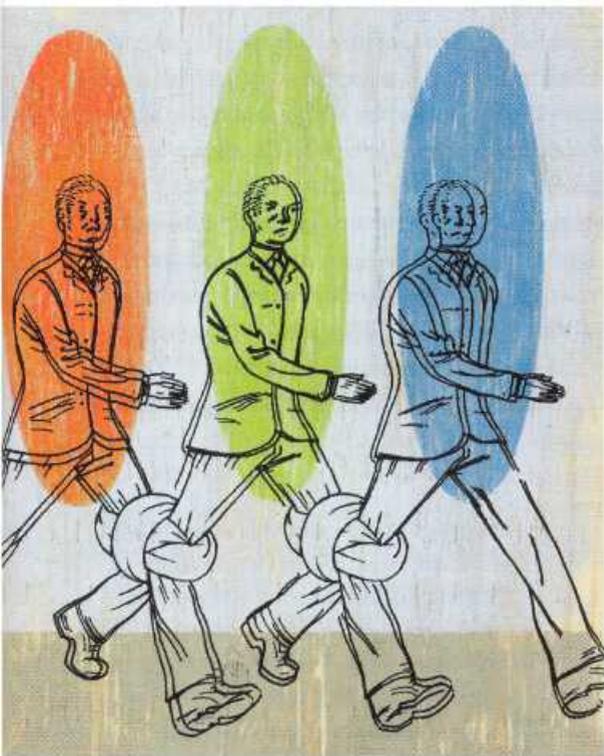


Improving the Performance of Top Management Teams



Differences in organizational values within a top management team can impair how the group functions, with perceived differences having much larger repercussions than real ones.

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Disagreements are a fact of life, not just for the person on the street but also for top executives in large corporations. Even the most experienced and knowledgeable senior managers can have strongly opposing views about the wisest course of action for an organization, particularly when those individuals come from different backgrounds or corporate cultures. Consider the mix of senior leadership values in rapid major bank roll-ups such as Citigroup Inc. (Salomon Brothers, Smith Barney, Travellers and Citibank) or JP Morgan Chase & Co. (Chase Manhattan, Chemical Bank, Manufacturers Hanover, Bank One and First Chicago). Indeed, in the face of relentless pressure from competitors, increasing scrutiny from the investment community and growing uncertainty about firm strategy, differences of opinion are commonplace. But what effect do these differences and disagreements have on the management team, on its decisions and, ultimately, on the organization itself?

To begin, it's important to recognize that disagreements are not a simple commodity, like sand, which can be lumped together and weighed on a scale. In reality, disagreements come in all shapes and sizes and occur between individuals, between individuals and groups and between groups themselves. Some disagreements, usually those centered on how best to approach a particular task, are beneficial to decision making and to the team itself because they surface flawed assumptions, expose concealed gaps in information and force debate of alternate approaches, thus providing an opportunity for better understanding. Other disagreements, especially those that are emotional or personal in nature, are detrimental because they produce resentment, interrupt working relationships and restrict the flow of information, resulting in the isolation of people and the rejection of alternative ideas.

It's also important to note that disagreements can be either real or perceived. That is, some conflicts are just what they seem to be, while others arise from misunderstandings or simple differences in perception. Yet, even when the actual conflict is slight, if people perceive it as major then the potential for escalation can be substantial.

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Finally, with respect to top management teams, it's important to keep in mind that the members aren't all on equal footing. Even within a group of powerful executives, the CEO is typically on a higher level, with greater authority as the team leader. Consequently, any disagreement involving the CEO can take on added significance and represent a different dynamic.

Differences in Organizational Values

To investigate such issues, we conducted a study that examined the effects of differences in organizational values within top management teams. Organizational values are the objectives that an individual or group believes are important in running a business.¹ Although executives on top management teams may strive to achieve common goals for their organizations, in reality they represent powerful subunits with distinct group identities that can trigger conflicts and self-interested behaviors. To examine whether differences in organizational values exist in the upper echelons of organizations, we conducted a survey of top management teams in 31 companies. The CEOs and other members of those teams were

asked to rate the importance of 16 values, including industry leadership, employee welfare, organizational growth, integrity and so on. (See "About the Research.") In addition, the study participants were asked for their perceptions of how their CEOs would rank those same organizational values.

The study had three fundamental parts. First, it examined the presence of perceived and actual differences in fundamental organizational values between the members of top management teams and their CEOs. Second, it investigated how any such differences were related to the ways in which people experienced conflict within the team. Finally, it looked at the effects of differences on the team itself and on the CEO's leadership ability to sustain the satisfaction and commitment levels of team members, even in the presence of deeply rooted disagreements.

Interestingly, the members of top management teams perceived considerable differences between their own values and that of their CEOs. Specifically, the team members rated profit maximization, innovation and customer service as their three most important organizational values, but they perceived that their CEOs would

About the Research

We surveyed the CEOs of 31 U.S. companies and nonprofit organizations along with 133 members of their top management teams.ⁱ The sample of CEOs was predominantly male (97%) with a mean age of 54 years. On average, the CEOs had worked for their organizations for 10.4 years and had served as CEO for 5.4 years. For the sample of top management team members, approximately 68% were male and 8% were female (24% did not report their gender), with a mean age of 48 years. On average, these high-ranking managers had an organizational tenure of 11.6 years and had served on the top management team for 5.9 years.

The study investigated the importance of 16 organizational values: industry leadership, employee welfare, services to the general public, stability of the organization, organizational growth, innovation, integrity, customer service, reputation of the firm, tolerance of diversity, value to the community, budget stability, profit maximization, honesty, product quality and protecting the environment. The values were presented to the CEOs, who were asked to indicate their level of agreement with the statement—"I per-

sonally believe that the following organizational values should be of great importance to a business firm"—with responses ranging from 1 ("strongly disagree") to 7 ("strongly agree") for each value. The same 16 values were also presented to the top management team members, who were asked for two sets of ratings: the first to indicate their own level of agreement with the importance of the values, and the second to indicate their perceptions of how important those values were to their CEO. The same 1-to-7 scale was utilized in both instances.

From this data, two types of dissimilarities were calculated. The perceived value dissimilarity between a team member and CEO was determined by summing the absolute differences between the member's self-ratings versus the scores he or she gave to the CEO. The actual value dissimilarity was determined by summing the absolute differences between the member's self-ratings versus the CEO's self-ratings.

The study participants were also asked about their team environment. Two types of conflict were investigated: task and re-

lationship. Task conflict was assessed with items that asked about the differences of opinions, the disagreements about the work being done and the general level of task-related disagreements within a team. Relationship conflict was measured with items that asked about the personality clashes and disagreements as well as the level of friction and anger within the team.ⁱⁱ Leadership effectiveness was assessed with items that asked about the extent to which a CEO had been successful in terms of achieving goals and implementing strategy. Satisfaction with the team was measured with items that asked people to rate their satisfaction with the overall performance of their team, the way they are treated by others on the team and the interpersonal relations among the team members. Lastly, organizational commitment was assessed by items that asked people about their attachment to their organization and their identification with its values.

i. The full study is forthcoming in the *Journal of Managerial Issues*.

ii. K.A. Jehn, "A Multimethod Examination of the Benefits and Detriments of Intragroup Conflict," *Administrative Science Quarterly* 40 (June 1995): 256-282.

instead favor organizational growth, value to the community and industry leadership (see "Perceived Differences in Organizational Values"). But those perceptions didn't necessarily match reality, despite any close working relationships that might exist between the CEOs and their top management teams. In fact, for about half of the 16 values, members of the top management teams overestimated the differences between their own values and those held by their CEOs, and for about half they underestimated the differences. (See "Perception Versus Reality," p. 88.)

Sometimes, people's perceptions were considerably off. (See "Summary of Value Differences," p. 89.) For instance, members of top management teams perceived that their CEOs would rate industry leadership as highly important, but in reality the CEOs placed it at the very bottom of their lists. Such a large gap over a key organizational value raised important questions about the effects of such fundamental disconnects. The next step was to explore both types of value differences — perceived and actual — to determine the impact of each on team behavior.

The Impact of Value Differences

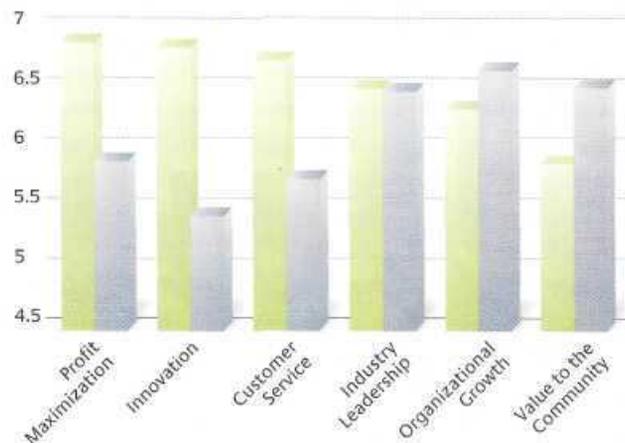
There are two ways to look at the presence (or absence) of differences within a top management team. One perspective suggests that executives with similar backgrounds and values will be more likely to agree on the goals that are critical to a company's success. Greater agreement, in turn, leads to more cooperation and reduced ambiguity about what needs to be done. Moreover, shared perceptions among team members facilitate communication and coordination, and the result is more effective and efficient decision making.² In contrast, differences in values might lead to diminished team integration and difficulties in communication. A second perspective, however, suggests that differences within a top management team can be advantageous, resulting in enhanced creativity and improved decision making through the application of divergent perspectives to complex problems.³

Our study investigated two specific types of team conflict: task and relationship. Task conflict is characterized by substantive, issue-related differences in opinion. This type of disagreement can be beneficial when it ensures that a greater number of possible solutions are explored and that ideas are battle-tested within the group before significant resources are deployed. Consider, for instance, Harley-Davidson Inc. Ever since its famous turnaround in the late 1980s and 1990s under CEO Richard Teerlink, the company has relied on cross-functional teams at all levels of the organization to design new products in a process that relies on "creative friction."⁴ The goal is to ensure that multiple, often conflicting viewpoints are heard at every stage, from conception to product launch, resulting in the best possible offerings.

On the other hand, relationship conflict — characterized by disagreements over personalized, individually oriented matters — is generally detrimental.⁵ It corrodes trust, hinders communi-

Perceived Differences in Organizational Values

Members of a top management team ranked profit maximization and innovation as their most important organizational values (green bars). But they perceived that their CEOs would prioritize those values differently (red bars). (Note: Team members rated the organizational values on a numerical scale from 1 to 7, with 7 indicating a strong belief in the importance of that value.)



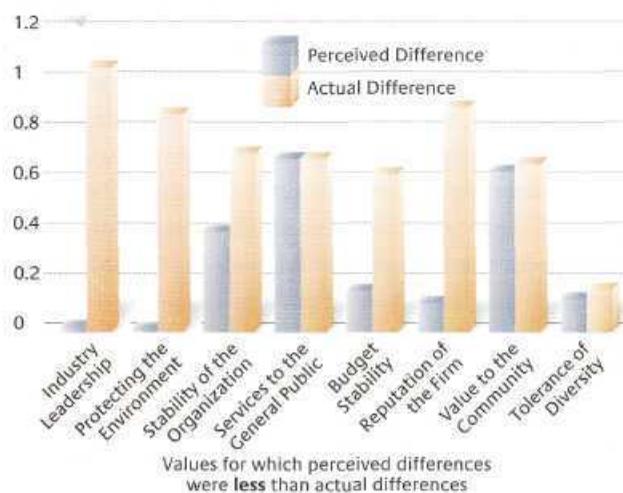
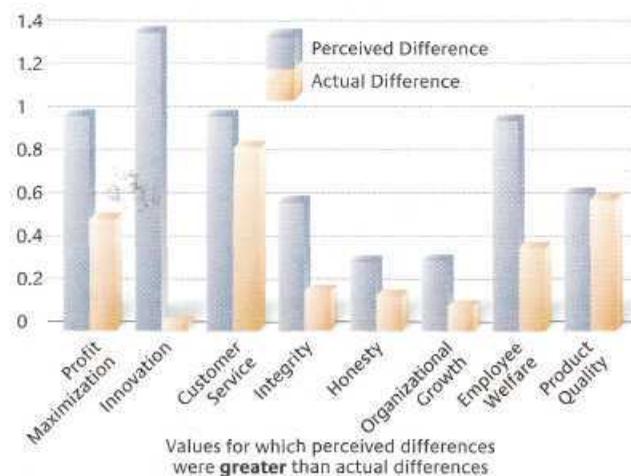
cation, slows the acceptance of ideas and leads to isolation and politicization among group members. Take, for example, the recent debacle at the board of directors of Hewlett-Packard Co. Information leaked to the media, and the company's subsequent clandestine investigation of board members to uncover the source of the leak led to a breakdown of trust and increased divisiveness within the board, resulting in the departure of several directors.

When organizational values are perceived to be at odds with a person's own beliefs, the incongruity can lead to both task conflict (not only regarding how tasks are performed but also, possibly, with respect to which tasks are executed) as well as relationship conflict (as people clash over fundamental organizational decisions). If the conflict is allowed to escalate, the result can be destructive and costly. For an extreme example, consider the relationship between Michael Eisner, former CEO of The Walt Disney Company, and his longtime lieutenant, studio chief Jeffrey Katzenberg. Following the death of Disney President Frank Wells in a helicopter accident, Eisner and Katzenberg waged a highly public and bitter battle, resulting in the firing of Katzenberg and a subsequent lawsuit that cost Disney more than \$200 million.

When it comes to both task and relationship conflicts, the study results showed that behavior is driven by perception rather than reality. Specifically, the greater the *perceived* difference in organizational values between the members of a top management team and their CEO, the greater the conflict. Interestingly, any *actual* dissimilarity was not a factor. In other words, perception becomes reality in terms of driving behavior — people respond

Perception Versus Reality

Members of top management teams did not always accurately perceive the difference in importance between their organizational values and those of their CEOs. For some values, they overestimated the difference (left figure); for other values, they underestimated the difference (right figure). (Note: The differences are based on people's ratings based on a numerical scale from 1 to 7, with 7 indicating a strong belief in the importance of that value.)



to their beliefs about the differences between themselves and others rather than to any true differences. And because considerable gaps exist between the perceptual and actual differences, the result is that many top management teams are unnecessarily encountering difficulties because of members' faulty assumptions.

Not surprisingly, both task and relationship conflicts can affect the satisfaction and commitment of team members. Although task conflict might result in better decisions, it inevitably involves the rejection of some people's inputs, often generating an unpleasant atmosphere of tension. This can lead to member dissatisfaction (particularly among those whose ideas are rejected) even in the face of positive overall results from the team. Moreover, when a person's ideas and suggestions are rejected repeatedly, that individual's commitment to the organization can easily decline. Similarly, relationship conflict can negatively affect not only decision-making quality but also a person's overall satisfaction with the group and commitment to the organization.

For the teams in the study, conflicts that resulted from value differences between members and their CEOs did indeed affect people's satisfaction with the performance of their teams, and relationship conflict had a more damaging effect than task conflict. Because relationship conflict is personal and affective, it often leads to resentment, reciprocation and avoidance, thus hindering satisfaction. More importantly, the study results suggest that relationship conflict is more likely and increasingly harmful when there are value differences. One explanation is that value differences heighten team members' sensitivities to disagreement. Under such conditions, even task-related arguments could de-

volve into affective, relationship conflicts. This raises an important question: Do teams need a certain minimum level of value similarity before they can use conflict in positive ways?

Perceived differences in organizational values also had a direct effect on members' commitment. When the members of a top management team perceive that their values are not congruent with those of their CEO, they often become disengaged. This can have serious repercussions for the organization as a whole, because employees often look to top management for leadership and for consistency in word and action. Thus, when consensus and commitment are lacking in a top management team, the working climate, cooperativeness and employee trust throughout the company can suffer.⁶

The Importance of Leadership

According to past research, teams that foster debate tend to be better equipped to leverage the advantages associated with member diversity.⁷ CEOs can play a pivotal role in creating such a constructive environment, and by doing so they can minimize the effects of conflicts on overall satisfaction and commitment to the organization, particularly for task-related disagreements. Consider, for instance, Anne Mulcahy, CEO of Xerox Corp., who with her top management team helped engineer the biggest turnaround in the company's history. Mulcahy emphasizes that, although a diversity of opinion is necessary for making better decisions, leaders need to ensure that those whose opinions are not heeded still buy into the final decision. As she puts it: "You don't always get everybody to agree.... I think that's part of making

sure that you have that diverse set of opinions around you and that you need to be able to make calls on a timely basis, and the real... opportunity to be the leader then is creating 'followership' around decisions that might not come that naturally."⁸

The ability to create "followership" should not be underestimated. In our study, relationship conflicts had negative repercussions on people's satisfaction *only* for teams in which members gave their CEO a low rating on leadership effectiveness. One interpretation is that effective leadership is the centripetal force needed to keep the team functioning together as a unit, despite the centrifugal effects of dissimilar values and relationship conflicts.

Practical Implications

Differences in organizational values among the members of a top management team and their CEO are unavoidable. People are, after all, unique individuals, each with a different background and worldview. But this doesn't mean their differences should necessarily lead to conflicts that are unproductive and damaging to the organization. To prevent such conflicts, companies should consider the following managerial advice.

Establish the right atmosphere. It's important to remember that actual differences in values have far fewer negative repercussions than people's perceptions of those differences. As such, companies should work hard to establish the right atmosphere so that misperceptions are kept to a minimum. One way to do this is through frequent interactions that help to increase people's familiarity with each other so they become more relaxed about voicing dissenting points of view. Through such open discussions, executives can deepen their understanding of what's important to others, especially the CEO. Off-site retreats and projects that require people to interact collectively can go a long way toward establishing the right atmosphere,⁹ and over time the frequent interaction will move people's perceptions of value differences closer to a shared understanding of the actual differences.

The primary responsibility for creating an environment that encourages candid discussion lies with the CEO. Xerox's CEO Anne Mulcahy has this valuable tip: "Surround yourself with a group of good critics."¹⁰ In other words, team members need to believe that the group will not marginalize or penalize them for challenging the prevailing view.¹¹

Moreover, the CEO and the group as a whole need to value the process of decision making as well as the outcome of the process. That way, people can still feel the value of their contribution to the decision even when their ideas aren't ultimately adopted. One way to accomplish this is to make the decision-making process as fair and transparent as possible. Consider, for example, the standardized system that 3M Co. uses to evaluate potential innovations. Each candidate product must pass a three-pronged test: (1) Is the opportunity real? (2) Can we win at it? and (3) Is it worth it? In addition, every early-stage idea is classified as either revolutionary, evolutionary or overlooked, with each category employing a different strategic approach and funding model. By using such an open and above-board process for deciding which projects are worthy

Summary of Value Differences

A comparison of the average rankings of 16 organizational values reveals marked differences between members of top management teams, their perceptions of their CEOs' rankings and their CEOs' self-rankings. For example, CEOs ranked industry leadership as their least important value, whereas team members listed that value considerably higher (sixth) and thought their CEOs would rank it even higher (third).

	Team Members' Self-Rankings of Values	Team Members' Perceptions of CEOs' Rankings of Values	CEOs' Self-Rankings of Values
1	Profit Maximization	Organizational Growth	Reputation of the Firm
2	Innovation	Value to the Community	Integrity
3	Customer Service	Industry Leadership	Innovation
4	Integrity	Protecting the Environment	Services to the General Public
5	Honesty	Employee Welfare	Budget Stability
6	Industry Leadership	Honesty	Value to the Community
7	Protecting the Environment	Reputation of the Firm	Honesty
8	Organizational Growth	Integrity	Organizational Growth
9	Stability of the Organization	Budget Stability	Profit Maximization
10	Services to the General Public	Profit Maximization	Customer Service
11	Budget Stability	Product Quality	Employee Welfare
12	Reputation of the Firm	Stability of the Organization	Product Quality
13	Value to the Community	Customer Service	Protecting the Environment
14	Employee Welfare	Innovation	Stability of the Organization
15	Tolerance of Diversity	Services to the General Public	Tolerance of Diversity
16	Product Quality	Tolerance of Diversity	Industry Leadership

of pursuing, 3M helps ensure that people continue to innovate even after one of their ideas is rejected.

Because perceptions become reality, understand and manage them.

Even with the right environment, CEOs should never assume that they've been clear about their key organizational values, or that everyone perceives those values in the same way. To uncover any incongruities, companies can conduct an audit of organizational values, starting with the members of the top management team. Such an assessment can determine areas in which actual differences exist and help clarify conflicts that have emerged over incorrect perceptions. The next step is to manage people's perceptions so that everyone is on the same page. This process can be targeted not only at senior executives but also toward every employee. Take, for example, Johnson & Johnson's well-known handling of the Tylenol scare, triggered when seven people in the Chicago area died after ingesting pills of the pain reliever that had been laced with cyanide. James Burke, then Johnson & Johnson CEO, ignored people who advised him to compartmentalize the crisis as a problem of a J&J subsidiary, McNeil Laboratories, and instead took full corporate responsibility for the massive product recall, thus emphasizing the company's commitment to its organizational values of integrity, public health and safety.

Investigate gaps between perception and reality. Given that team members' perceptions of their CEO's values can differ widely (and even wildly) from reality, CEOs must clearly articulate what's important to them and correct any misperceptions that people might have. Only then can any true differences be addressed. For cases in which a huge gap separates a CEO's stated values and people's perceptions of them, the CEO needs to find the reason for the large disconnect. Could the CEO, for example, be talking the talk but not walking the walk? One of the most egregious examples here is Enron Corp., which had listed the following core values on its mission statement: respect, integrity, communication and excellence. One can only wonder what the late Kenneth Lay, former CEO of Enron, would have discovered had he conducted an audit of his senior executives to ask them about their own organizational values and about what they thought was important to him as CEO.

Act decisively to correct gross misperceptions. Values that have taken years to build and affirm within an organization can sometimes be destroyed seemingly overnight. When that happens, the company must act quickly to reestablish those values and squelch any misperceptions about them. Consider how JetBlue Airways Corp. reacted after it learned it had mistakenly handed over millions of passenger travel records to a U.S. Department of Homeland Security contractor. CEO David Neeleman promptly apologized for the breach of privacy and condemned it as a violation of JetBlue's published guidelines. Moreover, rather than vilify the two employees who had

released the records, Neeleman personally assumed responsibility for their mistake, saying they evidently had not received the proper instructions from management.

TO A LARGE DEGREE, the success of any organization depends on its top management team. Members of that group need to work together, disagreeing on occasion but resolving those differences to arrive at coherent and effective strategies. Throughout the process, differences in priorities within the team and with the CEO (as well as perceptions of those differences) can have a substantial impact on the level and type of conflict that arises within the group. Some amount of task conflict can lead to constructive debate, but relationship conflict has a tendency to hamper effective decision making. Consequently, it is imperative that companies manage the alignment of values among top management team members in ways that reduce dysfunctional relationship conflicts within the team while promoting those task conflicts that ultimately lead to better decisions and an improved organization.

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