CHAPTER 1

Most Companies Are Run by Teams with No Names

The chief information officer (CIO) of a major industrial company—let's call him Dave—was frustrated. He had just come from the latest meeting of the company's Senior Management Team (SMT), consisting of the CEO, the presidents of the three divisions, and functional heads like him. Twelve people in all, and in his mind the team that ran the company. But now he was no longer sure exactly *what* the team did.

In preparation for the meeting, Dave had spent his Saturday evening reviewing a two-inch binder containing the business case for a major plant expansion in China. He was no expert on manufacturing or strategy, but he did know that some other major initiatives that would require significant information technology (IT) involvement were in the pipeline for later in the year. If the China expansion went ahead in the time frame outlined in the business case, it was going to be tough to come up with sufficient resources for all the projects already approved, let alone the ones yet to come in the next few quarters. When the time came to implement the plan, conflicts would inevitably arise and would compromise several other projects and possibly the China plant expansion itself. Dave had wanted to be prepared to discuss these potential resource conflicts intelligently when the business case came up on the SMT agenda on Monday morning.

Meanwhile, the week before, the CEO had met with the chief financial officer (CFO), the heads of Strategy and Operations, and the head of the Industrial Division, which wanted the plant expansion. For several intense hours the CEO had questioned this ad hoc group about the business case, which itself had been six months in the making. He concluded that the proposed expansion fit with the company's aggressive new strategy. The division knew how to navigate the tricky operating environment in China. The financials looked good. At the end of the meeting, the CEO decided that it was a go and said that he would have it put on the agenda for the next SMT meeting.

Bright and early Monday morning the SMT duly convened. The members finished up their coffee and muffins, the lights went down, the first PowerPoint slide came on the screen, and the business case team made its pitch. When the lights came back up the CEO said to the SMT members, "So, what do you all think?"

The head of Human Resources spoke up immediately, addressing the business case presenter: "At their quarterly review, the sales force said they needed to significantly ramp up the number of China region salespeople in the second and third quarters. But we have only a handful of Mandarin-speaking HR specialists to supplement our local partners. I'm just not sure we can staff up the sales force and bring on the additional personnel we're going to need at the same time. I know we provided you with local labor costs and job skills definitions, but I don't think we've adequately covered the HR support requirements from the perspective of a major staff increase."

Before the presenter could respond, the CEO intervened. "That's a good point, Susan," he said to the HR head. "But why don't you take that off-line and work it out with Operations. Today, I want everyone to look at this initiative from a company-wide perspective, not from a functional, parochial point of view." He gazed around the conference table, looking at no one in particular. "Any other questions or comments?"

Susan fell silent. Dave, the CIO, swallowed his objections. "This train has left the station," he thought, "and only an idiot would throw himself in front of a moving train." When his turn to comment came he made some bland, complimentary remarks about the plan—as did most of the other SMT members.

Now, an hour later, he sat in his office thinking about what had just happened. Sure, some of Dave's people had contributed technical data during the development of the business case and validated some of its assumptions. But his team certainly hadn't been asked how this plant expansion would dovetail with all the other priority programs requiring significant IT involvement. That wasn't their job. Balancing resources across the overall project portfolio was Dave's job, and he felt he should have had a chance to review the trade-offs involved with his colleagues before the China plant approval came barreling down the track.

Dave knew that some of the other members of the SMT—Susan for one—felt the same way. Moreover, in his six months with the company, this was the third time a major decision had steamrollered its way through an SMT meeting. "What," Dave wondered, "is the point of having an SMT if its highest purpose seems to be rubber-stamping done deals? Why do we bother to meet if the major decisions are all getting made before we even meet, with most of us out of the loop?"

The Myth of the Top Team

The CIO had fallen prey to one of the central myths of management: that a Senior Management Team, consisting of the boss and the boss's direct reports, makes the major decisions for the organization. This myth isn't restricted to Fortune 500 companies like Dave's. It permeates almost all organizations—for-profits and nonprofits, large corporations and small enterprises.

The reality is that in most of these organizations, and at most levels of management—divisional, business unit, regional, functional, departmental—major decisions are typically made by the leader, who consults with the same handful of people, perhaps joined by a few others with special knowledge of the issue, meeting together for that specific purpose. Despite the almost universal use of these informal teams—or *kitchen cabinets*—it's the rare company, division, or other unit that shows anything at the top of its organization chart except the boss and the boss's staff, constituting some sort of Senior Management Team.

The term *kitchen cabinet* has its origins in U.S. history. It began as a term of abuse used by the political opponents of President Andrew Jackson to describe the loose collection of advisers he used, in parallel with the official cabinet (the *parlor cabinet*), to make important decisions. In nineteenth-century American dwellings the kitchen was literally a smoke-filled room that was kept hidden from guests, whereas the parlor presented the publicly acceptable face of the home. As Jackson's bitter enemy Nicholas Biddle wrote of the administration, "The kitchen predominates over the parlor." Today, of course, *kitchen cabinet* is applied to any leader's unofficial group of top advisers, but the term's contentious beginnings are worth keeping in mind.

Occasionally the top level of an organization will consist of an Office of the Chairman or Office of the CEO, with more than one member, but in the vast majority of cases—at every level of the enterprise—these very real and very critical decision-making inner circles are well known and yet invisible on the formal organization charts. Chris Callero, the president and chief operating officer (COO) of Experian, the global information company, says, "It's usually the CEO, the CFO, and I who directionally steer and shape critical decisions when necessary. We do this without formal meetings, and we don't have a name."

At Berkshire Hathaway, it's Warren Buffett and Charlie Munger. At Microsoft, it was Bill Gates and Steve Ballmer. At Disney, it was Michael Eisner and Frank Wells. At the Property and Casualty Division of CIGNA, division president Gerry Isom had a standing weekend golf game with his chief lieutenants, Bill Palgutt and Dick Wratten. It was widely believed around the watercoolers that most major decisions were made by the time Gerry, Bill, and Dick took the clubhouse turn and that they spent the back nine making plans for the week ahead.

These ex officio groups aren't convened only by CEOs. Says the leader of a major conglomerate's portfolio of commercial businesses: "I see the SMT as a forum for briefing everyone. But if there's a specific decision coming, and we want to keep pressing forward, I'll go schedule a meeting with our CEO. I always invite the CFO because our CEO is going to look for the CFO to make a financial determination. Then if the issue has to do with IT or communications or some other particular area, I'll invite [the area head] as appropriate."

All managers rely on a variety of groups at different levels to get things done—think of how many task forces, steering committees, and initiative teams exist today in your enterprise, in addition to the informal conversational groups that ebb and flow in the course of a week. Companies operate through an elaborate network of formal and informal teams, some permanent and others that may last only an hour. But if you ask most managers in most companies who has approval authority over the most important decisions, invariably they will say it's their local version of the SMT—whatever name it goes by and at whatever level of the organization such a formal team is found. It's the boss and the boss's staff—the top two levels on the organization chart.

Although the phrase *kitchen cabinet* comes from American history, the phenomenon it names isn't limited to the United States. Ajay Banga, the CEO of MasterCard, who has worked in Asia, Europe, and the United States, has seen it at many levels in a variety of cultures. When he was working in India for Nestlé the firm's managing director had an executive team of nine or ten people but made most decisions in concert with his factory manager and head of HR. "The managing director had once been factory manager, so he felt most comfortable with his current factory manager," recalls Banga. "They understood each other and the guy had worked with him for years, so there was this mutual trust society."

As president, John F. Kennedy surrounded himself with a team of people presumed to be among the best and brightest in public life, academia, and private enterprise. But his closest adviser by far was his brother Robert Kennedy. Faced with a momentous issue, JFK would certainly solicit the advice of key Cabinet members and other members of his leadership team, but when it came time to make a decision he would often confer with Bobby, alone. No one else in the administration enjoyed as much influence over virtually every area of policy.

The official White House photos taken during the Cuban missile crisis capture the two men standing, deep in conversation, with the fate of the world hanging in the balance. In his official role Bobby had no reason to be involved in the issue at all. His title was attorney general, not secretary of state or secretary of defense. But with kitchen cabinets titles don't matter—it's the trust the top leader places in the wisdom of the other people in the room. From that point of view, the attorney general's real title was "the president's brother Bobby."

It is Bobby, after all, who is widely credited with coming up with the masterstroke—ignoring Soviet leader Nikita Khrushchev's second, more belligerent cable and responding to his first, more conciliatory one—that averted nuclear war during those thirteen tense days in October 1962.

Illusion and Reality

When I was a student one of the standard questions on literature exams was to discuss "illusion and reality" in Shakespeare's *Hamlet*. We would dutifully write about the distinction between the "playacting" of the characters and what they were really doing. The same distinction could be applied to the story of the plant expansion.

At Dave's company, the illusion is that on such-and-such a date the SMT approved a plant expansion in China, a decision that the CEO then took to the board of directors. That's how it appears in the records of the SMT and the minutes of the board, and that's how it looks on the organization's process flow chart. And that's what everyone in the organization believes, except for the people who know what really happened—the CEO and the members of the SMT themselves.

Like Hamlet, they know the reality behind the illusion: the decision was actually made by the CEO, meeting with a few advisers, in the week before the SMT convened. As one executive puts it about SMT meetings in general, using another theatrical reference, "Those meetings are as fine a piece of Kabuki as you will ever see." Or as Jim Noble, senior vice president of IT & Business Services for Talisman Energy; former managing director, Global Technology, at Merrill Lynch; and former CIO at Altria, says, "The CEO looks around the table and another big decision gets nodded through."

In a series of interviews, I asked top executives to estimate how often they have seen the discussion of a business case by their leadership team result in a project being rejected or substantially altered. In the aggregate, they said that it happens far less than 10 percent of the time. Typically, I received answers like "once or twice in the past five years."

The leadership team has a purpose, but it is clearly not to pass judgment on business cases. "It's always unanimous," says Experian's Chris Callero.

Says Ellyn McColgan, former president and chief operating officer of Morgan Stanley's Global Wealth Management Group, "Once you get to the highest level, the point of the meeting is to get out of the room without saying anything controversial, without raising an issue, and certainly not asking for help. Your job is to make your three minutes of airtime positive and good and then leave. That means that decision making happens somewhere else."

At one level—the performance of the company—simply nodding through decisions can lead to problems with implementation down the road. In our example the concerns of the CIO and HR head about how the China project fits with other priorities and activities never made it to the surface. You can be sure that those concerns about resource constraints and pressures will emerge once the project is under way. When people wonder why more of a company's initiatives aren't more successful, the answer might very well go back to the very days and the very meetings in which the SMT nominally approved those initiatives.

But there is a more pervasive problem—the frustration that grows in the gap between the illusion and the reality. Members of executive teams become frustrated by the timing and quality of their involvement in major decisions. More corrosively, the gap can intensify turf wars and intramural politics, as top executives compete for the CEO's ear. Some may view the leader as an autocrat. Says a former Fortune 500 division head about his boss at the time, "Generally, only Finance and Legal were at the table with him when decisions were made. I felt disenfranchised, like my voice didn't matter, so I quit giving input."

Says a Fortune 500 CEO of his experience with a former boss and that boss's kitchen cabinet: "It was a classic case of the executive team feeling that they had no role to play in the decision-making process—and, in fact, feeling insecure, threatened, and positively apprehensive at every meeting. Every guy on the team would talk to his people, in some way, about his concerns about this dysfunction."

At the furthest extreme are those leaders who shut out their executive teams altogether. The chairman and CEO of a major international bank included in his kitchen cabinet his vice chairman, his CFO, and two outside consultants widely resented by other members of the SMT. Says one insider from that time: "He would bounce things off the members of that inner circle, and there was otherwise a revolving door on his executive team, with people constantly coming and going. As a result, his immediate management team was a bunch of empty, interchangeable suits. And it created a lack of management depth at the bank, which was very apparent, very quickly, at the senior-most levels. He would just reshuffle the deck every time he got tired of a guy's face, because he only cared about those two external consultants and the two insiders. Everyone else was expendable."

Whether used wisely or poorly, kitchen cabinets are an ineradicable fact of organizational life. Their use is almost universal. Virtually every CEO I interviewed for this book and almost every CEO I've worked with—including some of the world's best—depend on a small group of trusted advisers that they consult about most major decisions. As the executive ultimately accountable to the board, the CEO has every right to consult anyone he or she pleases in making a major decision. Even a CEO who believes that the spread of kitchen cabinet management throughout his company was responsible for some of its troubles in the past finds himself being drawn back into it. "I think it just creates enormous bad behavior," he says. "But we've gone back and forth—from a kitchen cabinet with a couple of internal and external people to an executive team of fifteen to eighteen people meeting together and no kitchen cabinet; and now back to a smaller executive team of eight or ten and a kitchen cabinet."

The fact is that a kitchen cabinet offers advantages that almost no leader is willing to give up:

- It enables the CEO to consult with precisely the right mix of advisers for a particular decision.
- Because it is a small, highly selective group, it preempts the problems of endless discussion, uneven qualifications, and competition over turf that plague larger, more representative teams.
- It frees the CEO from the organization chart, which describes reporting relationships, not decision processes or decision

rights. Involving all of the CEO's direct reports in every decision is inefficient.

- It provides the CEO with the candor and the confidentiality that only a small, highly trusted group can provide and that is critical in making major decisions with far-reaching implications for the company internally and externally.

These unofficial, ad hoc groups are a powerful asset, and so leaders have employed them since the dawn of recorded history. Leaders are not only unlikely to give up kitchen cabinets, they *shouldn't* give them up. Ultimately, the issue is not whether the kitchen cabinet has supplanted the SMT or usurped its role, but how best to use *each* team.

The Problem That Isn't There, But Won't Go Away

The next time Dave sat down with the CEO, he was careful not to bring up his "parochial" reservations about the China project, and he was extremely reluctant to register his real concern about the SMT. Nevertheless, as diplomatically as possible, he suggested to the CEO that the SMT should have been more involved in the decision or at least brought into the decision-making process earlier.

Dave's reluctance is understandable. Like most executives, he knew the unwritten rules of behavior and the expectations of bosses: *Bring me solutions, not problems. No surprises. Once a decision has been made, everyone needs to get on the bus.* Dave didn't want to come across as petulant, a whiner. Nobody does.

It is precisely this reluctance to raise the problem that makes it so hard to address—or even see. I have listened to scores of executives express privately the kind of frustration that Dave felt and then, in the next breath, dismiss the problem with "that's the way it is."

One boss who has thought long and hard about the problem is the CEO of a global industrial company. "My CFO, my head of Strategy and Business Development, and I sit in my office and make decisions, and then we bring them to the Senior Management Team," he says. "The members of the team say, 'Wait a minute, did our vote count or not, did our decision matter or not?' That's up in the air right now. But I have asked whether we want to have the strategic discussion up front at the meeting in respect to our portfolio of businesses. For now, I've decided that it is something we should discuss as an SMT, though any decision is ultimately mine."

Many CEOs, however, remain unaware of their executives' frustration when it comes to this issue. From their position at the top of the pyramid they see only the smiling faces of satisfied subordinates looking up at them. And the members of the group who could broach the subject with the CEO—those who have his utmost trust and whose candor he appreciates—are most often members of the kitchen cabinet and so have no reason to disrupt the status quo.

On the rare occasions when CEOs do hear the rumblings, they might reply much as Dave's boss did to Dave's low-key protest:

> First, it's absolutely normal for me to review a business case with the proposing executive and have my CFO there to highlight financial issues. They're reviewing it with *me*. I can't have twelve people in the room every time I review a document. I bring in the people who need to be there on a situational basis.
>
> Second, we brought it to the SMT and there was an opportunity for people to raise concerns. Susan brought something up, but it wasn't a go/no-go objection—it sounded pretty operational. And when I asked what everyone thought they said it looked good or they said nothing. Nobody, including you, said, "We've got to rethink this."

What this CEO didn't say was that in the final analysis he didn't have to review anything with any of his subordinates—his authority and accountability lay with the board. He certainly wasn't obligated to seek the approval of the SMT, but he had done it anyway. What Dave didn't say was that in his mind he hadn't approved anything—unless you define approval as waving at a speeding train as it races by.

Dave's meeting with the CEO ended inconclusively, and things went on much as before. The CEO, seeing the SMT as unwieldy and inefficient, continued to consult with ad hoc teams when he was mulling over big decisions. Dave continued to chafe in his ill-defined role as a member of the SMT, but he never again raised the subject with the boss. And he cut down the number of weekend hours he spent reviewing two-inch-thick business case binders—from then on, a quick skim through the material for glaring errors was enough for him.

Two rational people, two rational positions. The CIO, as a member of the SMT, understandably thinks he and his peers should be included in major decisions. After all, the charter of this company's SMT says that it will be "the senior decision-making body of the corporation." The leader, as CEO, understandably wants the freedom and flexibility to make major decisions when and with whom he thinks best—power that the governance structure of the corporation gives him anyway. Both are playing the game by the rules that most corporations operate under.

But the game can be costly. The company's highest-paid and most valuable executives waste their time in meetings discussing foregone conclusions. Dissatisfaction with decisions simmers just beneath the surface and metastasizes to other executive teams as those decisions cascade downward. Feelings of disempowerment are pervasive. And even though team members may like and respect each other and feel pride in being part of the leadership group, they feel that this group lacks a clear sense of purpose.

The CFO of one Fortune 500 corporation put his finger directly on the problem: "Role clarity in most organizations is very weak," he told me. "Organizations give people titles, form groups, and then make decisions around the groups. And it causes confusion."

Yet the problem may not be apparent to everyone. Fred Adair and Richard Rosen conducted a study a few years ago, for the global executive search firm Heidrick & Struggles, on top-management team performance.[1] They surveyed 124 CEOs worldwide and 579 of those CEOs' reports. One of the survey questions asked respondents to rate whether leadership team decision processes were clear. On a 1 to 7 scale, with 7 being the best score, the CEOs rated this process clarity, on average, at 5.62. The executives who worked for them returned a rating of only 3.86.

In general the study showed that the CEOs surveyed had a much more positive view of the performance of their teams than their executives did. Only 28 percent of the CEOs said that they have problems with their teams, and on average they rated overall team effectiveness at 5.39 on the 1 to 7 scale. Team members rated overall effectiveness at only 4.02, and 52 percent of them said that their teams lack effectiveness in areas like leading change, driving innovation, and working cross-functionally to increase revenue.

In the face of such evidence, I would ask just one question of those leaders who aren't hearing complaints from their executive teams, who would deny that there's a problem, or who would shrug off any such problem as an unavoidable fact of corporate life: Why are so many companies expending so much effort trying to fix their leadership teams?

Note

1. Rich Rosen and Fred Adair, *How CEOs and Top Management Team Members* Really *See Their Performance* (Chicago: Heidrick & Struggles International Inc., 2008). Internal document. Used by permission.