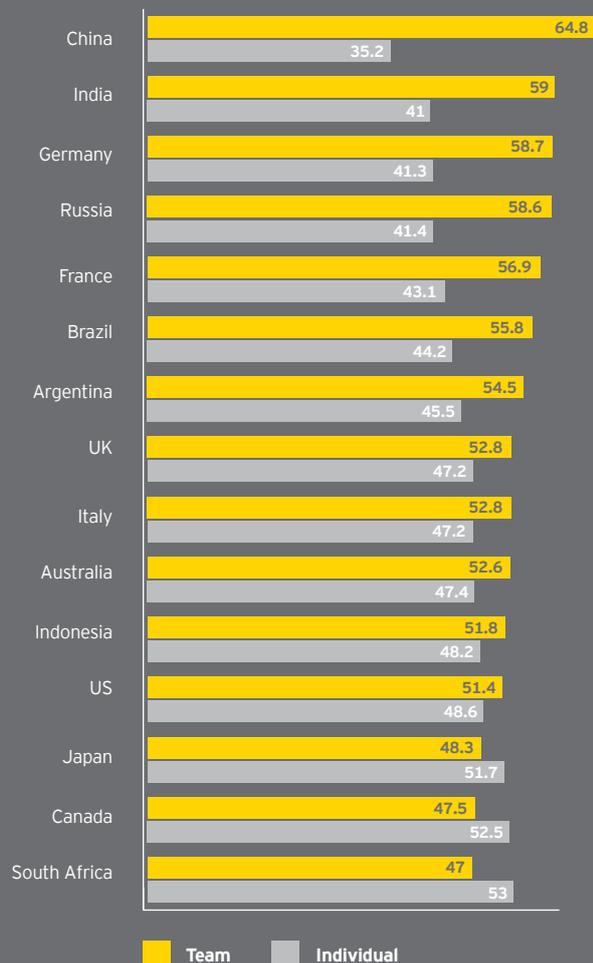
Another dimension, called power distance, is defined by Hofstede as "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally." In low power-distance countries, subordinates expect to be consulted by those above them in the hierarchy. In high power-distance countries, the less powerful defer to those in authority.

Our survey bears out the distinction. Almost half of our respondents from Indonesia and China, two countries that score highly on Hofstede's power-distance index, believe that leaders need to go out of their way to

encourage team members to voice their views. Without this managerial coaxing, much useful insight would remain unspoken for fear of causing offence to superiors. By contrast, only around a quarter in the UK or Australia, countries which score low on this index, agree that encouraging people to share ideas is an important leadership skill.

Another of Hofstede's categories, uncertainty avoidance, analyzes how much a given society tolerates uncertainty and ambiguity. In low uncertainty-avoidance cultures, people are more likely to accept change and take risks. A high uncertainty-avoidance culture often produces a rule-oriented society that tends to prefer clear boundaries to be set by laws and regulations. Again, our survey appears to correlate with some of Hofstede's findings. For example, English-speaking countries, such as the United States, the United Kingdom and Australia, which feature low on the uncertainty-avoidance index, are least likely to see clarity of roles and responsibilities as a key attribute of a high-performance team, with ambiguity and a more reactive flexibility therefore more readily accepted.

Chart 4: In general, how much time do you spend on team activities and individual activities?



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“It’s important for companies to define what they mean by high-performance teams and then to embed that in a more consistent way, transferring best practice from one team to another so that it evolves into a high-performance culture.”

**Mike Cullen**

Global Talent Leader at EY

### **Commitment to quality and results**

High-performance teams have a shared commitment to quality and results. They focus on achieving the highest standards and the best outcome, and are aligned behind achieving this goal.

Mike Cullen, Global Talent Leader at EY, highlights that, in companies where there are many different teams operating simultaneously, it is important to determine what best practice looks like and be able to transfer it from one team to another. “It’s important for companies to define what they mean by high-performance teams and then to embed that in a more consistent way, transferring best practice from one team to another so that it evolves into a high-performance culture,” he explains. “By setting a minimum baseline and then a set of aspirational goals for teams around the world to reach, you can define what ‘best in class’ looks like and move toward that globally.”

Companies also need to determine how best to incentivize team performance. “It’s very easy to get it wrong and design a set of incentives that pit people against each other rather than getting them to work together,” says Professor Bresman. “If the incentives are too big, they distort, and if they’re too small, they’re unimportant and you’re better off using other forms of recognition.”

Too much focus on rewarding individual performance can discourage members from participating in team activities, whereas too much focus on team activities can encourage some members to rely on the efforts of others. “Research tells us that it’s often disastrous to have individually based incentives for group work,” says Professor Bresman. “Yet some companies continue to grade team members on a curve, and the top 20% get massive payouts. No wonder they don’t get along – they’re in massive competition with each other. Particularly with interdependent work, incentives should be more group-based.”

Mr. Cullen stresses the importance of looking at recognition and reward in a broader context, encompassing recognition and career progression, in addition to financial rewards. “Companies can develop people through their gradings, promotions, careers and the experiences that they’re given. If you’re seen as a great team leader, you might be rewarded with promotion or the opportunity to lead another team that will be good for your long-term career development.”



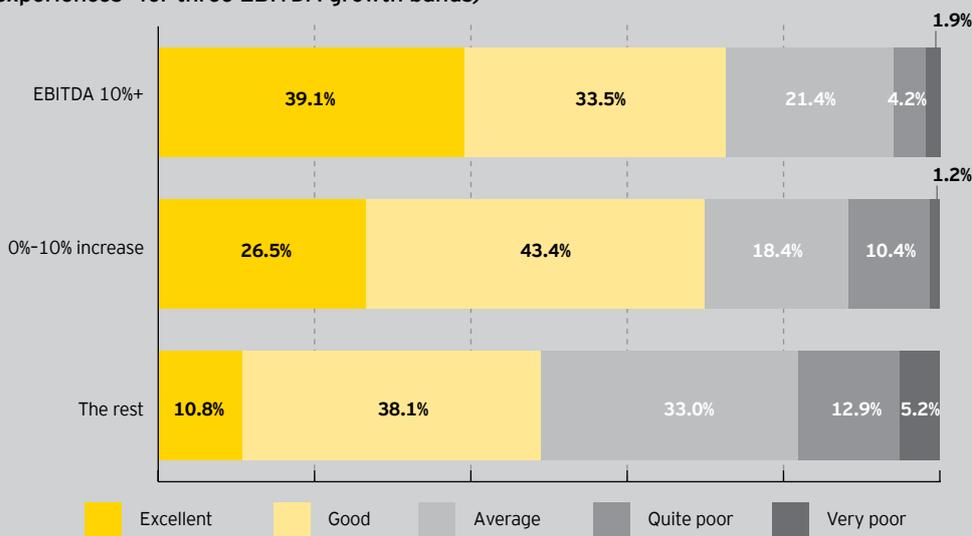
### Diversity and growth

Our survey finds evidence that a greater reliance on diverse, cross-border teams is associated with stronger corporate performance (although it is important to note that this association does not necessarily imply causation). Respondents who rate their companies as excellent at building diverse teams are much more likely than those with less confidence in their team-building capabilities to have achieved EBITDA growth of greater than 10% over the past year (see chart 5). We find a similar association

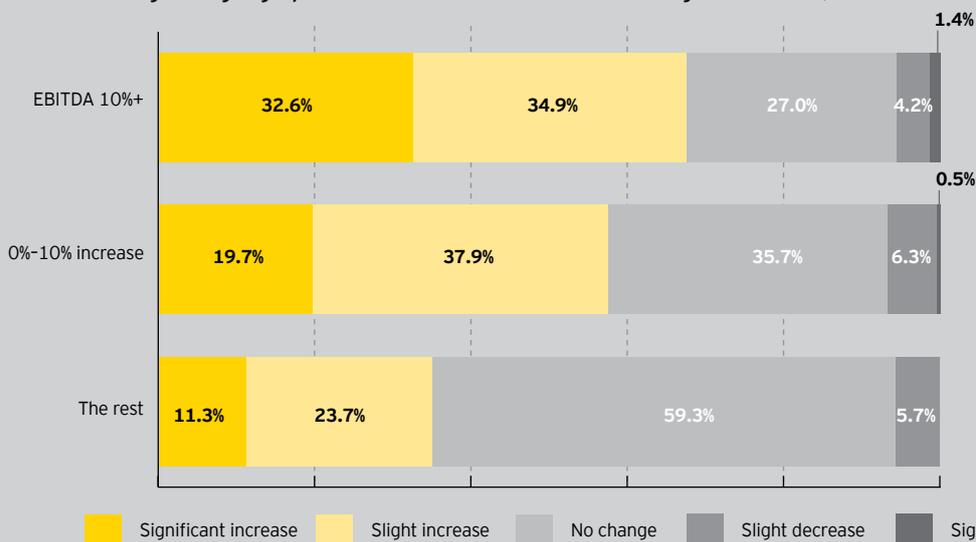
between companies with teams that have become more geographically dispersed over the past three years and EBITDA growth levels (see chart 6).

There is also an association between performance measurement and growth. Companies with the highest EBITDA growth are more likely than those that are growing more slowly to rate themselves highly at measuring team performance, and also more likely to apply a combination of different metrics, spanning the quality of leadership and business outcomes.

**Chart 5: How would you rate your organization's ability to manage the following aspects of building and managing teams? (Chart shows different ability levels for "Ensuring that teams comprise members from diverse backgrounds and experiences" for three EBITDA growth bands)**



**Chart 6: Over the past three years, how have the characteristics of teams in your organization changed? (Chart shows changes to geographical distribution for three EBITDA growth bands)**



# Section 2:

## Teaming and leadership

Strong leadership is a prerequisite for any high-performance team and is particularly important in dynamic situations, when the roles and responsibilities of the team may be shifting and there may be a need to adapt the organization's responses accordingly. Finding people who possess the various ideal characteristics of modern-day team leadership is far from easy, however. Almost half agree that their company does not have the right leaders to manage and motivate teams, and a higher percentage strongly agrees with this assertion than strongly disagree (see chart 7).

Our research has shown that effective team leaders display the following key actions:

- ▶ Provide clear direction and leadership
- ▶ Create an open and inclusive team culture
- ▶ Empower
- ▶ Develop and coach

### Provide clear direction and leadership

First and foremost, effective leaders provide clear direction for the team. This requires constant dialogue, particularly if they are distributed across geographies and functions. With teams now spread far and wide, regular contact has ceased to be a natural consequence of location and must now be actively planned and prioritized. But while structure is important, companies also need to ensure that processes

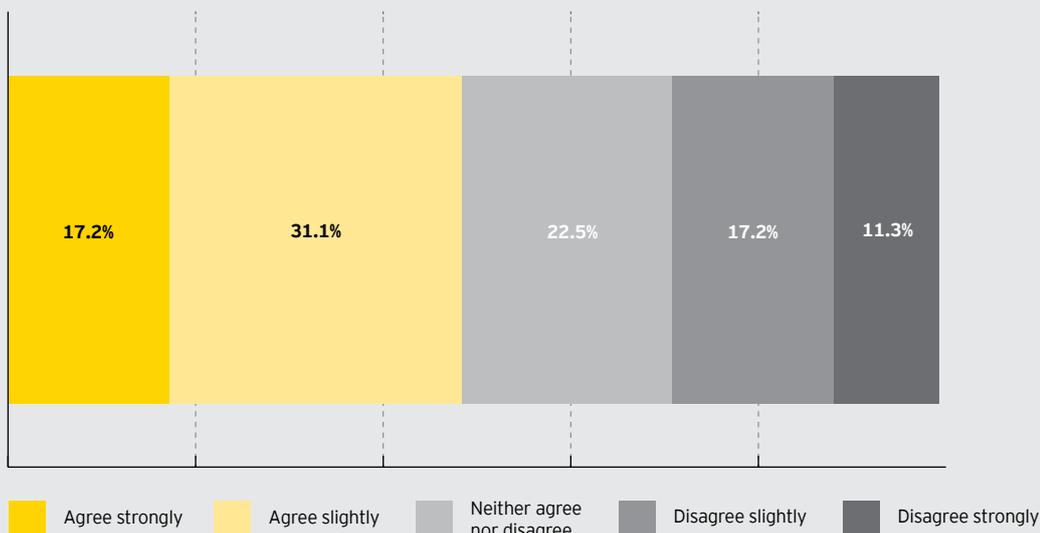
are not too rigid. "You don't want such a structured process that nobody feels comfortable in throwing out new ideas," says David C. Thomas, at the Australian School of Business. "I suggest starting with a fairly tight structure, and then slowly dismantle it over time."

### Create an open and inclusive team culture

Effective leaders of high-performance teams encourage members to voice views and ideas. Leadership in a team setting is much less about command and control, and more about getting the most out of a diverse and experienced group of individuals. Among our respondents, 85% agree that inclusive leadership, which attracts and encourages diverse perspectives and dissent, is an effective means of improving team performance.

In an open and inclusive culture, team members feel comfortable speaking out and challenging the status quo. James Watts, Vice President of Human Resources for Yum! Brands' KFC UK and Ireland Business Unit, describes the need for a culture of constructive tension, in which challenge and different viewpoints are welcomed. "People need to be able to feel comfortable to have different opinions and then to voice those different opinions and to challenge each other on them," he says. "It needs to be done in a way where everybody feels like their opinions are respected and it doesn't create divisiveness within the team. Being able to strike that balance is a sign of a really great leader."

Chart 7: Do you agree that your organization does not have the right leaders to manage and motivate teams?



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## Empower

Old-style command-and-control leadership models are not fit for purpose in a high-performance team setting. Although they lay the groundwork for team activities, effective leaders also know when to get out of the way and empower team members to be autonomous and make their own day-to-day decisions. "The leader will have to create an environment of trust where the team feel they can get on with their job without feeling scrutinized," says Mr. Watts. "Everyone should feel like they are responsible for contributing to the success of the team. If it's down to the leader of that team, then it just won't work."

Equally, however, teams need clear direction and accountability because, without this, they will flounder.

"You have to know when to make a decision, and that takes leadership," says **Dina Pyron**, Global Director of Human Capital at EY. "A collaborative approach enables you to know directionally where you need to go, but someone has to take the decision, and that requires leadership. You also need accountability to ensure that everyone understands their role and responsibility."

If one member is consistently dominant and the other team members feel subordinate to him or her, the team is unable to make use of the diverse skills and experience that it possesses. "Things can become overly bureaucratic and slow in a virtual team if team members are constantly deferring to the manager, as they usually can't speak to him straight away," says Mr. Rantatalo. "Things go much more smoothly if team members feel safe in making decisions themselves, while knowing the manager is there if they need him or her."

Indeed, in a high-performance team, it may not be obvious who the leader is at all. "If you study true high-performance teams, you will often find it difficult to identify the leader, and that is because the leadership role shifts among the members," says Jon Katzenbach, a senior partner at the management consulting firm Booz & Company and an author of several high-profile books on teams. "Each key member brings diverse skills, experience and approaches that you take advantage of by getting each of those uniquely diverse perspectives to lead when the situation that they are working on calls for that leadership."

## Develop and coach

Professor Bresman says that one of the most important lessons business managers can learn from great sports coaches is their ability to understand the very different personalities in their team and respond accordingly with different motivation techniques to improve individual performance. This may partly explain why regular communication with team members is considered to be such an important aspect of a manager's armory. Certainly, workplace surveys consistently demonstrate the potential impact of the manager on an employee's attitude toward his or her work. In an Economist Intelligence Unit survey in 2010, those outside the C-suite selected the "motivational ability of one's immediate line manager" as the most important factor in determining engagement.<sup>2</sup>

Without the leader's constant encouragement, individual demoralization can quickly infect the team. A comprehensive 2013 Gallup survey in the United States found that 20% of the workforce is "actively disengaged" from their jobs. According to Gallup, these disenfranchised employees "roam the halls spreading discontent."<sup>3</sup>

<sup>2</sup> "Re-engaging with engagement," Economist Intelligence Unit, 2010.

<sup>3</sup> "State of the American workplace," Gallup, 2013.

## Section 3:

# Teams and technology

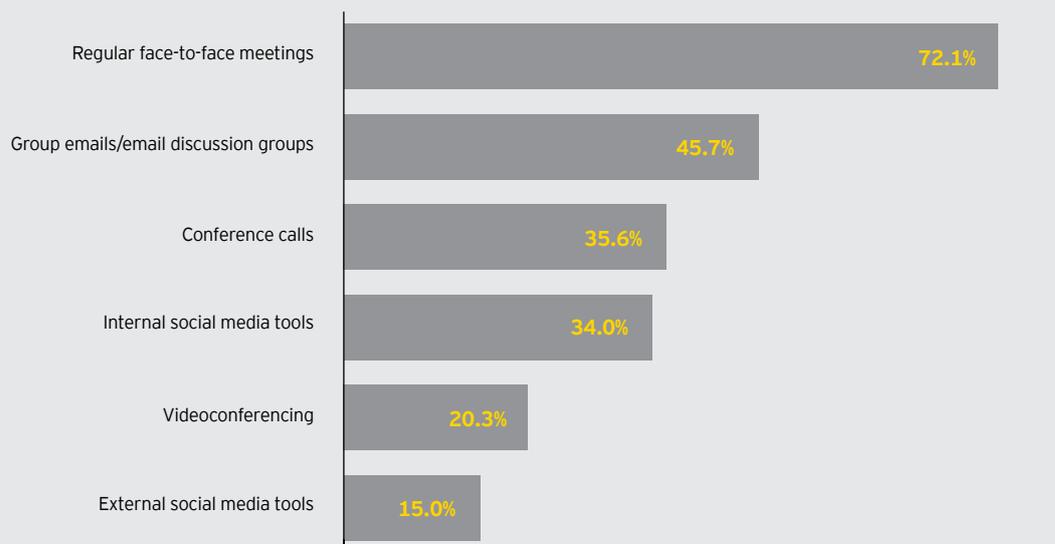
Technology has played a very positive role in enabling high-performance teams. By eroding geographical boundaries, it has allowed companies to form teams based first and foremost on the skills and experience of the members, rather than the convenience of their physical proximity. Among our respondents, 65% say that the extent to which teams are facilitated by technology rather than face-to-face interaction has increased over the past three years.

Emerging technologies can also help companies to find where that talent lies. The rise of HR analytics gives companies a much better opportunity to map their talent assets globally and understand where pools of expertise lie across the business. "Often, large companies don't know where their talent is," says Ms. Pyron. "All the existing knowledge about the whereabouts of expertise in the organization is currently just conveyed by word of mouth. Using tools such as workforce analytics, we are getting better at formalizing and professionalizing that process through cataloguing this knowledge more rigorously."

Yet boundary-less teams are not without their challenges. Technology can only go so far in building rapport between dispersed team members. It is striking that, when respondents were asked about methods of communication they find most valuable, face-to-face is the clear leader (see chart 8).

The importance of face-to-face meetings, particularly in diverse teams, highlights the danger of an over-reliance on technology. As teams become more geographically distributed and as communications tools become more widespread, there is a risk that a gap starts to open up between a need for more direct communication and the extent to which these tools can offer teams the level of personal interaction they need. A challenging economic environment compounds this problem because many companies have cut back on business travel and may see tools, like telepresence, as an equivalent replacement.

**Chart 8: Which of the following are seen as the most valuable ways in which teams in your organization interact with each other?**



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Mr. Watts of Yum! Brands stresses the importance of ring-fencing a sizable budget for face-to-face meetings. “We invest a lot of money in global meetings and getting people together regularly to have that face-to-face time,” he says. “Getting to know each other, understanding how others work and working out how to make the team a success are every bit as important as the specific technical content of the meeting. We place a great emphasis on social relationships within the company, on developing a friendly and informal atmosphere. Retaining that culture costs money.”

Other aspects of technology can also be an enabler – or barrier – of team performance. A company that has a fragmented IT infrastructure, and different applications and datasets for different functions or business units, will find it more difficult to form effective cross-functional and geographically distributed teams. “You need systems that provide visibility and transparency over what people do and how they do it in a consistent way,” says Dawid Louw, HR Director for Europe, Middle East and Africa at AstraZeneca. “Technology is not just about making sure that everybody is informed about what’s happening in the company. It’s also about maintaining performance standards and making sure that you deliver against pre-agreed targets in a consistent way.”

### **Conclusion**

Companies are increasingly recognizing that traditional teams – constrained by geography and with little co-ordination across functional boundaries – are no longer sufficient to ensure superior performance. Instead, they need to develop and nurture cross-disciplinary, multinational and diverse teams that, by working together, can become more than the sum of their parts.

There are numerous “push and pull” factors driving companies to change the way in which they manage teams. “Push” factors include increasing complexity, a more rapid pace of change and increased specialization in business activities. “Pull” factors include enablers, such as technology, that can facilitate both the identification of talent assets across the business and the communication between them.

Companies that can harness the power of these cross-functional, diverse and multinational teams can expect to outperform their competitors. Yet the success of these teams is far from assured. Geographical dispersion and increased diversity pose management and leadership contradictions for which many traditional executives are unprepared.

Successful leaders of high-performance teams know how to resolve these contradictions. With the vast majority of companies acknowledging that teamwork is absolutely crucial to their competitive performance, it has become essential to get the chemistry right. And the organizations that devote the closest attention to capturing and then codifying the essence of successful teams and leaders will be best positioned for long-term, sustainable success.





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